

BlueRock Diamonds Plc
(Registration Number 08248437)
Annual Report and Financial Statements
for the year ended 31 December 2018

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Index

Index	1
General Information	2
Strategic Report	3 - 12
Board of Directors	13
Corporate Governance	14 - 21
Directors' Report	22 - 25
Independent Auditor's Report	26 - 31
Consolidated and Company Statements of Financial Position	32
Consolidated Statement of Profit or Loss and Other Comprehensive Income	33
Consolidated Statement of Changes in Equity - Group	34
Statement of Changes in Equity - Company	35
Consolidated and Company Statements of Cash Flows	36
Accounting Policies	37 - 52
Notes to the Annual Report and Financial Statements	53 - 81
Notice of Annual General Meeting	82 - 86

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

General Information

Country of Incorporation and Domicile	United Kingdom
Registration Number	08248437
Directors	MJ Houston (Executive Chairman) DA Facey (Chief Financial Officer) TG Leslie (Non-Executive Director) A Waugh (Non-Executive Director)
Registered Office	4th Floor Reading Bridge House George Street Reading Berkshire RG1 8LS
Nominated advisor and Broker	SP Angel Corporate Finance LLP Prince Frederick House 35-39 Maddox Street London W1S 2PP
Bankers	Arbuthnot Latham & Co., Limited
Financial Public Relations	St Brides Partners Ltd 51 Eastcheap London EC3M 1JP
Auditors	BDO UK LLP 55 Baker Street London United Kingdom W1U 7EU

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Strategic Report

Chairman's Statement

Dear Shareholders,

I am pleased to present our annual report and accounts for the year ended 31 December 2018.

2018 showed significant improvements over 2017, highlights of which is shown below:

- FY 2018 carats sold up 71% to 5,805 (FY 2017: 3,385)
- FY 2018 tonnes processed up 24% to 189,990 tonnes (FY 2017: 153,147 tonnes)
- FY 2018 average grade up 34% to 3.28 cpht (FY 2017: 2.45 cpht)

Since my appointment in November 2018, we have made a number of changes to our management team and have fundamentally changed our operational procedures to allow us to reach our primary goal of achieving sustainable profitability from mining operations at Kareevlei. We have also raised sufficient funds in order to enable us to make the changes necessary to reasonably expect that we will now be able to move to being profitable.

The Board expects the Company to be self-funding going forward and has set a target of processing between 280,000 tonnes and 330,000 tonnes in 2019 compared to 190,000 in 2018. Certainly, to date, the implementation of our new development strategy is yielding positive results and we have started recovering a higher number of larger stones.

Post-period end we recovered and sold two large stones during Q1 2019: an 8.97 carat diamond for \$74,513 and a 16.28 carat diamond for \$78,947. In early June we recovered our largest diamond to date – a 24.98 carat diamond which sold for \$190,000 on 14 June. The size and quality of this stone is a step up in the potential of the operation particularly as backed up by the quality and price of the diamonds recovered in the typical run of mine production. As the volume of mining of pure kimberlite increases, the incidence of these larger stones should also increase.

Review of 2018

Mining

For the first half of 2018 we continued to mine KV2, which covers an area of 1.1ha and has an inferred grade of 4.5 cpht. During that period, we also started to strip the calcretised layer from the surface of KV1. KV1 is slightly bigger than KV2, having an estimated surface area of 1.4ha and has a significantly higher inferred grade of 6.3 cpht.

In the second half of 2018, we began mining KV1 and by the end of the year all of our mining activities were concentrated on KV1.

A total tonnage of 572,664 tonnes was mined in 2018 (2017 was 265,290 tonnes) with 382,661 tonnes of waste and 190,000 of processable ore. The strip ratio was 2.0 which included the early development of KV1.

BlueRock Diamonds Plc

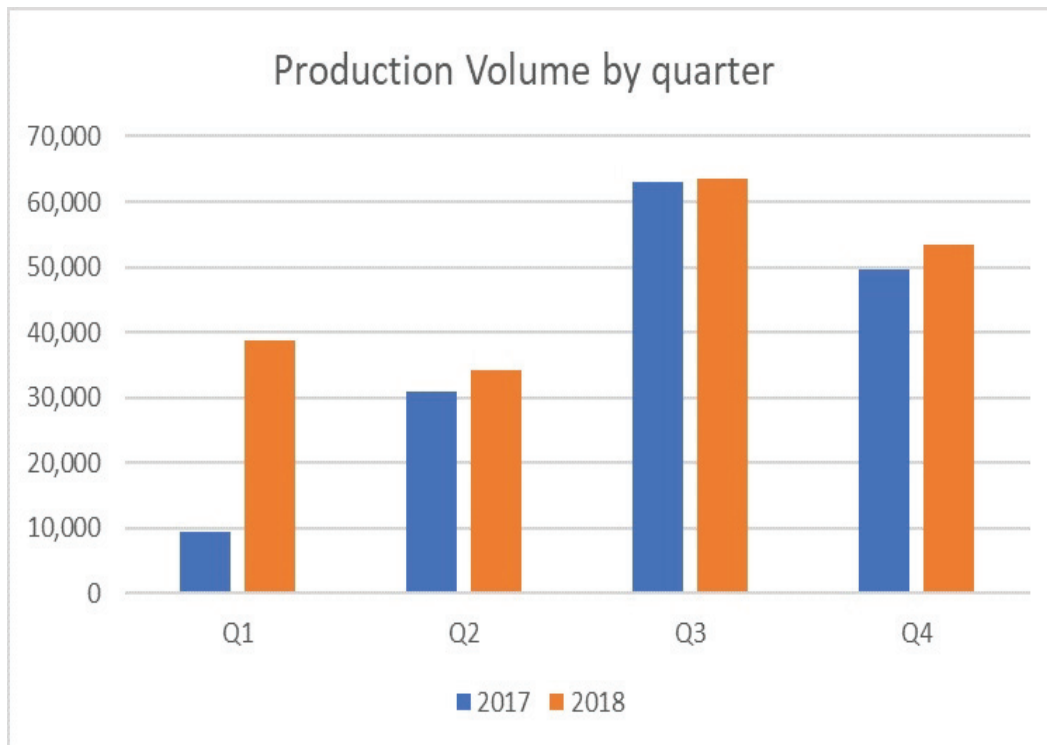
(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Strategic Report

Production

Tonnes processed in 2018 was 189,000 tonnes, 24% up on 2017, although average monthly production for the second half of 2018 of approximately 19,500 tonnes was similar to that in 2017 of 18,800. Quarterly production levels for the last two years are shown below:



In 2018, production remained seasonal, with the first quarter being affected by the annual shutdown and the rainy season. The second quarter was affected by the tail end of the rainy season and the breakdown of the cone crusher which suspended operations for a period of 10 days. The total time lost due to the above is estimated at approximately 40 days, almost one third of production time available for that quarter. Q4 was impacted by the start of the year end shutdown.

As demonstrated in the graph above, management had not been able to address the issues created by the wet conditions and material which make both mining and processing operations difficult. As a result of this, and only working a five-day week, the plant utilisation was significantly down on what would be considered good mining practice. The introduction of a 365-day operation was announced in Q4 2018 to commence in Q1 2019 and we commenced 24/7 365-day operations on 26 March 2019.

BlueRock Diamonds Plc

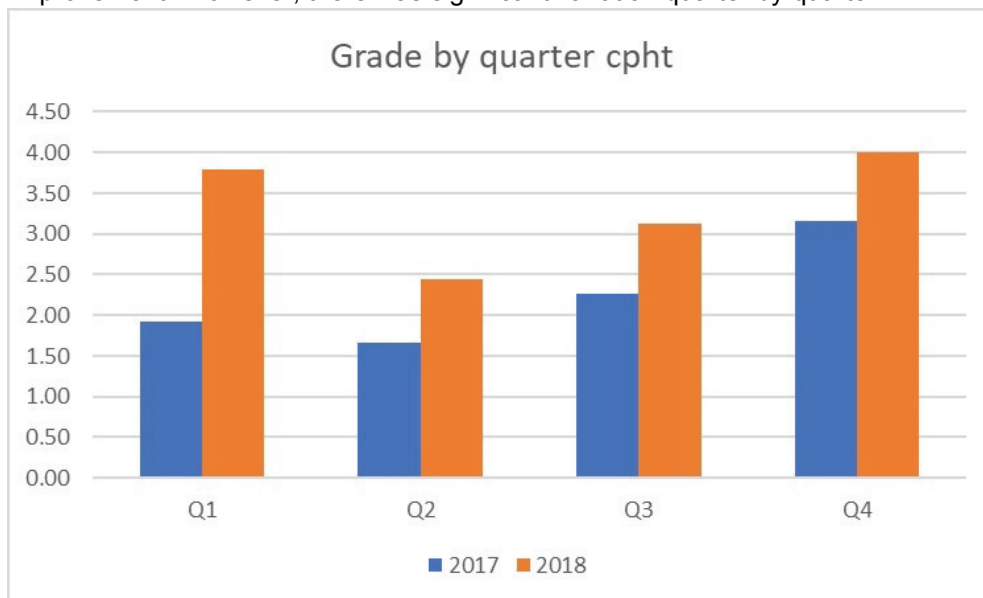
(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Strategic Report

Recovery, grades and value per carat

The average recovery grade for 2018 was 3.28 cpht compared with 2.45 cpht in 2017, showing an overall improvement. However, there was significant variation quarter by quarter:

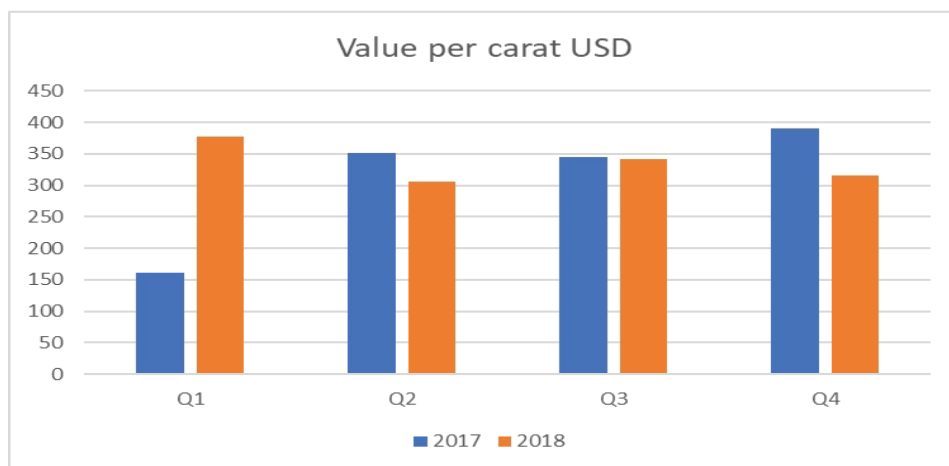


Grade remained variable in the first three quarters of 2018 primarily due to the total reliance upon KV2 during that time. For historic reasons, KV2 had not been mined in a sustainable way so that in order to continue to exploit KV2, it was necessary to continue to mine at higher levels thus diluting the pure kimberlite and to process low grade stock piles which had been created over the life of the mine. We started to mine KV1 in the second half of the year which has led to a more consistent and higher grade which has continued into 2019.

Value per carat

Kareevlei continues to produce diamonds of exceptional quality and remains one of the top 10 kimberlite pipes in the world ranked by value per carat.

Quarterly values per carat are shown below:



BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Strategic Report

The value per carat has remained relatively steady throughout 2018 and similar to that in the last three quarters of 2017. The value per carat depends upon a number of factors intrinsic to the asset and a number of factors which are governed by external market characteristics. The intrinsic factors include the size of the diamonds, the quality and colour. The average stone size recovered during 2018 was around 0.35 carats and over 90% of our diamonds are gem or near gem quality, hence the high average value per carat.

Safety, health and environment:

During the year, there were no Lost Time Accidents and no Section 54 stoppages in terms of the Mine health and Safety Act of South Africa. Post the year end, there was a S54 stoppage amounting to 8 days in relation to an accident involving one of our contractors. Remedial action in relation to our training and safety practices was undertaken to the then satisfaction of the Department of Mineral Resources and the new management team is implementing a compliance audit across all aspects of the operations to ensure full compliance with applicable regulations.

Financing

During 2018, the Company raised a total of £1,561,000 gross of expenses through three placings and subscriptions. The funds raised went in part to fund improvements to the plant and equipment but it became necessary to also apply these funds to finance the continued losses of the Company as production volumes remained below that required to ensure self-sustainable operation.

Strategic review

The Company started a strategic review of its operations towards the end of 2018 which was completed in April 2019. Critical to the review was the need to create a team that would be able to operate Kareevlei in a way that would enable the Company to reach the economies of scale required to operate on a cashflow positive basis.

The review identified that there were some immediate actions that we could implement that didn't require any capital investment, but did require investment in the necessary skills.

- **Management appointments**

The appointment of a new CEO of Kareevlei, Gus Simbanegavi, an experienced mining engineer and a strong hands-on processing manager was announced in May 2019. The engineering skill set has also been strengthened.

- **Utilisation of the plant capacity**

 - **Move to 24/7 365-day operation: +30% increase in operating time**

 - In order to implement this change, approval was required from the Department of Mineral Resources to allow weekend working and to identify and employ staff that meet our stringent employment policies. Mining in the open pit operation is based on a 6-day week in line with the MHSA regulations and the Department of Minerals Resources' approval.

 - **Improvement in plant availability**

 - Although further investment is required in critical spares and plant inventory, the new appointments have focused on introducing good mining practice which has already significantly improved plant availability.

The above changes have had an immediate impact on production levels in May and June 2019. This together with the planned investment in the mine and plant (as set out below) is strengthening our confidence in delivering our annual forecast of 280k to 330k tonnes for the year ended 31 December 2019.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Strategic Report

The capital investment required is focused on increasing throughput by upsizing certain areas, improving availability levels and increasing our ability to deal with excessively moist ore and can be categorised as follows:

Mining

Additional development mining is needed to open up KV3, as well as further develop KV2 and KV5 to provide flexibility and de-risk this operation as tonnages increase materially.

Processing plant

Replacement of the cone crusher and upgrading the circuit

A decision was taken to replace the current cone crusher with a larger version and improve the feed mechanism to the crusher. Not only should this increase the reliability of our crushing circuit, hence its availability, it will enable us to potentially increase the capacity of the crushing circuit to above our medium-term target of 400,000t per annum to enable the building of the necessary crushed ore inventory. In order to preserve cash, the new crusher will be acquired on a rent to buy contract, the cost of which will be partially offset by the release of a smaller rented crusher. Downstream conveyors, motors and pumps are also being correctly sized to handle the additional throughput.

Improving engineering/plant availability

Through the establishment of a preventative maintenance plan which will require an effective inventory of spares and where necessary, key insurance spares to de-risk excessive lost time in the event of a major breakdown.

Reengineering material flows/Inventory Management and dealing with excessively moist ore

The operation currently lacks the ability to create the necessary stockpiles of material at critical points both in the mine and in the processing plant. The investment required, which is largely working capital, is to reengineer the material flow and will, to a large degree, allow us to continue to process ore if breakdowns or extreme weather conditions prevent us from operating the mining and crushing circuit at optimal levels. Management will also be reviewing how we can build additional run of mine and crushed ore stocks before the wet season.

