



**RICHLAND RESOURCES LTD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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FOR THE YEAR ENDED 31 DECEMBER 2017

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RICHLAND RESOURCES LTD

**CORPORATE DIRECTORY
FOR THE YEAR ENDED 31 DECEMBER 2017**

Directors:	Edward Nealon – Non-executive Chairman Anthony Brooke – Chief Executive Officer Nicholas Sibley – Non-executive Director
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Registered office for Capricorn Sapphire Pty Ltd:	8 Cottonview Road Emerald, QLD 4720, Australia PO Box 1985, Emerald, Queensland, 4720, Australia Telephone: +61 (0) 7 4987 7077
Transfer secretary:	Computershare Investor Services PLC The Pavilions, Bridgwater Road, Bristol, BS99 6ZY, United Kingdom Telephone: +44 (0)370 702 0003 Facsimile: +44 (0)370 703 6116 Website: www.computershare.com/uk
Nominated adviser:	Strand Hanson Limited 26 Mount Row, London W1K 3SQ Telephone: +44 (0)20 7409 3494
Broker:	Shore Capital Stockbrokers Limited Bond Street House, 14 Clifford Street, London W1S 4JU Telephone: +44 (0)20 7408 4090
Solicitors:	Joelson Wilson LLP 30 Portland Place, London W1B 1LZ
Auditors:	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco WA 6008, Australia

RICHLAND RESOURCES LTD

CHAIRMAN'S STATEMENT

Dear Fellow Shareholder,

As Chairman of Richland Resources Ltd ("**Richland**" or the "**Company**"), I am pleased to present the Group's final results for the financial year ending 31 December 2017 and to report on the Company's ongoing activities to the date of this statement.

Production: During the course of the year we produced a total of 3,554,663 carats ("**cts**") at an average grade of 16.63 cts per tonne of alluvial material processed, as compared to 2,674,536 cts in 2016 at an average grade of 14.07 cts per tonne. As explained below, when we re-commence mining in due course at our Capricorn Sapphire operation we will be focussed on our recovery grades as the mine's variable costs are affected by the number of tonnes we process to produce a given level of production. As previously announced, (i) we did not produce during March 2017 in order to facilitate plant and infrastructure work as part of the final ramp-up phase of operations at Capricorn Sapphire and (ii) in mid-December 2017, we decided to temporarily halt mining operations in light of, *inter alia*, extreme weather conditions experienced during Q4 2017 and a weak market environment, in order to conserve cash resources and in anticipation of a recovery in sapphire pricing levels and market demand.

Financial Performance: The loss for the year was US\$3.95 million including an impairment charge of US\$1.92 million against the carrying value of the Group's investment in Capricorn Sapphire, versus a loss in 2016 of US\$3.0 million.

Resource: On 7 August 2017, we announced a maiden independent JORC resource estimate for our wholly owned exploration licence (EPM 25973) located in Queensland, Australia of 5 million loose cubic metres ("**lcm**") of sapphire bearing gravel at an estimated average grade of 3.5 grammes per tonne (17.5 carats per lcm). This equates to an in-ground resource of some 87.5 million carats.

Post year end strategic review process: Production at our Capricorn Sapphire mine was temporarily halted in December 2017. Further to the suspension of mining operations and the subsequent appointment of our Chief Executive Officer, Anthony Brooke, in early 2018, we conducted a comprehensive review of Capricorn Sapphire's mining, marketing and sales operations, which was concluded recently. A summary of the review's principal findings is set out below, but I recommend that shareholders take the time to read the Company's announcement of 25 June which provides further details and is available on the Company's website.

Key findings

- Following the suspension of mining operations in December 2017, the Company has carried out regular and ongoing maintenance activities to keep the mine's infrastructure and equipment in good standing and in a state of readiness to be able to recommence production at short notice. Accordingly, subject to the Company securing sufficient additional funding, it is envisaged that mining operations could be recommenced within a one month timeframe from a re-start decision being made
- The Company's exploration activities during the review period focussed on refining the mine plan and have identified and delineated two initial target areas on the licenced acreage for opening-up when production recommences.
- A further exploration programme has been formulated, for once the mine is back in production, to target potential resource expansion and improvement in grade and recovery comprising, subject to funding, a ground penetrating radar survey and further drilling together with the potential appointment of a site geologist in order to more tightly control mining and exploration geology.
- Decision taken to seek to achieve higher sales prices by lengthening the sales cycle to two months; pre-sales negotiations held with targeted key customers to seek to secure longer-term supply arrangements and relationships which are anticipated to result in improved pricing once production recommences.
- It is intended that mine stockpiles will be created and maintained onsite concurrently with production, alongside the use of additional pumps as required in order to better manage production flow during adverse weather conditions. This will help mitigate the risks to mine production from heavy rainfalls such as those experienced in Q4 2017 and February 2018.
- Global sapphire market conditions have generally improved due to a decrease in the level of illegal sapphire production from Madagascar and Nigeria and the commensurate downward pricing pressure. This decrease in illegal production is due to the depletion of the resources accessible by illegal miners and more effective policing by the relevant authorities.

RICHLAND RESOURCES LTD

CHAIRMAN'S STATEMENT (CONTINUED)

Post year end financing: Simultaneously with the results of the strategic review process, the Company announced:

- A financing facility of up to £300,000 for short term working capital purposes obtained by way of a secured convertible loan at an interest rate of 3 month GBP LIBOR plus 7.5 per cent. per annum, with a scheduled maturity date of 31 December 2018, from Astor Management AG, a private company controlled by a long-term significant shareholder (the "**Convertible Loan**"); and
- That the Directors, senior management team, certain former directors and a former consultant had agreed to waive, in aggregate, £237,230 (approximately US\$314,000) of accrued fees due to them (the "**Fee Waiver**") and, subject to the Company being in an open period following the publication of this annual report, to convert, in aggregate, a further £207,537 (approximately US\$275,215) of unpaid fees into new Common Shares (the "**Proposed Fee Conversion**"). Accordingly, all outstanding fees due to the Company's current and former Directors, and existing senior management and a former consultant up to 31 May 2018 are expected to be waived/settled in full.

Future Plans: Any business that is not consistently generating positive net operational cash-flows will need to raise additional funds to implement its Board's strategic plans and Richland is no different. Accordingly, in the third quarter of 2018, the Company will seek to procure sufficient additional longer-term financing to enable the recommencement of production later this year, and in the meantime, operations will remain suspended. In addition, the Company plans to identify and evaluate opportunities to expand its gemstone business through the potential acquisition of additional gemstone projects and/or entering into marketing arrangements in relation to its own gemstones and/or those of third party producers. The timing of any such potential acquisitions and/or marketing arrangements will be dependent on the quality and attractiveness of opportunities identified and presented to the Company, the availability of appropriate funding and the Board's assessment of such opportunities.

As a significant shareholder I, like you, am most disappointed that we were unable to achieve sustainable profitability at an operational level for our Capricorn Sapphire operation, despite successfully completing the plant and infrastructure work as part of the final ramp-up phase and narrowly missing our quarterly production target of 1.2 million carats for Q3 2017.

Interim funding has been secured via the abovementioned Convertible Loan facility, and our strategy has been reviewed and updated.

Furthermore, the Fee Waiver and the Proposed Fee Conversion by the directors, certain former directors, senior management and a former consultant serve to demonstrate their continued commitment to the Company. Accordingly, the Company is now on a stronger footing as it seeks, during the third quarter of 2018, to raise the additional funds required to progress the Board's plans and recommence production at Capricorn Sapphire, with a clear alignment between the interests of its directors, management and shareholders.

Post period end, there were also a number of changes to our board of directors, with Bernard Olivier, our former Chief Executive Officer, leaving the Company and Anthony Brooke, our current Chief Executive officer, joining the board in February 2018. In addition, Ami Mpungwe, tendered his resignation as a non-executive director of the Company on 22 June 2018. I would like to thank Bernard and Ami for their dedicated service over a number of years and wish them all the best in their future endeavours.

Last but not least, on behalf of the Board I wish to express our appreciation for the support and patience of the Company's various stakeholders during this period of transition as we seek to make progress over the remainder of 2018.



Edward Nealon
Non-Executive Chairman

29 June 2018

RICHLAND RESOURCES LTD

CHIEF EXECUTIVE'S OPERATIONAL AND FINANCIAL REVIEW FOR THE YEAR ENDED 31 DECEMBER 2017

1. Overview

During 2017, Richland remained focussed on completing the final ramp-up phase in production and optimisation of all operations at its Capricorn Sapphire project in Queensland, Australia. Total production for the year was 3,554,663 cts at an average grade of 16.63 cts per tonne of alluvial material processed (2016: 2,674,536 cts at an average grade of 14.07 cts per tonne) and total revenue achieved was US\$1.9 million (2016: US\$1.4 million).

2. Financial Performance

Richland successfully disposed of all of its remaining Tanzanian mining operations and related companies on 2 March 2015 and at the same time closed its Tanzanite Experience retail operations (the "**Disposed Group**"). Its audited financial results, in accordance with IFRS 5, therefore distinguish between the financials of the Disposed Group ("**Discontinued Operations**") and Richland's ongoing operations ("**Continuing Operations**").

2.1 Discontinued Operations

The Company successfully disposed of its remaining Tanzanian operations and related companies to Sky Associates Group Ltd ("**Sky**") on 2 March 2015.

As Sky did not wish to acquire the Tanzanite Experience retail operations ("**TTE**") as part of its acquisition of the Group's mining operation in Tanzania, it was decided to wind down the affairs of the retail outlets as TTE could not be sold as a going concern.

Net profit from Discontinued Operations of US\$35K (2016: US\$Nil) has been recognised following the winding up of the remaining group companies, resulting from the derecognition of group assets and liabilities.

2.2 Continuing Operations

Revenue for the year of US\$1.9 million was approximately 44% higher than prior year (2016: US\$1.4 million). The Group recorded sales from its Australian operations of US\$1.8 million during year and revenue from its online sales division was US\$0.1 million.

Net loss for the year increased by approximately 32% to US\$3.95 million against the prior year loss of US\$3.0 million. An impairment charge of US\$1.92 million was recorded for the year related to the Capricorn Sapphire Project in light of the temporary suspension of mining operations.

The **total assets** for Continuing Operation were US\$2.1 million at the year end (2016: US\$4.0 million) which primarily reflects the investment in the Capricorn Sapphire Project and its associated capital expenditure.

The Continuing Operations had a net **cash** position of US\$0.7 million as at the year end (including US\$0.3 million of restricted cash pledged as collateral for financial assurance lodged with the Department of Natural Resources and Mines (Australia)).

The Continuing Operations had **total liabilities** of US\$1.1 million as at the year end (2016: US\$1.8 million).

3. Dividend

The directors have not declared a dividend (2016: Nil).

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CHIEF EXECUTIVE'S OPERATIONAL AND FINANCIAL REVIEW (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

4. Corporate Activities

Placing of shares

As announced on 13 December 2016, certain new and existing shareholders (including Nicholas Sibley, a Non-Executive Director of Richland), agreed to subscribe for, in aggregate, 133,333,334 new common shares of US\$0.0003 each in the capital of the Company ("**Common Shares**") (the "**Placing Shares**") at a price of 0.75 pence per share (the "**Placing Price**"). The Placing Price represented a discount of approximately 33.33 per cent. to the Company's closing middle market share price of 1.125 pence on 12 December 2016.

The Placing Shares were issued conditional upon their admission to trading on AIM, which took place on 5 January 2017. The Placing Shares rank *pari passu* in all respects with the Company's existing Common Shares and were issued fully paid.

Repayment of Loan Facility

The providers of a US\$500,000 unsecured one-year 10 per cent. loan facility entered into on 27 June 2016 (the "**Loan Facility**"), agreed, conditional on completion of the abovementioned placing, to settle the outstanding principal amount of US\$500,000, by way of the issue of new Common Shares at the Placing Price. Of the US\$500,000 Loan Facility, US\$300,000 was provided equally by two of the Company's Directors, Edward Nealon and Nicholas Sibley, each providing US\$150,000, with the balance of US\$200,000 provided by MRI Advisory AG. Full details of the Loan Facility were set out in the Company's announcement of 28 June 2016, including the condition that if the Loan Facility was repaid early the minimum total interest due would be 7.5 per cent. (the "**Minimum Notional Interest**").

Messrs Nealon and Sibley agreed to settle the unpaid balance of the Minimum Notional Interest due to them on early repayment of the Loan Facility, being US\$7,500 each, by way of the issue of further new Common Shares at the Placing Price. MRI Advisory AG agreed to the early repayment of its proportion of the Loan Facility on the basis that it was paid the balance of the Minimum Notional Interest due to it in cash, being US\$10,000, plus an additional US\$5,000 in cash from the net proceeds of the placing.

The aggregate principal amount of the Loan Facility plus the abovementioned Minimum Notional Interest converted into new Common Shares was therefore US\$515,000 which was settled by the issue of, in aggregate, 54,933,334 new Common Shares at the time of the issue and admission of the Placing Shares on 5 January 2017.

Directors' and Managers' Fee Conversions

On 13 December 2016, certain of the Company's directors and management agreed to convert their outstanding fees and salaries due in respect of the period from 1 April 2016 to 30 November 2016 into new Common Shares at a price of 1.74 pence per new Common Share, being the volume weighted average price of the Company's Common Shares over the period the fees and salaries concerned were outstanding (the "**Directors' and Managers' Fee Conversion**"). The conversion price represented a premium of approximately 55 per cent. to the Company's closing mid-market share price of 1.125 pence on 12 December 2016. In total, unpaid fees of US\$117,085 were converted into 5,392,520 new Common Shares which were also admitted to trading on AIM on 5 January 2017.

On 19 April 2017, the Company announced that Ami Mpungwe, a then non-executive director of the Company, had agreed, in order to preserve the Company's cash resources, to convert his outstanding director's fees for the period from 1 April 2016 to 1 April 2017 into new Common Shares at a price of 1.74 pence per new Common Share (the "**Conversion**"), being the same price as the Directors and Managers' Fee Conversion referred to above. The conversion price represented a premium of approximately 132 per cent. to the Company's closing mid-market share price of 0.75 pence on 18 April 2017. Accordingly, Mr Mpungwe's unpaid fees of US\$30,250 were converted into, in aggregate, 1,371,576 new Common Shares.

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CHIEF EXECUTIVE'S OPERATIONAL AND FINANCIAL REVIEW (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

4. Corporate Activities (continued)

Directors' and Managers' Fee Conversions (continued)

On 5 September 2017, the Company announced that it had raised, in aggregate, approximately £450,000 (before expenses) through a subscription of 64,285,714 new Common Shares (the "**Subscription Shares**") (the "**Subscription**") by certain new and existing shareholders (including two of the Company's directors) at an issue price of 0.7 pence per Subscription Share (the "**Subscription Price**") to augment the group's general working capital position. The Subscription Price represented a premium of approximately 3.7 per cent. to the Company's closing middle market share price of 0.675 pence on 4 September 2017.

Pursuant to the Subscription, a warrant to subscribe for a further 1 new Common Share at a price of 1 pence per share shall accompany each Subscription Share (the "Warrants"). The Warrants are exercisable for a period of one year from the date of Admission, save that should the Company's volume weighted average share price exceed 1.5 pence for a period of five consecutive trading days the Company shall be entitled to give holders of the Warrants 7 days' notice that their Warrants must be exercised within a further 24 days, failing which they will otherwise expire. In connection with the Subscription, Salonica Group will also receive a warrant over 3,000,000 Common Shares on the same terms as the Warrants and conditional on Admission.

On 5 February 2018, the Company announced that it had issued 3,581,237 new Common Shares to Anthony Brooke in respect of certain sales commissions of US\$42,717 earned during the period from 1 December 2016 to 31 December 2017, based on the Company's volume weighted average share price of 0.84 pence for the year ended 30 November 2017 and a GBP:USD exchange rate of 1.42.

Post year end, on 25 June 2018, the Company announced a Convertible Loan facility of up to £300,000 for short term working capital purposes at an interest rate of 3 month GBP LIBOR plus 7.5 per cent. per annum, with a scheduled maturity date of 31 December 2018, from Astor Management AG, a private company controlled by a long-term significant shareholder.

5. Operational Review

5.1 Capricorn Sapphire Project ("Capricorn" or the "Project")

The Project is located within the Anakie deposit known as the Queensland Sapphire Gemfields, near the township of Sapphire in Central Queensland. In total the project tenements cover approximately 494 hectares of potential sapphire bearing alluvial placers within this known deposit.

