RICHLAND RESOURCES LTD
ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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Contents	**Page No**

RICHLAND RESOURCES LTD

CORPORATE DIRECTORY
FOR THE YEAR ENDED 31 DECEMBER 2016

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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 2016 and to report on the Company's ongoing activities to the date of this statement.

During the course of the year we achieved many important milestones, but our strategy can best be relayed in numbers; 2,674,536 carats recovered, US$1,180,000 of sales whilst still in the mine ramp-up phase, and 80% of costs being covered in Q4 less than two years since full project entry. At the current time sales of both blue and coloured gemstones are increasing apace as the efficiency of, and sustainable production from our Capricorn Sapphire mine, located in Queensland Australia, meets its nameplate capacity. Following some challenging years bringing a new coloured gemstone mining operation into production, we have applied our company's considerable experience and expertise and are now seeing solid results.

The development of the Capricorn Sapphire mine, in order for it to be a truly commercial success has seen us pursue a series of key elements that are outlined below:

Consistency and reliability of supply: At a basic level, this means ensuring that the Capricorn Sapphire mine can produce a bulk amount of usable sapphires, of consistent size, each and every month. While I understand some of our shareholders frustrations at the fluctuations in production throughout our ramp-up phase, our engineering team has taken time to reconfigure extraction circuits to ensure a mechanically sustainable mining operation. As opposed to many other commodities, coloured gemstones can leverage prices by demonstrating a reliable supply track record to bulk customers.

However, the gemstone market has changed significantly over the last ten years and, at Richland, we have been examining diligently how we can make that ease of supply and seamless distribution of gemstones to our industry buyers as efficient as possible. It is worth noting that one of the risks to jewellers and luxury goods suppliers is that of having to retain high cost inventory on their books for considerable periods of time. That is why, during 2016, we engaged in an agreement for the propriety heat treatment and optional cutting services for batches of Capricorn Sapphire gemstones. Further to this vertical integration agreement with Anthony Brooke and Gem Dreams Co., Ltd ("**Gem Dreams**") the Group is one of the few wholesale suppliers of sapphires that can deliver products for immediate cutting or, indeed, setting. Any buyer can now choose between purchasing rough sapphire, heat-treated rough sapphire, partially or fully final product from Richland Resources. The safety and speed of supply chain is one of the key differentiators for our business.

Ethicacy and transparency: In 2014, Richland took the decision to develop an entirely new operation in Queensland, Australia. While risky to undertake such a diversification, we have been unfailingly impressed not just by the quality of gemstone in Queensland, but also by the high levels of efficiency, support and regulation of its mining industry. Environmental and ethical provenance are at the heart of Richland's values and we see it as being a key part of our business to be able to clearly show that we operate, with full transparency, under Australian law and within global best practice standards. I am particularly proud of the teams remediation work over historic surface damage caused by past earthworks in addition to our work conducting a rotational soil rehabilitation programme, the evidence of which you can see in our corporate film published at the beginning of 2017. We also have a great work force on site and fully comply with all federal and regional employment criteria and safety training and operate under the established domestic tax regimes for operating resource companies. Being able to demonstrate our compliance record has stood us in good stead during sales trips, especially into North America which is the largest market for coloured gemstones. Our recently launched 'Australian Sapphire' initiative seeks to promote Queensland sapphire as a home of ethically mined, high quality gemstones.

Pipeline: With Capricorn sapphire now being one of the largest sapphire mines in the world, the Board took the decision to invest time and funds into delineating a new JORC (2012) resource estimate. The basis of operational success in mining is a clear understanding of the geological conditions ahead of the extraction plan. At the beginning of my career, I was a lead mining geologist for one of the major mining companies and I felt strongly, along with our CEO, that we needed to do our own geological work on understanding the economic mining areas. While an alluvial spread, we have an excellent geological team which has been involved in creating and sustaining diamond mines located on such ground, who worked together with our independent competent person to define an updated Measured and Inferred Mineral Resource estimate, as at 20 June 2016, of 115.5 million carats of sapphire and corundum comprising of the original JORC Code (2004) compliant historical Measured Resource of 107.5 million carats, following the mining of 1.5 million carats since July 2015; and an additional JORC Code (2012) Inferred Resource of 8 million carats at a grade of 10 carats per tonne established more recently.