In addition to the improvements set out above, the mining plan was revisited as part of the Strategic Review and a new medium term plan has been developed which has the goals of optimising the overall strip ratio as part of a multi-pit arrangement in order to achieve increased flexibility of mining operation. This has been undertaken in conjunction with our new Strategic partner, the Teichmann Group which has also entered into a contract to act as our mining contractor.

Strategic partner

It was identified at an early stage of the strategic review that the Company would benefit from an association with a strategic partner that would bolster our skills in key areas. Teichmann Group was identified as one such potential partner in part because of their vast experience in providing mining services throughout Southern/Central Africa. Teichmann Group is a large civil engineering group, has been operating since 1995, has 1,800 employees and operates throughout Southern/Central Africa.

Claims from a former director

The claims made by Riaan Visser, the ex-CEO of the Company, amounting to £260,108, remain unresolved. In August 2018, the original suit which was to put the Kareevlei Mining (Pty) Limited into liquidation was converted into a normal claim. As part of the process of having the original liquidation suit either converted or dismissed we were advised by our legal advisers that it would be prudent to deposit funds in an escrow account for the purposes of settling any eventual court order resulting from the outcome of any eventual court decision. In order to do this, a loan was agreed between the Company and two of its directors, Adam Waugh and Paul Beck for a total amount of £231,400. Given the reason for the loan and the need to arrange finance in a very short period of time, the Company agreed relatively expensive terms, which are set out in detail in the body of the financial statements.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Strategic Report

After the end of the year, the loan from Paul Beck of £50,000 was fully repaid. A repayment schedule has been agreed with Adam Waugh which envisages repayment over a period of approximately 18 months. It is the Company's intention to repay this loan as soon as is practicable without compromising the ability of the Group to meet its operating targets.

Financial review

Revenue and loss for the year

In 2018, the Group made a loss before tax of £2,441,943 (2017: £1,201,537) on revenue of £1,416,699 (2017: £945,924) reflecting a 71% increase in carats sold. The loss in 2018 reflects the fact that during 2018 the Group had not yet reached the economies of scale required to become profitable. Included within the loss for the year is £0.6m of foreign exchange losses on retranslation of loans to Kareevlei Mining (Pty) Ltd whereas in 2017 a £0.07m foreign exchange gain was recorded.

Cash flows

Investments

During the year we invested £109,710 (2017: £323,002) in the purchase of plant and equipment. 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 2018 the Company undertook three equity fund raisings amounting to £1,561,000 gross of expenses. £109,710 of this amount was invested in plant and equipment, the balance was used to fund the continuing losses of the Group as Kareevlei had not yet reached the production levels required to become profitable.

In August 2018, the Company agreed a loan from Adam Waugh and Paul Beck of £231,400, the rationale for which is set out in the section entitled 'Claims from a Former Director' above.

Cash position

At the end of the year the Group cash balance was £168,181 (excluding restricted cash). The Group cash balance as at 25 June 2019 was £1,168,918.

Events following the end of the year

In February 2019, the Company raised £575,000 in order to further develop the Company's operations.

The Strategic review discussed in detail above was concluded in April 2019.

The conclusion of this review was that in order to achieve profitability and to become cashflow positive, further funds would be required to be able to implement its findings.

Accordingly, £982,000 was raised through a placing and subscription in May 2019, which included £310,000 from Teichmann Group our new strategic partner, who are entitled to appoint a non-executive director to the board of BlueRock while it maintains a holding of over 10%. At the same time as the fund raising, Adam Waugh stepped down as CEO of BlueRock and of Kareevlei although he remains on the board as a non-executive director in order to provide a smooth handover to Gus Simbanegavi who has been appointed as CEO of Kareevlei. Michael Houston has become Executive Chairman until a replacement CEO is found.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Strategic Report

After careful thought the Board concluded that this fund raise was sufficient to have a reasonable expectation of meeting the plan to move the Group to being profitable and cashflow positive. Nevertheless, the Group faces challenges, both internal and external, which need to be overcome. However, the new team have settled in quickly and are building confidence with the introduction of good mining practices.

Outlook

2018 and the events that have followed post-period end have seen us make significant progress towards achieving our goal of reaching sustainable profitability in the near-term. The significant increase in tonnes processed and average grade along with a number of exceptional quality diamonds produced post-period end underpins our belief in the potential of the Kareevlei mine. We now have the right strategy, the right team and sufficient funds in place to begin to really exploit this potential and I look forward to providing further updates on our progress in our Q2 production update in July.

I would like to thank everyone at BlueRock and Kareevlei, as well as our shareholders for their continued efforts and support.

Michael Houston
Executive Chairman

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Strategic Report

Risk Management

Principal risks and uncertainties

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 has been placed upon measurements and data collected by Diamond Resources Pty Limited (the vendor of the Kareevlei tenements) and other parties and the analysis of the results achieved by Kareevlei Mining (Pty) Limited. 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.

Increase in production

The future profitability of the Group is dependent upon increasing production levels in order to achieve the necessary economies of scale. Whilst the Group believe that it has a management team with the appropriate skills, have developed a detailed plan and that it has sufficient resources in order to achieve the required increase in production, there remain significant challenges in order to achieve this and there can be no guarantees that such an increase will be achieved nether can there be any guarantee that once achieved such levels can continue to be achieved.

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.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Strategic Report

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.

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 is set out in note 30.

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.

Key Performance indicators

As a management team we monitor a variety of performance indicators. Our main KPI was production volumes as measured by average monthly throughput calculated by reference to those months that we were in production. Tonnes processed in 2018 was 190,000 tonnes, 24% up on 2017, although average monthly production for the second half of 2018 of approximately 19,500 tonnes was similar to that in 2017 of 18,800.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Strategic Report

Other factors that we monitor closely are value per carat, which averaged US\$ 332 over the year (2017: US\$ 362) and grade, which averaged 3.28 cpht over the year (2017: 2.4 cpht)

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

Michael Houston
Executive Chairman

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Board of Directors

Michael Houston - Executive Chairman, aged 68

Michael Houston is a mining veteran with over 30 years' experience in Africa having worked with companies including Anglo American (Executive roles), Shanta Gold (CEO), and Zimplats Holdings (CEO/COO). He has also worked on a consultancy basis supporting a number of companies with various project reviews and due diligence.

David Facey - Finance Director, aged 56

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.

Tim Leslie - Non-Executive Director, aged 53

Tim Leslie has worked in the financial markets for over 25 years. He joined Paribas in 1986 and has since 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.

Adam Waugh - Non-Executive Director, aged 55

Adam Waugh was the Head of Sales and Trading at Brewin Dolphin Plc until 2008 and is currently the Chairman of the Northern Counties Children's Benevolent Society.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Corporate Governance

The Board of BlueRock Diamonds plc (the “Company” or “BlueRock”) fully supports good corporate governance and recognises that it enhances its decision-making processes by improving the success of the Company and increasing shareholder value over the medium to long-term.

BlueRock currently complies with the principles of the Quoted Companies Alliance Corporate Governance Code (the “QCA Code”) to the extent that the Directors consider it appropriate, having regard to the Company’s size, board structure, nature of operations and available resources.

The QCA Code identifies ten principles to be followed in order for companies to deliver growth in long term shareholder value, encompassing an efficient, effective and dynamic management framework accompanied by good communication to promote confidence and trust. The sections below set out the ways in which the Company applies the ten principles of the QCA Code in support of the Company’s medium to long-term success, together with any areas of non-compliance.

The 10 principles are as follows:

- 1) establish a strategy and business model which promote long-term value for shareholders
- 2) seek to understand and meet shareholder needs and expectations
- 3) take into account wider stakeholder and social responsibilities and their implications for long-term success
- 4) embed effective risk management, considering both opportunities and threats, throughout the organisation
- 5) maintain the board as a well-functioning, balanced team led by the chair
- 6) ensure that between them the directors have the necessary up-to-date experience, skills and capabilities
- 7) evaluate board performance based on clear and relevant objectives, seeking continuous improvement
- 8) promote a corporate culture that is based on ethical values and behaviours
- 9) maintain governance structures and processes that are fit for purpose and support good decision-making by the board
- 10) communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

Principle 1

Business Model and Strategy

Our business model is to acquire and develop under exploited kimberlite diamond mines in sub-saharan Africa, initially in South Africa.

Our short-term strategy is to concentrate on our existing asset, the Kareevlei Diamond Mine (“Kareevlei”) in the Kimberley region of South Africa, in order to establish its long-term profitability. This will involve the further development of KV2 and the establishment of KV1 as an operating mine, a process which began in Q2 2018. We continue to assess the possibility of opening up and developing the other three known kimberlite pipes at Kareevlei. Once we have achieved our short-term strategy, we will seek to expand our operations through the acquisition of other kimberlite pipes.

Our expertise is in open cast mining and we intend to continue to concentrate our activities on open cast mining although in the longer term, if economically advantageous, we may consider expanding our operations beyond open cast mining. We are unlikely to expand our operation into alluvial mining.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Corporate Governance

Principle 2

Understanding Shareholder Needs and Expectations

The Board is committed to maintaining good communications and having a constructive dialogue with both its institutional and private shareholders.

The Chief Executive Officer and Finance Director are principally responsible for shareholder liaison and have regular dialogue with investors in order to develop an understanding of their views.

The Company encourages all shareholders to attend its Annual General Meeting where they can meet and question the Directors and express ideas or concerns. In addition, the Company regularly invites shareholders to submit questions to and participate in shareholder calls and video interviews via Interactive Investor, both of which are available on the Company's website. The Directors undertake presentations and roadshows to institutional investors as appropriate. In addition, shareholder communication is answered, where possible or appropriate, by Directors or the Company's Financial PR advisors, St Brides Partners Ltd, or the Company's Nominated Adviser and broker, SP Angel Corporate Finance LLP.

Principle 3

Stakeholder and Social Responsibilities

The Board recognises that the Company's continued growth and long-term success is largely reliant on its relations with its stakeholders, both internal (employees and shareholders) and external (customers, suppliers, business partners and advisors etc).

The Company maintains a regular dialogue with all of its stakeholders, including suppliers of key materials and services and its regulator in South Africa, the Department for Mineral Resources.

The Company works closely with its advisors to ensure it operates in conformity of its listing regulations as well as the social, legal, religious and cultural requirements of the countries in which it operates.

As a Company, we take our corporate social responsibilities very seriously, particularly as we operate in area of high unemployment. The Company employs a dedicated person to fulfil its social responsibility policies which involve supporting the school local to our mine. The Board is proud of the support and assistance the Company provides to the local community.

Principle 4

Risk Management

As a business operating in an emerging market there is clearly an elevated risk which is balanced by potentially greater rewards. The Board is mindful of and monitors both its corporate risks and mining risk which are set out in note 29 of the Company's Annual Report for the year ended 31 December 2018.

Currently, we operate only one mine but, if and when the Company expands, it will monitor mining risk on a mine by mine basis as each mine will present its own unique risks. Mining risks are categorised by both probability and impact and appropriate measures identified to monitor and mitigate any potential impact are monitored through the life cycle of the mine as existing risks change and new risks appear. Mining risks and mitigation are a key part of regular discussions in project management meetings.

The Company's corporate risks, risk monitoring, and risk management procedures are regularly reviewed by the Board and updated as necessary. The risk report is set out on pages 10 to 12.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Corporate Governance

Principle 5 Board Structure

The PLC Board contains a balance of Executive and Non-Executive Directors, including an Executive Chairman who is responsible for dealing with the strategic direction and long-term success of the Company. The Board meets at least every two months or at any other time deemed necessary for the good management of the business and at a location agreed between the Board members. The Board currently consists of two Non-Executive directors and two Executive directors. Given Adam Waugh's previous role as CEO of the Company, Tim Leslie is the sole independent Non-Executive Director.

As announced on 16 May 2019, Teichmann Company Limited ("TCL"), an investment company controlled by trusts connected with the owners of BlueRock's strategic partner, Teichmann Group, retains a right to appoint a non-executive director to the Board whilst it maintains a holding over 10%. TCL currently hold approximately 19% of the Company and it is expected that such appointment will be made in due course. The Teichmann appointee will not be fully independent of the Company because of TCL's substantial shareholding but will be independent of the executive team.

The company is currently in the process of identifying and appointing a suitable candidate as CEO.

The Executive Board members consist of the Company CEO and the Finance Director.

Non-executive directors are required to commit to up to 4 days a month. The Executive Chairman and the Finance director are required to commit to up to 10 days a month. The monthly commitment varies depending upon the demands of the company.

In 2018 the board held 11 formal board meetings. Attendance at these meetings was as follows:

Director	Meetings attended	% attended
Mike Houston (appointed 2 November 2018)	2	100
Paul Beck (resigned 12 November 2018)	7	78
Tim Leslie	7	64
David Facey	11	100
Adam Waugh	11	100

The Audit committee met twice in the period to which all committee members were in attendance. The remuneration committee met once in the year at which all committee members were present.

Principle 6 Board Composition and Experience

The Company operates in a complex and challenging technological and geographical area and the Board is mindful that in order to deal effectively with the challenges of the business and to maximise its growth opportunities it has to incorporate a broad range of skills and diversity.

The Board considers that all directors have the relevant professional and technical skills to ensure that they are able to fulfil their duties. Mike Houston, Executive Chairman has extensive experience in the natural resources sector having been CEO of Shanta Gold, Tim Leslie has operated in the financial sector for many years and is a FCA regulated person, and David Facey is a Fellow of the Institute of Chartered Accountants and has many years of investment banking experience. The Directors note the need to keep their experience, skills and knowledge up to date and note that the addition of another Non-Executive Director which is expected in due course, will further add strength and objectivity to the Board.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Corporate Governance

The current composition of the Board may be found on page 13 of the Annual Report

The Board and its committees also seek external expertise and advice when required in particular from specialist mining and engineering consultants.

Principle 7 Board Evaluation

The Board considers evaluation of its performance and that of its committees and individual directors to be an integral part of corporate governance to ensure it has the necessary skills, experience and abilities to fulfil its responsibilities. The goal of the Board evaluation process is to identify and address opportunities for improving the performance of the board and to solicit honest, genuine and constructive feedback.

The Board considers the evaluation process is best carried out internally given the Company's current size, however the Board will keep this under review and may consider independent external evaluation reviews in due course as the Company grows.

Following the recent changes in the board, a board performance evaluation has been scheduled for Q3 2019.