Production

During 2017, we produced approximately 3.6 million carats of sapphire, of all sizes, quality and value, as part of the mine ramp-up and optimisation process. A total of 213,683 tonnes of sapphire-bearing alluvial gravels were extracted and processed at an average grade of approximately 16.6 carats per tonne. Table 1 below shows the quarterly breakdown of sapphire production statistics for Capricorn's operations.

Table 1: Breakdown of 2017 Production statistics

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter*	Total 2017
Tonnes	42,421	71,870	59,423	39,969	213,683
Carats	699,957	1,262,774	1,063,803	528,129	3,554,663
Carats per tonnes	16.5	17.6	17.9	13.2	16.6
Operating Costs (US\$)	520,000	740,000	798,000	588,000	2,646,000
Cost per Carat (US\$)	0.74	0.59	0.75	1.11	0.74

* Mining operations were halted on 11 December 2017 due to extreme weather conditions severely hampering production efficiency.

**CHIEF EXECUTIVE'S OPERATIONAL AND FINANCIAL REVIEW (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

5. Operational Review (continued)

5.1 Capricorn Sapphire Project ("Capricorn" or the "Project") (continued)

As announced on 11 December 2017, the Company decided to temporarily halt mining operations in light of, *inter alia*, extreme weather conditions and in anticipation of a recovery in the then prevailing weak sapphire pricing levels and market demand.

Sales, Marketing and Beneficiation

Appointment of first Sightholders

During the year, the Company implemented its Capricorn Sapphire Sightholders System with the appointment of China Stone Co, Ltd ("**China Stone**") and Royal Touch LLC ("**Royal Touch**") as Capricorn Sapphire Sightholders.

China Stone is a world-leading provider of precision-cut natural gemstones in a strictly uniformed and digitally calibrated array of colours, proportions and sizes. It delivers a wide range of natural gemstones to fine jewellers, watchmakers and luxury trade professionals throughout the world.

Royal Touch has had a long and successful working relationship with the Company and was previously a Sightholder for Richland's tanzanite mining operations in Tanzania (Tanzanite One Mining Ltd). Royal Touch has an extensive consumer network, especially in the United States of America, and amongst others, has close relationships with certain television sales networks.

Global sapphire market conditions

Globally, there are various sources of sapphires with different quality characteristics and reliability of supply, and this, coupled with fluctuating jewellery demand, exchange rates and other factors, determines the market prices for gemstones. The industry is dominated by small scale privately owned mining operations and, as a consequence of the unique characteristics of gemstones produced from different mines (and even variances within the output from a single mine), prices for rough mined gemstones are not consistent across the industry.

The main sources of sapphires in competition with Australian sapphires, such as those produced from Capricorn Sapphire's mining operation, are Madagascar, Nigeria, China (especially for the Chinese market) and other smaller producers in Africa. As noted in the Company's announcements of 1 November 2017, 13 November 2017 and 11 December 2017, the sapphire market for Capricorn's range of sapphires suffered in H2 2017 with weak pricing levels, due, *inter alia*, to a large influx of similar sapphires illegally mined in Madagascar within one of the country's environmentally protected designated wild life parks. This resulted in the Company deciding to stockpile sapphires, especially its cut stones, to target more strategic, larger-scale, sales events at more attractive prices and await a sustained price and demand recovery, whilst also seeking to secure longer-term channels for retailing the ethical provenance of Capricorn Sapphire's products.

As announced on 25 June 2018, the Board is now observing and receiving market feedback that there has been a reduction in the level of the previously reported illegal production from Madagascar (and in Nigeria) and the commensurate downwards pricing pressure, due to their depleted resources and more effective policing by the relevant authorities. Accordingly, the Board believes that the worldwide sapphire market is now strengthening, with traditional end-consumer markets such as North America and Europe showing signs of increased demand for commercial quality stones, particularly with regard to non-traditional colours, such as green blue, grey blue green, yellow and mixed parti/fancy colours.

Sales process - planned lengthening of the sales cycle

Gemstone pricing dynamics differ from mainstream commodities, where fungible products can typically be sold based on an international benchmark reference price, for example, commodities quoted on the London Metals Exchange. Instead, each gemstone is uniquely formed by nature; which is what makes sapphires and other gemstones attractive, but which also means that the sales process is different. Capricorn's sapphires are predominately blue or parti (bi-coloured), or, to a lesser extent, green, and can be sold as 'rough' (straight from the mine), 'heated rough' or 'cut gemstones'. Approximately 95 per cent. of sapphires, and 99 per cent. of Australian sapphires, are heat treated prior to being set in jewellery or sold as loose cut stones.

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CHIEF EXECUTIVE'S OPERATIONAL AND FINANCIAL REVIEW (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

5. Operational Review (continued)

Sales process - planned lengthening of the sales cycle (continued)

In 2017, the Company's focus was predominantly on pursuing a short sales cycle, so as to minimise working capital requirements. Further to the Board's recent strategic review process, the Company's objective, when production recommences, is to obtain sufficient working capital to enable an extended two-month sales cycle, thereby enabling management to: i) show production to more potential customers prior to sale; and ii) in response to requests from existing customers, to demonstrate colours and sizes that they have not previously purchased. The Company has held pre-sale negotiations with a number of targeted key customers in anticipation of re-commencing production in due course and securing longer-term supply arrangements and relationships, with positive feedback received in terms of proposed price increases subject to such targeted customer's inspection of actual production to assess quality, colour, grade and size and consistency of supply.

Maiden JORC Resource Estimate for EPM 25973 Exploration Licence

Early in 2017, the Company commissioned a review of the historic third party exploration work conducted on its wholly owned EPM 25973 exploration licence area and on 7 August 2017 announced that it had received a maiden independent JORC Inferred Resource estimate of 5 million loose cubic metres ("lcm") of sapphire bearing gravel at an estimated average grade of approximately 3.5 grammes per lcm (17.5 carats per lcm). This Resource estimation equates to approximately 87.5 million carats in the ground.

The Resource volume is based on 1m thick basal gravels with 2-5 metres of overburden; the palaeo-alluvial deposits are elevated and hence dry to dig. Average grade is approximately 3.5 grammes rough sapphire per lcm (17.5 cts per lcm) using 2 grammes per lcm (10 cts per lcm) grade as a lower cut-off grade and is based on the results of 25 historic pilot samples each of 2 loose cubic metres raw volume.

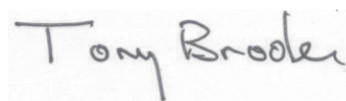
Licence EPM 25973 has an exploration area of 39 sub-blocks (133 square kilometres) located within the Anakie sapphire deposit in Central Queensland which is within 45km of the Company's existing Capricorn Sapphire mining operations.

5.2 RichlandGemstones.com

The online sales division, www.richlandgemstones.com, was re-launched in June 2016 with a selection of unique and exotic sapphires from mine production available for sale through the website. Online sales decreased from US\$167,000 in 2016 to US\$106,000 in 2017. The online division continues to source and offer both tanzanite and tanzanite jewellery from the Merelani tanzanite deposit.

6. Outlook

In mid December 2017, the Company decided to temporarily halt mining operations in light of, *inter alia*, adverse weather conditions and a weak market environment in order to conserve cash resources and in anticipation of a recovery in sapphire pricing levels and market demand. Further to the Company's announcement on 25 June 2018, in which it provided details of the results of the Board's strategic review process, the Board intends, during the third quarter of 2018, to seek to procure sufficient longer-term financing in order to enable the recommencement of production at the Capricorn Sapphire mine in 2018, and, in the meantime, operations will remain suspended.



Anthony Brooke
Chief Executive Officer

29 June 2018

RICHLAND RESOURCES LTD

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2017

The directors are responsible for preparing the annual report and financial statements in accordance with applicable laws and regulations. The directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). The financial statements are required to give a true and fair view of the state of affairs of the Group and the profit or loss of the 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 estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed, subject to any material departures discussed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

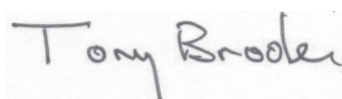
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy, at any point in time, the financial position of the Group which are free from material misstatement whether due to fraud or error and to enable them to ensure that the financial statements comply with IFRS. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. However, any system of internal financial control can provide only reasonable and not absolute assurance against material misstatements or loss.

DIRECTORS' DECLARATION

The directors confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Richland Resources Ltd and the undertakings included in the consolidation as a whole;
- the Report of the Directors includes a fair review of the development or performance of the business and the position of Richland Resources Ltd and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties that they face; and
- there are reasonable grounds to believe that the Group will be able to pay its debts when they become due and payable in the foreseeable future (at least 12 months from the date of this report).

On behalf of the board



Anthony Brooke
Chief Executive Officer
Richland Resources Ltd

29 June 2018

RICHLAND RESOURCES LTD

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present this report, together with the audited consolidated financial statements for the year ended 31 December 2017 for Richland Resources Ltd ("**the Company**" or "**Richland Resources**" or "**Richland**") and its subsidiaries ("**the Group**").

PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Richland Resources Ltd is a Bermudian registered holding company of a group of companies involved in the mining and marketing of coloured gemstones. During the 2015 financial year, the Group concluded the sale of its Tanzanian tanzanite mining operations and tsavorite exploration project and is now focussed on mining sapphires at its Capricorn Sapphire mine site in Queensland, Australia. The remaining group entities, not part of the sale of its Tanzanian tanzanite mining operations, were wound up in the 2017 year and the assets and liabilities therefore derecognised. Accordingly, the Group's accounts and financial performance as presented distinguishes between the Disposed Group ("**Discontinued Operations**") and Richland's ongoing operations ("**Continuing Operations**").

GOING CONCERN

For the year ended 31 December 2017, the Group recorded a loss of US\$3.95 million and had net cash outflows from operating activities of US\$1.3 million. The ability of the entity to continue as a going concern is dependent on the group generating positive operating cash flows and/or securing additional funding through the raising of debt or equity to fund its recommencement of production and its operational and marketing activities. Management has successfully raised money in the past, but there is no guarantee that adequate funds will be available when needed in the future.

These conditions indicate a material uncertainty that may cast a significant doubt about the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements have been prepared on the basis that the entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

- The Group raised US\$0.4 million through a Convertible Loan facility subsequent to the year end;
- The Directors, senior management personnel, certain former Directors and a former consultant have agreed to waive, in aggregate, £237,230 of accrued fees due to them for periods from December 2016 to 31 May 2017;
- Certain of the Directors, senior management personnel, former Directors and a former consultant have confirmed their intention, to convert, in aggregate, £207,537 of unpaid fees due to them for periods from December 2016 up to and including 31 May 2018 into new Common Shares;
- The Company plans, in the third quarter of 2018, to seek to raise sufficient additional longer-term financing to enable the recommencement of production at the Capricorn Sapphire mine in 2018; and
- Management has successfully raised money in the past.

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

RESULTS

The consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 and the consolidated statement of financial position at that date are set out on pages 24 and 25 of this report respectively. The Group recorded a loss from continuing operations for the year ended 31 December 2017 of US\$3.99 million (2016: US\$3.0 million) and a profit from discontinued operations of US\$0.035 million (2016: US\$Nil). Taking into account these losses, shareholders' equity at 31 December 2017 was US\$1.0 million (2016: US\$2.2 million). The directors have not declared a dividend (2016: Nil).

RICHLAND RESOURCES LTD

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

A CLASS SHARE CAPITAL

When Richland Resources acquired the tanzanite assets from Afgem Limited ("**Afgem**"), a mechanism was put into place to accommodate any of Afgem's South African shareholders' desire to maintain their investment in the tanzanite assets and to comply with South African Reserve Bank ("**SARB**") foreign exchange regulations pertaining to foreign investments by South African citizens. This mechanism involved the creation of TanzaniteOne SA, a South African domiciled wholly-owned subsidiary of Richland Resources.

In order to facilitate an exit for those TanzaniteOne SA A class shareholders, Richland Resources made an offer to acquire their A class shares, where the offer shall be binding on Richland Resources for a period of 20 years from April 2004.

On 28 February 2015, TanzaniteOne SA issued notice to Class A shareholders convening a Scheme meeting on 26 March 2015 and notice to shareholders convening a meeting of shareholders of TanzaniteOne SA on 26 March 2015, both meetings duly approved a Scheme of Arrangement the details of which are:

- (a) each A class shareholder will receive one redeemable Class A share with no par value and a premium of R0.0003 per share in the capital of Rohstein Class A Proprietary Limited, Registration Number 2014/093972/07 ("**Rohstein**"), a wholly owned subsidiary of Richland for each Class A share they own in the Company (the "**Scheme Consideration Shares**"); and
- (b) all the TanzaniteOne SA class A shares will be cancelled.

Richland made an offer on 25 February 2015 which expires on 29 April 2024 ("**the Offer**") to all holders of the Scheme Consideration Shares to purchase their Scheme Consideration Shares on *mutatis mutandis*, the same terms and conditions as the terms and conditions on which Richland has offered to purchase each existing Class A share of TanzaniteOne SA.

On 27 March 2015 TanzaniteOne SA sold Rohstein to Richland so that the Scheme Consideration Shares are issued by a wholly owned subsidiary of Richland rather than TanzaniteOne SA (which is now owned by Sky).

DIRECTORS

The following directors have held office during and subsequent to the reporting year:

Edward Nealon
Ami Mpungwe (resigned 22 June 2018)
Bernard Olivier (resigned 5 February 2018)
Anthony Brooke (appointed 5 February 2018)
Nicholas Sibley

The current Directors' biographical details:

Edward Nealon (67), Chairman

Mr Nealon assumed Chairmanship of the Group on 27 June 2012. Mr Nealon is a geologist with over 40 years' experience in the mining and exploration industry. After graduating in 1974, he commenced his career in South Africa with Anglo American Corporation, before moving to Australia in 1980 where he spent two years in exploration with Rio Tinto. He founded his own consulting company in 1983 and has practiced in most of the world's major mining centres. Mr Nealon was the founder of Aquarius Platinum Ltd and served as either the CEO or Executive Chairman for a number of years. He holds a Master's degree in Geology and is a member of the Australian Institute of Mining and Metallurgy.

RICHLAND RESOURCES LTD

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

DIRECTORS (CONTINUED)

Anthony Brooke (58), Chief Executive Officer

Mr Brooke has approximately 37 years' experience in the gemstone industry based in Bangkok, Thailand, the commercial centre of the ruby and sapphire industries, where he established Gem Dreams Co. Limited ("Gem Dreams") in 1985. Gem Dreams is a gemstone wholesaler and consultancy business which operates a traditional jewellery business in the Jewellery Trade Centre in Bangkok and represents and advises luxury jewellery brands, individual collectors and mines looking to market sapphires and other gemstones. He has been a member of the Thai Gems and Jewellery Traders Association for eleven years and is presently a vice president. From 2011 to 2017, he acted as its Chairman for overseas trade and development for Europe, Central and South America and Africa. He has been involved in the ownership and management of sapphire mining operations in both Tanzania and Thailand and has represented mines operating in Australia, Malawi, Kenya and the USA. He is also a Gemfields ruby auction site holder. He is managing director of Gem Dreams Co. Limited.

Nicholas Sibley (80), Non-executive director

Mr Sibley is a Chartered Accountant. He was formerly Chairman of Wheelock Capital from 1994 to 1997, Executive Chairman of Barclays de Zoete Wedd (Asia Pacific) Limited from 1989 to 1993 and Chairman of Aquarius Platinum Limited from 2003 to 2015. He is a former managing director of Jardine Fleming Holdings and director of Robert Fleming Holdings, Barclays de Zoete Wedd Holdings and Corney and Barrow Group. He is presently a director of Wah Kwong Maritime Transportation Company Ltd.