CHAIRMAN'S STATEMENT (CONTINUED)

Monetisation: In addition to our work securing B2B buyers, Richland also launched its consumer sales division; www.richlandgemstones.com with direct-from-mine products. A profitable part of our historic Tanzanite operation comprised our consumer sales arm through an online retail portal and also the creation of the Tanzanite Experience consumer retail stores; combining education and marketing with the consumer experience. While we have no plans at this time to open retail stores we are working hard with key economic stakeholders in Queensland to promote the concept of Australian sapphire in terms of beauty, quality and values.

I would like to end by reflecting on corporate activity over the period. At the beginning of the year, my fellow board member, Mr Nick Sibley, acquired further shares in the company increasing his stake to 6.6 per cent. and together we participated in an unsecured loan facility to Richland of US$500,000. In addition, the Company successfully undertook a £1.0m placing in order to provide a secure cash base from which to continue and complete offtake negotiations without undue pressure.

We look forward to reporting further updates following the end of the next quarterly period, but your continued support and belief in this re-merging story is integral to our future success. As your management team, our task is not just to realise first operational profit during 2017, but also to build margins and a solid cash business once again.

Edward Nealon
Non-Executive Chairman

2 June 2017

CHIEF EXECUTIVE'S OPERATIONAL AND FINANCIAL REVIEW
FOR THE YEAR ENDED 31 DECEMBER 2016

1. Overview

Richland's focus during 2016 continued to be the ongoing ramp-up and optimisation of all levels of the Capricorn Sapphire project in Queensland, Australia. Significant improvements where achieved with quarterly production doubling during the year, operating costs per carat were nearly halved and new sales channels were developed through our marketing and beneficiation programme. Stringent cost control resulted in a total expenditure, for 2016, of US$4.7 million including, amongst items all development, production and corporate costs.

2. Financial Performance

Richland successfully disposed of all of its remaining Tanzanian mining operations and related companies on 2 March 2015 and has 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**") for a total consideration of US$4.6 million 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 operations 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 loss from Discontinued Operations of US$Nil (2015: US$3.3 million) has been recognised. The 2015 loss primarily represented the cumulative exchange differences in equity relating to foreign operations and non-controlling interest, required to be recognised in the Profit and Loss account in accordance with IAS 21 and IFRS 5, following completion of the aforementioned sale to Sky.

2.2 Continuing Operations

Revenue for the year of US$1.35 million was 93% higher than the prior year (2015: US$0.7 million). The Group recorded sales from its Australian operations of US$1.2 million during year, an increase of 382% from the prior year as the mine progressed from the development phase into production. Revenue from the online sales division was US$0.2 million - down 64% from last year, partly due to the rebranding of the website to RichlandGemstones.com and its disassociation from the TanzaniteOne.com site sold to Sky which was a condition of the sale.

Net loss for the year increased by 36% to US$3.0 million against the prior year loss of US$2.2 million. The net loss for the year from Continuing Operations represents operating expenses incurred as we progressed the Capricorn Sapphire Project through development into production as well as Richland's corporate expenses.

The **total assets** for Continuing Operations were US$4.0 million at the year end (2015: US$5.8 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$0.6 million as at the year end (including US$0.3 million pledged as collateral for the financial assurance lodged with the Department of Natural Resources and Mines (Australia)).

The Continuing Operations had **total liabilities** of US$1.7 million as at the year end (2015: US$1.0 million) of which loans of US$530,000 were converted into shares on 5 January 2017.

3. Dividend

The directors have not declared a dividend (2015: nil).

4. Corporate Activities

On 18 April 2016, the Company announced that its directors had opted to convert all their accrued directors' fees, which had been unpaid since 1 January 2014 up to 31 March 2016 into new common shares in order to continue conserving the cash reserves within Richland as the Company continues its mine ramp-up activities at the Capricorn Sapphire project located in Queensland, Australia. This conversion occurred at the volume weighted average price ("**VWAP**") of the Company's shares over the period the fees were outstanding. The VWAP over the period concerned of 3.4 pence represented a premium of 60% to the closing share price of 2.125 pence on Friday 15 April 2016. In total, unpaid fees of US$260,625 were converted into 5,400,709 Shares.