Board Evaluation:

Review

	Period
Board composition in terms of skills, experience and balance	Annually or as required
Board cohesion	Annually or as required
Board operational effectiveness and decision making	Annually
Board meetings conduct and content and quality of information	Annually or as required
The Board's engagement with shareholders and other stakeholders	Annually
The corporate vision and business plan	Annually

Committee Evaluation:

Board Committees' composition in terms of skills, experience and balance	Annually or as required
Board Committees' Terms of Reference	Annually
Board Committees' effectiveness	Annually

Individual director evaluation:

Executive Director performance in executive role	Annually
Executive Director performance and contribution to the Board	Annually
Non-Executive Director performance and contribution to the Board	Annually
Non-Executive Director's independence and time served	Annually
All Directors' attendance at Board and Committee meetings	Annually

The Board will, as a whole or in part as appropriate, undertake the evaluation process aided by the Chairman, CEO and independent Non-Executive Director or external advisors as necessary. The Chairman is responsible in ensuring the evaluation process is 'fit for purpose', as well as dealing with matters raised during the process. The Chairman will keep under review the frequency, scope and mechanisms for the evaluation process and amend the process as required.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Corporate Governance

Where deficiencies are identified these will be addressed in a constructive manner. Where necessary individual Directors will be offered mentoring and training. If deficiencies are identified within the Board as a whole, then changes or additions to the Board will be considered in conjunction with the Nominations Committee.

The evaluation process will be focused on the improvement of Board performance, through open and constructive dialogue and the development and implementation of action plans. The Board will report on its evaluation and actions in its next Annual Report.

Succession planning is a vital task for boards and the management of succession planning represents a key measure of the effectiveness of the Board and a key responsibility of both the Nominations Committee and wider Board.

Principle 8 Corporate Culture

The Board recognises that a corporate culture based on sound ethical values and behaviours is an asset and provides competitive advantages. The Company is mindful that respect of individual cultures is critical to corporate success and endeavours to conduct its business in an ethical, professional and responsible manner, treating our employees, customers, suppliers and partners with equal courtesy and respect at all times. The Company is also committed to providing a safe environment for its staff and all other parties for which the Company has a legal or moral responsibility in this area.

In order to ensure that these values are continually applied and adopted, the Board seeks to recruit the best talent available and create a diverse talent pool.

The Board has implemented a code for Directors' and employees' dealings in securities which it considers to be appropriate for a company whose securities are traded on AIM and is in accordance with the requirements of the Market Abuse Regulation.

Principle 9 Governance Structure

The Board sets the Company's strategic aims and ensures that necessary resources are in place in order for the Company to meet its objectives. All members of the Board take collective responsibility for the performance of the Company and all decisions are taken in the interests of the Company. Whilst the PLC Board has delegated the operational management of the Company via the Operational Board to the Executive Directors and other senior management, there are detailed specific matters subject to decision by the PLC Board of Directors. These include acquisitions and disposals, joint ventures and investments, projects of a capital nature and all significant contracts. The Non-Executive Directors have a particular responsibility to constructively challenge the strategy proposed by the Executive Directors; to scrutinise and challenge performance; to ensure appropriate remuneration and that succession planning arrangements are in place in relation to Executive Directors and other senior members of the management team. The senior executives enjoy open access to the Non-Executive Directors.

The Chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role. The Chairman sets the Board's agenda and ensures that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chairman promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors in particular and ensuring constructive relations between Executive and Non-Executive Directors. The Chairman is also responsible for ensuring that the directors receive accurate, timely and clear information.

Given the current absence of a CEO, the Chairman is also responsible for running the business, implementing the decisions and policies of the Board and for the overall operational performance of the Company and ensuring the Company's communication with shareholders is timely, informative and accurate with due regard to commercial sensitivity and regulatory requirements. It is expected that a separate CEO will be appointed over the next 12 months.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Corporate Governance

The Finance Director is responsible for the Company's finances and the operations and technical requirements of the Company. The role of Company Secretary is undertaken by the Finance Director.

Although not on the board, the Mine Manager is responsible for the day to day running of the Company's main asset, Kareevlei.

The Non-Executive Directors are appointed not only to provide independent oversight and constructive challenge to the Executive Directors but also chosen to provide strategic advice and guidance. This is particularly important given the Company operates overseas in challenging markets.

All directors are able to allocate sufficient time to the Company to discharge their duties. There is a rigorous and transparent procedure for the appointment of new directors to the Board. The search for Board candidates is conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board.

The Board is responsible for ensuring that a sound system of internal control exists to safeguard shareholders' interests and the Company's assets. It is responsible for the regular review of the effectiveness of the systems of internal control. Internal controls are designed to manage rather than eliminate risk and therefore even the most effective system cannot provide assurance that each and every risk, present and future, has been addressed. The key features of the system that operated during the year are described below.

The Board has established the following committees to assist with oversight and governance:

Audit Committee

The Audit Committee consists of Tim Leslie (chair) and will be augmented by the TCL appointee in due course once appointed to the Board. It oversees and reviews the Company's financial reporting and internal control processes, its relationship with external auditors and the conduct of the audit process together with its process for ensuring compliance with laws, regulations and corporate governance. It is composed entirely of non-executive directors but other individuals such as the Company's CFO and CEO may be invited to attend all or any part of any meeting when deemed appropriate. The Company's external auditors will be invited to attend meetings of the Committee on a regular basis.

There is currently no internal audit function in view of the size of the Company, although this is kept under annual review.

The Audit Committee has been involved with the planning of the audit for the year ended December 2018 and has discussed the audit findings with the Company's external auditors.

Remuneration Committee

The Remuneration Committee consists of Tim Leslie (chair) and will be augmented by the TCL appointee in due course once appointed to the Board. The Remuneration Committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and to set the remuneration packages of individual Directors. This includes agreeing with the Board the framework for remuneration of the Executive Chairman and CFO and such other members of the executive management of the Company as it is designated to consider. It is furthermore responsible for determining the total individual remuneration packages of each Director including, where appropriate, bonuses, incentive payments and share options.

The Committee's policy is to provide a remuneration package which will attract and retain Directors and management with the ability and experience required to manage the Company and to provide superior long-term performance. It is the aim of the Committee to reward Directors competitively and on the broad principle that their remuneration should be in line with the remuneration paid to senior management of comparable companies. In addition to paying fees in cash, fees have been paid also in shares and share options as a method of preserving cash within the business.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Corporate Governance

Nomination Committee

The Nominations Committee comprises Tim Leslie (chairman) and will be augmented by the TCL appointee in due course once appointed to the Board. The Nominations Committee leads the process for Board Appointments and is responsible for review of the board size, structure and composition (both executive and non-executive) including any potential new applicants to ensure the board contains the right balance of skills, knowledge and experience to manage and grow the business. The Nominations Committee will make recommendations to the Board on any proposed or suggested changes to the Board with a view on the leadership needs of the business including succession planning.

Principle 10 Stakeholder Communication

The Board is committed to maintaining good communication and having constructive dialogue with all of its stakeholders, including shareholders, providing them with access to information to enable them to come to informed decisions about the Company. The Investors section of the Company's website provides all required regulatory information as well as additional information shareholders may find helpful including: information on Board members, advisors and significant shareholdings, a historical list of the Company's Announcements, its corporate governance information, the Company's publications including historic annual reports and notices of annual general meetings, together with share price information.

Results of shareholder meetings and details of votes cast will be publicly announced through the regulatory system and displayed on the Company's website with suitable explanations of any actions undertaken as a result of any significant votes against resolutions.

Audit Committee Report

An important part of the role of the Audit Committee is its responsibility for reviewing the effectiveness of the Group's financial reporting, internal control policies, and procedures for the identification, assessment and reporting of risk. The Committee devotes significant time to their review and further information on the risk management and internal control systems is provided within the Strategic Report.

A key governance requirement of the Group's financial statements is for the report and accounts to be fair, balanced and understandable. The co-ordination and review of the Group-wide input into the Annual Report and Accounts is a sizeable exercise performed within an exacting timeframe. It runs alongside the formal audit process undertaken by external Auditors and is designed to arrive at a position where initially the Audit Committee, and then the Board, is satisfied with the overall fairness, balance and clarity of the document underpinned by the following:

- detailed guidance issued to contributors at operational levels;
- a verification process dealing with the factual content of the reports;
- thorough review undertaken at different levels that aim to ensure consistency and overall balance; and
- a comprehensive review by the senior management team.

An essential part of the integrity of the financial statements are the key assumptions and estimates or judgements that have to be made. The Committee reviews key judgements prior to publication of the financial statements at the full and half year, as well as considering significant issues throughout the year. In particular, this includes reviewing any materially subjective assumptions within the Group's activities to enable an appropriate determination of asset valuation and provisioning. The Committee reviewed and was satisfied that the judgements exercised by management on material items contained within the Annual Report were reasonable. In particular the Committee focused on the appropriateness of judgments and estimates contained in management's impairment review for the Kareevlei assets. It was also concluded that waste stripping costs did not meet the criteria for capitalisation under IFRS and thus that these costs should be fully expensed in 2018.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Corporate Governance

The Committee focussed heavily on management's assessment of going concern with respect to the Group's cash position and its commitments for the next 12 months and looked at various scenarios to test the management's views and concluded that the wording contained in the Going concern section of the Directors' Report was appropriate.

The Audit Committee has considered the Group's internal control and risk management policies and systems, their effectiveness and the requirements for an internal audit function in the context of the Group's overall risk management system. The Committee is satisfied that the Group does not currently require an internal audit function.

The Committee has recommended to the Board that shareholders support the re-appointment of the Auditors at the 2019 AGM.

Remuneration committee report

The Remuneration Committee ("Committee") has been engaged on all matters of corporate remuneration.

Over the past year and into 2019, the Committee has considered the following matters:

- Executive compensation including base compensation, bonus and equity incentives;
- Non-Executive Director remuneration

As a result of the Remuneration Committee's deliberations it has been agreed that share based incentive schemes should be reserved for the executive team only and that non-executive directors should be paid a market rate for their services which hitherto have been provided largely for no payment.

The remuneration committee will meet formally in July 2019 in order to approve remuneration for the following year.

The annual remuneration for the Directors is noted in the Directors' report.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Directors' Report

The directors present their report for the year ended 31 December 2018.

1. Review of activities

Principal activities and results

The principal activity of the Group is diamond mining in the Kimberley region of South Africa. There were no major changes herein during the year.

The operating results and consolidated statement of financial position of the Group are fully set out in the attached financial statements together with a review of the Group's performance and prospects contained in the chairman's statement.

2. Going concern

The Board have reviewed the Group's cash flow forecasts which cover a period of at least the next 12 months from the approval date of the financial statements, which demonstrate that the Group will have sufficient funds to meet its liabilities as they fall due throughout the period following the £982,000 equity placing and recent tender proceeds which included the sale of a 24.9c/t diamond for c\$190,000. Following the move to continuous operations, operational changes and investment at the mine, production has increased in line with planned production figures with further production increases anticipated as the crusher upgrades and other operational changes take effect in the coming months. The Board has considered reasonable downside sensitivities including price volatility and delays to production growth given the inherent risks associated with the production plan, together with mitigating actions available to the Group and is satisfied that liquidity is maintained under such reasonable downside cases. Accordingly, the financial statements have been prepared on a going concern basis.

3. Events after reporting date

Fundraising

On 11 February the Company successfully raised an aggregate before expenses of £575,000 via the issue of 191,666,667 ordinary shares of 0.01 pence each in the capital of the Company through a placing and subscription at 0.3 pence per new share. Each new share issued is accompanied by a warrant to subscribe for a further new share at a price of 0.4 pence per new share. The Company will use the majority of the funding to develop and expand its ongoing mining activity.

On 16 May 2019 the Company successfully raised an aggregate before expenses of £982,000 via the issue of 982,000,000 ordinary shares of 0.01 pence each in the capital of the Company through a placing and subscription at 0.1 pence per new share. Each new share issued is accompanied by a warrant to subscribe for a further new share at a price of 0.2 pence per new share. The Company will use the majority of the funding to implement its revised mine plan and for investment in production improvements.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Directors' Report

4. Directors' interests

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

	Number of ordinary shares	Percentage of share capital	Number of ordinary shares subject to share options	Percentage of share capital subject to share options
T Leslie	10,636,785	0.66%	2,063,544	0.13%
A Waugh	23,232,940	1.42%	5,864,218	0.36%
D Facey	23,999,999	1.43%	2,063,544	0.13%
M Houston	15,000,000	0.92%	-	-

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 what is disclosed in note 28.

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.

5. Dividend

No dividend was declared or paid to shareholders during the year.

6. Directors

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

Name	Nationality	Appointment Date	Resignation Date
MJ Houston (Executive Chairman)	British	2 November 2018	
PJ Beck (Former Non-Executive Chairman)	British	11 October 2012	2 November 2018
A Waugh (Non-Executive Director)	British	7 December 2015	
TG Leslie (Non-Executive Director)	British	4 September 2017	
DA Facey (Chief Financial Officer)	British	1 December 2017	

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Directors' Report

7. Financial Risk Management

Details of the Group's financial risk management is set out in note 30.

8. Significant shareholders as at the date of this report

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:

Name	Holding	
	Number of ordinary shares	Percentage of share capital
Teichman Company Limited	310,000,000	19.00%

9. Auditor

BDO UK LLP were the independent auditors for the year under review.

10. Annual General Meeting

The annual general meeting will take place on 25 July 2019 at 10.00a.m. (BST) at the offices of SP Angel Corporate Finance LLP, 35-39 Maddox Street, London, W1S 2PP.

11. 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.

12. Directors' remuneration

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

A Waugh – received fees of £96,320 (2017: £50,000)

D Facey – received fees of £36,000 (2017: £18,000)

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Directors' Report

13. 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

Michael Houston
Executive Chairman
28 June 2019

Independent Auditor's Report

Independent auditor's report to the members of BlueRock Diamonds plc

Opinion

We have audited the financial statements of BlueRock Diamonds plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2018 which comprise Consolidated and Company Statements of Financial Position, Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity - Group, Statement of Changes in Equity - Company, 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 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 2018 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Matter identified	How we addressed the matter
<p><u>Going concern</u></p> <p>When preparing the financial statements, the Board is required to make an assessment of the Group's ability to continue as a going concern for a period of at least 12 months from the date of approval of the financial statements.</p> <p>The Board has reviewed cash flow forecasts prepared by management and concluded that the going concern basis of preparation is appropriate.</p> <p>Details of management's consideration of the appropriateness of the going concern basis are set out in note 1.</p> <p>This area represented a key audit matter given the significant estimates required by management in determining the inputs to the cash flow forecasts such as forecast production growth, diamond pricing, costs and exchange rates.</p>	<p>We obtained management's cash flow forecasts for the period to December 2020 and evaluated the key underlying assumptions including diamond pricing, production, foreign exchange rates, and future costs. In doing so, we compared the assumptions to historical data in FY 2018 and performance since year end, market data and forecasts.</p> <p>We confirmed the equity placing and tender receipts in respect of the 24.98c/t diamond sale in 2019 to supporting documents.</p> <p>We confirmed that the current debt facility payments terms are appropriately reflected in the cash flow forecast.</p> <p>We considered the extent to which the forecast increase in production volumes from the mine are achievable. In doing so we obtained production data to evaluate the performance against plan in May and June 2019 and confirmed that the cash flows included the costs associated with plant upgrades associated with the forecast increase.</p> <p>We performed sensitivity analysis in respect of key assumptions including reducing the rate of production growth to allow for inherent risks associated with such expansion, diamond prices, cost escalation and exchange rate movements.</p> <p>We evaluated the appropriateness of the disclosures included in the financial statements given in note 1 against the relevant accounting framework.</p> <p><i>Our observations</i></p> <p>We found the key underlying assumptions to be within an acceptable range and the disclosures included in the financial statements in respect of going concern to be appropriate.</p>

Carrying value of mining assets

The Group's mining assets and property, plant and equipment, as disclosed further in notes 5 and 6, represent the Group's significant asset as at 31 December 2018.