MEETINGS OF DIRECTORS

The number of meetings of the board of directors of the Company and its committees held during the year ended 31 December 2017 and the number of meetings attended by each director is tabled below:

2017

Director	Number of meetings held whilst in office				Number of meetings attended			
	Remuneration and Succession Planning				Remuneration and Succession Planning			
	Board	Succession Planning	Audit and Risk Management	Nomination	Board	Succession Planning	Audit and Risk Management	Nomination
Ami Mpungwe	4	1	2	1	4	1	2	1
Edward Nealon	4	1	2	1	4	1	2	1
Dr Bernard Olivier	4	-	-	1	4	-	-	1
Nicholas Sibley	4	1	2	1	4	1	2	1

2016

Director	Number of meetings held whilst in office				Number of meetings attended			
	Remuneration and Succession Planning				Remuneration and Succession Planning			
	Board	Succession Planning	Audit and Risk Management	Nomination	Board	Succession Planning	Audit and Risk Management	Nomination
Ami Mpungwe	5	2	2	1	5	2	2	1
Edward Nealon	5	2	2	1	4	2	2	1
Dr Bernard Olivier	5	-	-	1	5	-	-	1
Nicholas Sibley	5	2	2	1	4	2	2	1

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

The interest of the directors and their related entities in the shares of Richland Resources were:

	As at 31 December 2017	As at date of report
	<u>Common shares</u>	<u>Common shares</u>
Ami Mpungwe	9,183,376	9,183,376 ⁽³⁾
Bernard Olivier ⁽¹⁾	8,777,715	8,777,715
Anthony Brooke	— ⁽²⁾	4,214,594 ⁽³⁾
Edward Nealon	29,644,415	29,644,415
Nicholas Sibley	60,490,503	60,490,503

(1) Under the terms of the Share Options detailed in Note 20 to the Accounts Bernard Olivier has been allocated but not issued 3,000,000 Share Options. Subsequent to the year end Bernard Olivier resigned as a director of the Company on 5 February 2018 and he is therefore no longer entitled to be issued the 3,000,000 Share Options previously allocated to him.

(2) Anthony Brooke Appointed 5 February 2018

(3) Ami Mpungwe resigned 22 June 2018 and Bernard Olivier 5 February 2018

RICHLAND RESOURCES LTD

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

DIRECTORS' AND EXECUTIVES' EMOLUMENTS

The board is responsible for determining and reviewing compensation arrangements for the directors and executive management. The board assesses the appropriateness of the nature and amount of emoluments of such officers on an annual basis by reference to industry and market conditions. In determining the nature and amount of officers' emoluments, the board takes into consideration the Group's financial and operational performance.

Details of the nature and amount of each element of the remuneration of each director of the Group during the financial year are shown in the table below:

2017

	Base salary/fee		Other ⁽⁴⁾			
	Fees converted to shares on 19 Apr 2017 ⁽¹⁾	Accrued and unpaid ⁽³⁾	Paid during the year	Accrued and unpaid ⁽³⁾	Share based payments	Total
	US\$	US\$	US\$	US\$	US\$	US\$
Ami Mpungwe	7,563	22,687	-	-	-	30,250
Edward Nealon	-	26,250	-	-	-	26,250
Nicholas Sibley	-	23,750	-	-	-	23,750
Dr. Bernard Olivier	-	40,000	105,144	55,926	19,010	220,080
	7,563	112,687	105,144	55,926	19,010	300,330

2016

	Fees converted to shares on 18 April 2016 ⁽²⁾	Accrued and unpaid	Paid during the year	Accrued and unpaid	Share based payments	Total	Fees converted to shares on 5 Jan & 19 Apr 2017 ⁽¹⁾
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Ami Mpungwe	7,563	22,687	-	-	-	30,250	22,687
Edward Nealon	6,563	19,687	-	-	-	26,250	17,500
Nicholas Sibley	5,938	17,812	-	-	-	23,750	15,833
Dr. Bernard Olivier ⁽⁵⁾	10,000	30,000	87,818	69,550	11,718 ⁽⁶⁾	209,086	50,000
	30,064	90,186	87,818	69,550	11,718	289,336	106,020

(1) Outstanding fees converted to new common shares of US\$0.0003 in the capital of the Company at a price of 1.74 pence per new Common Share. The conversion price on 5 January 2017 represented a premium of approximately 55 per cent. to the Company's closing mid-market price of 1.125 pence on 12 December 2016. The conversion price on 19 April 2017 represented a premium of approximately 132 per cent. to the Company's closing mid-market price of 0.75 pence on 18 April 2017.

(2) Outstanding fees converted to new common shares of US\$0.0003 in the capital of the Company at a price of 3.4 pence per new Common Share. The conversion price represented a premium of approximately 60 per cent. to the Company's closing mid-market price on 15 April 2016 of 2.125 pence.

(3) Note 31 provides details of Fee Waivers and Proposed Fee Conversions by the Directors in relation to fees due to them in relation to periods from December 2016 to 31 May 2018 and these Fee Waivers and Proposed Fees will settle all fees due to the Directors as at 31 December 2017 and will be reflected in the accounts for the year ended 31 December 2018.

(4) For duties as executive director.

(5) Under the terms of the Share Options detailed in Note 20 to the Accounts Dr. Bernard Olivier has been allocated but not issued 3,000,000 Share Options. Subsequent to the year end Bernard Olivier resigned as a director of the Company on 5 February 2018 and he is therefore no longer entitled to be issued the 3,000,000 Share Options previously allocated to him.

(6) 3 million options granted to Dr. Bernard Olivier in May 2016 (refer note 20 for further details).

RICHLAND RESOURCES LTD

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

DIRECTORS' AND OFFICERS' INSURANCE

During the year, the Company paid an insurance premium in respect of an insurance contract, taken out against liability of current directors and officers. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contract, as disclosure is prohibited under the terms of the contract.

ENVIRONMENTAL REGULATION AND PERFORMANCE

Companies within the Group are required, on cessation of mining operations, to rehabilitate the relevant mining area on which mining operations have been conducted. Anthony Brooke, Chief Executive Officer, is the officer responsible for compliance on these matters for all mining properties within the Group. Environmental activities are continuously monitored to ensure that established criteria from each operation environmental management programme, approved by relevant authorities, have been met. There have been no known significant breaches of any environmental conditions.

CORPORATE GOVERNANCE

The following statement sets out the governance practices of Richland Resources:

The board of directors of Richland Resources is responsible for, and recognises the importance of, sound corporate governance of the Group. The board guides and monitors the business affairs of Richland Resources on behalf of shareholders by whom they are elected and to whom they are accountable.

Whilst the Company is not currently required to comply with a corporate governance code, as a result of recent changes to the AIM Rules for Companies, the Board is currently reviewing which recognised corporate governance code to apply to the Company on a comply or explain basis, as required by 28 September 2018.

BOARD OF DIRECTORS

The board is responsible for the overall management of the Group. It is governed by a Charter, a summary of which can be found on the Group's website at www.richlandresourcesltd.com. Amongst other matters, the Charter sets out the framework for the management of the Group and responsibilities of the board, its direction, strategies and financial objectives and the monitoring of the implementation of those policies, strategies and financial objectives.

In order to retain full and effective control over the Company and monitor the executive management team, the board meets regularly. Details of directors' attendance at these meetings are set out on page 12. In consultation with the Chief Executive Officer and the Group Company Secretary, the Chairman sets the agenda for these meetings. All directors may add to the agenda. Key executives of the Group contribute to board papers and are from time to time invited to attend board meetings.

Each director has the right to seek independent professional advice on matters relating to their position as a director or committee member of the Group at the Company's expense, subject to prior approval of the Chairman, which shall not be unreasonably withheld.

The names of the directors in office as at the time of this report and their relevant qualifications and experience are set out on pages 11 and 12. Their status as non-executive, executive or independent directors and tenure on the board is set out in the table below.

BOARD STRUCTURE

Name of director in office at the date of this report	Nationality	Date appointed to Office	Executive/ Non-executive	Independent
Edward Nealon	British	1 August 2004	Non-executive	Yes
Ami Mpungwe	Tanzanian	1 August 2004 – resigned 22 June 2018	Non-executive	Yes
Nicholas Sibley	British	1 August 2004	Non-executive	No
Dr Bernard Olivier	Australian	5 November 2008 – Resigned 5 February 2018	Executive	No
A Brooke	British	5 February 2018	Executive	No

RICHLAND RESOURCES LTD

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

BOARD STRUCTURE (CONTINUED)

The bye-laws of the Company determine that the board consists of not less than two and no more than nine directors. At the date of this report, the board is comprised of three directors, two of whom are non-executive directors.

The division of responsibilities between the Chairman and the Chief Executive Officer is reviewed regularly and is defined below:

- The Chairman, Mr Edward Nealon, is responsible for leadership of the board ensuring the directors receive accurate, timely and clear information in order to facilitate effectiveness of its role; and
- Anthony Brooke, Chief Executive Officer, leads the executive management. He has been delegated responsibility by the board for the day-to-day operation and administration of the Company's assets owned and operated by the Group. The Chief Executive Officer is assisted in managing the business of the Group by an executive team that comprises the Management Committee.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

Independence of directors in essence means those directors are independent of management and free of any business or other relationship that could, or could reasonably be perceived to materially interfere with the exercise of unfettered and independent judgement.

The board has accepted the guidelines outlined below in determining the independence of non-executive directors. In accordance with these guidelines, Mr Nealon is deemed to be independent.

The board has accepted the following definition of an independent director:

An independent director is someone who is not a member of management, is a non-executive director and who:

- a) is not a substantial shareholder (10%) of the Company or an officer of, or otherwise associated directly with a substantial shareholder of the Company;
- b) within the last three years has not been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;
- c) within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
- d) is not a material supplier or customer of the Company or other group member, or an officer of, or otherwise associated directly or indirectly with a material supplier or customer;
- e) has no material contractual relationship with the Company or another group member other than as a director of the Company;
- f) has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interest of the Company; and
- g) is free from any interest and any business or other relationships which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interest of the Company.

GROUP COMPANY SECRETARY

The Group Company Secretary, Mike Allardice, is responsible for supporting the effectiveness of the board by monitoring that board policy and procedures are complied with, co-ordinating the flow of information within the Company and the completion and dispatch of items for the board and briefing materials. The Group Company Secretary is accountable to the board on all governance matters. All directors have access to the services of the Group Company Secretary. The appointment and removal of the Group Company Secretary is a matter for the board as a whole to determine.

SUCCESSION PLANNING

The board brings the range of skills, knowledge, international experience and expertise necessary to govern the Group, but it is aware of the need to ensure processes are in place to assist with succession planning, not only for the board, but within senior management. The board periodically assesses its balance of skills and those within the Group in order to maintain an appropriate balance within the Group.

RICHLAND RESOURCES LTD

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

INDUCTION TRAINING AND CONTINUING PROFESSIONAL DEVELOPMENT

In order to assist new directors and key executives in fulfilling their duties and responsibilities within the Company, an induction programme is provided by the Chief Executive Officer, which includes meetings with the executive team and visits to the operating sites of the Company in Australia. The programme enables the new appointees to gain an understanding of the Group's financial, strategic, operational and risk management position. Full access to all documentation pertaining to the Company is provided. It ensures new directors and key executives are aware of their rights, duties and responsibilities.

PERFORMANCE REVIEW

The board of Richland Resources conducts a performance review of itself on an ongoing basis throughout the year. The small size of the Group and hands on management style requires an increased level of interaction between directors and executives throughout the year. Board members meet amongst themselves and with management both formally and informally. The board considers that the current approach that it has adopted with regard to the review of its performance and of its key executives provides the best guidance and value to the Group.

DIRECTORS' RETIREMENT AND RE-ELECTION

Richland Resources' bye-laws determine that at each Annual General Meeting, at least one third of the board are retired by rotation, therefore holding their positions for no longer than three years. This period of time provides sufficient continuity. Non-executive directors are appointed for a three-year term and may be invited to seek re-appointment. A director appointed during the year is subject to re-election at the forthcoming Annual General Meeting.

SECURITIES TRADING POLICY

The board has adopted a policy covering dealings in securities by directors and relevant employees. The policy is designed to reinforce to shareholders, customers and the international community that Richland Resource's directors and relevant employees are expected to comply with the law and best practice recommendations with regard to dealing in securities of the Company.

All directors and relevant employees must comply with the Model Code on directors' dealings in securities, as set out in the annexure to Chapter 9 of the Listing Rules of the U.K. Listing Authority and are complying with this regulation, a copy of which can be found on the Richland Resources' website at www.richlandresourcesltd.com. In addition to restrictions on dealing in closed periods, all directors and relevant employees must not deal in any securities of the Company on considerations of a short-term nature and must take reasonable steps to prevent any dealings by, or on behalf of, any person connected with them in any securities of the Company on considerations of a short-term nature. All dealings by directors in the securities of the Company are announced to the market.

COMMITTEES OF THE BOARD

The board has established three standing committees to assist in the execution of its responsibilities: the Audit and Risk Committee, the Remuneration and Succession Planning Committee and the Nomination Committee. Other committees are formed from time to time to deal with specific matters.

In line with best practice, each of the committees operates under a charter approved by the board detailing their role, structure, responsibilities and membership requirements. Each of these charters is reviewed annually by the board and the respective committee.

Summaries of the Remuneration and Succession Planning, Nomination Committee charters and a complete Audit and Risk Committee charter can be found on the Richland Resources' website at www.richlandresourcesltd.com.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee has been established to assist the board of Richland Resources in fulfilling its corporate governance and oversight responsibilities in relation to the Group's financial reports and financial reporting process, internal control structure, risk management systems (financial and non-financial) and the external audit process. The Committee is governed by a charter approved by the board.

RICHLAND RESOURCES LTD

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

AUDIT AND RISK COMMITTEE (CONTINUED)

The Committee consists of:

- three members;
- mainly non-executive directors; and
- an independent chairperson, who shall be nominated by the board from time to time but who shall not be the chairperson of the board.

The members of the Committee at the date of this report are as follows:

- Mr Nicholas Sibley (Chairman)
 - Mr Edward Nealon
- Mr. Anthony Brooke

QUALIFICATIONS OF AUDIT AND RISK MANAGEMENT COMMITTEE MEMBERS

The qualifications of the Audit and Risk Management Committee members are specified on page 11 to 12.

The board deems all members of the Committee to have the relevant experience and understanding of accounting, financial issues and the mining industry to enable them to effectively oversee audit procedures.

The Committee reviews the performance of the external auditors on an annual basis to:

- review the results and findings of the audit at year end and recommend their acceptance or otherwise to the board; and
- review the results and findings of the audit, the appropriateness of provisions and estimates included in the financial results, the adequacy and operating effectiveness of accounting and financial controls, and to obtain feedback on the implementation of recommendations made.

The Committee receives regular reports from the external auditor on the critical policies and practices of the Group, and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management.

The Committee assesses the Group's structure, business and controls annually. It ensures the board is made aware of internal control practices, risk management and compliance matters which may significantly impact upon the Group in a timely manner. The Committee meets when deemed necessary and at least twice a year. The Group Company Secretary acts as secretary of the Committee and distributes minutes to all board members. Details of attendance at Committee meetings are set out on page 12.

REMUNERATION AND SUCCESSION PLANNING COMMITTEE

The members of the Remuneration and Succession Planning Committee at the date of this report are:

- Mr Edward Nealon (Chairman)
- Mr Nicholas Sibley

The Committee is governed by a charter approved by the board, a summary of which is available on the Company's website: www.richlandresourcesltd.com. The board deems all members of the Committee to have the relevant experience and understanding to enable them to effectively oversee their responsibilities. The members of the Committee are Non-executive directors, the majority of whom are independent non-executive directors.

The Committee reviews compensation arrangements for the directors and the executive team. The Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality executive team. The nature and amount of directors' and officers' emoluments are linked to the Group's financial and operational performance.

In carrying out its responsibilities, the Committee is authorised by the board to secure the attendance of any person with relevant experience and expertise at Committee meetings, if it considers their attendance to be appropriate and to engage, at the Company's expense, outside legal or other professional advice or assistance on any matters within its charter or terms of reference.

RICHLAND RESOURCES LTD

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

REMUNERATION AND SUCCESSION PLANNING COMMITTEE (CONTINUED)

The Committee reviews succession planning for key executive positions (other than executive directors) to maintain an appropriate balance of skills, experience and expertise in the management of the Group. The Committee does not allow for retirement benefits of non-executive directors. Moreover, non-executive directors are remunerated by way of an annual fee in the form of cash and do not receive options or bonus payments.

For details of remuneration of directors and executives please refer to page 13.

The Committee meets as necessary, but must meet at least once a year. The Group Company Secretary acts as secretary of the meetings and distributes minutes to all Committee members. Details of attendance at Committee meetings are set out on page 12.

NOMINATION COMMITTEE

In order to fulfil the Company's responsibility to shareholders to ensure that the composition, structure and operation of the board are of the highest standard, the full Board of Richland Resources acts as the Nomination Committee. The board believes the input of all directors is essential due to their respective expertise and knowledge of the gemstone industry and exposure to the markets in which the Group operates.