In early June 2016, the Company was pleased to appoint Strand Hanson Limited as its Nominated Adviser.

In late June 2016, Richland entered into a US$500,000 unsecured loan facility with certain of the Company's Directors and a long-term significant shareholder to satisfy its ongoing working capital requirements.

On 13 December 2016, the Company announced the successful completion of an equity fundraising of approximately £1 million gross. The Company issued 133,333,334 new common shares of US$0.0003 each in the capital of the Company ("**Common Shares**") to certain new and existing shareholders including Nicholas Sibley, a Non-Executive Director, at an issue price of 0.75 pence per placing share. Richland also issued a further 54,933,334 new Common Shares in respect of the settlement of the abovementioned unsecured loan facility of US$500,000 entered into on 27 June 2016 and some of the accrued interest thereon. The Company's 2016 AGM also approved the cancellation of 7,275,000 restricted shares issued in 2009 and their acquisition as Treasury Shares. The Company is prohibited from receiving dividends on Treasury Stock and voting shares which it holds in Treasury, such that the number of Shares for voting purposes has been reduced by 7,275,000 shares.

In addition, on 13 December 2016, certain Company directors and management also agreed to convert their outstanding fees and salaries from 1 April 2016 to 30 November 2016 into new Common Shares in the Company at a price of 1.74 pence per new Common Share representing a premium of approximately 55 per cent. to the closing mid-market price of 1.125 pence on 12 December 2016. A total of 5,392,520 new Common Shares were issued as part of the conversion of such unpaid fees and salaries. Admission of the shares issued for trading on AIM, as announced on 13 December 2015, took place on 5 January 2017.

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 2016, we produced approximately 2.68 million carats of sapphire, of all sizes, quality and value, as part of the ongoing mine ramp-up and optimisation process. A total of 190,060 tonnes of sapphire-bearing alluvial gravels were extracted and processed at an average grade of approximately 14.1 carats per tonne. Table 1 below shows the quarterly breakdown of sapphire production statistics for Capricorn's operations.

5. Operational Review (continued)

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

Operational improvements
The year saw significant improvements made to all operational aspects including, the processing plant, tailings dam and water retreatment infrastructure, mining operations and sorting facility.

Key elements of the optimisation programme are as follows:

- Redesign of tailings treatment and water recirculation circuit and its associated infrastructure;
- Infrastructure construction and modifications commenced and were completed;
- Processing plant changes were made to improve efficiencies and reduce double handling of material;
- Modifications were made to the primary jigs, scrubber system and feedbin to improve processing efficiencies and their ability to treat different gravel compositions; and
- A new pilot testing plant was constructed and commissioned to allow run of mine testing as part of the ongoing mine planning and mine development process.

These upgrades plus general optimisation of all aspects of the mining operations enabled the doubling of production during 2016 from 415,455 carats in Q1 to 839,898 carats in Q4, as per Table 1 below. The optimisation activities and improvement of efficiencies is also evident from the increase in average grade achieved from the operations from 12.0 ct/t to 15.7 ct/t during the year.

Table 1: Breakdown of 2016 Production statistics

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	**Total 2016**
Tonnes	34,603	45,888	55,985	53,584	**190,060**
Carats	415,456	617,740	801,443	839,898	**2,674,536**
Carats per tonnes	12.0	13.5	14.3	15.7	**14.1**
Operating Costs (US$)	830,114	820,383	733,815	655,720	**3,040,032**
Cost per Carat (US$)	2.00	1.33	0.92	0.78	**1.14**

The mine's total operational costs, inclusive of heating, cutting and polishing costs, have fallen from approximately US$2.00 per carat in Q1 2016 to approximately US$0.78 per carat during Q4 2016, providing further evidence of the ongoing optimisation and improvement of the operations during the ramp-up phase.