Management has assessed the assets for potential impairment based on the net present value of the Group's medium term cash flow forecasts and the results of the Competent Person's updated Resource Statement the Kareevlei Mine. Management determined that no impairment was required at 31 December 2018. As detailed in note 3.1.3, this assessment required judgement by management.

We determined the carrying value of mining assets to be a key audit matter given the significant judgements required in respect of the assessment of indicators of impairment.

We evaluated management's impairment assessment to check that the fair value less cost to sell methodology was appropriate and confirmed that the net present value exceeded the carrying value of the assets.

We critically challenged the key estimates and assumptions used by management which included a comparison of the diamond price forecasts to historical achieved data and market outlook reports, recalculation of discount rates and comparing cost assumptions to supporting contracts and historical data. In respect of forecast production we compared the production included in the model to the Resource Statement to confirm that it included only a portion of the total resource and confirmed that the forecast production growth was matched by associated capital investment.

We performed sensitivity analysis on the key assumptions regarding future pricing and production volumes.

We reviewed the Competent Person's Report and performed an assessment of the independence and competence of the expert. We considered the extent to which the significant resource excluded from the medium term forecasts, supported management's assessment that additional recoverable value exists in excess of the amount indicated by the medium term cash flow forecasts.

We reviewed the disclosures in relation to the Groups assessment of the carrying value of mining assets.

Our observations

We found management's conclusion that no impairment was required to be acceptable and the disclosures included in the financial statements to be appropriate.

Our application of materiality

Component	Materiality	Basis of materiality
Group	£92,000	We were appointed as auditors in the current year. 5% of the group's normalised loss before taxation (excluding foreign exchange losses of £607,060 given the volatility of exchange rates). We consider loss before tax to be the most significant determinant of the Group's financial performance used by shareholders given the producing status of the operations.
Parent company	£69,000	2% of the company's total assets, capped at 75% of group materiality. We considered total assets to be the most appropriate metric given the company primarily acts as a holding company.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 70% of the above materiality levels for the group and the parent company being £64,400 and £48,300 respectively.

Whilst materiality for the financial statements as a whole was £92,000, the significant components of the group was audited to a lower level of materiality of between £51,000 and £69,000. We agreed with the Audit Committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £1,400. We also agreed to report differences below these thresholds that, in our view warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements at Group level.

Whilst BlueRock Diamonds plc is a Company registered in England and listed on the Alternative Investment Market in the UK, the Group's principal operations are located in South Africa. In approaching the audit, we considered how the Group is organised and managed. We assessed there to be two significant components, being the Parent Company and Kareevlei Mining Limited, which includes the Group's mining operations. The remaining component was considered non-significant to the Group audit and we performed analytical review procedures in respect of this component.

A full scope audit for Group reporting purposes was performed on the significant component Kareevlei Mining Limited by BDO in South Africa. BDO LLP performed a full scope audit of the Parent Company, specific procedures over key risk areas including the Key Audit Matters detailed above and performed the audit of the consolidation.

As part of our Group audit strategy, as Group auditors:

- We held planning meetings with BDO South Africa and local management at Kareevlei Mining Limited.
- Detailed Group reporting instructions were sent to the component auditors, which included the significant areas to be covered by their audit, and set out the information to be reported to the Group audit team.
- We received and reviewed Group reporting submissions and performed a review of the component auditors file.
- We held clearance meetings with the component auditor and local management to discuss significant audit and accounting issues and judgments.

Other Information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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.

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

As explained more fully in the Directors' responsibilities statement set out on page 25, 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. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ryan Ferguson (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
28 June 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Consolidated and Company Statements of Financial Position

Figures in £	Notes	Group 2018	Group * 2017	Company 2018	Company 2017
Assets					
Non-current assets					
Property, plant and equipment	5	570,803	793,111	-	-
Mining assets	6	303,377	272,128	-	-
Goodwill	7	-	-	-	-
Investments in subsidiaries	8	-	-	5	5
Other receivables	10	57,458	118,104	-	-
Total non-current assets		931,638	1,183,343	5	5
Current assets					
Inventories	9	191,406	103,951	7,352	-
Trade and other receivables	10	71,864	6,361	6,677,637	5,630,197
Cash and cash equivalents (including restricted cash)	11	378,309	268,128	275,736	156,030
Total current assets		641,579	378,440	6,960,725	5,786,227
Total assets		1,573,217	1,561,783	6,960,730	5,786,232
Equity and liabilities					
Equity					
Share capital	12	44,352	1,398,242	44,352	1,398,242
Share premium	12	3,460,309	2,811,536	3,460,309	2,811,536
(Accumulated loss) / retained income		(4,609,485)	(2,706,643)	(62,594)	305,886
Other reserves	13	2,330,670	(263,797)	2,336,847	126,644
Total equity attributable to owners of parent		1,225,846	1,239,338	5,778,914	4,642,308
Non-controlling interests	8	(1,599,785)	(1,195,696)	-	-
Total equity		(373,939)	43,642	5,778,914	4,642,308
Liabilities					
Non-current liabilities					
Provisions	14	204,840	148,282	-	-
Borrowings	16	1,103,894	963,838	1,076,835	963,838
Total non-current liabilities		1,308,734	1,112,120	1,076,835	963,838
Current liabilities					
Trade and other payables	15	587,545	371,298	58,734	145,363
Borrowings	16	50,877	34,723	46,247	34,723
Total current liabilities		638,422	406,021	104,981	180,086
Total liabilities		1,947,156	1,518,141	1,181,816	1,143,924
Total equity and liabilities		1,573,217	1,561,783	6,960,730	5,786,232

* The comparative figures have been reclassified to provide consistent presentation with the current year. Refer to note 5 and 6 for details.

These financial statements were approved by the Board and authorised for issue on 28 June 2019

Michael Houston
Executive Chairman

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Figures in £	Notes	Group 2018	Group 2017
Revenue	18	1,416,699	945,924
Other income		1,882	446
Administrative expenses		(89,498)	(86,637)
Operating expenses		(3,132,047)	(2,212,894)
Other gains	19	-	5,042
Loss from operating activities	20	(1,802,964)	(1,348,119)
Finance income	21	8,600	-
Finance costs	22	(145,571)	(82,384)
Other (losses) / gains	19	(506,189)	250,974
Loss before taxation		(2,446,124)	(1,179,529)
Income tax credit / (expense)	23	4,181	(22,008)
Loss for the year		(2,441,943)	(1,201,537)
Loss for the year attributable to:			
Owners of Parent		(1,902,842)	(843,706)
Non-controlling interest		(539,101)	(357,831)
		(2,441,943)	(1,201,537)
Other comprehensive loss net of tax			
Components of other comprehensive income that may be reclassified to profit or loss			
Gains / (losses) on exchange differences on translation		519,276	(78,760)
Total other comprehensive income/(loss)		519,276	(78,760)
Total comprehensive loss		(1,922,667)	(1,280,297)
Comprehensive loss attributable to:			
Owners of parent		(1,518,578)	(901,987)
Non-controlling interests		(404,089)	(378,310)
		(1,922,667)	(1,280,297)
Basic and diluted loss per share			
Basic (loss) / earnings per share	25	(0.01)	(0.01)

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 loss after taxation for the financial year for the parent company was £368,481 (2017: Profit of £174,742).

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Consolidated Statement of Changes in Equity - Group

Figures in £	Share capital	Share premium	Capital redemption reserve	Foreign currency translation reserve	Share-based payment reserve	(Accumulated loss) / retained income	Attributable to owners of the parent	Non-controlling interests	Total
Balance at 1 January 2017	556,796	2,443,826	-	(332,160)	34,339	(1,862,937)	839,864	(817,386)	22,478
Changes in equity									
Loss for the year	-	-	-	-	-	(843,706)	(843,706)	(357,831)	(1,201,537)
Foreign exchange movement	-	-	-	(58,281)	-	-	(58,281)	(20,479)	(78,760)
Total comprehensive income	-	-	-	(58,281)	-	(843,706)	(901,987)	(378,310)	(1,280,297)
Issue of equity	841,446	449,552	-	-	-	-	1,290,998	-	1,290,998
Share issue costs	-	(81,842)	-	-	-	-	(81,842)	-	(81,842)
Share-based payments	-	-	-	-	92,305	-	92,305	-	92,305
Balance at 31 December 2017	1,398,242	2,811,536	-	(390,441)	126,644	(2,706,643)	1,239,338	(1,195,696)	43,642
Balance at 1 January 2018	1,398,242	2,811,536	-	(390,441)	126,644	(2,706,643)	1,239,338	(1,195,696)	43,642
Changes in equity									
Loss for the year	-	-	-	-	-	(1,902,842)	(1,902,842)	(539,101)	(2,441,943)
Foreign exchange movement	-	-	-	384,264	-	-	384,264	135,012	519,276
Total comprehensive income	-	-	-	384,264	-	(1,902,842)	(1,518,578)	(404,089)	(1,922,667)
Issue of equity	649,120	924,480	-	-	-	-	1,573,600	-	1,573,600
Share issue expenses	-	(125,972)	-	-	-	-	(125,972)	-	(125,972)
Share buy-back	(2,003,010)	-	2,003,010	-	-	-	-	-	-
Share-based payments	-	(149,735)	-	-	207,193	-	57,458	-	57,458
Balance at 31 December 2018	44,352	3,460,309	2,003,010	(6,177)	333,837	(4,609,485)	1,225,846	(1,599,785)	(373,939)
Notes	12	12	13	13	13	13			

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Statement of Changes in Equity - Company

Figures in £	Share capital	Share premium	Capital redemption reserve	Share-based payment reserve	(Accumulated loss) / retained income	Total
Balance at 1 January 2017	556,796	2,443,826	-	34,339	131,144	3,166,105
Changes in equity						
Profit for the year	-	-	-	-	174,742	174,742
Total comprehensive income	-	-	-	-	174,742	174,742
Issue of equity	841,446	449,552	-	-	-	1,290,998
Share issue expenses	-	(81,842)	-	-	-	(81,842)
Share-based payments	-	-	-	92,305	-	92,305
Balance at 31 December 2017	1,398,242	2,811,536	-	126,644	305,886	4,642,308
Balance at 1 January 2018	1,398,242	2,811,536	-	126,644	305,886	4,642,308
Changes in equity						
Loss for the year	-	-	-	-	(368,480)	(368,480)
Total comprehensive income	-	-	-	-	(368,480)	(368,480)
Issue of share capital	649,120	924,480	-	-	-	1,573,600
Share issue expenses	-	(125,972)	-	-	-	(125,972)
Share buy-back	(2,003,010)	-	2,003,010	-	-	-
Share-based payments	-	(149,735)	-	207,193	-	57,458
Balance at 31 December 2018	44,352	3,460,309	2,003,010	333,837	(62,594)	5,778,914
	12	12	13	13		13

Note

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Consolidated and Company Statements of Cash Flows

Figures in £	Notes	Group 2018	Group * 2017	Company 2018	Company 2017
Cash flows used in operations					
Cash used in operations	27	(1,363,407)	(904,338)	(492,472)	(175,183)
Net cash flows used in operations		(1,363,407)	(904,338)	(492,472)	(175,183)
Income taxes paid		(17,772)	(90,621)	(17,772)	(90,621)
Net cash flows used in operating activities		(1,381,179)	(994,959)	(510,244)	(265,804)
Cash flows used in investing activities					
Proceeds from sales of property, plant and equipment		-	23,782	-	-
Purchase of property, plant and equipment		(109,710)	(323,002)	-	-
Increase in loan advanced to group company		-	-	(923,172)	(1,148,687)
Movement in rehabilitation guarantee		60,647	(118,105)	-	-
Cash flows used in investing activities		(49,063)	(417,325)	(923,172)	(1,148,687)
Cash flows from financing activities					
Proceeds from issuing shares (net of fees)		1,447,628	1,147,157	1,447,628	1,147,157
Proceeds from borrowings	27	231,400	500,000	231,400	500,000
Repayments of borrowings	27	(134,449)	(250,699)	(125,906)	(250,699)
Increase in restricted cash		(210,128)	-	(210,128)	-
Cash flows from financing activities		1,334,451	1,396,458	1,342,994	1,396,458
Net decrease in cash and cash equivalents		(95,791)	(15,826)	(90,422)	(18,033)
Exchange rate changes on cash and cash equivalents		(4,156)	(7,601)	-	-
Net decrease in cash and cash equivalents		(99,947)	(23,427)	(90,422)	(18,033)
Cash and cash equivalents at beginning of year		268,128	291,555	156,030	174,063
Cash and cash equivalents at end of year	11	168,181	268,128	65,608	156,030

* Comparative figures have been reclassified to provide consistent presentation with the current year. Refer to note 6 for details.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Accounting Policies

1. Basis of preparation

The consolidated and separate financial statements of BlueRock Diamonds Plc have been prepared in accordance with International Financial Reporting Standards and as adopted by the European Union and the Companies Act 2006. The consolidated and separate financial statements have been prepared under the historical cost convention except as noted 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, 4th Floor, Reading Bridge House, George Street, Reading, Berkshire, RG1 8LS.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated and separate financial statements are disclosed in note 3.

Going concern

The Board have reviewed the Group's cash flow forecasts which cover a period of at least the next 12 months from the approval date of the financial statements, which demonstrate that the Group will have sufficient funds to meet its liabilities as they fall due throughout the period following the £982,000 equity placing and recent tender proceeds which included the sale of a 24.9c/t diamond for c\$190,000. Following the move to continuous operations, operational changes and investment at the mine, production has increased in line with planned production figures with further production increases anticipated as the crusher upgrades and other operational changes take effect in the coming months. The Board has considered reasonable downside sensitivities including price volatility and delays to production growth given the inherent risks associated with the production plan, together with mitigating actions available to the Group and is satisfied that liquidity is maintained under such reasonable downside cases. Accordingly, the financial statements have been prepared on a going concern basis.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate annual financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Accounting Policies

2.1 Consolidation

Subsidiaries

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

Disposal of subsidiaries

When the group ceases to have control of a subsidiary any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2 Foreign currency

Functional and presentation currencies

The consolidated and separate financial statements have been presented in British Pound Sterling (Pounds), which is also the functional currency of the company. The functional currency of the South African subsidiaries is the South African Rand.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Group companies

The results and financial position of all the group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the exchange rates at the dates of the transactions, in which case income and expense items are translated at the exchange rates at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Accounting Policies

Foreign currency continued...

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate at each reporting date.

2.3 Property, plant and equipment

Recognition

Property, plant and equipment is recognised as an asset when:

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

Initial measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost.