The board is guided by a charter, a summary of which is available on the Group's website: www.richlandresourcesltd.com. The board may at times take into consideration the advice of external consultants to assist with this process.

Meetings take place as often as necessary, but the Committee must meet at least once a year. The Group Company Secretary acts as secretary of the meetings and distributes minutes to all Board members.

Appointments are referred to shareholders at the next available opportunity for election in general meeting.

CONTINUOUS DISCLOSURE

The Company has in place a Continuous Disclosure Policy, a summary of which is available on the website: www.richlandresourcesltd.com. The Policy takes into account the AIM Rules for Companies on timely and balanced disclosure. This outlines the Company's commitment to disclosure, ensuring that timely and accurate information is provided to all shareholders and stakeholders. The Chief Executive Officer is the nominated Communication Officer and is responsible for liaising with the board to ensure that the Company complies with its continuous disclosure requirements.

The board regularly reviews the Company's compliance with its continuous disclosure obligations.

COMMUNICATIONS WITH SHAREHOLDERS

Shareholder communication is given high priority by the Group. In addition to statutory requirements, such as the Annual Report and Financial Statements for the half and full year, Richland Resources maintains a website which contains announcements which have been released to the market. Shareholders are able to contact the Company via the website at www.richlandresourcesltd.com.

Through the website, shareholders are also given the opportunity to provide an email address through which they are able to receive these documents.

MEETINGS

Richland Resources' Notice of Meeting materials are distributed to shareholders with an accompanying explanatory memorandum. These documents present the business of the meeting clearly and concisely and are presented in a manner that will not mislead shareholders or the market as a whole. The Notice is dispatched to shareholders in a timely manner providing at least 21 days' notice pursuant to the bye-laws of the Company. Each notice includes the business of the meeting, details of the location, time and date of the meeting and proxy voting instructions are included.

Upon release of the Notice of Meeting and Explanatory Memorandum to the market, a full text of the Notice of Meeting and Explanatory Memorandum is placed on the website of the Company at www.richlandresourcesltd.com for shareholders and other market participants who may consider investing in the Company.

RICHLAND RESOURCES LTD

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

RISK FACTORS AND MANAGEMENT

The Group has identified the following risks to the ongoing success of the business and has taken various steps to mitigate these, the details of which in relation to its Continuing Operations are as follows:

Risk of development, construction, mining operations and uninsured risks

The Group's ability to meet production, timing and cost estimates for its properties cannot be assured. Furthermore, the business of mining is subject to a variety of risks such as actual production and cost varying from estimated future production, cash cost and capital costs; revisions to mine plans; risks and hazards associated with mining; natural phenomena; unexpected labour shortages or strikes; delays in permitting and licensing processes; and the timely completion of expansion projects, including land acquisitions required for the expansion of our operations from time to time. Geological grade and product value estimations are based on independent resource calculations, studies and historical sales records.

Risk of development, construction, mining operations and uninsured risks (continued)

Geological risk factors and adverse market conditions could cause actual results to materially deviate from estimated future production and revenue. Failure to achieve production or cost estimates or material increases in costs could have an adverse impact on the future business, cash flows, profitability, results of operations and financial condition. While steps, such as production and mining planning are in place to limit these risks, occurrence of such incidents do exist and should be noted.

Currency risk

The Group reports its financial results and maintains its accounts in United States Dollars, the currency in which the Group primarily operates. The Group's operations in Australia make it subject to further foreign currency fluctuations and such fluctuations may materially affect the Group's financial position and results. The Group does not have any currency hedges in place and is exposed to foreign currency movements.

Gemstone price volatility

The profitability going forward of the Group's operations is significantly affected by changes in realisable gemstone prices. The price of gemstones can fluctuate widely and is affected by numerous factors beyond the Group's control, including jewellery demand, inflation and expectations with respect to the rate of inflation, the strength of the United States Dollar and of other currencies, interest rates, global or regional political or financial events, and production and cost levels.

Loss of critical processes

The Group's mining, processing, development and exploration activities depend on the continuous availability of the Group's operational infrastructure, in addition to reliable utilities and water supplies and access to roads. Any failure or unavailability of operational infrastructure, for example through equipment failure or disruption, could adversely affect production output and/or impact exploration and development activities.

Competition

The Group competes with numerous other companies and individuals, in the search for and acquisition of exploration and development rights on attractive mineral properties and also in relation to the purchase, marketing and sale of gemstones. There is no assurance that the Group will continue to be able to compete successfully with its competitors in acquiring exploration and development rights on such properties and also in relation to the purchase, marketing and sale of gemstones.

Future funding requirements

As referred to in Note 2 (a) of the Financial Statements the Group is now focussed on its Capricorn Sapphire Project in Australia at which a temporary production halt was announced in December 2017. As announced on 25 June 2018 the Company intends in the third quarter of 2018 to seek to raise sufficient longer-term financing to enable the recommencement of production at the Capricorn Sapphire mine in 2018. When the Capricorn Sapphire mine is in operation geological factors and market conditions can adversely affect the gemstone grades, size distributions and value per carat achieved, these together with disruptions and delays to its operations may negatively impact cash flows which may require management to seek further debt or equity funding. Management has successfully raised money in the past, but there is no guarantee that adequate funds will be available when needed in the future.

RICHLAND RESOURCES LTD

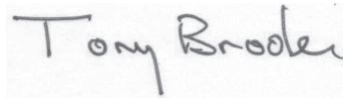
**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

RISK FACTORS AND MANAGEMENT (CONTINUED)

Dependence on key personnel

The success of the Group is, and will continue to be, to a significant extent, dependent on retaining the services of the directors and senior management and the loss of one or more could have a materially adverse effect on the Group.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink that reads "Tony Brooke". The signature is written in a cursive, slightly slanted style.

**Anthony Brooke
Chief Executive Officer
Richland Resources Ltd**

29 June 2019

INDEPENDENT AUDITOR'S REPORT

To the members of Richland Resources Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Richland Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Bermuda Companies Act 1981*, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year ended on that date; and
- (ii) Complying with International Accounting Standards and the *Bermuda Companies Act 1981*.

Basis for opinion

We conducted our audit in accordance with International Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the *Bermuda Companies Act 1981* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2(a) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Carrying value of Property Plant and Equipment

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
At 31 December 2017 the carrying value of Property Plant and Equipment as disclosed in Note 9 and 11 was tested for impairment due to the sustained operating losses of the group and the mine entering into care and maintenance during the current year. This is a key audit matter as Property Plant and Equipment represents a significant asset of the Group and the impairment assessment requires the Group to make significant estimates and judgements.	<p>Our work included but was not limited to the following procedures:</p> <ul style="list-style-type: none"> Assessing the Group's discounted cash flow model ("DCF") which calculates the recoverable amount of the Group's Property Plant and Equipment, in order to determine if any impairment was required; Evaluating management's key inputs and assumptions, including but not limited to those disclosed in Note 2(c) and 9 and considering the assumptions based on our knowledge of the Group, the industry and market data; Obtaining and reviewing the resource report from the management's expert. This included assessing the competency and objectivity of management's expert; Considering the Board of Directors meetings minutes and enquiring with management for evidence of whether there was any potential contradictory information compared to assumptions applied in the "DCF" impairment model; and Assessing the adequacy and accuracy of the related disclosures in Note 9 and 11 to the financial statements, including the sensitivity analysis to ascertain the extent of reasonable changes to key assumptions could have on the value of the Group's Property Plant and Equipment.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with International Financial Reporting Standards and the *Bermuda Companies Act 1981* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group 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 to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

BDO Audit (WA) Pty Ltd



Jarrad Prue

Partner

Perth, 29 June 2018

RICHLAND RESOURCES LTD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		2017	2016
	Note	US\$'000	US\$'000
<u>CONTINUING OPERATIONS</u>			
Revenue	4	1,942	1,347
Cost of sales	5	(2,654)	(3,033)
Gross loss		(712)	(1,686)
Other income	6	249	489
Operating expenses	7	(1,595)	(1,754)
Operating loss		(2,058)	(2,951)
Finance cost	8	(10)	(46)
Impairment	9	(1,920)	-
Loss before taxation		(3,988)	(2,997)
Income tax charge	10	-	-
Loss for the year from continuing operations		(3,988)	(2,997)
<u>DISCONTINUED OPERATIONS</u>			
Profit for the year from discontinued operations	17	35	-
Loss for the year		(3,953)	(2,997)
Attributable to:			
Equity owners of the parent			
- Continuing operations		(3,988)	(2,997)
- Discontinued operations		35	-
Non-controlling interest – Discontinued operations		-	-
Other comprehensive income			
Loss for the year		(3,953)	(2,997)
<i>Items that may be reclassified to profit or loss:</i>			
Foreign exchange gain/(loss) on translation of foreign operation		106	171
Total comprehensive loss for the year		(3,847)	(2,826)
Attributable to:			
Equity owners of the parent		(3,847)	(2,826)
- Continuing operations		(3,882)	(2,826)
- Discontinued operations		35	-
Non-controlling interest – Discontinued operations		-	-
Total comprehensive loss for the year		(3,847)	(2,826)
Loss per share attributable to the owners of the parent during the year			
Basic and diluted loss per share from continuing operations (US cents/share)	22.1	(0.93)	(1.36)
Basic and diluted profit per share from discontinued operations (US cents/share)	22.1	0.01	-
Basic and diluted loss per common share from all operations (US cents/share)	22.1	(0.92)	(1.36)

The accompanying notes form part of these financial statements.

RICHLAND RESOURCES LTD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

	Note	2017 US\$'000	2016 US\$'000
Assets			
Non-current assets			
Property, plant and equipment	11	964	2,952
Intangible assets	12	52	31
Total non-current assets		1,016	2,983
Current assets			
Inventories	13	139	136
Trade and other receivables	14	289	226
Restricted cash and cash equivalents	15	296	274
Cash and cash equivalents	16	386	326
		1,110	962
Non-current assets and disposal groups classified as held for sale	17	-	50
Total current assets		1,110	1,012
Total assets		2,126	3,995
Equity			
Share capital	18	145	67
Share premium	19	54,389	51,875
Share option reserve	20	123	47
Foreign currency translation reserve	21	133	27
Accumulated loss		(53,792)	(49,839)
Total equity attributable to equity owners of the parent		998	2,177
Liabilities			
Non-current liabilities			
Provision for environmental rehabilitation	23	273	237
Trade and other payables	24	-	29
Total non-current liabilities		273	266
Current liabilities			
Trade and other payables	24	855	937
Convertible loans	25	-	530
		855	1,467
Liabilities associated with disposal groups classified as held for sale	17	-	85
Total current liabilities		855	1,552
Total liabilities		1,128	1,818
Total equity and liabilities		2,126	3,995

The accompanying notes form part of these financial statements.

RICHLAND RESOURCES LTD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Common share capital US\$'000	A class share capital US\$'000	Total issued share capital US\$'000	Share premium US\$'000	Share option reserve US\$'000	Foreign currency translation reserve US\$'000	Accumu- lated loss US\$'000	Total equity attributable to controlling shareholders US\$'000	Non- interest US\$'000	Total equity US\$'000
Year ended 31 December 2017											
At start of year		66	1	67	51,875	47	27	(49,839)	2,177	-	2,177
Total comprehensive loss for the year		-	-	-	-	-	106	(3,953)	(3,847)	-	(3,847)
Loss for the year		-	-	-	-	-	-	(3,953)	(3,953)	-	(3,953)
Foreign exchange gain on translation	21	-	-	-	-	-	106	-	106	-	106
Issue of share capital	19	78	-	78	2,514	-	-	-	2,592	-	2,592
A Class share buy back	19	-	-*	-*	-	-	-	-	-*	-	-*
Share options issued	20	-	-	-	-	76	-	-	76	-	76
At end of year		144	1	145	54,389	123	133	(53,792)	998	-	998
Year ended 31 December 2016											
At start of year		64	1	65	51,711	-	(144)	(46,842)	4,790	-	4,790
Total comprehensive loss for the year		-	-	-	-	-	171	(2,997)	(2,826)	-	(2,826)
Loss for the year		-	-	-	-	-	-	(2,997)	(2,997)	-	(2,997)
Foreign exchange gain on translation	21	-	-	-	-	-	171	-	171	-	171
Issue of share capital	19	2	-	2	164	-	-	-	166	-	166
A Class share buy back	19	-	-*	-*	-	-	-	-	-*	-	-*
Share options issued	20	-	-	-	-	47	-	-	47	-	47
At end of year		66	1	67	51,875	47	27	(49,839)	2,177	-	2,177

* Less than US\$1,000

RICHLAND RESOURCES LTD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Cash flows from operating activities			
Cash utilised by operations	26.1	(1,335)	(1,727)
Interest (paid)/received		<u>(9)</u>	<u>5</u>
Net cash utilised in operating activities		<u>(1,344)</u>	<u>(1,722)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(282)	(100)
Purchase of intangible assets		(19)	(7)
Derecognise disposal group cash		(33)	-
Transfer from restricted cash		<u>-</u>	<u>116</u>
Net cash (utilised)/generated investing activities		<u>(334)</u>	<u>9</u>
Cash flows from financing activities			
Proceeds from issue of shares	26.2	1,731	-
Proceeds from borrowings		<u>-</u>	<u>500</u>
Net cash generated from financing activities		<u>1,731</u>	<u>500</u>
Net increase/(decrease) in cash and cash equivalents		<u>53</u>	<u>(1,213)</u>
Movement in cash and cash equivalents			
Exchange losses		(26)	(25)
At the beginning of the year		359	1,597
Increase/(decrease)		<u>53</u>	<u>(1,213)</u>
At the end of the year		<u>386</u>	<u>359</u>
Cash and cash equivalents - continuing operations	16	<u>386</u>	<u>326</u>
Cash and cash equivalents net of borrowings included in asset from disposal group classified as held for sale	17	<u>-</u>	<u>33</u>

The accompanying notes form part of these financial statements.

RICHLAND RESOURCES LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Richland Resources Ltd ("**the Company**" or "**Richland Resources**" or "**Richland**") and its subsidiaries (together "**the Group**") mines, distributes and sells coloured gemstones. During the 2015 financial year the Group concluded the sale of its Tanzanian tanzanite mining and beneficiation operations and tsavorite exploration project and is now focused on mining sapphires at its Capricorn Sapphire mine site in Queensland, Australia.

The Company is a limited liability company incorporated and domiciled in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

The Company is listed on the Alternative Investment Market ("**AIM**") of the London Stock Exchange. The financial statements were authorised for issue by the directors on 29 June 2018.

2 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Going concern basis of accounting

For the year ended 31 December 2017 the Group recorded a loss of US\$3.95 million and had net cash outflows from operating activities of US\$1.3 million. The ability of the entity to continue as a going concern is dependent on the group generating positive operating cash flows and/or securing additional funding through the raising of debt or equity to fund its recommencement of production and its operational and marketing activities. Management has successfully raised money in the past, but there is no guarantee that adequate funds will be available when needed in the future.

These conditions indicate a material uncertainty that may cast a significant doubt about the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements have been prepared on the basis that the entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

- The Group raised US\$0.4 million through a Convertible Loan facility subsequent to the year end;
- The Directors, senior management personnel, certain former Directors and a former consultant have agreed to waive, in aggregate, £237,230 (US\$320,053) of accrued fees due to them for periods from December 2016 to 31 May 2017;
- Certain of the Directors, senior management personnel, former Directors and a former consultant have confirmed their intention, to convert, in aggregate, £207,537 (US\$279,993) of unpaid fees due to them for periods from December 2016 up to and including 31 May 2018 into new Common Shares;
- The Company plans, in the third quarter of 2018, to seek to raise sufficient longer-term financing to enable the recommencement of production at the Capricorn Sapphire mine in 2018; and
- Management has successfully raised money in the past.

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”), interpretations of the International Financial Reporting Interpretations Committee (“**IFRIC**”) and Bermuda Companies Act, 1981. The consolidated financial statements have been prepared under the historical cost convention, as modified by:

- Share options measured at fair value; and
- Financial assets and liabilities at fair value through profit or loss.

(c) Significant judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS 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 financial statements are summarised below.