Sales, Marketing and Beneficiation
During the second half of 2016, Richland concluded a comprehensive review of the sales and marketing results for its Capricorn Sapphire project. The review process highlighted the reluctance of the traditional, rough, untreated wholesale sapphire industry to engage in the sale and marketing of non-blue sapphires, despite very positive feedback and interest from the retail industry and end-consumers for fancy sapphires, including green and mutli-coloured sapphires. The review further highlighted the additional margins that can be achieved through additional beneficiation of not only the fancy coloured sapphires, but also in the case of traditional blue sapphires. Beneficiation also significantly widens the potential market for Capricorn Sapphire's entire product range.

The Company subsequently decided that it needed to further develop its beneficiation pipeline in order to achieve both higher prices for its product range as well as to enable the development of new sales channels, particularly for its fancy coloured sapphires. As announced on 23 November 2016, Capricorn Sapphire has engaged Bangkok based Anthony Brooke and Gem Dreams Co., Ltd ("**Gem Dreams**") to develop and implement Capricorn Sapphire's beneficiation processes and its vertical integration strategy.

5. Operational Review (continued)

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

Sales, Marketing and Beneficiation (continued)

Following its newly established association with Anthony Brooke and Gem Dreams, Capricorn Sapphire entered into two significant downstream beneficiation arrangements:

- Securing of the preferential use of a specialist sapphire heat treatment facility for Capricorn Sapphire's product, located in Chanthaburi, Thailand on a fixed price per carat contracted basis; and
- Preferential use of Bangkok-based cutting and polishing facilities also on fixed price per carat commercial terms.

Thailand is the world's leader in treating sapphires and through the above mentioned beneficiation agreements, stones from Capricorn Sapphire will be granted full access to specialist sapphire beneficiation services and treatments in Thailand. As the beneficiation strategy is further developed the Company will be able to provide larger quantities of cut and polished blue and fancy coloured sapphires with full provenance and authenticity, produced to the highest ethical standards in Australia, from one of the world's largest sapphire mines.

Exploration and JORC Resource Update

On 22 June 2016, the Company announced an updated JORC Resource estimate for its Capricorn Sapphire mine. One of the Company's core objectives during the period has been to update the geological model at the group's Capricorn Sapphire mine and further expand the resource estimate in compliance with the JORC Code (2012). Our geological delineation programme enables the Company to improve and refine its mine programme and scheduling.

The *updated Measured and Inferred Mineral Resource estimate at 20 June 2016 of 115.5 million carats of sapphire and corundum comprises:*

- *original JORC Code (2004) compliant historical Measured Resource of 107.5 million carats following the mining of 1.5 million carats since July 2015; and*
- *additional JORC Code (2012) Inferred Resource of 8 million carats at a grade of 10 carats per tonne established more recently.*

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. Reflecting this re-launch, online sales decreased from US$459,000 in 2015 to US$167,000 in 2016. The online division continues to source and offer both tanzanite and tanzanite jewellery from the Merelani tanzanite deposit.

6. Outlook

The planned final-stage ramp-up of production to 1.2 million carats per quarter is currently progressing ahead of schedule and the beneficiation strategy detailed on 30 November 2016 continues to be developed. The Company remains on track to achieve operational profitably on or before the end of July 2017 as announced on 13 December 2016.

Bernard Olivier

Dr Bernard Olivier
Chief Executive Officer

2 June 2017

RICHLAND RESOURCES LTD

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2016

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. The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group. 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

Bernard Olivier

Dr Bernard Olivier
Chief Executive Officer
Richland Resources Ltd

2 June 2017

RICHLAND RESOURCES LTD

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present this report, together with the audited consolidated financial statements for the year ended 31 December 2016 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. 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 2016 the Group recorded a loss of US$3.0 million and had net cash outflows from operating activities of US$1.7 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 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.

Management believe there are sufficient funds to meet the entity's working capital requirements and as at the date of this report.

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 Directors have forecasted the Group to generate positive operating cash flows in the next 12 months through an increase in sales and gem beneficiation process; and
- The Group raised US$ 1.23 million through a share placement subsequent to year end.