The cost of an item of property, plant and equipment includes:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Subsequent measurement - Cost model

After initial recognition, property, plant and equipment is measured at cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure incurred on items of property, plant and equipment is only capitalised to the extent that such expenditure enhances the value or previous capacity of those assets. Repairs and maintenance not deemed to enhance the economic benefit or service potential of items of property, plant and equipment are expensed as incurred.

Where the entity replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Stripping costs

Costs associated with removal of waste overburden are classified as stripping costs.

Stripping activities that are undertaken during the production phase of a surface mine may create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where production stripping costs are incurred and where the benefit is the creation of mining flexibility and improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a 'stripping activity asset', if:

- (a) future economic benefits (being improved access to the orebody) are probable;
- (b) the component of the orebody for which access will be improved can be accurately identified; and
- (c) the costs associated with the improved access can be reliably measured.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Accounting Policies

Property, plant and equipment continued...

If all the criteria are not met, the production stripping costs are charged to the statement of profit or loss as operating costs. The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. If incidental operations are occurring at the same time as the production stripping activity, but are not necessary for the production stripping activity to continue as planned, these costs are not included in the cost of the stripping activity asset. If the costs of the stripping activity asset and the inventory produced are not separately identifiable, a relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. The stripping activity asset is subsequently amortised over the expected useful life of the identified component of the orebody that became more accessible as a result of the stripping activity.

The expected average stripping ratio over the average life of the area being mined is used to amortise the stripping activity. As a result, the stripping activity asset is carried at cost less amortisation and any impairment losses.

The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the orebody divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Changes in the stripping ratio are accounted for prospectively as a change in estimate.

Depreciation

Depreciation of an asset commences when it is available for use, and ceases at the earlier of the date that the asset is classified as held for sale, or the date that the asset is derecognised.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in profit or loss unless the asset enhances another asset under construction whereby it is included in the carrying amount of another asset. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life. The depreciable amount of an asset is determined after deducting its residual value.

Residual values, useful lives and depreciation methods are reviewed at each financial year end. Where there are significant changes in the expected pattern of economic consumption of the benefits embodied in the asset, the relevant changes will be made to the residual values and depreciation rates, and the change will be accounted for as a change in accounting estimate.

The measurement base, useful life or depreciation rate as well as the depreciation method for all major classes of assets are as follows:

Asset class	Measurement base	Method
Mine infrastructure	Cost	Units of production
Plant and Machinery	Cost	3 years straight line basis
Motor vehicles	Cost	5 years straight line basis

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Accounting Policies

Property, plant and equipment continued...

Units of production method

When a units-of-production basis is used, applicable to deferred stripping, mining rehabilitation assets and mining rights, the relevant assets are depreciated at a rate determined as the tonnes of ore mined (typically production facility assets) or hoisted (typically underground development and conveying assets) from the relevant orebody section, divided by the Group's estimate of ore tonnes held in reserves and resources which have sufficient geological and geophysical certainty and are economically viable. The relevant reserves and resources are matched to the existing assets which will be utilised for their extraction. The assets depreciated in the units-of-production method are existing assets. Future capital expenditure is only subject to depreciation over remaining resources once incurred. The Group depreciates its assets according to the relevant sections of the orebody over which they will be utilised.

Impairments

Whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable an asset is reviewed for impairment. This includes mining assets, property, plant and equipment. A review involves determining whether the carrying amounts are in excess of their recoverable amounts. An asset's recoverable amount is determined as the higher of its fair value less costs of disposal and its value in use. Such reviews are undertaken on an asset-by-asset basis, except where assets do not generate cash flows independent of other assets, in which case the review is undertaken on a cash generating unit basis.

If the carrying amount of an asset exceeds its recoverable amount an asset's carrying value is written down to its estimated recoverable amount (being the higher of the fair value less cost to sell and value in use) if that is less than the asset's carrying amount. Any change in carrying value is recognised in the comprehensive income statement.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised when the asset is disposed of or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. Gains are classified as other gains on the face of the consolidated statement of profit or loss and other comprehensive income.

2.4 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.

2.5 Goodwill

Initial measurement

Goodwill is initially measured at cost, being the excess of the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements, are accounted for separately from the business combination in accordance with their nature and applicable IFRS. Identifiable intangible assets, meeting either the contractual legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition date fair value can be measured reliably.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Accounting Policies

Goodwill continued...

Subsequent measurement - Cost model

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs (or groups of CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes, and shall not be larger than an operating segment before aggregation.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

2.6 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.

2.7 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the group becomes a party to the contractual provisions of the instrument. The below policy has been updated for 2018 in line with the adoption of IFRS 9. See Note 4.1 for further details.

Financial assets

Financial assets are classified as either financial assets at amortised cost, at fair value through other comprehensive income ("FVTOCI") or at fair value through profit or loss ("FVPL") depending upon the business model for managing the financial assets and the nature of the contractual cash flow characteristics of the financial asset.

A loss allowance for expected credit losses is determined for all financial assets, other than those at FVPL, at the end of each reporting period. The Group applies a simplified approach to measure the credit loss allowance for trade receivables using the lifetime expected credit loss provision. The lifetime expected credit loss is evaluated for each trade receivable taking into account payment history, payments made subsequent to year end and prior to reporting, past default experience and the impact of any other relevant and current observable data. The group applies a general approach on all other receivables classified as financial assets. The general approach recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or have expired.

Other receivables

Other receivables are accounted for at amortised cost and are stated at their nominal value as reduced by appropriate expected credit loss allowances.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Accounting Policies

Financial instruments continued...

Trade and other receivables

Trade receivables are initially recorded at fair value and subsequently carried at amortised cost. Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate expected credit loss allowances for estimated recoverable amounts as the interest that would be recognised from discounting future cash payments over the short payment period is not considered to be material.

Cash and cash equivalents

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

Trade and other payables

Trade and other payables are initially recorded at fair value and subsequently carried at amortised cost.

Included under trade and other payables are income in advance. Income received in advance refers to advances received at year end in respect of future diamond sales. On tender award, revenue for the sale of diamonds are recorded and the liability extinguished.

Borrowings excluding convertible loans

Borrowings are included as financial liabilities on the group balance sheet at the amounts drawn on the particular facilities net of the unamortised cost of financing. Interest payable on those facilities is expensed as finance cost in the period to which it relates.

Derivatives

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise.

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.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Accounting Policies

2.8 Exploration and evaluation assets

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.

2.9 Inventories

Recognition

Inventories are recognised as an asset when

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

Measurement

Inventories, which include rough diamonds, are measured at the lower of cost and net realisable value using the first-in-first-out formula.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Net realisable value also incorporates costs of processing in the case of the ore stock piles. Changes in net realisable value are recognised in the income statement.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

2.10 Tax

Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Accounting Policies

Tax continued...

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:

- deductible temporary differences;
- the carry forward of unused tax losses; and
- the carry forward of unused tax credits.

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. The amount already paid in respect of current and prior periods which exceeds the amount due for those periods, is recognised as an asset.

The benefit relating to a tax loss that can be carried back to recover current tax of a previous period is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Current tax assets and liabilities are offset only where:

- there is a legally enforceable right to set off the recognised amounts; and
- there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; and
- at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and deferred tax assets are made to reflect the tax consequences that would follow from the manner in which it is expected, at the end of the reporting period, recovery or settlement if temporary differences will occur.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Accounting Policies

Tax continued...

Deferred tax assets and liabilities are offset only where:

- there is a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same entity within the group or different taxable entities within the group which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.11 Leases

Definition

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

Classification

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

Finance leases as lessee

At the commencement of the lease term, finance leases are recognised as assets and liabilities in the statements of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine. Where it is not, the incremental borrowing rate of the group is used. Any initial direct costs are added to the amount recognised as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

A finance lease gives rise to depreciation expense for depreciable assets as well as finance expense for each accounting period. Depreciation is charged in accordance with the policy set out for property, plant and equipment and intangible assets (whichever is applicable).

Operating leases as lessee

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the pattern of the benefit obtained.

2.12 Provisions and contingencies

A provision is a liability of uncertain timing or amount. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Accounting Policies

Provisions and contingencies continued...

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A provision is recognised when:

- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent assets and liabilities are not recognised, but details are disclosed in the notes to the annual financial statements.

2.13 Share-based payments

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.

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.

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.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Accounting Policies

2.14 Revenue

Rough diamond sales are made through a competitive tender process and revenue is recognised when the customer has a legally binding obligation to settle under the terms of the contract when the performance obligations have been satisfied, which is once control of the goods has transferred to the buyer which occurs when the tender closes.

Revenue is measured based on consideration specified in the tender award.

Where the Group makes rough diamond sales to customers and retains a vested right in the future sale of a polished diamond, the Group will record such revenue only at the date when the polished diamond is sold (and only its interest therein).

Revenue is shown net of value added tax.

Interest income is recognised using the effective interest method.

2.15 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for services rendered by employees or for the termination of employment.

2.16 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:

- Other reserves – comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into Sterling, the recognition of share based payment movements and the non-distributable redemption reserve for cancelled deferred shares charge
- Retained earnings includes all current and prior period retained profits.

Non-controlling interest represents current and prior period retained profits and other comprehensive income items attributable to the non-controlling shareholder in subsidiaries

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.

3. Critical accounting estimates and judgements

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.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Accounting Policies

3.1 Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

3.1.1 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. IFRS 9 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 estimates, in particular the Group's future share price volatility. At the year end the fair value of the embedded derivative was £12 463. Further details can be found in note 16.

3.1.2 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 14. The Board use an expert to determine the existing disturbance level and associated cost of works and estimates of inflation and risk-free discount rates are based on market data.

3.1.3 Impairment of non-current assets

Mining assets and Property, plant and equipment representing the group's mining assets in South Africa are reviewed for impairment at each reporting date. The impairment test is performed using the approved Life of Mine plan and those future cash flow estimates are discounted using asset specific discount rates and are based on expectations about future operations. The impairment test requires estimates about future production and sales volumes, diamond prices, grades, operating costs and capital expenditures necessary to extract resources in the current medium term mine plan. Given the presence of an inferred resource, rather than a defined reserve, greater estimation is required to determine the resources to be included in the forecasts and only a portion of the inferred resource is currently incorporated into the plan. Production forecasts include further growth from existing production levels, reflecting plant upgrades, steps to improve mining flexibility and investment to open new mining areas. Diamond prices are estimated with reference to recent achieved prices and the Board's assessment of the diamond market outlook.

Changes in such estimates could impact recoverable values of these assets. Details of the carrying value of property, plant and equipment and mining assets can be found in note 5 and 6.

The impairment test using the medium-term forecasts indicated significant headroom as at 31 December 2018 and therefore no impairment is considered to be appropriate. However, such headroom, which itself excludes additional resources included in the Resource Statement but which are outside of the medium-term forecasts, is dependent on the achieving increases in short term and medium term production by opening additional pits and upgrading the plant. However, the directors consider the forecasted production levels to be achievable best estimates.

3.1.4 Expected credit loss assessment for receivables due from subsidiaries

The Directors make judgements to assess the expected credit loss provision on the loan to the Company's subsidiary. This includes assessment of scenarios and the subsidiary's ability to repay its loan under such scenarios considering risks and uncertainties including diamond prices, future production performance, recoverable diamond reserves, environmental legislation and other factors. No credit loss provision was raised. 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.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Accounting Policies

Critical accounting estimates and assumptions continued...

The carrying value of the subsidiary loan is set out in note 10.

3.1.5 Capitalised stripping costs

Waste removal costs (stripping costs) are incurred during the development and production phases at surface mining operations. Furthermore, during the production phase, stripping costs are incurred in the production of inventory as well as in the creation of future benefits by improving access and mining flexibility in respect of the ore to be mined, the latter being referred to as a 'stripping activity asset'. Judgement is required to distinguish between these two activities at Kareevlei. The orebody needs to be identified in its various separately identifiable components. An identifiable component is a specific volume of the orebody that is made more accessible by the stripping activity. Judgement is required to identify and define these components, and also to determine the expected volumes (tonnes) of waste to be stripped and ore to be mined in each of these components. These assessments are based on a combination of information available in the mine plans, specific characteristics of the orebody and the milestones relating to major capital investment decisions.

Judgement is also required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and the stripping activity asset. The ratio of expected volume (tonnes) of waste to be stripped for an expected volume (tonnes) of ore to be mined for a specific component of the orebody, compared to the current period ratio of actual volume (tonnes) of waste to the volume (tonnes) of ore is considered to determine the most suitable production measure.

These judgements and estimates are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity asset(s). Furthermore, judgements and estimates are also used to apply the stripping ratio calculation in determining the amortisation of the stripping activity asset.

No stripping costs were capitalised during the current financial year as the waste stripping ratio was below the estimated average strip ratio for the relevant sections of the ore body based on the existing medium term detailed mine plans, as the primary benefit of the stripping was access to ore mined in the period. Whilst there may be a longer term benefit through access to deeper sections of the ore body the Board concluded that the criteria for recognition under the Group's accounting policy were not met having considered the absence of a defined measured and indicated resource and consideration of the longer term mine planning status. All stripping costs incurred during the period were charged to the statement of profit or loss.

3.1.6 Contingent liabilities

The Group is subject to claims by a former director and companies related to that former director totalling £260,108. Whilst fully disputing the claims, the Group maintains liabilities to the claimants of £199,728 as disclosed in note 15. The Group has placed monies in escrow with its attorneys to meet any payments under the claims. The Group has taken legal advice which advises that the claims are without merit and no provision is made for the additional claim amount. This matter has required the Board to exercise judgment in assessing both the extent to which liabilities should be retained and the decision not to provide for the additional claim amount.

4. Changes in accounting policies and disclosures

4.1 Adoption of new and revised pronouncements

In the current year, the company has adopted all new and revised IFRSs that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2018.

At the date of authorisation of these financial statements for the year ended 31 December 2018, the following IFRSs were adopted:

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Accounting Policies

Adoption of new and revised pronouncements continued...

IFRS 9 Financial Instruments

IFRS 9 has replaced IAS 39 Financial Instruments:

- Recognition and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- Impairment. IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.
- 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
- Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Following an assessment of the classification of each financial asset no changes to classification were required. Management have performed an assessment of expected credit losses for both Group and parent company receivables. Refer to note 3 and 10. The Group does not hedge this account.

The Group applied the modified retrospective transition method.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The company is required to apply IFRS 15 for annual reporting periods beginning on or after 1 January 2018. Management has assessed the core principle of IFRS 15, that the company will recognise revenue to depict the transfer of promised diamond sales to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for the diamond sales.

Diamonds sales are made through a competitive tender process. The company has reviewed the terms and conditions of the current tender contract entered into with each of the buyers and is satisfied that, based on the terms of the current contracts, there is no change to the timing of revenue recognition on tender sales under IFRS 15.

Where the company makes rough diamond sales to customers and retains a vested right in the future sale of the polished diamond, the company will record such revenue only at the date when the polished diamond is sold (and only its interest therein). The company has reviewed the terms and conditions of its current contracts pertaining to such scenarios and is satisfied that there is no change, based on the terms of the current contracts, to the timing of revenue recognition on such sales under IFRS 15.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Accounting Policies

4.2 New standards and interpretations not yet adopted

The company has not applied the following new, revised or amended pronouncements that have been issued by the IASB as they are not yet effective for the annual financial year beginning 1 January 2018.