Areas of judgement and key sources of estimation uncertainty that have the most significant effect on the amounts recognised in the consolidated financial statements include:

- Estimates of the quantities of indicated and inferred gemstone resource – Note 2(k);
- The capitalisation of mine development costs – Note 2(i);
- The capitalisation of exploration and evaluation expenditures – Note 2(j);
- Review of tangible and intangible assets’ carrying value, the determination of whether these assets are impaired and the measurement of impairment charges or reversals – Notes 2(i), 2(m), 9, 11 and 12. For a detailed assessment on the sensitivity on the key assumptions used above refer to Note 9.
- The estimated useful lives of tangible and long-lived assets and the measurement of depreciation expense – Notes 2(i) and 11;
- Recognition of a provision for environmental rehabilitation and the estimation of the rehabilitation costs and timing of expenditure – Note 2(o);
- Whether to recognise a liability for loss contingencies and the amount of any such provision – Note 29;
- Recognition of deferred tax assets, amounts recorded for uncertain tax positions, the measurement of income tax expense and indirect taxes – Note 2(r);
- Determination of the net realisable value of inventory – Note 2(l); and
- Determination of fair value of stock options and cash-settled share based payments – Note 2(n).

(d) New and amended standards adopted by the Group

There were no IFRS standards or IFRIC interpretations adopted for the first time in these financial statements that had a material impact on the Group’s financial statements.

At the date of approval of these financial statements, the following Standards and Interpretations which may be applicable to the Group, but have not been applied in these financial statements, were in issue but not yet effective:

<i>Standard</i>	<i>Details of amendment</i>	<i>Effective date</i>
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	<ul style="list-style-type: none"> • Annual Improvements 2014-2016 Cycle: Deletion of short-term exemptions that are no longer applicable. 	1 January 2018

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) New and amended standards adopted by the Group (continued)

<i>Standard</i>	<i>Details of amendment</i>	<i>Effective date</i>
IFRS 2 <i>Share-based Payment</i>	<ul style="list-style-type: none"> Classification and Measurement of Share-based Payment Transactions: A collection of three distinct narrow-scope amendments dealing with classification and measurement of share-based payments. The amendments address: <ul style="list-style-type: none"> the effects of vesting conditions on the measurement of a cash-settled share-based payment; the accounting requirements for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled; and classification of share-based payment transactions with net settlement features. 	1 January 2018
IFRS 9 <i>Financial Instruments</i>	<ul style="list-style-type: none"> A final version of IFRS 9 has been issued which replaces IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. The completed standard comprises guidance on Classification and Measurement, Impairment Hedge Accounting and Derecognition: <ul style="list-style-type: none"> IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and its cash flow characteristics. A new business model was introduced which allows certain financial assets to be categorised as “fair value through other comprehensive income” in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. The new standard introduces a single “expected credit loss” impairment model for the measurement of financial assets. IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, in addition enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements. IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39. Prepayment Features with Negative Compensation. The narrow-scope amendment allows companies to measure particular prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met. Prepayment Features with Negative Compensation. The narrow-scope amendment allows companies to measure particular prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met. 	<p>1 January 2018</p> <p>*IFRS 9 (2014) supersedes any previous versions of IFRS 9, but earlier versions of IFRS 9 remain available for application if the relevant date of application is before 1 February 2015*</p> <p>1 January 2019</p> <p>1 January 2019</p>

RICHLAND RESOURCES LTD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) New and amended standards adopted by the Group (continued)

<i>Standard</i>	<i>Details of amendment</i>	<i>Effective date</i>
IFRS 15 <i>Revenue from Contracts from Customers</i>	<ul style="list-style-type: none"> New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five-step methodology that is required to be applied to all contracts with customers. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. 	1 January 2018
IFRS 16 <i>Leases</i>	<ul style="list-style-type: none"> IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. 	1 January 2019
IAS 12 <i>Income Taxes</i>	<ul style="list-style-type: none"> Annual Improvements 2015 - 2017 Cycle: Clarification that all income tax consequences of dividends should be recognised in profit or loss, regardless how the tax arises. 	1 January 2019
IAS 19 <i>Employee Benefits</i>	<ul style="list-style-type: none"> Plan Amendment, Curtailment or Settlement (Amendments to IAS 19): The amendments require an entity to use the updated assumptions from a remeasurement net defined benefit liability or asset resulting from a plan amendment, curtailment or settlement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. 	1 January 2019
IAS 23 <i>Borrowing Costs</i>	<ul style="list-style-type: none"> Annual Improvements 2015 -2017 Cycle: The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. 	1 January 2019

RICHLAND RESOURCES LTD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) New and amended standards adopted by the Group (continued)

<i>Standard</i>	<i>Details of amendment</i>	<i>Effective date</i>
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	<ul style="list-style-type: none">This interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.	1 January 2018
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	<ul style="list-style-type: none">The interpretation specifies how an entity should reflect the effects of uncertainties in accounting for income taxes.	1 January 2019

The Group is in the process of assessing the impact that the adoption of these standards will have on its financial statements in the period of initial adoption.

(e) Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured 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 values 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 non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

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.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United States dollars ("US\$") rounded to the nearest thousand unless stated otherwise.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to US\$ at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to US\$ at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign currency differences are recognised directly in equity in the foreign currency translation reserve ("FCTR"). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss. Foreign exchange gains and losses arising from a monetary item receivable or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future are considered to form part of a net investment in a foreign operation and are recognised directly in equity.

(g) Financial assets

(i) Classification

All financial assets of the Group are classified as loans and receivables, based on the purpose for which the financial assets were acquired. The directors determine the classification of the financial assets at initial recognition. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(h) Share capital

Ordinary and A class shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are shown in equity as a deduction, net of tax, from the proceeds.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost includes expenditure that is directly attributable to bringing the asset to a working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred, if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in profit or loss as an expense as incurred.

Depreciation

Depreciation on assets is charged to profit or loss and is calculated using the straight line method to allocate their cost to their residual values over their estimated useful lives as follows:

computer and other equipment	3 years
cutting and gemmological equipment	4 years
development costs	life of mine
furniture, fittings and improvements to leased premises	6 years
plant, machinery and mining equipment	4 years
motor vehicles	5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Development costs

Subsequent to determining the technical feasibility and commercial viability of a mineral reserve, all directly attributable mine developments are capitalised until commercial production commences, that is when the mine is capable of operating in the manner intended by management. Development expenditure is only capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. When commercial production commences, these costs are depreciated over the estimated life of the mine on the units of production method.

Development costs incurred during commercial production are recognised as part of the legal rights to the asset to the extent that they have a future economic benefit beyond the current reporting period. These costs will be depreciated over the estimated life of mine on the units of production method. Where development costs benefit only the current reporting period, they are a component of the cost of inventory produced in the current period and are accounted for in accordance with IAS 2 Inventories.

Assets under construction

No depreciation is provided for assets under construction until the assets have been completed and are available for use by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Intangible assets

Exploration and evaluation expenditure

Exploration and evaluation expenditure is capitalised provided the right to tenure of the area of interest is current or reasonably expected to be renewed and either:

- the exploration and evaluation activities are expected to be recouped through successful development and exploration of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or relating to, the area of interest are continuing.

When the technical feasibility and commercial viability of extracting a mineral resource has been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment. The carrying value of capitalised exploration and evaluation expenditure and capitalised mining development costs is assessed for impairment at the cash generating unit level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

Mineral licence

Mineral licence represents the cost incurred in respect of acquiring or maintaining mining licences. The cost is amortised over the licence period.

(k) Determination of resources

The Group estimates its resources based on information compiled by Competent Persons as defined in accordance with the Australasian Code for Reporting Exploration Results of Mineral Resources and Ore Reserves 2004 and 2012 ("JORC"). Reports to support these estimates are only prepared periodically due to the difficult nature of the mineralogy and geology. This has resulted in determination of a Measured and Inferred resource only and not a reserve. As such, Measured and Inferred resources, determined in this way are used in the calculation of depreciation, amortisation and impairment charges, and for forecasting the timing of the payments related to the environmental rehabilitation provision.

There are numerous uncertainties inherent in estimating gemstone ore resources, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of a resource and may, ultimately, result in the resource being revised.

(l) Inventories

Current inventories

Inventories are measured at the lower of cost and net realisable value.

Cost is determined as follows:

- rough gemstone costs comprise all mining and direct and indirect production costs incurred in relation to such inventory;
- cut and polished gemstone and jewellery costs comprise all costs of purchase, conversion and other costs incurred in bringing the inventory to its present location and condition; and
- consumables cost is determined using the weighted average method.

The cost of consumable inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories. In the case of rough, cut and polished gemstones, costs include an appropriate share of overheads based on normal operating capacity. Net realisable value for gemstones and consumables is the estimated selling price in the ordinary course of business and open market basis, respectively, less the estimated costs of completion and selling expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment

Non-financial assets

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups of assets. The impairment losses are recognised in profit or loss.

The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses recognised are allocated first to reduce the carrying value of any goodwill allocated and then, to reduce the carrying amount of the assets in the unit on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant receivables are tested for impairment on an individual basis. Receivables that are not individually significant are collectively assessed for impairment by grouping these together with similar risk characteristics. All impairment losses are recognised in profit or loss.

An impairment loss in respect of the Group's receivables carried at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is recognised in profit or loss. An impairment loss is reversed only to the extent that the carrying amount does not exceed what the amortised cost would have been if no impairment loss had been recognised.

(n) Employee benefits

Share-based payment transactions

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Employee benefits (continued)

Share-based payment transactions (continued)

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

Short-term employee benefits

Short-term employee benefits are those that are paid within 12 months after the end of the period in which the services have been rendered and are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

Contributions to defined contribution retirement benefit plans are recognised in profit or loss in the periods during which services are rendered by employees. The Group pays contributions to publicly administered pension insurance plans on a mandatory and contractual basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(o) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Environmental rehabilitation

The Group has recorded a provision for environmental rehabilitation liabilities based on management's estimates of these costs. Such estimates are subject to adjustments based on changes in laws and regulations and as additional more reliable information become available. The estimated fair value of liabilities for asset retirement obligations is recognised in the period in which they are incurred. Over time, the liability is increased to reflect the interest element (accretion expense) considered in the initial measurement at fair value and the change in fair value over the course of year is expensed. The estimates are based principally on legal and regulatory requirements. It is possible that management's estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, the extent of environmental remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

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**FINANCIAL STATEMENTS
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Revenue

Sale of gemstones and jewellery

Revenue from the sale of gemstones and jewellery is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue from the sale of gemstones and jewellery is recognised in the statement of profit and loss when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, associated costs or the possible return of gemstones and jewellery can be estimated reliably, there is no continuing management involvement with the gemstones and jewellery and the amount of revenue can be measured reliably.

(q) Expenses

Finance income and costs

Finance costs comprises interest payable on borrowings calculated using the effective interest rate method and unwinding of the discount on provisions.

Finance income is recognised in profit or loss as it accrues, using the effective interest method.

(r) Tax expense

Tax expense comprises current and deferred tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit;
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future; and
- the initial recognition of assets and liabilities in a transaction that is not a business combination.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the tax rate enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities when there is an intention to settle the balances on a net basis.

Additional taxes that arise from the distribution of dividends to A Class shareholders in South Africa are recognised at the same time as the liability to pay the related dividend.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(t) Non-current assets or disposal groups held-for-sale and discontinued operations

Non-current assets or disposal groups are classified as held-for-sale if their carrying amount will be recoverable principally through a sale transaction, not through continuing use. The condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

These assets may be a component of an entity, a disposal group or an individual non-current asset. Upon initial classification as held-for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair values less cost to sell.

A discontinued operation is a significant distinguishable component of the Group's business that is abandoned or terminated pursuant to a single formal plan, and which represents a separate major line of business or geographical area of operation. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale.

The profit or loss on sale or abandonment of a discontinued operation is determined from the formalised discontinuance date. Discontinued operations are separately recognised in the financial statements once management has made a commitment to discontinue the operation without a realistic possibility of withdrawal which should be expected to qualify for recognition as a completed sale within one year of classification.

(u) Convertible loans

Convertible loans can be converted to share capital at the option of the holder. The liability component of the convertible loan is recognised initially at the fair value of a similar liability that does not have an equity conversion option. Any directly attributable transaction costs are allocated to the convertible loan liability. Subsequent to initial recognition, the liability component of the convertible loan is measured at amortised cost using the effective interest method. The convertible loan liability is removed from the statement of financial position when the obligations specified in the contract are discharged. This can occur upon the option holder exercising their option or the option period lapses requiring the company to discharge the obligation. On initial recognition, the fair value of the convertible note with embedded derivatives will equate to the proceeds received and subsequently the liability is measured at fair value at each reporting date until settlement. The fair value movements are recognised on the Consolidated Statement of Profit or Loss as financial costs.

RICHLAND RESOURCES LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it can earn revenues and incurs expenses, including revenue and expenses that relate to transactions with any of the Group's other components.

An operating segment's operating results are reviewed regularly by the Chief Operating Decision Maker ("CODM") which in the case of the Group is the Board of Directors. The CODM makes decisions about the resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Management has determined the operating segments based on reports reviewed by the Board of Directors that are used to make strategic decisions.

Segment information is presented in respect of the Group's business segment. The primary format, business segments, is based on the Group's management and internal reporting structures.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

3.1 Business operating segments

The Group has two reportable segments, as described below which are the Group's strategic business units. The strategic business units offer different focus areas for the Group. The Group comprises the following reportable segments:

- Mining: The extraction of rough gemstones
- Online sales: Online sales of jewellery and polished gemstones

The accounting policies of the reportable segments are the same as described in note 2.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit/loss before income tax, as included in the internal management reports that are reviewed by the Executive Committee. Segment profit/loss is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

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**FINANCIAL STATEMENTS
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 SEGMENT REPORTING (CONTINUED)

3.1 Business operating segments (continued)

	Mining 2017 US\$'000	Mining 2016 US\$'000	Online sales 2017 US\$'000	Online sales 2016 US\$'000	Unallo- cated 2017 US\$'000	Unallo- cated 2016 US\$'000	Total Continuing 2017 US\$'000	Total Continuing 2016 US\$'000	Total Dis- continued 2017 US\$'000	Total Dis- continued 2016 US\$'000	Total All operations 2017 US\$'000	Total All operations 2016 US\$'000
External revenues	1,836	1,180	106	167	-	-	1,942	1,347	-	-	1,942	1,347
Finance income/(costs)	(10)	(4)	-	-	-	(42)	(10)	(46)	-	-	-	(46)
Depreciation, amortisation of property, plant and equipment and intangible assets	(446)	(381)	(1)	(1)	-	-	(447)	(382)	-	-	(447)	(382)
Impairment of property, plant and equipment	(1,920)	-	-	-	-	-	(1,920)	-	-	-	(1,920)	-
Reportable segment loss before income tax	(3,023)	(2,234)	(54)	(74)	(911)	(689)	(3,988)	(2,997)	35	-	(3,953)	(2,997)
Income tax (charge)/credit	-	-	-	-	-	-	-	-	-	-	-	-
Capital expenditure	282	100	-	-	-	-	282	100	-	-	282	100
Reportable segment assets	1,523	3,737	34	31	569	177	2,126	3,945	-	50	2,126	3,995
Reportable segment liabilities	793	755	46	58	289	920	1,128	1,733	-	85	1,128	1,818

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**FINANCIAL STATEMENTS
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 SEGMENT REPORTING (CONTINUED)

3.1 Business operating segments (continued)

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segments assets are based on the geographical location of assets.