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 2016 and the consolidated statement of financial position at that date are set out on pages 21 and 22 of this report respectively. The Group recorded a loss from continuing operations for the year ended 31 December 2016 of US$3.0 million (2015: US$2.2 million) and a loss from discontinued operations of US$Nil (2015: US$3.3 million). Taking into account these losses, shareholders' equity at 31 December 2016 is US$2.2 million (2015: US$4.8 million). The directors have not declared a dividend (2015: Nil).

TANZANIAN MINING BUSINESS SALE

The sale agreement entered into with Sky Associates Group Limited ("**Sky**") on 25 November 2014 ("**Sale Agreement**") closed on 2 March 2015. In return for the payment of US$4.59 million (US$510,000 in the prior year and US$4.08 million on closing on 2 March 2015), Sky acquired (i) Richland's wholly owned subsidiary, TanzaniteOne (SA) Proprietary Limited ("**TanzaniteOne SA**") (which holds the interest in TanzaniteOne Mining Limited ("**TML**") and includes all companies related with tanzanite mining), (ii) TsavoriteOne Mining Limited which owns the tsavorite licences, and (iii) Urafiki Gemstones EPZ Ltd which operated the Group's cutting facilities (the "**Sold Group**").

A CLASS SHARE CAPITAL

When Richland historically acquired the tanzanite assets from Afgem Limited ("**Afgem**"), a mechanism was put in 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 made an offer to acquire their A class shares, which offer shall be binding on Richland 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 the 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 currently 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

At the date of this report, the directors of the Company who have held office since 1 January 2016, unless otherwise stated are:

Edward Nealon (66), 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.

Ami Mpungwe (66), Non-executive Deputy Chairman

Mr Mpungwe was former Chairman, from March 2010, of the Group's Tanzanian subsidiaries and integral to their establishment and development. He was Chairman of the Group from 24 October 2008 to 27 June 2012. Upon the appointment of Mr Edward Nealon as Chairman on 27 June 2012 Mr Mpungwe assumed the role of Deputy Chairman, a position he had previously held from August 2004 to 24 October 2008. Mr Mpungwe holds an Honours degree in International Relations and Political Science, a diploma in International Law and spent 25 years in the diplomatic service, including six years as Tanzanian Ambassador to South Africa. He holds directorships in ILLOVO Sugar Ltd, Standard Chartered Ltd (Tanzania), Tanzania Breweries Ltd, Kilombero Sugar Co Ltd, MultiChoice Tanzania Ltd and Niko Insurance Co (Tanzania) Ltd. He was also the Chairman of the Tanzania Chamber of Minerals and Energy from 2007 to 2012 and after a one year break resumed this position in 2014.

DIRECTORS (CONTINUED)

Dr Bernard Olivier (41), Chief Executive Officer

Dr Olivier was appointed Chief Executive Officer of Richland on 5 March 2010. Dr Olivier is a geologist and has a PhD in Economic Geology. He is also a Member of the Australian Institute of Mining and Metallurgy. His PhD dissertation covered all aspects of formation and geology of the Merelani Tanzanite deposit. He has been closely associated with the mining of gemstones since 1999 and prior to joining the board he acted as a consultant to Richland. Dr Olivier has been working as a geologist on various different mining and exploration projects world-wide since 1998. He has over 10 years' experience in senior and executive management positions including over 9 years as a listed company director. He is currently an executive director and Chief Executive Officer of Bezant Resources Plc (AIM: BZT).

Nicholas Sibley (78), 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 2016 and the number of meetings attended by each director is tabled below:

2016

Director	Number of meetings held whilst in office				Number of meetings attended			
	Board	Remuneration and Succession Planning	Audit and Risk Management	Nomi-nation	Board	Remuneration and Succession Planning	Audit and Risk Management	Nomi-nation
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

2015

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

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interest of the directors and their related entities in the shares and options of Richland were:

	Richland Resources Ltd Common shares
Ami Mpungwe	9,183,376
Dr Bernard Olivier	5,920,572
Edward Nealon	29,644,415
Nicholas Sibley	49,061,932

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:

2016

	Base salary/fee		Consulting fees[3]	Other[4]			
	Fee converted to shares on 18 April 2016[1]	Accrued and unpaid	Paid during the year	Paid during the year	Accrued and unpaid	Total	Fee converted to shares on 5 Jan & 19 Apr 2017[2]
	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
Bernard Olivier	10,000	30,000	-	87,818	69,550	197,368	50,000
	30,064	90,186	-	87,818	69,550	277,618	106,020

2015

	Accrued and unpaid	Paid during the year	Paid during the year	Accrued and unpaid	Total	Fee converted to shares on 18 April 2016[1]
	US$	US$	US$	US$	US$	US$
Ami Mpungwe	30,250	20,000	-	-	50,250	30,250
Edward Nealon	26,250	-	-	-	26,250	26,250
Nicholas Sibley	23,750	-	-	-	23,750	23,750
Bernard Olivier	25,000	-	103,004	-	128,004	25,000
	105,250	20,000	103,004	-	228,254	105,250

(1) 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 represents a premium of approximately 60 per cent. to the Company's closing mid-market price of 2.125 pence on 15 April 2016.

(2) 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 represents 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 represents a premium of approximately 132 per cent. to the Company's closing mid-market price of 0.75 pence on 18 April 2017.

(3) Payment from discontinued operations and was for advisory and consultancy services.

(4) For duties as executive director.

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. Bernard Olivier, 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's environmental management programme, approved by the 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:

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

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 11. 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 since 1 January 2016 and as at the time of this report and their relevant qualifications and experience are set out on pages 10 and 11. 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	Non-executive	Yes
Nicholas Sibley	British	1 August 2004	Non-executive	No
Dr Bernard Olivier	Australian	5 November 2008	Executive	No

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 four directors, three 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 this role; and
- Dr Bernard Olivier, 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 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 and Mr Mpungwe are deemed 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 (5%) 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.

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 for 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 Resources 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 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.

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 Ami Mpungwe (Chairman)
- Mr Edward Nealon
- Mr Nicholas Sibley

QUALIFICATIONS OF AUDIT AND RISK MANAGEMENT COMMITTEE MEMBERS

The qualifications of the Audit and Risk Management Committee members are specified on page 10 to 11.

The board deems all members of the Committee 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 11.

REMUNERATION AND SUCCESSION PLANNING COMMITTEE

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

- Mr Ami Mpungwe (Chairman)
- Mr Edward Nealon
- 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.

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 12.

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 11.

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 that 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 its website: www.richlandresourcesltd.com. The Policy takes into account the AIM Rules 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.

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 costs 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 FACTORS AND MANAGEMENT (CONTINUED)

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. Geological factors and market conditions could 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.

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.

Dr Bernard Olivier
Chief Executive Officer
Richland Resources Ltd

2 June 2017

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INDEPENDENT AUDITOR'S REPORT

To the members of Richland Resources Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Richland Resources Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, 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 2016 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.

Carrying value of Property Plant and Equipment

Key audit matter	*How the matter was addressed in our audit*
At 31 December 2016 the carrying value of Property Plant and Equipment was $2.952 million (2015: $3.306 million), as disclosed in Note 10. In accordance with IAS 36 *Impairment of Assets*, an entity shall assess throughout the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. Given the sustained operating losses in the 2016 financial year the Group performed an impairment assessment on its Property Plant and Equipment, and based on this assessment no impairment was recognised. Property Plant and Equipment represents a significant asset of the Group and the impairment assessment requires the Group to make significant estimates and judgements.	Our work included but was not limited to the following procedures: • We assessed 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; • We evaluated management's key inputs and assumptions, including but not limited to those disclosed in Note 2(c) and considered the assumptions based on our knowledge of the Group and the industry; • We obtained and reviewed the resource report from the management's expert. This included assessing the competency and objectivity of management's expert; • We considered the Board of Directors meetings minutes and enquired with management for evidence of whether there was any potential contradictory information compared to assumptions applied in the "DCF" impairment model; and • We have assessed the adequacy and accuracy of the related disclosures in Note 10 to the financial statements, including the sensitivity analysis to ascertain the extent changes 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 2016, 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 Accounting 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 International 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 (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_files/ar2.pdf

This description forms part of our auditor's report.