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides 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, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The requirements of IFRS 16 extend to certain service contracts, such as mining contractors in which the contractor provides services, and the use of assets, which may impact the company. Accordingly, the company is performing a review of relevant contracts to complete an impact assessment.

The mandatory implementation required by the standard is for years beginning on or after 1 January 2019. This change in accounting policy will be implemented for the first time for the financial year ending 31 December 2019 with the relevant analysis completed for the interim results to 30 June 2019.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

5. Property, plant and equipment

5.1 Balances at year end and movements for the year

	Plant and Machinery (as restated)	Motor vehicles	Total
Reconciliation for the year ended 31 December 2018 - Group			
Balance at 1 January 2018			
At cost	1,340,648	35,801	1,376,449
Accumulated depreciation	(569,914)	(13,424)	(583,338)
Net book value	770,734	22,377	793,111
Movements for the year ended 31 December 2018			
Additions	95,482	36,522	132,004
Depreciation	(276,617)	(7,613)	(284,230)
Exchange differences - Cost	(131,942)	(4,820)	(136,762)
Exchange differences - Accumulated depreciation	65,105	1,575	66,680
Property, plant and equipment at end of year	522,762	48,041	570,803
Closing balance at 31 December 2018			
At cost	1,304,188	67,503	1,371,691
Accumulated depreciation	(781,426)	(19,462)	(800,888)
Net book value	522,762	48,041	570,803
Reconciliation for the year ended 31 December 2017 - Group			
Balance at 1 January 2017			
At cost	869,749	17,475	887,224
Accumulated depreciation	(151,947)	(4,284)	(156,231)
Net book value	717,802	13,191	730,993
Movements for the year ended 31 December 2017			
Additions	322,369	14,463	336,832
Depreciation	(249,722)	(4,614)	(254,336)
Disposals	(18,107)	(634)	(18,741)
Exchange differences - Cost	166,637	4,497	171,134
Exchange differences - Accumulated depreciation	(168,245)	(4,526)	(172,771)
Property, plant and equipment at the end of the year	770,734	22,377	793,111

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

Balances at year end and movements for the year continued...

Closing balance at 31 December 2017

At cost	1,340,648	35,801	1,376,449
Accumulated depreciation	(569,914)	(13,424)	(583,338)
Net book value	770,734	22,377	793,111

5.2 Additional disclosures

Assets whose title is restricted and pledged as security

	Group 2018	Group 2017	Company 2018	Company 2017
The carrying values of assets pledged as security is as follows:				
Plant and Machinery	143,428	203,562	-	-
Motor vehicles	32,907	-	-	-
Total	176,335	203,562	-	-

Plant and equipment are 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 Proprietary Limited for 1.00 South African Rand, see note 16 for further detail.

Motor vehicles serve as security for finance lease agreements as set out in note 16.

5.3 Reclassification of prior year figures

The following prior year figures have been reclassified:

Mine infrastructure

Mine infrastructure has been reclassified to Mining assets as set out in note 6. It has previously been classified under property, plant and equipment.

The effect of this on prior year figures are as follows:

Statement of financial position

Decrease in Property, plant and equipment	(37,590)
Increase in Mining Assets	37,590

This reclassification does not have any effect on the Statement of Comprehensive Income or Statement of Cash Flows

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

6. Mining assets

6.1 Reconciliation of changes in mining assets

	Mining assets	Total
Reconciliation for the year ended 31 December 2018 - Group		
Balance at 1 January 2018		
At cost	334,004	334,004
Accumulated amortisation	(61,876)	(61,876)
Net book value	272,128	272,128
Movements for the year ended 31 December 2018		
	Mining assets	Total
Additions	85,609	85,609
Amortisation	(26,042)	(26,042)
Exchange differences - Cost	(35,233)	(35,233)
Exchange differences - Accumulated amortisation	6,915	6,915
Mining assets at end of period	303,377	303,377
Closing balance at 31 December 2018		
At cost	384,380	384,380
Accumulated amortisation	(81,003)	(81,003)
Net book value	303,377	303,377
Reconciliation for the year ended 31 December 2017 - Group		
	Mining assets (as restated)	Total
Balance at 1 January 2017		
At cost	175,258	175,258
Accumulated amortisation	(14,765)	(14,765)
Net book value	160,493	160,493
Movements for the year ended 31 December 2017		
Additions	139,759	139,759
Amortisation	(20,070)	(20,070)
Exchange differences - Cost	18,987	18,987
Exchange differences - Accumulated amortisation	(27,041)	(27,041)
Mining assets at end of period	272,128	272,128

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

Reconciliation of changes in mining assets continued...

Closing balance at 31 December 2017

	Mining assets (as restated)	Total
At cost	334,004	334,004
Accumulated amortisation	(61,876)	(61,876)
Net book value	272,128	272,128

For further details on the mining rehabilitation provision see note 14.

6.2 Reclassification of prior year figures

	Group 2018	Group 2017
--	------------	------------

Environmental rehabilitation guarantees

Environmental rehabilitation guarantees have been reclassified to Other receivables as set out in note 10. It has previously been classified in error under Mining Assets.

The effect of this on prior year figures are as follows:

Statement of financial position

Decrease in Mining Assets	(118,104)
Increase in Other receivables	118,104

Statement of cash flows

Decrease in Purchase of Property, plant and equipment	(118,104)
Increase in other receivables	118,104

This reclassification does not have any effect on the Statement of Comprehensive Income

Mine infrastructure

Mine infrastructure has been reclassified to Mining assets as set out in note 6. It has previously been classified under property, plant and equipment.

The effect of this on prior year figures are as follows:

Statement of financial position

Decrease in Property, plant and equipment	(37,590)
Increase in Mining Assets	37,590

This reclassification does not have any effect on the Statement of Comprehensive Income or Statement of Cash Flows

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

7. Goodwill

7.1 Goodwill comprises:

	Group 2018	Group 2017
Diamond Resources (Pty) Ltd	-	-

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"). The goodwill of £11,035 was impaired in 2016. At 31 December 2018 the Group's investment in Diamond Resources remained 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 appropriate to impair the goodwill recognised on acquisition of the Group. During the year to December 2018 the Directors retain this view on the speculative assets and Diamond Resources remains fully impaired.

8. Investments in subsidiaries

8.1 The amounts included on the company statement of financial position comprise the following:

	Company 2018	Company 2017
Investments in subsidiaries	5	5
Investments in subsidiaries	5	5

8.2 Investment in subsidiaries

8.2.1 Details of the group's material subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Principal activity	Place of incorporation and business
Kareevlei Mining Proprietary Limited	Diamond Mining	South Africa
Diamond Resources Proprietary Limited	Diamond Mining	South Africa

8.2.2 Voting rights:

	Interest 2018	Carrying value 2018	Interest 2017	Carrying value 2017
Kareevlei Mining Proprietary Limited	74.00%	5	74.00%	5
Diamond Resources Proprietary Limited	100.00%	-	100.00%	-

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

8.2.3 Summary of Group's interest in subsidiaries

	Kareevlei Mining Proprietary Limited	Diamond Resources Proprietary Limited
At 31 December 2018		
Total assets	1,245,107	-
Total liabilities	(7,397,955)	-
Retained losses	(4,079,384)	-
Revenue	1,425,653	-
Loss after tax	(2,073,464)	-
At 31 December 2017		
Total assets	1,422,254	-
Total liabilities	(6,020,913)	-
Retained losses	(3,143,620)	-
Revenue	945,451	-
Loss after tax	(1,455,039)	-

8.2.4 Details of minority

The most significant element of the previous 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. This Charter aimed to introduce far-reaching, new, and in some cases, radical measures and requirements on the industry. This Charter was never implemented due to legal action taken against its implementation by The Chamber of Mines in South Africa.

The 2017 Charter was revised during 2018 and on 27 September 2018 the Broad-Based Socio-Economic Empowerment Charter for the South African mining and minerals industry, 2018, (the '2018 Charter') was announced and gazetted in South Africa. This Charter replaces the previous 2017 Charter. The 2018 Charter aims to drive transformation, while taking into account the realities facing the industry.

The implementation of the 2018 Charter requires the Group to implement certain changes to maintain compliance, primarily in respect of: (i) the increased mandatory Black Economic Empowerment shareholding increasing from 26% to 30%. This increase only becomes mandatory on the renewal of existing mining rights and with the application for new mining rights; (ii) in the required make-up of management demographics; and (iii) in human resources development.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

9. Inventories

9.1 Inventories comprise:

	Group 2018	Group 2017	Company 2018	Company 2017
Diamonds on hand	191,406	103,951	7,352	-
	191,406	103,951	7,352	-

10. Trade and other receivables

10.1 Trade and other receivables comprise:

	Group 2018	Group 2017 as restated)	Company 2018	Company 2017
Current				
Trade receivables	443	-	443	-
Other receivables	10,203	1,002	453,865	371,064
Prepaid expenses	4,136	5,359	1,948	3,049
Value added tax	57,082	-	32,429	-
Amounts due by subsidiary	-	-	6,188,952	5,256,084
Total current receivables	71,864	6,361	6,677,637	5,630,197
Non-Current				
Other receivables	57,458	118,104	-	-
Total non-current receivables	57,458	118,104	-	-

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

Refer to note 30.3 for the group's expected credit loss provision assessment for receivables.

Company:

Included under other receivables are management fees receivable from Kareevlei Mining (Pty) Ltd of £443,662 (2017: £371,064)

The amounts due by subsidiary 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.

Group:

Other non-current receivables represent amounts held by banks and the Department of Minerals and Energy as guarantees in respect of environmental rehabilitation obligations in respect of the Group's South African mines.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

10.2 Items included in trade and other receivables not classified as financial instruments	Group 2018	Group 2017	Company 2018	Company 2017
Prepaid expenses	4,136	5,359	1,948	3,049
Value added tax	57,082	-	32,429	-
Total non-financial instruments included in trade and other receivables	61,218	5,359	34,377	3,049
Total trade and other receivables excluding non-financial assets included in trade and other receivables	10,646	1,002	6,643,260	5,627,148
Total trade and other receivables	71,864	6,361	6,677,637	5,630,197

10.3 Analysis of trade receivables

Neither past due nor impaired	-	-	-	-
Less than 30 days	-	-	-	-
30 to 90 days	-	-	-	-
90 to 120 days	443	-	443	-
More than 120 days	-	-	-	-
	443	-	443	-

11. Cash and cash equivalents (including restricted cash)

11.1 Cash and cash equivalents comprise:

	Group 2018	Group 2017	Company 2018	Company 2017
Cash				
Cash on hand	99	221	-	-
Balances with banks	378,210	267,907	275,736	156,030
Total cash	378,309	268,128	275,736	156,030
Total cash and cash equivalents included in current assets	378,309	268,128	275,736	156,030

Cash and cash equivalents in the Consolidated Statement of Cash flows excludes restricted cash of £210,128.

11.2 Cash and cash equivalents where availability is restricted

Bank balances to the value of £210,128 (2017: nil) are not available for use as it is held in trust with the Group's attorneys. This account is held as security for the claims submitted by a former director of the Group and may only be utilised against this claim, should it be successful. Refer to note 26 further details.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

12. Share capital

12.1 Authorised and issued share capital

	Group 2018	Group 2017	Company 2018	Company 2017
Issued				
443,524,243 (2017: 139,824,242) Ordinary shares of 0.01p (2017: 1p) each	44,352	1,398,242	44,352	1,398,242
Share premium	3,460,309	2,811,536	3,460,309	2,811,536
	3,504,661	4,209,778	3,504,661	4,209,778

Share reconciliation

Details of issue	Date	Number of ordinary shares	Share capital £	Share premium £
Opening balance	01/01/2018	139,824,242	1,398,242	2,811,536
Placing and equity issue	19/03/2018	33,333,333	333,333	166,667
Placing and equity issue expenses	19/03/2018	-	-	(36,615)
Fair value of warrants - share issue costs	12/04/2018	-	-	(75,801)
Placing and equity issue	31/05/2018	29,166,667	291,667	58,333
Placing and equity issue expenses	31/05/2018	-	-	(22,500)
Reduction of nominal value per share from 1p to 0.01p	25/10/2018	1	(2,003,010)	-
Placing and equity issue	02/11/2018	237,000,000	23,700	687,300
Placing and equity issue expenses	02/11/2018	-	-	(66,857)
Placing and equity issue for advisory fees	02/11/2018	4,200,000	420	12,180
Fair value of warrants - share issue costs	02/11/2018	-	-	(73,934)
Shares outstanding - closing		443,524,243	44,352	3,460,309

On 25 October 2018 the board approved that the nominal value of ordinary shares are split into 0.01p nominal share capital and 0.99p deferred shares. These were in turn purchased by the company using the proceeds from the issue of one additional ordinary share and immediately cancelled. As such these are held within the capital redemption reserve.

Details of warrants issued

On 12 April 2018 1 warrant was issued for each ordinary share issued on 19 March 2019. A total of 34,533,333 warrants were issued and exercisable at 3p for a period of 2 years.

On 2 November 2018 2 warrants were issued for each ordinary share issued on that date. A total of 120,600,000 warrants were issued and exercisable at 0.4p for a period of 1 year.

Warrants are valued at the date of grant using the Black-Scholes option pricing model.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

Authorised and issued share capital continued...

The fair value per warrant issue during the period and the assumptions used in the calculation are shown below:

Date of issue:	12/04/2018	02/11/2018
Number of warrants issued	34,533,333	120,600,000
Average grant date share price (p)	1.48	0.34
Average exercise price (p)	3	0.40
Share price volatility (p.a)	66.05%	68.73%
Risk-free interest rate (p.a)	0.0093%	0.0080%
Dividend yield (p.a)	0	0
Average contractual life (years)	2	1
Average fair value per option (p)	0.24	0.07

13. Other Reserves

13.1 Analysis of other reserves

Group	Capital redemption reserve	Foreign currency translation reserve	Share-based payment reserve	Total
Movement:				
Balance 1 January 2018	-	(390,441)	126,644	(263,797)
Other comprehensive expense	-	519,276	-	519,276
Non-controlling interests	-	(135,012)	-	(135,012)
Share-based payments	-	-	207,193	207,193
Share buy-back	2,003,010	-	-	2,003,010
Balance end of the year	2,003,010	(6,177)	333,837	2,330,670
	Capital redemption reserve	Foreign currency translation reserve	Share-based payment reserve	Total
Movement:				
Balance 1 January 2017	-	(332,160)	34,339	(297,821)
Other comprehensive expense	-	(78,760)	-	(78,760)
Non-controlling interests	-	20,479	-	20,479
Share-based payments	-	-	92,305	92,305
Balance end of the year	-	(390,441)	126,644	(263,797)
Company				
Movement:				
Balance 1 January 2018	-	-	126,644	126,644
Share-based payments	-	-	207,193	207,193
Share buy-back	2,003,010	-	-	2,003,010
Balance end of the year	2,003,010	-	333,837	2,336,847

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

Analysis of other reserves continued...