	<u>Revenues</u> US\$'000	<u>Non-current assets</u> US\$'000
Geographical information		
31 December 2017		
Continuing operations		
Australia	337	2,136
United States	76	-
Thailand	1,222	-
Other countries	307	-
	<u>1,942</u>	<u>2,136</u>
31 December 2016		
Australia	261	2,983
United States	113	-
Thailand	841	-
Other countries	132	-
	<u>1,347</u>	<u>2,983</u>
4 REVENUE	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Sale of gemstones and jewellery	<u>1,942</u>	<u>1,347</u>
5 COST OF SALES		
<u>Online:</u>		
Cost of goods purchased	(57)	(117)
<u>Mining:</u>		
Labour and related costs	(832)	(908)
Fuel costs	(310)	(294)
Repairs and maintenance	(43)	(152)
Lease rentals and operating lease	(654)	(802)
Other mining and processing costs	(296)	(270)
Depreciation and amortisation	(446)	(381)
Write down of rough gemstone inventory to net realisable value	(1,005)	(1,047)
Change in inventory	989	938
	<u>(2,654)</u>	<u>(3,033)</u>
6 OTHER INCOME		
Export market development grant	39	-
Fuel levy credit	117	114
Research and development incentive	76	280
Shares issued at premium (Note 18)	17	95
	<u>249</u>	<u>489</u>

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**FINANCIAL STATEMENTS
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7	OPERATING EXPENSES	2017 US\$'000	2016 US\$'000
	Auditors' remuneration – audit services	(45)	(25)
	Auditors' remuneration – non-audit services*	-	(9)
	Auditors' remuneration	(45)	(34)
	Commission	(54)	(31)
	Depreciation and amortisation of property, plant and equipment	(1)	(1)
	Directors' emoluments and fees	(218)	(278)
	Net foreign exchange (loss)/gain	(29)	(202)
	Office expenses	(174)	(203)
	Professional and other services	(669)	(767)
	Research and development	(4)	(62)
	Royalties	(45)	(27)
	Share option expense (Note 20)	(76)	(47)
	Shares issued at discount (Note 18)	(217)	-
	Travel and accommodation	(49)	(70)
	Other expenses	(14)	(32)
	Total operating expenses	(1,595)	(1,754)
	* Paid to BDO Tax (WA) Pty Ltd.		
8	FINANCE (COST)/INCOME		
	Interest income	7	17
	Interest paid	-	(42)
	Accretion expense – asset retirement obligation	(17)	(21)
	Total finance cost	(10)	(46)
9	IMPAIRMENT		
	Impairment charge	(1,920)	-

In mid December 2017, the Company decided to temporarily halt mining operations in light of, inter alia, adverse weather conditions and a weak market environment. The carrying amount of Property Plant and Equipment has therefore been tested for impairment. Its recoverable amount was calculated based on the asset's value in use using a discounted cash flow model using cash flow projections approved by management over the life of the mine and is most sensitive to the following key estimates and assumptions:

- A resource of 13,358,400 grammes of sapphire over a 14 year mine life
- Discount rate 14.5%
- Foreign exchange rate of AU\$1.25 / US\$
- Selling price estimated at US\$0.77 per carat
- Operational and administrative costs of US\$0.70 per carat
- Obtaining mining license extensions until 2032

Economical recoverable resources represent management's expectations at the time of completing the assessment of the carrying value of Property Plant and Equipment and are based on the resource statements and exploration and evaluation work undertaken by appropriately qualified persons. The estimated selling price of US\$0.77 is based on management's estimate of expected selling prices based on current market conditions with operating cost assumptions being based on FY18 budgets.

Sensitivity Analysis

The following table summarise the potential impact of changes in the key estimates and assumptions above to impairment charge (assessed independently of each other):

Key Judgements	Sensitivity	Additional Impairment Charge US\$ m
Discount Rate	Increase by 10% - 15.95%	(\$0.074)
FX Rate	FX rate down by 5% - AU\$1.1875/US\$	(\$0.780)
Selling Price	Selling price down by 5% - US\$0.73 per carat	(\$0.936)
Operational and administration cost	Costs up by 8% - US\$0.756 per carat	(\$0.906)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10	INCOME TAX CREDIT	2017 US\$'000	2016 US\$'000
	Current tax charge		
	Current period	-	-
	Deferred tax credit	-	-
	Total income tax charge/(credit)	-	-
<p>At year-end, the Group has unused losses carried forward of US\$4,701,000 (2016: US\$3,500,000) available for offset against suitable future profits. Most of the tax losses were sustained in Australia.</p> <p>A deferred tax asset has not been recognised in respect of such losses due to the uncertainty of the ability to utilise tax losses. The contingent deferred tax asset is estimated to be US\$1,219,000 (2016: US\$981,000).</p> <p>The tax on the Company's loss before tax differs from the theoretical amount that would arise using the basic tax rate as follows:</p>			
	Loss before income tax	(3,988)	(2,997)
	Taxation at 30%	(1,196)	(885)
	Non-deductible expenses	616	204
	Non-assessable income	(34)	(84)
	Deferred tax assets not brought to account	614	765
	Income tax charge/(credit)	-	-
11	PROPERTY, PLANT AND EQUIPMENT		
11.1	COST		
	Computer and other equipment	31	26
	Cutting and gemmological equipment	9	7
	Development costs	2,202	2,150
	Furniture, fittings and improvements to leased premises	8	7
	Plant, machinery and mining equipment	1,561	1,217
	Motor vehicles	85	79
	Assets under construction	30	15
		3,926	3,501
11.2	ACCUMULATED DEPRECIATION AND IMPAIRMENT		
	Computer and other equipment	(23)	(12)
	Cutting and gemmological equipment	(5)	(2)
	Development costs	(2,078)	(91)
	Furniture, fittings and improvements to leased premises	(3)	(2)
	Plant, machinery and mining equipment	(804)	(411)
	Motor vehicles	(49)	(31)
	Assets under construction	-	-
		(2,962)	(549)
11.3	NET CARRYING VALUE		
	Computer and other equipment	8	14
	Cutting and gemmological equipment	4	5
	Development costs	124	2,059
	Furniture, fittings and improvements to leased premises	4	5
	Plant, machinery and mining equipment	757	806
	Motor vehicles	37	48
	Assets under construction	30	15
		964	2,952

RICHLAND RESOURCES LTD

**FINANCIAL STATEMENTS
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11.4 MOVEMENTS FOR THE YEAR

	2017	2016
	US\$'000	US\$'000
Opening carrying value		
Computer and other equipment	14	22
Cutting and gemmological equipment	5	4
Development costs	2,059	2,176
Furniture, fittings and improvements to leased premises	5	6
Plant, machinery and mining equipment	806	1,035
Motor vehicles	48	63
Assets under construction	15	-
	2,952	3,306
Additions at cost		
Computer and other equipment	3	-
Cutting and gemmological equipment	1	2
Development costs	19	2
Plant, machinery and mining equipment	245	79
Motor vehicles	-	2
Assets under construction	14	15
	282	100
Transfers		
Development costs	-	(60)
	-	(60)
Exchange differences		
Computer and other equipment	1	-
Development costs	29	(8)
Plant, machinery and mining equipment	60	(4)
Motor vehicles	6	-
Assets under construction	1	-
	97	(12)
Impairments		
Development Costs	(1,920)	-
	(1,920)	-
Depreciation charge		
Computer and other equipment	(10)	(9)
Cutting and gemmological equipment	(2)	(2)
Development costs	(63)	(51)
Furniture, fittings and improvements to leased premises	(1)	(1)
Plant, machinery and mining equipment	(354)	(303)
Motor vehicles	(17)	(16)
	(447)	(382)
Closing carrying value		
Computer and other equipment	8	14
Cutting and gemmological equipment	4	5
Development costs	124	2,059
Furniture, fittings and improvements to leased premises	4	5
Plant, machinery and mining equipment	757	806
Motor vehicles	37	48
Assets under construction	30	15
	964	2,952

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12	INTANGIBLE ASSETS	2017 US\$'000	2016 US\$'000
12.1	COST		
	Exploration and evaluation expenditure	<u>52</u>	<u>31</u>
		<u>52</u>	<u>31</u>
12.2	ACCUMULATED AMORTISATION		
	Exploration and evaluation expenditure	<u>-</u>	<u>-</u>
		<u>-</u>	<u>-</u>
12.3	NET CARRYING VALUE		
	Exploration and evaluation expenditure	<u>52</u>	<u>31</u>
		<u>52</u>	<u>31</u>
12.4	MOVEMENTS FOR THE YEAR		
	Opening carrying value		
	Exploration and evaluation expenditure	<u>31</u>	<u>79</u>
		<u>31</u>	<u>79</u>
	Additions at cost		
	Exploration and evaluation expenditure	<u>19</u>	<u>7</u>
		<u>19</u>	<u>7</u>
	Transfers		
	Exploration and evaluation expenditure	<u>-</u>	<u>(56)</u>
		<u>-</u>	<u>(56)</u>
	Exchange differences		
	Exploration and evaluation expenditure	<u>2</u>	<u>1</u>
		<u>2</u>	<u>1</u>
	Closing carrying value		
	Exploration and evaluation expenditure	<u>52</u>	<u>31</u>
		<u>52</u>	<u>31</u>
13	INVENTORIES		
	Rough gemstones and jewellery	<u>127</u>	<u>127</u>
	Consumables	<u>12</u>	<u>9</u>
		<u>139</u>	<u>136</u>

No inventories have been pledged as security for liabilities and all rough gemstone is stated at its net realisable value. During the year rough gemstone inventory was written down by \$1,005 (2016: \$1,047) to the lower of cost and net realisable value.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 TRADE AND OTHER RECEIVABLES

	<u>2017</u> <u>US\$'000</u>	<u>2016</u> <u>US\$'000</u>
Trade receivables	159	86
Prepayments	57	55
Other receivables	73	85
	<u>289</u>	<u>226</u>

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2017, US\$3,000 (2016: US\$3,000) of trade receivables were past due and were impaired during the year. The aging analysis of these trade receivables is as follows:

Less than 90 days	159	86
More than 90 days	-	-

Trade and other receivables consists of balances receivable in the following currencies:

United States Dollars	49	107
Australian Dollars	111	119
Thai Bhat	129	-
	<u>289</u>	<u>226</u>

Translated into United States Dollars at foreign exchange rates applicable at the reporting date. The Group's exposure to credit risk and impairment losses related to trade receivables is disclosed in note 27.1.

15 RESTRICTED CASH AND CASH EQUIVALENTS

Short-term deposits	296	274
	<u>296</u>	<u>274</u>

Short-term deposits are denominated in Australian Dollars and have been pledged as collateral for the financial assurance lodged with the Department of Natural Resources and Mines (Australia).

16 CASH AND CASH EQUIVALENTS

Cash at bank and on hand	386	326
	<u>386</u>	<u>326</u>
Cash and cash equivalents consists of balances denominated in the following currencies:		
United States Dollars	137	240
Australian Dollars*	51	66
Hong Kong Dollars*	5	10
Other currencies*	193	10
	<u>386</u>	<u>326</u>

* Translated into United States Dollars at foreign exchange rates applicable at the reporting date. The Group's exposure to interest rate risk and sensitivity analysis for financial instruments is disclosed in note 28.

RICHLAND RESOURCES LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

Following a comprehensive review of the strategic options available for its mining operations in Tanzania, Richland entered into a conditional sale agreement on 25 November 2014 (the "**Sale Agreement**") with Sky Associates Group Limited ("**Sky Associates**") pursuant to which the Company sold to Sky Associates the Group's tanzanite mining and beneficiation business and tsavorite license interests in Tanzania.

The sale closed on 2 March 2015 and as a result of the transaction, this group of assets ("**disposal group**") were disclosed as a disposal group held for sale. The assets and liabilities shown below were not part of the Sky Associates sale and were wound up.

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
<i>Assets of disposal groups classified as held for sale</i>		
Income tax receivable	-	10
Trade and other receivables	-	7
Cash and cash equivalents	-	33
	<hr/>	<hr/>
Total assets	-	50
	<hr/>	<hr/>
<i>Liabilities of disposal groups classified as held for sale</i>		
Trade and other payables	-	85
	<hr/>	<hr/>
Total liabilities	-	85
	<hr/>	<hr/>
Analysis of the results of discontinued operations and the results recognised on the measurement of assets of the disposal group is as follows:		
Gain on derecognition of disposal group assets and liabilities (net)	35	-
	<hr/>	<hr/>
Profit for the year from discontinued operations	35	-
	<hr/>	<hr/>

18 SHARE CAPITAL

18.1 Common share capital

Authorised

800,000,000 (2016: 500,000,000) common shares of US\$0.0003 each	240	150
	<hr/>	<hr/>

Issued

474,652,082 (2016: 222,610,604) common shares of US\$0.0003 each	144	66
	<hr/>	<hr/>

Common share capital

Balance at the beginning of the year	66	64
Convertible note conversion	17	-
Share placement	57	-
Fees converted	2	2
Treasury shares*	(2)	-
	<hr/>	<hr/>
Balance at the end of the year	144	66
	<hr/>	<hr/>

Each fully paid common share carries the right to one vote at a meeting of the Company. Holders of common shares also have the right to receive dividends and to participate in the proceeds from sale of all surplus assets in proportion to the total shares issued in the event of the Company winding up.

RICHLAND RESOURCES LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 SHARE CAPITAL (CONTINUED)

<i>Reconciliation of number of common shares in issue</i>	Number of shares 2017	Number of shares 2016
Shares in issue at beginning of the year	222,610,604	217,209,895
Convertible note conversion ⁽⁴⁾	54,933,334	-
Share placement ^{(2) (3)}	197,619,048	-
Fees converted ⁽¹⁾	6,764,096	5,400,709
Treasury shares ⁽⁵⁾	(7,275,000)	-
Shares in issue at end of the year	474,652,082	222,610,604

- (1) On 13 December 2016, certain of the Company's directors and management agreed to convert their outstanding fees and salaries due in respect of the period from 1 April 2016 to 30 November 2016 into new Common Shares at a price of 1.74 pence per new Common Share, being the volume weighted average price of the Company's Common Shares over the period the fees and salaries concerned were outstanding (the "Directors' and Managers' Fee Conversion"). In total, unpaid fees of US\$117,085 were converted into 5,392,520 new Common Shares which were admitted to trading on AIM on 5 January 2017. On 19 April 2017, the Company announced that Ami Mpungwe, a then non-executive director of the Company, had agreed, in order to preserve the Company's cash resources, to convert his outstanding director's fees for the period from 1 April 2016 to 1 April 2017 into new Common Shares at a price of 1.74 pence per new Common Share (the "Conversion"), being the same price as the Directors and Managers' Fee Conversion referred to above.. Accordingly, Mr Mpungwe's unpaid fees of US\$30,250 were converted into, in aggregate, 1,371,576 new Common Shares. The settlement of the outstanding fees resulted in a gain on settlement of \$40,025.
- (2) As announced on 13 December 2016, certain new and existing shareholders (including Nicholas Sibley, a Non-Executive Director of Richland), agreed to subscribe for, in aggregate, 133,333,334 new common shares of US\$0.0003 each in the capital of the Company ("Common Shares") (the "Placing Shares") at a price of 0.75 pence per share (the "Placing Price"). The Placing Shares were issued conditional upon their admission to trading on AIM, which took place on 5 January 2017.
- (3) On 5 September 2017, the Company announced that it had raised, in aggregate, approximately £450,000 (before expenses) through a subscription of 64,285,714 new Common Shares (the "Subscription Shares") (the "Subscription") by certain new and existing shareholders (including two of the Company's directors) at an issue price of 0.7 pence per Subscription Share (the "Subscription Price"). Pursuant to the Subscription, a warrant to subscribe for a further 1 new Common Share at a price of 1 pence per share shall accompany each Subscription Share (the "Warrants"). The Warrants are exercisable for a period of one year from the date of Admission on 12th September 2017, save that should the Company's volume weighted average share price exceed 1.5 pence for a period of five consecutive trading days the Company shall be entitled to give holders of the Warrants 7 days' notice that their Warrants must be exercised within a further 24 days, failing which they will otherwise expire. In connection with the Subscription, Salonica Group was also issued a warrant over 3,000,000 Common Shares on the same terms as the Warrants..
- (4) The providers of a US\$500,000 unsecured one-year 10 per cent. loan facility entered into on 27 June 2016 (the "Loan Facility"), agreed, conditional on completion of the Share Placememnt referred to in Note (2) below, to settle the outstanding principal amount of US\$500,000, by way of the issue of new Common Shares at the Placing Price. Of the US\$500,000 Loan Facility, US\$300,000 was provided equally by two of the Company's Directors, Edward Nealon and Nicholas Sibley, each providing US\$150,000, with the balance of US\$200,000 provided by MRI Advisory AG. Full details of the Loan Facility were set out in the Company's announcement of 28 June 2016, including the condition that if the Loan Facility was repaid early the minimum total interest due would be 7.5 per cent. (the "Minimum Notional Interest"). Messrs Nealon and Sibley agreed to settle the unpaid balance of the Minimum Notional Interest due to them on early repayment of the Loan Facility, being US\$7,500 each, by way of the issue of further new Common Shares at the Placing Price. MRI Advisory AG agreed to the early repayment of its proportion of the Loan Facility on the basis that it was paid the balance of the Minimum Notional Interest due to it in cash, being US\$10,000, plus an additional US\$5,000 in cash from the net proceeds of the placing. The aggregate principal amount of the Loan Facility plus the abovementioned Minimum Notional Interest converted into new Common Shares was therefore US\$515,000 which was settled by the issue of, in aggregate, 54,933,334 new Common Shares at the time of the issue and admission of the Placing Shares on 5 January 2017. The settlement of the convertible note resulted in a loss on settlement of \$257,500.
- (5) At the Company's 2016 AGM on 20th May 2016 the shareholders approved the acquisition as Treasury Shares the 7,275,000 restricted shares issued to Directors and employees in 2009. All the rights attaching to a Treasury Share are suspended including the right to vote and shall not be exercised by the Company while it holds such Treasury Shares.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 SHARE CAPITAL (CONTINUED)

	2017 US\$'000	2016 US\$'000
18.2 A class share capital		
Authorised		
66,666,667 A class shares of ZAR 0.0003 each	<u>3</u>	<u>3</u>
Issued		
1,033,892 (2016: 1,138,908) A class shares of ZAR 0.0003 each issued by the Company's wholly-owned subsidiary, Rohstein Class A (Proprietary) Limited (" Rohstein Class A (Pty) Ltd ")	<u>1</u>	<u>1</u>
A class shares have been converted at the historical rate at 1 June 2004 of ZAR 6.52 to the US Dollar.		
Total issued share capital (Common shares and A class shares)	<u>145</u>	<u>67</u>
Reconciliation of A Class share capital	Number of shares 2017	Number of shares 2016
Shares in issue at beginning of the year	1,138,908	1,480,393
Share buyback pursuant to A Class rights	(105,016)	(341,485)
Shares in issue at end of the year	<u>1,033,892</u>	<u>1,138,908</u>

An equivalent amount of common shares are held by Rembrandt Nominees via an account with Investec Wealth & Investment.