BDO Audit (WA) Pty Ltd

BDO
JPrue

Jarrad Prue

Director

Perth, 2 June 2017

RICHLAND RESOURCES LTD

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2016 US$ '000	2015 US$ '000
CONTINUING OPERATIONS			
Revenue	4	**1,347**	704
Cost of sales	5	**(3,033)**	(997)
Gross loss		**(1,686)**	(293)
Other income	6	**489**	67
Operating expenses	7	**(1,754)**	(1,961)
Operating loss		**(2,951)**	(2,187)
Finance cost	8	**(46)**	(14)
Loss before taxation		**(2,997)**	(2,201)
Income tax charge	9	**-**	-
Loss for the year from continuing operations		**(2,997)**	(2,201)
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations	16	**-**	(3,312)
Loss for the year		**(2,997)**	(5,513)
Attributable to:			
Equity owners of the parent			
- Continuing operations		**(2,997)**	(2,201)
- Discontinued operations		**-**	(3,312)
Non-controlling interest – Discontinued operations		**-**	-
Other comprehensive income			
Loss for the year		**(2,997)**	(5,513)
Items that may be reclassified to profit or loss:			
Foreign exchange gain/(loss) on translation of foreign operation		**171**	(442)
Total comprehensive loss for the year		**(2,826)**	(5,955)
Attributable to:			
Equity owners of the parent		**(2,826)**	(5,955)
- Continuing operations		**(2,826)**	(2,643)
- Discontinued operations		**-**	(3,312)
Non-controlling interest – Discontinued operations		**-**	-
Total comprehensive loss for the year		**(2,826)**	(5,955)
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)	21.1	**(1.36)**	(1.01)
Basic and diluted loss per share from discontinued operations (US cents/share)	21.1	**-**	(1.52)
Basic and diluted loss per common share from all operations (US cents/share)	21.1	**(1.36)**	(2.53)

The accompanying notes form part of these financial statements.

RICHLAND RESOURCES LTD

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 US$ '000	2015 US$ '000
Assets			
Non-current assets			
Property, plant and equipment	10	**2,952**	3,306
Intangible assets	11	**31**	79
Total non-current assets		**2,983**	3,385
Current assets			
Inventories	12	**136**	243
Trade and other receivables	13	**226**	202
Restricted cash and cash equivalents	14	**274**	389
Cash and cash equivalents	15	**326**	1,564
		962	2,398
Non-current assets and disposal groups classified as held for sale	16	**50**	50
Total current assets		**1,012**	2,448
Total assets		**3,995**	5,833
Equity			
Share capital	17	**67**	65
Share premium	18	**51,875**	51,711
Share option reserve	19	**47**	-
Foreign currency translation reserve	20	**27**	(144)
Accumulated loss		**(49,839)**	(46,842)
Total equity attributable to equity owners of the parent		**2,177**	4,790
Liabilities			
Non-current liabilities			
Provision for environmental rehabilitation	22	**237**	337
Trade and other payables	23	**29**	58
Total non-current liabilities		**266**	395
Current liabilities			
Trade and other payables	23	**937**	563
Convertible loans	24	**530**	-
		1,467	563
Liabilities associated with disposal groups classified as held for sale	16	**85**	85
Total current liabilities		**1,552**	648
Total liabilities		**1,818**	1,043
Total equity and liabilities		**3,995**	5,833

The accompanying notes form part of these financial statements.

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 shareholders US$ '000	Non-controlling interest US$ '000	Total equity US$ '000
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	*20*	-	-	-	-	-	171	-	171	-	171
Issue of share capital		2	-	2	164	-	-	-	166	-	166
A Class share buy back		-	-*	-*	-	-	-	-	-*	-	-*
Share options issued		-	-	-	-	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