Movement:

	Capital redemption reserve	Foreign currency translation reserve	Share-based payment reserve	Total
Balance 1 January 2017	-	-	34,339	34,339
Share-based payments	-	-	92,305	92,305
Balance end of the year	-	-	126,644	126,644

13.2 Nature and purpose of reserves

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of foreign entities. The South African subsidiaries' functional currencies are different to the Group's functional currency of British Pound Sterling. The rates used to convert the operating functional currency into British Pound Sterling are as follows:

	Currency	2018	2017
Average rate	ZAR to GBP	17.64	17.16
Year end	ZAR to GBP	18.34	16.59

Share-based payment reserve

For details on the share-based equity reserve, refer to note 24.

Capital redemption reserve

For details on the capital redemption reserve, refer to note 12.

14. Provisions

14.1 Provisions comprise:

	Group 2018	Group 2017	Company 2018	Company 2017
Rehabilitation cost provision	204,840	148,282	-	-

14.2 Reconciliation of provisions

	Provision for rehabilitation	Total
Balance at 1 January 2018 - Group	148,282	148,282
Change in estimate	68,656	68,656
Unwinding of discount rate	2,175	2,175
Exchange differences	(14,273)	(14,273)
Total changes	56,558	56,558
Balance at 31 December 2018	204,840	204,840

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

Reconciliation of provisions continued...

Balance at 1 January 2017 - Group	112,798	112,798
Change in estimate	35,484	35,484
Total changes	35,484	35,484
Balance as at 31 December 2017	148,282	148,282

14.3 Details of provisions

Provision for rehabilitation

The 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) during March 2018.

15. Trade and other payables

15.1 Trade and other payables comprise:

	Group 2018	Group 2017	Company 2018	Company 2017
Trade payables	453,234	231,950	27,434	19,317
Accrued liabilities	37,777	55,173	31,300	48,550
Account due to former Director	23,720	26,230	-	-
Corporation tax payables	-	21,953	-	21,953
Income received in advance	72,814	-	-	-
Value added tax	-	35,992	-	55,543
Total trade and other payables	587,545	371,298	58,734	145,363

An amount of £176,008 (2017: £194,634) is included within trade payables which are subject to amounts claimed as being due to companies related to the former Director of the company. These amounts are historic and disputed in full by the Company based on legal advice received. The account due to a former Director totalling £23,720 (2017: £26,230) relates to amounts claimed but disputed in full by the Company.

Income received in advance refers to advances received at year end in respect of future diamond sales. On tender award, revenue for the sale of diamonds was recorded and the liability extinguished.

15.2 Items included in trade and other payables not classified as financial liabilities

Value added tax	-	35,992	-	55,543
Corporation tax payables	-	21,953	-	21,953
Total non-financial liabilities included in trade and other payables	-	57,945	-	77,496
Total trade and other payables excluding non-financial liabilities included in trade and other payables	587,545	313,353	58,734	67,867
Total trade and other payables	587,545	371,298	58,734	145,363

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

16. Borrowings

16.1 Carrying amount of borrowings by category

	Designated at fair value	At amortised cost	Total
Year ended 31 December 2018 - Group			
Convertible loans	-	706,094	706,094
Loan facilities	-	404,525	404,525
Embedded derivative	12,463	-	12,463
Finance lease obligation	-	31,689	31,689
Components listed under borrowings on the consolidated and company statements of financial position	12,463	1,142,308	1,154,771
Trade and other payables excluding non-financial liabilities (Note 15)	-	587,545	587,545
Components listed separately on the consolidated and company statements of financial position	-	587,545	587,545
	12,463	1,729,853	1,742,316
Borrowings comprise the following on the consolidated and company statements of financial position:			
Current portion	-	50,877	50,877
Non-current portion	12,463	1,091,431	1,103,894
	12,463	1,142,308	1,154,771
Year ended 31 December 2017 - Group			
Convertible loans	-	641,903	641,903
Loan facilities	-	243,325	243,325
Embedded derivative	113,333	-	113,333
Components listed under borrowings on the consolidated and company statements of financial position	113,333	885,228	998,561
Trade and other payables excluding non-financial liabilities (Note 15)	-	313,353	313,353
Components listed separately on the consolidated and company statements of financial position	-	313,353	313,353
	113,333	1,198,581	1,311,914

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

Carrying amount of borrowings by category continued...

Borrowings comprise the following on the consolidated and company statements of financial position:

	Designated at fair value	At amortised cost	Total
Current portion	-	34,723	34,723
Non-current portion	113,333	850,505	963,838
	113,333	885,228	998,561

Convertible loans and embedded derivative - Group

The movement on each convertible loan liability component can be summarised as follows:

	Embedded derivative	Convertible loans	Total
Balance 1 January 2017	292,839	583,548	876,387
Finance charge: unwinding of discount factor	-	58,355	58,355
Fair value adjustment to embedded derivative	(179,506)	-	(179,506)
Balance 31 December 2017	113,333	641,903	755,236
Finance charge: unwinding of discount factor	-	64,191	64,191
Fair value adjustment to embedded derivative	(100,870)	-	(100,870)
Balance 31 December 2018	12,463	706,094	718,557

Year ended 31 December 2018 - Company

Convertible loans	-	706,094	706,094
Loan facilities	-	404,525	404,525
Embedded derivative	12,463	-	12,463

Components listed under other financial liabilities on the consolidated and company statements of financial position

	12,463	1,110,619	1,123,082
--	---------------	------------------	------------------

Trade and other payables excluding non-financial liabilities (Note 15)

	-	58,730	58,730
--	---	--------	---------------

Components listed separately on the consolidated and company statements of financial position

	-	58,730	58,730
--	---	--------	---------------

	12,463	1,169,349	1,181,812
--	---------------	------------------	------------------

Other financial liabilities comprise the following on the consolidated and company statements of financial position:

Current portion	-	46,247	46,247
Non-current portion	12,463	1,064,372	1,076,835
	12,463	1,110,619	1,123,082

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

Carrying amount of borrowings by category continued...

Year ended 31 December 2017 - Company

	Designated at fair value	At amortised cost	Total
Convertible loans	-	641,903	641,903
Loans facilities	-	243,325	243,325
Embedded derivative	113,333	-	113,333
Components listed under other financial liabilities on the consolidated and company statements of financial position	113,333	885,228	998,561
Trade and other payables excluding non-financial liabilities (Note 15)	-	67,867	67,867
Components listed separately on the consolidated and company statements of financial position	-	67,867	67,867
	113,333	953,095	1,066,428
Other financial liabilities comprise the following on the consolidated and company statements of financial position:			
Current portion	-	34,723	34,723
Non-current portion	113,333	850,505	963,838
	113,333	885,228	998,561

At 31 December 2018 the Group had in issue convertible loan stocks of £925,000 which has a term until 16 October 2021.

The terms of the convertible loan note provides a mechanism for weighted conversion price revisions should additional funds be raised below the prevailing conversion price. Following the fund raising in May 2018, the current conversion price is 0.44p

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.

In addition if the Company sells its interest in Kareevlei Mining Proprietary Limited ("subsidiary") 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 derivative representing the conversion option as the option fails the fixed for fixed criteria and the embedded redemption feature. The embedded derivative should be recognised separately as a derivative financial instrument at fair value through profit and loss

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

Carrying amount of borrowings by category continued...

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 was 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%.

Refer to note 31 for details of the fair value of the embedded derivative

Loan facilities

Loan facilities comprise the following:

	Group 2018	Group 2017	Company 2018	Company 2017
Loan: M Poole	165,466	243,325	165,466	243,325
Loan: A Waugh	191,297	-	191,297	-
Loan: P Beck	47,762	-	47,762	-
	<u>404,525</u>	<u>243,325</u>	<u>404,525</u>	<u>243,325</u>

M Poole

In 2017 the Company entered into a loan facility agreement with Mark Poole. 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 5 for further detail.

During the period ended 31 December 2018 an interest charge of £17,404 (2017: £4,024) was recognised on the total capital drawn down. Outstanding at the period ended 31 December 2018 was £162,130 capital and £3,834 interest.

A Waugh and P Beck

BlueRock Diamonds Plc and its subsidiary Kareevlei Mining Proprietary Limited entered into a loan agreement with Adam Waugh (Non-Executive Director) and Paul Beck (Former Chairman) on 17 August 2018. The loan was fully drawn down on 17 August 2018. The Loan will only be available to satisfy any final determination of any further claim that Mr CB Visser brings. Refer to note 15 and 26 for further details of the claims instituted by Mr Visser.

The principal amount of the loan is £231,400 comprising £50,000 from Paul Beck and £181,400 from Adam Waugh. The key provisions of the loan are as follows:

- a term of up to three years, but pre-payable in full or in part at any time at the option of the Company;
- an arrangement fee of 5 percent of the loan principal;
- interest payable of 11 percent per annum on the loan principal payable quarterly, 6 percent payable in cash and the remaining 5 percent payable by a combination of cash and shares (at the Company's sole discretion);
- a repayment premium at an amount equal to 2 percent of the loan principal per month that the loan is outstanding, payable on repayment of the loan in full or in part to be satisfied half in cash and half in shares, at the mid-market price at the time of the relevant repayment, or cash (at the Company's sole discretion);
- and that in the event that the Company raises further funds, preference is given to repaying the loan. It will be the Board's intention to repay the Loan as soon as practicable

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

Loan facilities comprise the following: continued...

Finance lease

During 2018 the Group entered into a lease facility agreement with William van Wyk, whereby motor vehicles are leased over a term of 72 months at a rate of 12.5% per annum with the final repayment during February 2024.

16.3 Financial liability maturity analysis

	Between 3 months and 1 year	Between 2 and 5 years	Total
Year ended 31 December 2018 - Group			
Trade and other payables excluding non-financial liabilities (Note 15)	587,545	-	587,545
Convertible loan	-	706,094	706,094
Loan facilities	46,247	358,278	404,525
Embedded derivative	-	12,463	12,463
Finance lease obligation	4,630	27,059	31,689
	638,422	1,103,894	1,742,316
Year ended 31 December 2017 - Group			
Trade and other payables excluding non-financial liabilities (Note 15)	313,353	-	313,353
Convertible loan	-	641,903	641,903
Loan facilities	34,723	208,602	243,325
Embedded Derivative	-	113,333	113,333
	348,076	963,838	1,311,914
Year ended 31 December 2018 - Company			
Trade and other payables excluding non-financial liabilities (Note 15)	58,734	-	58,734
Convertible loan	-	706,094	706,094
Loan facilities	46,247	358,278	404,525
Embedded Derivative	-	12,463	12,463
	104,981	1,076,835	1,181,816
Year ended 31 December 2017 - Company			
Trade and other payables excluding non-financial liabilities (Note 15)	67,867	-	67,867
Convertible loan	-	641,903	641,903
Loan facilities	34,723	208,602	243,325
Derivatives	-	113,333	113,333
	102,590	963,838	1,066,428

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

17. Operating lease commitments

	Group 2018	Group 2017	Company 2018	Company 2017
17.1 Future minimum lease payments				
Not later than one year	41,157	40,800	-	-
Later than one year and not later than five years	183,599	188,940	-	-
	224,756	229,740	-	-

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.

18. Revenue

18.1 Revenue comprises:

	Group 2018	Group 2017
Sale of diamonds	1,416,699	945,924

18.2 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 £931,639 (2017: £1,183,343). 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.

19. Other gains and losses

19.1 Other gains and losses comprise:

	Group 2018	Group 2017
Gain or loss on disposal of assets	-	5,042
Gain or loss on foreign exchange differences	(607,059)	71,468
Fair value gains on derivatives	100,870	179,506
Total other gains and losses	(506,189)	256,016

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

20. Loss from operating activities

20.1 Loss from operating activities includes the following separately disclosable items

	Group 2018	Group 2017
Operating expenses		
Operational and direct costs	2,072,810	1,253,015
Property plant and equipment - depreciation	284,230	254,336
Mining assets - amortisation	26,042	20,070
Diamonds on hand - Inventory movement	(100,979)	(100,461)
Leases		
- operating lease rentals - Land and Buildings	50,306	39,494
- operating lease rentals - Equipment	139,268	109,482
Share-based payments		
- Equity-settled share-based payments	57,458	92,305
Staff costs	626,528	485,191
Audit fees		
Audit fees - audit of financial statements	30,000	25,000
Audit fees - audit of accounts of subsidiary of company	10,182	8,482
	<u>40,182</u>	<u>33,482</u>

Staff numbers and costs

	Group 2018	Group 2017	Company 2018	Company 2017
Directors' fees	132,320	120,000	132,320	120,000
Staff salaries	494,208	365,191	-	-
	<u>626,528</u>	<u>485,191</u>	<u>132,320</u>	<u>120,000</u>

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

	2018 Number	2017 Number
Directors	4	4
Administration and production	47	29
	<u>51</u>	<u>33</u>

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

21. Finance income

21.1 Finance income comprises:

	Group 2018	Group 2017
Interest received from financial institutions	8,600	-

22. Finance costs

22.1 Finance costs included in profit or loss:

	Group 2018	Group 2017
Finance charges - trade and other payables	16,302	1,940
Finance charges - related parties	26,518	18,473
Finance charges - convertible loan notes	64,191	58,355
Finance charges - finance lease obligations	3,709	-
Finance charges - provisions	2,175	-
Finance charges - financial institutions	32,676	3,616
Total finance costs	145,571	82,384

23. Income tax credit / (expense)

23.1 Income tax recognised in profit or loss:

	Group 2018	Group 2017
Current tax		
Current year	-	(22,008)
Prior period overprovision	4,181	-
	4,181	(22,008)
Deferred tax		
Originating and reversing temporary differences	-	-
Total income tax credit / (expense)	4,181	(22,008)

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

23.2 The income tax for the year can be reconciled to accounting (loss) / profit as follows:	Group 2018	Group 2017
(Loss) / profit before tax from operations	(2,446,124)	(1,179,529)
Income tax calculated at 19% (2017: 19.25%)	(464,764)	(227,060)
Tax effect of		
- Differences in rates (South African tax)	(186,612)	110,103
- (Income)/Expenses not deductible for tax purposes	(5,293)	(15,860)
Effects of group relief	17,545	-
Foreign tax losses in subsidiary	282,578	154,825
Unrecognised tax losses	356,546	-
Prior year overprovision	4,181	-
Tax charge	4,181	22,008

The group has tax losses carried forward of £3,548,814 (2017: £2,522,743) for which no deferred tax asset is recorded given insufficient certainty regarding the timing of future taxable profits.

24. Share-based payments

24.1 The company had the following share based payment agreements which are described below:

Type of arrangement	Date of grant	Number of shares granted	Contractual life	Exercise price
Directors share option plan - Tranche 4	01/05/2016	776,091	4 years	11p
Directors share option plan - Tranche 5	19/01/2017	2,227,182	5 years	5p
Directors share option plan - Tranche 6	10/08/2017	7,156,928	5 years	2.25p
Directors share option plan - Tranche 7	10/08/2017	7,156,928	5 years	1.25p
Directors share option plan - Tranche 8	27/09/2017	3,767,200	2 years	1.75p

Tranche 4 and 5 have fully vested.