Rights attaching to A Class shares

The following rights, privileges and conditions attach to the Rohstein Class A (Pty) Ltd A Class shares:

Each Rohstein Class A (Pty) Ltd A class share has been issued on the basis that:

1. if the Richland Resources common shares are consolidated or subdivided, the same will apply, *mutatis mutandis*, to the Rohstein Class A (Pty) Ltd A class shares;
2. if any rights issue is implemented by Richland Resources, Rohstein Class A (Pty) Ltd will automatically have a rights issue in respect of the Rohstein Class A (Pty) Ltd A class shares on identical terms to the rights issue implemented by Richland Resources, which will include but not be limited to the price per rights issue share and ratio of rights shares to existing shares; and
3. if the common shareholders of Richland Resources receive shares in substitution for all their Richland Resources common shares then the number of Rohstein Class A (Pty) Ltd A class shares will be automatically adjusted such that each Rohstein Class A (Pty) Ltd A class shareholder will own the number of Rohstein Class A (Pty) Ltd Class A shares as equals their existing number of Rohstein Class A (Pty) Ltd A class shares, multiplied by the number of substitution shares issued for each Richland Resources common shares.

RICHLAND RESOURCES LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 SHARE CAPITAL (CONTINUED)

Rights attaching to A Class shares (continued)

The holders of the Rohstein Class A (Pty) Ltd A class shares will only be entitled to a dividend if Richland Resources declares dividends in respect of any year, and then the Rohstein Class A (Pty) Ltd A class shares will be entitled to a preference dividend out of the profits of Rohstein Class A (Pty) Ltd available for distribution per Rohstein Class A (Pty) Ltd A class share equal to "D" calculated in accordance with the following formula :

$$D = A \times F$$

where

A = the dividend declared and payable by Richland Resources in respect of each Richland Resources common share; and

F = the spot foreign exchange rate quoted by Standard Bank of South Africa Limited on the date upon which the relevant Richland Resources dividend is payable to Richland Resources common shareholders.

Rohstein Class A (Pty) Ltd in general meeting or the directors of Rohstein Class A (Pty) Ltd shall be entitled to declare preference dividends in respect of the Rohstein Class A (Pty) Ltd A class shares on the basis that the preference dividend payable shall be payable, within four months after the date upon which the relevant dividend is declared to the shareholders of Richland Resources, to the holders of the Rohstein Class A (Pty) Ltd A class shares registered as such on the declaration date of the relevant Richland Resources dividend.

With respect to voting rights in Rohstein Class A (Pty) Ltd, each Rohstein Class A (Pty) Ltd ordinary share shall have 1,000,000 votes and each Rohstein Class A (Pty) Ltd A class share shall have one vote. The holders of Rohstein Class A (Pty) Ltd A class shares will be entitled to receive notice of and to attend and vote at any general meeting of Rohstein Class A (Pty) Ltd.

Payment in respect of preference dividends and any other payments will be made in the currency of South African Rands at the risk of the relevant holder of Rohstein Class A (Pty) Ltd A class shares either by cheque sent by prepaid registered post to the address of each holder of Rohstein Class A (Pty) Ltd A class shares as recorded in the register of Rohstein Class A (Pty) Ltd's shareholders or by electronic transfer to such bank account nominated in writing by any holder of Rohstein Class A (Pty) Ltd A class shares for such purpose.

All or any of the rights attaching to the issued Rohstein Class A (Pty) Ltd A class shares may not be modified, altered, varied, added to or abrogated, without the prior written consent of the:

1. holders of at least three-quarters of the issued Rohstein Class A (Pty) Ltd A class shares or the sanction of a resolution of the holders of the issued Rohstein Class A (Pty) Ltd A class shares passed at a separate general meeting of such holders and at which the holders of the Rohstein Class A (Pty) Ltd A class shares holding in the aggregate not less than one quarter of the total votes of all the holders of the Rohstein Class A (Pty) Ltd A class shares holding securities entitled to vote at that meeting are present in person or by proxy and the resolution has been passed by not less than three-quarters of the total votes to which the holders of the Rohstein Class A (Pty) Ltd A class shares present in person or by proxy are entitled to vote; and
2. holders of three quarters of the ordinary shares.

No shares in the capital of Rohstein Class A (Pty) Ltd, ranking in priority to or *pari passu* with the Rohstein Class A (Pty) Ltd A class shares of any class but excluding the issue of ordinary shares, shall be created or issued, without the prior written consent of the holders of at least three-quarters of the issued Rohstein Class A (Pty) Ltd A class shares or the sanction of a resolution of the holders of the issued Rohstein Class A (Pty) Ltd A class shares passed at a separate general meeting of such holders and at which the holders of the Rohstein Class A (Pty) Ltd A class shares holding in the aggregate not less than one quarter of the total votes of all the holders of the Rohstein Class A (Pty) Ltd A class shares holding securities entitled to vote at that meeting are present in person or by proxy and the resolution has been passed by not less than three-quarters of the total votes to which the holders of the Rohstein Class A (Pty) Ltd A class shares present in person or by proxy are entitled to vote.

RICHLAND RESOURCES LTD

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 SHARE CAPITAL (CONTINUED)

Rights attaching to A Class shares (continued)

Rohstein Class A (Pty) Ltd cannot be put into voluntary liquidation by its shareholders, without the prior written consent of the holders of at least three-quarters of the issued Rohstein Class A (Pty) Ltd A class shares or the sanction of a resolution of the holders of the issued Rohstein Class A (Pty) Ltd A class shares passed at a separate general meeting of such holders and at which the holders of the Rohstein Class A (Pty) Ltd A class shares holding in the aggregate not less than one quarter of the total votes of all the holders of the Rohstein Class A (Pty) Ltd A class shares holding securities entitled to vote at that meeting are present in person or by proxy and the resolution has been passed by not less than three-quarters of the total votes to which the holders of the Rohstein Class A (Pty) Ltd A class shares present in person or by proxy are entitled to vote.

Should Richland Resources acquire any Rohstein Class A (Pty) Ltd A class shares, Rohstein Class A (Pty) Ltd will automatically redeem out of moneys which may be lawfully applied for that purpose those Rohstein Class A (Pty) Ltd A class shares on the basis that the price payable for each Rohstein Class A (Pty) Ltd A class share on redemption of same will be at a redemption price of 0.003 (point zero zero three) cent per Rohstein Class A (Pty) Ltd A class share. Notwithstanding the provisions of this clause, all of the Rohstein Class A (Pty) Ltd A class shares that are in issue at 21 April 2024 shall be automatically redeemed on the basis that the price payable for the redemption of each A share on redemption of same will be at a redemption price of 0.003 (point zero zero three) cents per Rohstein Class A (Pty) Ltd A class share.

At every meeting of the holders of the Rohstein Class A (Pty) Ltd A class shares the provisions of the articles of Rohstein Class A (Pty) Ltd relating to general meetings of holders of ordinary shares shall apply *mutatis mutandis* except that a quorum at any such general meeting of the holders of the A shares shall be a person or persons holding or representing by proxy at least 25% (twenty five per centum) of the issued Rohstein Class A (Pty) Ltd A class shares, provided that if at any adjournment of such meeting a quorum is not present, then the provisions of the relevant articles of Rohstein Class A (Pty) Ltd relating to adjourned meetings shall, *mutatis mutandis*, apply.

Upon the date of redemption of any Rohstein Class A (Pty) Ltd A class shares, there shall be paid on any Rohstein Class A (Pty) Ltd A class shares redeemed, all preference dividends (including any which are in arrears) accrued in respect of the same, up to the date fixed for redemption thereof, and the preference dividends thereon shall cease to accrue from that date unless, upon surrender of the share certificate in respect of the Rohstein Class A (Pty) Ltd A class shares, payment of the redemption moneys is not affected by Rohstein Class A (Pty) Ltd. The holders of the Rohstein Class A (Pty) Ltd A class shares shall deliver the certificate/s representing those Rohstein Class A (Pty) Ltd A class shares which are to be redeemed to Rohstein Class A (Pty) Ltd at its registered office. Upon such delivery of the share certificate/s Rohstein Class A (Pty) Ltd shall pay to the holders of the Rohstein Class A (Pty) Ltd A class shares the amount due in respect of the redemption and shall then be entitled to cancel the relevant Rohstein Class A (Pty) Ltd A class shares.

Rohstein Class A (Pty) Ltd shall not be liable to a shareholder of Rohstein Class A (Pty) Ltd A class shares for interest on any unclaimed redemption moneys and arrears of dividends.

Any dividends payable in respect of Rohstein Class A (Pty) Ltd A class shares (including any which are in arrears) that remain unclaimed for 3 (three) years may become the property of Rohstein Class A (Pty) Ltd.

The holders of the Rohstein Class A (Pty) Ltd A class shares shall not be entitled to dispose of any Rohstein Class A (Pty) Ltd A class shares to any party other than Richland Resources and the share certificates issued in respect of the Rohstein Class A (Pty) Ltd A class shares shall be endorsed to this effect. Notwithstanding the provisions of this clause, a holder of the Rohstein Class A (Pty) Ltd A class shares shall be entitled to transfer the relevant Rohstein Class A (Pty) Ltd A class shares to a family entity or a family member provided that they pay any and all costs relating to the transfer.

No additional shares in the capital of Rohstein Class A (Pty) Ltd of the same or similar nature as the Rohstein Class A (Pty) Ltd A class shares shall be issued save as provided for above.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19	SHARE PREMIUM	2017 US\$'000	2016 US\$'000
	Balance at beginning of the year	51,875	51,711
	Convertible note conversion	756	-
	Share placement	1,771	-
	Fees converted	87	164
	Share issue costs	(100)	-
	Balance at end of year	<u>54,389</u>	<u>51,875</u>
20	SHARE OPTION RESERVE		
	Balance at beginning of the year	47	-
	Share options issued	76	47
	Balance at end of year	<u>123</u>	<u>47</u>

Share-based payments

At the Company's 2016 Annual General Meeting on 20 May 2016 (the "2016 AGM") the shareholders approved the Company issuing 12 million share options over Shares in the Company with an exercise price of 3.5 pence per Share (the "Share Options") and that 3 million of the 12 million Share Options be issued to Dr. Bernard Olivier with the balance to be issued to the group's senior management, consultants and employees. As per the Company's announcement on 23 May 2016 the Company's remuneration committee subsequent to the 2016 AGM decided that the Share Options would only be issued when Capricorn Sapphire Pty Ltd, the Group's subsidiary which operates the Group's sapphire mine, has its first profitable quarter. As indicated in Notice of Meeting of the 2016 AGM the share options will vest one third on the first 31 December following their issue, one third on the second 31 December following their issue and one third on the third 31 December following their issue (the "Vesting Dates") as at the date of the approval of these accounts none of the Share Options have been issued.

The terms and conditions of the share option plan and warrants are as follows:

Grant date	Number of share options/warrants	Vesting conditions	Contractual life
20 May 2016 (options)	12,000,000	Three years of service	7 years from vesting date
5 September 2017 (warrants)	<u>3,000,000</u>		365 days
Total share options	<u>15,000,000</u>		

The number and weighted average exercise prices of share options and warrants are as follows:

	2017		2016	
	Weighted average exercise price (UK pence/share)	Number of options	Weighted average exercise price (UK pence/share)	Number of options
Outstanding at the beginning year	3.5	12,000,000	3.5	12,000,000
Issued warrants	1.0	<u>3,000,000</u>		<u>-</u>
Exercisable at the end of the year		<u>15,000,000</u>	3.5	<u>12,000,000</u>

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is calculated using the Black-Scholes model.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20 SHARE OPTION RESERVE (CONTINUED)

Share option assumptions at issue date	Warrants 5 September 2017⁽¹⁾	Options 20 May 2016
Share price	0.675 pence	2.2 pence
Exercise price	1 pence	3.5 pence
Expected volatility	60%	60%
Expected dividends	0%	0%
Risk-free interest rate (based on UK government bonds)	0.50%	0.50%
Option life	356 days	7 years
Fair value per option	0.07 pence	1.02pence
⁽¹⁾ 3 million warrants issued to brokers in conjunction with the share placement. As the value of the service received could not be reliably measured the warrants have been measured at their fair value.		

The expected volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information. Options are stated in UK Pound Sterling as the Company is quoted on the AIM market of the London Stock Exchange.

21 FOREIGN CURRENCY TRANSLATION RESERVE

	2017 US\$'000	2016 US\$'000
Balance at beginning of the year	27	(144)
Translation of foreign operations	106	171
Balance at end of the year	133	27

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

22 EARNINGS PER SHARE

22.1 Basic and diluted loss per share

The calculation of basic and diluted loss per share at 31 December 2017 was based on the loss attributable to common shareholders from continuing operations of US\$3,988,000 (2016: US\$2,997,000), discontinued operations profit of US\$0.035 million (2016: US\$Nil) and a weighted average number of common shares outstanding during the year ended 31 December 2017 of 426,992,694 (2016: 221,012,586) calculated as follows:

	2017 US\$'000	2016 US\$'000
Loss attributable to common shareholders from continuing operations	(2,868)	(2,997)
Profit attributable to common shareholders from discontinued operations	35	-
Weighted average number of common shares	Number of shares 2017	Number of shares 2016
Weighted average number of common shares	426,992,694	221,012,586
Basic and diluted loss per common share from continuing operations (US cents/share)	(0.93)	(1.36)
Basic and diluted profit per common share from discontinued operations (US cents/share)	0.01	-
Basic and diluted loss per common share from all operations (US cents/share)	(0.92)	(1.36)

RICHLAND RESOURCES LTD

**FINANCIAL STATEMENTS
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23	PROVISION FOR ENVIRONMENTAL REHABILITATION	<u>2017</u> US\$'000	<u>2016</u> US\$'000
	Balance at beginning of the year	237	337
	Decrease	-	(116)
	Unwinding of discount	17	21
	Foreign exchange	19	(5)
		<u>273</u>	<u>237</u>
	Balance at end of the year	273	237
24	TRADE AND OTHER PAYABLES	<u>2017</u> US\$'000	<u>2016</u> US\$'000
	Non-current		
	Mining lease creditor	-	29
	Current		
	Trade and other payables	688	606
	Short term advances due to directors (Note 30)	168	331
		<u>855</u>	<u>937</u>
	Total trade and other payables	<u>855</u>	<u>966</u>
	Trade and other payables consists of balances payable in the following currencies:		
	United States Dollars	455	585
	Australian Dollars	307	317
	British Pounds	64	3
	Other currencies	30	61
		<u>855</u>	<u>966</u>
25	CONVERTIBLE LOANS		
	Loan from director – Edward Nealon	-	158
	Loan from director – Nicholas Sibley	-	158
	Loan from shareholder – MRI Advisory AG	-	214
		<u>-</u>	<u>530</u>

The above unsecured loans bear interest at 10% per annum, were payable quarterly in arrears and were converted to share capital on 5 January 2017 (Note 18).

RICHLAND RESOURCES LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26	NOTES TO THE STATEMENT OF CASH FLOWS	<u>2017</u> US\$'000	<u>2016</u> US\$'000
	26.1 Cash utilised by operations		
	Loss before income tax	(3,953)	(2,997)
	Adjusted for:		
	▪ Depreciation, amortisation and impairment of property, plant and equipment	2,367	382
	▪ Shares issued at discount/(premium)	200	(95)
	▪ Finance cost	(6)	25
	▪ Unwinding of discount	16	21
	▪ Write off of trade receivables	-	3
	▪ Disposal group derecognised	(35)	-
	▪ Share options expense	76	47
	▪ Net foreign exchange difference	30	202
	Cash from operations before working capital changes	(1,305)	(2,412)
	Working capital changes:		
	Inventories	(3)	107
	Trade and other receivables	(62)	(28)
	Trade and other payables	35	606
	Cash utilised by operations before interest and tax	(1,335)	(1,727)
	Non-cash items from investing and financing activities		
	26.2 Proceeds from issue of shares		
	Share capital and premium at end of year (Note 18 & 19)	54,534	51,942
	Convertible note conversion ⁽¹⁾	(515)	-
	Directors fees converted to shares ⁽¹⁾	(146)	(261)
	Shares issued at discount/(premium) ⁽¹⁾	(200)	95
	Share capital and premium at beginning of year	(51,942)	(51,776)
		1,731	-
	⁽¹⁾ Non-cash financing and investing activities		

27 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

27.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from outstanding receivables from customers, cash and cash equivalents and bank deposits. Those balances reflect the maximum exposure to credit risk.

The company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. The credit quality of major customers is assessed, taking into account its financial position, past experience and other factors. The Group generally deals with customers of high credit quality. Sales to retail customers are settled in cash or using major bank cards.

RICHLAND RESOURCES LTD

**FINANCIAL STATEMENTS
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

27.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored on a monthly basis. At present, no liquidity risk is foreseen.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Financial liabilities

Financial liabilities are payable as follows:

	Trade and other payables US\$'000
31 December 2017	
Less than one year	855
One to five years	-
	<hr/>
31 December 2016	
Less than one year	1,467
One to five years	29
	<hr/> <hr/>

27.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments.

Interest rate risk

The Group is not exposed to significant interest rate risks as interest bearing borrowings are mainly of a short term nature.

Foreign currency risk

The Group does not hedge foreign exchange fluctuations and therefore is exposed to all foreign currency movements.

In the normal course of business, the Group enters into transactions primarily for the sale of its gemstones, denominated in US\$. However, the Group has investments and liabilities in a number of different currencies. As a result, the Group is subject to translation exposure from fluctuations in foreign currency exchange rates. The Company's strategy towards managing its foreign currency exposure is through transacting using its functional currency.

Sensitivity analysis

A 10 per cent. strengthening of the United States Dollar against the following currencies at 31 December would have increased/(decreased) profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as at 31 December 2016.

	2017 US\$'000	2016 US\$'000
Profit or loss		
Australian Dollars	(103)	(108)
Hong Kong Dollars	(1)	(1)
Other currencies	(23)	5
	<hr/> <hr/>	<hr/> <hr/>

A 10 per cent. weakening of the United States Dollar against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

RICHLAND RESOURCES LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

27.4 Price risk

The Group's exposure to price risk on its financial assets is considered negligible as the Group does not hold any investments in either equity or debt securities.

27.5 Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding non-controlling interests. The Board of Directors also monitor the level of dividends to ordinary shareholders.

The Group's target is to achieve a return on capital of between 12 and 16 per cent. The Group achieved a negative return on capital of 206% in 2017 (2016: 135%). There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

28 FINANCIAL INSTRUMENTS

Fair value of financial instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Trade and other receivables and payables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. For receivables/payables with a remaining useful life of less than one year, the carrying amount is deemed to reflect fair value.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Financial instruments by category

The fair value of financial instruments together with the carrying amounts shown in the statement of financial position are as follows:

	Note	Carrying amount US\$'000	Fair value US\$'000
2017			
Trade and other receivables (excluding prepayments)	14	232	232
Cash at bank and on hand	15 & 16	682	682
Loans and receivables		914	914
Trade and other payables	24	855	855
Financial liabilities measured at amortised cost		855	855
Convertible loans	25	-	-
Convertible loans at fair value		-	-

RICHLAND RESOURCES LTD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28 FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments by category (continued)

	Note	Carrying amount US\$'000	Fair value US\$'000
2016			
Trade and other receivables (excluding prepayments)	14	171	171
Cash at bank and on hand	15 & 16	600	600
Loans and receivables		771	771
Trade and other payables	24	966	966
Financial liabilities measured at amortised cost		966	966
Convertible loans	25	530	530
Convertible loans at fair value		530	530

The carrying amount of bank overdraft and trade and other payable approximate their fair value.

Recognised fair value measurements

The net fair value and carrying amounts of financial assets and financial liabilities are disclosed in the Consolidated Statement of Financial Position and in the notes to the Consolidated Statement of Financial Position.

This note provides an update on the judgements and estimates made by the group in determining the fair values of the financial instruments.

(i) Financial instruments Measured at Fair Value

The financial instruments recognised at fair value in the Statement of Financial Position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. At reporting date, the Group has an unsecured convertible loans with certain directors and shareholders. The loans are convertible into ordinary shares of the parent entity.

(ii) Fair value hierarchy

The fair value hierarchy consists of the following levels

- Quoted prices in active markets for identical assets and liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Inputs for the asset and liability that are not based on observable market data (unobservable inputs) (Level 3).

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
2017				
Convertible loans	-	-	-	-
	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
2016				
Convertible loans	-	-	530	530

There were no transfers between levels for recurring fair value measurements during the year. The Group's policy is to recognise transfers into and transfer out of fair value hierarchy levels as at the end of the reporting date.

Level 1: the fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

RICHLAND RESOURCES LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28 FINANCIAL INSTRUMENTS (CONTINUED)

Recognised fair value measurements (continued)

Level 2: the fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximises the use of observable data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument is observable, the instrument is included in level 2.

Level 3: if one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities. The fair value of the convertible loan not traded in an active market is determined using an internally prepared discounted cash flow valuation technique using observable inputs (such as share price and terms and conditions of the convertible loan) and released of the initial calibration adjustment to the profit and loss.

(iii) *Valuation techniques used to determine fair values*

Specific valuation techniques used to value financial instruments include:

- Use of the quoted market price or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.
- The fair value of the remaining financial instruments as determined using discounted cash flow analysis.

29 COMMITMENTS AND CONTINGENCIES

29.1 Capital commitments

No capital commitments existed at year end (2016: US\$Nil).

29.2 Finance lease commitments

Non-cancellable lease rentals are payable as follows:

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Less than one year	10	10
Between one and five years	-	-
	<u>10</u>	<u>10</u>

These leases relate to the rental of business premises.

There are no contingencies for the year ended 31 December 2017 (December 2016: nil).

30 RELATED PARTIES

Identity of related parties

The Group has a related party relationship with its subsidiaries, and key management personnel.

Related party transactions

During the year, the Company and its subsidiaries, in the ordinary course of business, entered into various sale and purchase transactions with one another.

Directors of the holding company and their close family members as at the date of this report control 19.88% (2016: 22.9%) of the voting shares of Richland Resources.

RICHLAND RESOURCES LTD

**FINANCIAL STATEMENTS
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30	RELATED PARTIES (CONTINUED)	<u>2017</u> US\$'000	<u>2016</u> US\$'000
	Short-term benefits		
	Directors' emoluments for the year		
	Services as directors of the Company		
	Non-executive directors		
	Salary	<u>80</u>	<u>80</u>
	Executive directors		
	Salary	<u>40</u>	<u>40</u>
	Services as directors of the subsidiaries		
	Executive directors		
	Salary	<u>161</u>	<u>158</u>
	Short term advances from directors (unpaid directors' fees)		
	Ami Mpungwe	23	23
	Edward Nealon	28	20
	Nicholas Sibley	26	164
	Bernard Olivier	<u>91</u>	<u>124</u>
		<u>168</u>	<u>331</u>

See note 25 for details of interest bearing borrowings from directors converted to shares (Note 18) and note 31 for waiver of fees and conversion post balance sheet date.

On 5 February 2018, the Company announced that it had issued 3,581,237 new Common Shares to Anthony Brooke in respect of certain sales commissions of US\$42,717 earned during the period from 1 December 2016 to 31 December 2017, based on the Company's volume weighted average share price of 0.84 pence for the year ended 30 November 2017 and a GBP:USD exchange rate of 1.42.

Remuneration of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the Group.

The remuneration of key management personnel recognised in profit or loss including salaries and other current employee benefits amounted to US\$0.3 million (2016: US\$0.3 million). No terminal or other long term benefits were paid to key management personnel during the year (2016: Nil).

Group entities

Significant subsidiaries	Country of incorporation	Products/Services	Net amounts owing by Subsidiaries to other Group companies		Functional currency	Share holding %
			<u>2017</u> US\$'000	<u>2016</u> US\$'000		
Richland Gemstones Ltd	Hong Kong, China	Polished and jewellery sales	(210)	(142)	US\$	100%
Richland Corporate Ltd	Bermuda	Investment holding company	(1,782)	(1,773)	US\$	100%
Capricorn Sapphire Pty Ltd	Australia	Sapphire mining	(6,456)	(5,459)	AU\$	100%
Rohstein Class A (Pty) Ltd	South Africa	A Class shareholding	-	-	ZAR	100%

All transfers of funds between South African entities and non-South African entities are subject to South Africa's exchange control rules and regulations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 SUBSEQUENT EVENTS

Directorship changes

Dr Bernard Oliver resigned as CEO and director on 5 February 2018 and Anthony Brooke was appointed in his stead on 5 February 2018. Ami Mpungwe resigned as a director of the Company with effect from 22 June 2018.

Issue of Equity

As announced on 5 February 2018, pursuant to certain pre-existing contractual arrangements between Capricorn Sapphire, Anthony Brooke and Gem Dreams in connection with sales and marketing assistance and the Company's beneficiation strategy, the Company issued 3,581,237 new common shares of US\$0.0003 each in the capital of the Company ("**Common Shares**") to Anthony Brooke in respect of sales commissions of US\$42,717 earned during the period from 1 December 2016 to 31 December 2017 (the "**Commission Shares**").

Convertible Loan Facility

As announced on 25 June 2018 the Company obtained a £300,000 Convertible Loan facility from Astor Management AG (the "**Lender**"), a private company whose majority shareholder is a long-term significant shareholder who on 25 June 2018 was interested, in aggregate, in 34,991,127 Common Shares representing approximately 7.3 per cent. of the Company's existing issued share capital. The salient terms of the Secured Convertible Loan Facility are summarised below:

- (i) Term: Approximately six months with a scheduled maturity date of 31 December 2018 when, unless otherwise converted, the principal amount and any accrued interest is repayable in full. The Company may pre-pay the whole or any part of the loan on any day prior to the scheduled maturity date upon giving not less than 15 business days' prior written notice to the Lender and provided that any amount prepaid will still accrue interest as though it were repaid on the maturity date.
- (ii) Principal amount: Up to £300,000 (with the Company to pay the Lender's legal costs in respect of preparing and entering into the facility documentation).
- (iii) Interest rate: 3 month GBP LIBOR + 7.5 per cent. per annum, payable quarterly in arrears.
- (iv) Security: Charge over all of the assets of Capricorn Sapphire Pty Ltd ("**Capricorn Sapphire**"), the Company's wholly owned subsidiary that holds the Company's mining tenements and operates the Capricorn Sapphire mine, as well as the group's shares in Capricorn Sapphire.
- (v) Conversion rights: Principal amount and any accrued interest convertible at the discretion of the Lender during the Term at the lower of:
 - a) 0.25 pence per share;
 - b) the Company's volume weighted average share price for the thirty trading days up to and including the trading day prior to the conversion date specified in the conversion notice or such other date as the parties may agree; and
 - c) any price at which the Company issues new shares for cash from the commencement of the loan period to the date of conversion.
- (vi) Drawdown: The facility is to be drawn down in three tranches and used to satisfy the group's general short term working capital requirements. The first tranche of £100,000 (plus the Lender's legal costs) was drawn down on 25 June 2018 and the Company can draw down the remaining £200,000 in two tranches of up to £100,000 and the remaining balance of the facility respectively, at any time thereafter, subject to the specific use of proceeds being agreed in each instance between the Company and the Lender, both parties acting reasonably, and provided that the previous tranche(s) have been applied as agreed, the security documentation has been lodged for registration with the applicable authorities and that there has been no event of default under the terms of the facility, with the Lender in any event having the right at its sole discretion to waive such conditions.
- (vii) Board representation: The Lender has the right to nominate a non-executive director, subject to the prior approval of the Company's Nominated Adviser, whilst the Lender and its associates have (a) a shareholding representing more than 10 per cent. of the Company's issued share capital from time to time; or (b) greater than or equal to £75,000 principal amount is outstanding under the Secured Convertible Loan Facility.
- (viii) The Company is required, at its Annual General Meeting ("**AGM**") to be held in 2018 or otherwise at a duly convened general meeting, to put a resolution to its shareholders in the form prescribed in Bye-law 14.6(e) of its Bye-laws to seek to obtain approval for the Company to issue such number of Common Shares to the Lender as would be required from time to time to satisfy conversion of all or part of the amount due under the Secured Convertible Loan Facility (notwithstanding the restriction set out in Bye-law 14.2 that no shareholder may own more than 30 per cent. of the Company's Common Shares). In the event that shareholders do not approve such a resolution at the Company's 2018 AGM, which is intended to be held in July 2018, or otherwise at a duly convened general meeting, and the Lender wishes to convert all or part of its outstanding loan amount (the "**Loan Conversion Amount**") into new Common Shares then the Company will be required

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 SUBSEQUENT EVENTS (CONTINUED)

Convertible Loan Facility (continued)

- to convert that portion of the Loan Conversion Amount which is not in breach of Bye-law 14.2 into new Common Shares and repay to the Lender within three business days of the meeting the proportion of the Loan Conversion Amount not so converted together with a 'non conversion fee' in cash equivalent to twice the value of the unconverted portion of the Loan Conversion Amount.
- (ix) Events of default include customary solvency and regulatory matters for a facility of this nature, including whether the Company's financial statements are qualified by its auditor on a going concern basis, if the Company's shares are cancelled from admission to trading on AIM, if the Company does not convene its 2018 AGM to be held on or before 31 July 2018 and if the Company is in breach of the AIM Rules for Companies.
 - (x) If an event of default is not remediated or has not been remedied within 7 business days then the Maximum Conversion Price as calculated in accordance with clause v) above is to be reduced by 50 per cent. with respect to any conversion notice issued after such an event occurs.

Waiver of certain Directors' and Management's Fees

As announced on 25 June 2018, in order to preserve cash reserves within the Company, the Directors, senior management personnel, certain former Directors and a former consultant have agreed to waive, in aggregate, £237,230 of accrued fees due to them for periods from December 2016 up to and including 31 May 2018 (the "**Fee Waiver**"). The fees waived by such directors and former directors are detailed below:

Current Directors	Amount waived (£)
Edward Nealon	29,692
Nicholas Sibley	13,432
Anthony ("Tony") Brooke	32,277
Former Directors	
Ami Mpungwe	13,307
Bernard Olivier	41,599

Proposed conversion of certain Directors' and Management's Fees into new Common Shares

As announced on 25 June 2018, in order to further conserve the Company's cash reserves, certain of the Directors, senior management personnel, former Directors and a former consultant have confirmed their intention, to convert, in aggregate, £207,537 of unpaid fees due to them for periods from December 2016 up to and including 31 May 2018 into new Common Shares (the "**Proposed Fee Conversion**"). At the date of the announcement the Company was in a close period pending the forthcoming publication of its final results and annual report and financial statements for the year ended 31 December 2017 ("**2017 Accounts**") and it is intended that the Proposed Fee Conversion occur after the release of the 2017 Accounts. The Proposed Fee Conversion will settle all remaining fees due to the current and former directors, former consultant and current senior management up to 31 May 2018 with the fees to be converted by such directors and former directors summarised in the table below:

Current Directors	Fees proposed to be converted (£)
Edward Nealon	Nil (as all outstanding fees waived)
Nicholas Sibley	13,432
Anthony ("Tony") Brooke	32,277
Former Directors	
Ami Mpungwe	13,307
Bernard Olivier	41,599

32 ULTIMATE HOLDING COMPANY

The company is widely owned by the public and has its primary listing on the Alternative Investment Market ("**AIM**") of the London Stock Exchange.