Tranche 6 options vest 1 year from the date of grant dependent on the company's mid-market share price reaches 3p in that period. All options in Tranche 6 lapsed in the year.

Tranche 7 options vest 2 years from the date of grant dependent on the company's mid-market share price reaches 3p in that period.

Tranche 8 options are split with half vesting 1 year from the date of grant dependent on the company's mid-market share price reaches 3p in that period and half vesting 2 years from the date of grant dependent on the company's mid-market share price reaches 3p in that period. The first half lapsed during the year.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

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

	Weighted average exercise price in pence 2018	Options 2018	Weighted average exercise price in pence 2017	Options 2017
Outstanding at the beginning of the period	4.40	22,502,955	29.20	3,355,720
Granted during the period	-	-	2.11	20,308,238
Expired during the period	5.52	(11,022,698)	(44.00)	(1,161,003)
Outstanding at the end of the period	4.47	11,480,257	4.40	22,502,955
Exercisable at the end of the period	6.55	3,003,273	-	-

24.3 Options granted during the year

Options are valued at the date of grant using the Black-Scholes option pricing model.

No new share options were granted and valued during the year.

The fair value per option of options granted during 2017 and the assumptions used in the calculation are shown below:

	Tranche 5	Tranche 6	Tranche 7	Tranche 8
Average grant date share price (p)	5.75	1.75	1.75	1.75
Average exercise price (p)	5.00	2.50	1.25	2.125
Share price volatility (p.a)	50%	59.23%	59.23%	65.28%
Risk-free interest rate (p.a)	0.70%	0.005%	0.005%	0.004%
Dividend yield (p.a)	0 %	0 %	0 %	0 %
Average contractual life (years)	5.00	5.00	5.00	2.00
Average fair value per option (p)	2.73	0.70	1.01	0.89

24.4 Share based payment expense

The total share-based payment expense for the year ended 31 December 2018 was £57,457 (2017: £92,305) in relation to share options.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

25. Earnings per share

25.1 Basic earnings per share

	<u>Group 2018</u>	<u>Group 2017</u>
Loss for the year attributable to owners of the company	(1,902,842)	(843,706)
Weighted average number of ordinary shares	221,740,157	90,383,380
Basic loss per share	(0.01)	(0.01)

25.2 Additional disclosures

Share options granted to directors could potentially dilute EPS in the future but are not included in a dilutive EPS calculation because they are antidilutive for the period.

26. Contingent liabilities

26.1 Dispute with former director

	<u>Group 2018</u>	<u>Group 2017</u>	<u>Company 2018</u>	<u>Company 2017</u>
Estimated financial effect	60,380	66,770	60,380	66,770

The amount payable to CB Visser and his related companies as disclosed in note 15, is currently under dispute. CB Visser is a former director and CEO of both Kareevlei Mining (Pty) Ltd and BlueRock Diamonds Plc. who resigned during September 2016. The total claim submitted by him amounts to £260,108 of which £199,728 has been accounted for under trade and other payables. The Group has given security for the full amount of the above claim. This security is held in trust by the group's lawyers. The company's legal advisors are of the opinion that based on current available information, the claims are without merit.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

27. Cash used in operations	Group 2018	Group 2017	Company 2018	Company 2017
(Loss)/profit before taxation	(2,446,124)	(1,179,529)	(372,661)	196,750
Adjustments for non-cash items				
Interest accrued on group loan	-	-	(558,687)	(463,969)
Interest accrued on convertible loan notes	64,191	58,355	64,191	58,355
Interest accrued on borrowings	59,415	4,024	55,706	4,024
Interest on rehabilitation provision	2,175	-	-	-
Increase in inventories	(100,980)	(101,749)	(7,352)	-
(Increase) / decrease in trade and other receivables	(66,768)	125,635	(114,575)	938
Increase / (decrease) in trade and other payables	250,766	26,230	(64,671)	63,920
Depreciation and amortisation	310,272	274,406	-	-
Share-based payments	57,457	92,305	57,457	92,305
Fair value gains on derivatives	(100,870)	(179,506)	(100,870)	(179,506)
Shares issued in lieu of directors fees	-	52,000	-	52,000
Foreign exchange movements	607,059	(71,467)	548,990	-
Gains on disposal of property, plant and equipment	-	(5,042)	-	-
Total non-cash adjustments	1,082,717	275,191	(119,811)	(371,933)
Cash used in operations	(1,363,407)	(904,338)	(492,472)	(175,183)
Reconciliation of liabilities from financing	Loans and borrowings	Finance lease	Total	
At 1 January 2017	-	-	-	
Cash flows				
Draw down	500,000	-	500,000	
Repayment	(250,699)	-	(250,699)	
Non-cash flows:				
Loans converted into share capital	(10,000)	-	(10,000)	
Interest accruing	4,024	-	4,024	
At 31 December 2017	243,325	-	243,325	
Cash flows				
Draw down	231,400	-	231,400	
Repayment	(125,906)	(8,543)	(134,449)	
Non-cash flows:				
Finance lease	-	36,523	36,523	
Interest accruing	55,706	3,709	59,415	
At 31 December 2018	404,525	31,689	436,214	

All movements on convertible loan notes and derivatives were non-cash. The Company figures comprise the loans and borrowings above, excluding finance leases.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

28. Related parties

28.1 Relationships

Name	Nature of relationship
William van Wyk	Minority interest in Kareevlei Mining (Pty) Ltd
Kgalagadi Engineering & Mining Supplies (Pty) Ltd	William van Wyk is a majority shareholder of this company
Subsidiaries:	Kareevlei Mining Proprietary Limited
	Diamond Resources Proprietary Limited
G Waugh	Son of Adam Waugh

28.2 Related party transactions and balances

	Group 2018	Group 2017	Company 2018	Company 2017
Loan account - Owing by related party				
Kareevlei Mining Proprietary Limited	-	-	6,188,951	5,256,084
Management fees owing by related party				
Kareevlei Mining Proprietary Limited	-	-	443,662	371,062
Transactions with related parties				
Kareevlei Mining Proprietary Limited				
- Interest received	-	-	558,686	436,939
- Management fees received	-	-	79,200	79,200
- Purchases	-	-	(27,133)	-
Kgalagadi Engineering & Mining Supplies (Pty) Ltd				
- Purchase of a cone crusher	-	36,706	-	-
Diamond sales				
- D Facey	369	-	369	-
- G Waugh	2,413	-	2,413	-
Diamond sales to related parties were made at a small premium to market value.				
William van Wyk				
- Interest paid	3,709	-	-	-

During March 2018 the Group entered into a lease facility agreement with William van Wyk, whereby motor vehicles are leased over a term of 72 months at a rate of 12.5% per annum with the final repayment during February 2024. As at 31 December 2018 the balance payable on the lease facility was £31,689 (2017: Nil).

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

Related party transactions and balances continued...

A Waugh and P Beck

- Interest paid - A Waugh	8,338	-	8,338	-
- Interest paid - P Beck	29,965	-	29,965	-

During August 2018 the Group entered into a loan agreement with A Waugh and P Beck. See note 16 for further details. As at 31 December 2018 the balance payable on the loan agreements were £191,297 and £47,522 respectively.

28.3 Compensation paid to directors and prescribed officers

A Waugh - received fees of £96,320 (2017: £50,000)

D Facey - received fees of £36,000 (2017: £18,000)

28.4 Placing and subscriptions

The directors subscribed to the following shares during the year:

Name	Number of ordinary shares issued	Warrants issued
PJ Beck (Former Non-Executive Chairman)		
- 19 March 2018	1,000,000	1,000,000
- 2 November 2018	3,333,333	1,666,667
DA Facey (Chief Financial Officer)		
- 19 March 2018	1,666,666	1,666,666
- 2 November 2018	8,333,333	4,166,667
A Waugh (Non-Executive Director)		
- 2 November 2018	16,666,667	8,333,334
	30,999,999	16,833,333

29. Events after the reporting date

29.1 Fundraising

On 11 February the Company successfully raised an aggregate before expenses of £575,000 via the issue of 191,666,667 ordinary shares of 0.01 pence each in the capital of the Company through a placing and subscription at 0.3 pence per new share. Each new share issued is accompanied by a warrant to subscribe for a further new share at a price of 0.4 pence per new share. The Company will use the majority of the funding to develop and expand its ongoing mining activity.

On 16 May 2019 the Company successfully raised an aggregate before expenses of £982,000 via the issue of 982,000,000 ordinary shares of 0.01 pence each in the capital of the Company through a placing and subscription at 0.1 pence per new share. Each new share issued is accompanied by a warrant to subscribe for a further new share at a price of 0.2 pence per new share. The Company will use the majority of the funding to implement its revised mine plan and for investment in production improvements.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

30. Financial risk management

30.1 Financial risk factors

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

30.2 Market Risk

30.2.1 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 2018, 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 £221k lower (2017: £188k) or £282k higher (2017: £148k), 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 – 2018: 18.34 , 2017: 16.59.

30.2.2 Price 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.

30.2.3 Interest rate risk

The Group has borrowings that incur interest at fixed rates and therefore does not have significant risk relating to movements in interest rates. The Group's fixed rate borrowings comprise convertible loan notes and loan facilities which incur interest at fixed interest rates of between 10% and 12.50%.

30.3 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.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

Credit risk continued...

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 2018 was £6,953,373 (2017: £5,786,227) of which £6,188,852 (2017: £5,256,084) is related to the subsidiary loan. The maximum credit risk of the Group as at 31 December 2018 was £450,173 (2017: £274,489).

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for the subsidiary loan receivable and considered scenarios including recovery via future production, via sale of licences and a scenario in which the loan cannot be realised.

Based on analysis of forecasts and the underlying Inferred Resource value no expected credit loss provision is considered to apply.

30.4 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 16.

30.5 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.

31. 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:

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notes to the Annual Report and Financial Statements

Figures in £

Financial liabilities held at fair value through profit and loss:	Group 2018	Group 2017	Company 2018	Company 2017
Embedded derivative (level 3)	12,463	113,333	12,463	113,333

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.

32. Ultimate controlling party

The Group considers that there is no ultimate controlling party.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of BlueRock Diamonds plc (the "Company") will be held at 10am on 25 July 2019 at the offices of SP Angel, 35-39 Maddox Street, London, W1S 2PP for the purposes of considering the business set out below and, if thought fit, passing, the Resolutions set out below, which in the case of Resolution 8 will be proposed as a special resolution and in the case of Resolutions 1, 2, 3, 4, 5, 6, 7 and 9 will be proposed as ordinary resolutions.

Ordinary Resolutions

- 1 THAT the financial statements of the Company for the year ended 31 December 2018 and the reports of the Directors and auditor thereon be received and adopted.
- 2 THAT Mike Houston, who retires by rotation, be re-elected as a Director of the Company.
- 3 THAT Adam Waugh, who retires by rotation, be re-elected as a Director of the Company.
- 4 THAT David Facey, who retires by rotation, be re-elected as a Director of the Company.
- 5 THAT Tim Leslie, who retires by rotation, be re-elected as a Director of the Company.
- 6 THAT BDO UK LLP be re-appointed as auditor to the Company to hold office from the conclusion of the Meeting until the conclusion of the next Annual General Meeting and to authorise the Directors to determine the auditor's remuneration.
- 7 THAT the Directors be and they are hereby generally and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and grant rights to subscribe for or to convert any securities into shares in the Company subject to the following conditions:
 - 7.1 that the maximum aggregate nominal amount of shares to be allotted in pursuance of such authority shall, prior to completion of the Capital Reorganisation, be £100,000 and following completion of the Capital Reorganisation, be £100,000; and
 - 7.2 that this authority shall expire on the earlier of 25 October 2020 or the conclusion of the Company's next Annual General Meeting unless revoked, varied or renewed before that date 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 subscribe for or to convert any securities into shares in the Company to be granted after such expiry and the Directors may allot shares in the Company or grant rights to subscribe for or to convert any securities into shares in the Company in pursuance of such offer or agreement notwithstanding that the authority conferred hereby has expired.

This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot shares and grant rights to subscribe for or convert any securities into shares in the Company but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notice of Annual General Meeting

Special Resolution

8 THAT, conditional upon the passing of Resolution 7, the Directors be and they are hereby generally and unconditionally empowered pursuant to Section 570 of the Act to exercise all powers of the Company to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the general authority conferred by Resolution 7 above as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

8.1 in connection with an offer of such securities by way of a rights issue, open offer or any other pre-emptive offer to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

8.2 otherwise than pursuant to paragraph 8.1 above, the allotment of equity securities for cash up to an aggregate nominal amount of, prior to completion of the Capital Reorganisation, £100,000 and following completion of the Capital Reorganisation, £100,000

provided that this authority shall expire on the earlier of 25 October 2020 or the conclusion of the Company's next Annual General Meeting unless revoked, varied or renewed before such date, 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 any such offer or agreement notwithstanding that the power conferred hereby has expired. This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot shares and grant rights to subscribe for or convert any securities into shares in the Company but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

SPECIAL BUSINESS

Ordinary Resolution

9 THAT, with effect from 25 July 2019, every 500 ordinary shares of £0.0001 each in the capital of the Company (the "Existing Ordinary Shares") be consolidated into 1 ordinary share of £0.05 each in the capital of the Company (the "New Ordinary Shares"), each New Ordinary Share having the same rights as an Existing Ordinary Share, as set out in the Articles, provided that where such consolidation results in any member of the Company otherwise being entitled to a fraction of a New Ordinary Share, such fraction shall, so far as possible, be aggregated with the fractions of a New Ordinary Share to which other members of the Company would otherwise be entitled and the Directors be and are hereby authorised to sell (or appoint any other person to sell) to any person, for the benefit of the Company, all the New Ordinary Shares representing such fractions at the best price reasonably obtainable with the proceeds (net of expenses) of such sales of such New Ordinary Shares to be retained by the Company and not to be distributed to members of the Company. For these purposes, any Director (or any person(s) appointed by the Directors) shall be and is hereby authorised to execute an instrument of transfer in respect of all New Ordinary Shares representing such fractions on behalf of the relevant members of the Company and to do all acts and things as the Directors consider necessary or expedient to effect the transfer of such New Ordinary Shares to, or in accordance with the directions of, any buyer of such New Ordinary Shares.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notice of Annual General Meeting

By order of the Board

David Facey

Company Secretary

Registered Office:

4th Floor

Reading Bridge House

George Street

Reading

Berkshire

RG1 8LS

Date: 28 June 2019

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notice of Annual General Meeting

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 10am on 23 July 2019.
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 on 23 July 2019 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.

BlueRock Diamonds Plc

(Registration Number 08248437)

Annual Report and Financial Statements for the year ended 31 December 2018

Notice of Annual General 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 10.00 a.m. on 23 July 2019.
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 6 p.m. (BST) on 26 June 2019 (being the last business day prior to the publication of this notice), the Company's issued share capital comprised 1,629,001,910 ordinary shares of £0.0001 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 6 p.m. (BST) on 26 June 2019 is 1,629,001,910.

Communication

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.