	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 shareholders US$ '000	Non-controlling interest US$ '000	Total equity US$ '000
Year ended 31 December 2015											
At start of year		**64**	**1**	**65**	**51,711**	**-**	**(1,531)**	**(41,329)**	**8,916**	**(1,539)**	**7,377**
Total comprehensive loss for the year		-	-	-	-	-	(442)	(5,513)	(5,955)	-	(5,955)
Loss for the year		-	-	-	-	-	-	(5,513)	(5,513)	-	(5,513)
Foreign exchange loss on translation	*20*	-	-	-	-	-	(442)	-	(442)	-	(442)
Disposal of operations		-	-	-	-		1,829	-	1,829	1,539	3,368
At end of year		**64**	**1**	**65**	**51,711**	**-**	**(144)**	**(46,842)**	**4,790**	**-**	**4,790**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2016 US$ '000	2015 US$ '000
Cash flows from operating activities			
Cash utilised by operations	25.1	**(1,727)**	(2,632)
Interest received		**5**	3
Net cash utilised in operating activities		**(1,722)**	(2,629)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(100)**	(670)
Purchase of intangible assets		**(7)**	(79)
Proceeds from disposal of group, net of cash and overdraft disposed	25.2	**-**	4,401
Minority shareholders' share of proceeds from Sky		**-**	(46)
Purchase of interest in subsidiary		**-**	(2)
Transfer from/(to) restricted cash		**116**	(181)
Net cash generated from investing activities		**9**	3,423
Cash flows from financing activities			
Proceeds from convertible loans		**500**	-
Net cash generated from financing activities		**500**	-
Net (decrease)/increase in cash and cash equivalents		**(1,213)**	794
Movement in cash and cash equivalents			
Exchange losses		**(25)**	(75)
At the beginning of the year		**1,597**	878
(Decrease)/increase		**(1,213)**	794
At the end of the year		**359**	1,597
Cash and cash equivalents - continuing operations	15	**326**	1,564
Cash and cash equivalents net of borrowings included in asset from disposal group classified as held for sale	16	**33**	33

The accompanying notes form part of these financial statements.

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 II, 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 2 June 2017.

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 2016 the Group recorded a loss of US$3.0 million and had net cash outflows from operating activities of US$1.7 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 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.

Management believe there are sufficient funds to meet the entity's working capital requirements and as at the date of this report.

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 Directors have forecasted the Group to generate positive operating cash flows in the next 12 months through an increase in sales and gem beneficiation process; and
- The Group raised US$ 1.23 million through a share placement subsequent to year end.

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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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:

- Determination of the Net Present Value of property, plant and equipment to arrive at a recoverable amount includes significant estimates and judgements made by management which management deem to be best estimates. The judgements and estimates are subject to risk and uncertainty and hence, should the judgements and estimates not occur an impairment of property plant and equipment may arise. The key assumptions are as follows:
  - Discount rate
  - Cost per carat
  - Selling price per carat
  - Estimates of the quantities of indicated and inferred gemstone resource (Note 2(k))
- For a detailed assessment on the sensitivity on the key assumptions used above refer to Note 10. 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), 10 and 11.
- The estimated useful lives of tangible and long-lived assets and the measurement of depreciation expense – Notes 2(i) and 10;
- 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 28;
- 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:

Standard	*Impact on initial application*	*Effective date*
IAS 7*	Statement of cash flow	1 January 2017
IAS 12*	Income taxes	1 January 2017
IFRS 9*	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Recognition, measurement, presentation and disclosure of leases	1 January 2019

* Amendments

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Foreign currency (continued)

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 receivable 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.

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.

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.

(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 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.

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.

The 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 group 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).

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, 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 change 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.

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.

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 quality 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 loan 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.

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.

3 SEGMENT REPORTING (CONTINUED)

3.1 Business operating segments (continued)

	Mining 2016	Mining 2015	**Online sales 2016**	Online sales 2015	**Unallo-cated 2016**	Unallo-cated 2015	**Total Continuing 2016**	Total Continuing 2015	**Total Dis-continued 2016**	Total Dis-continued 2015	**Total All operations 2016**	Total All operations 2015
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
External revenues	**1,180**	245	**167**	459	**-**	-	**1,347**	704	**-**	506	**1,347**	1,210
Finance income/(costs)	**(4)**	(14)	**-**	-	**(42)**	-	**(46)**	(14)	**-**	(5)	**(46)**	(19)
Depreciation and amortisation of property, plant and equipment and intangible assets	**(381)**	(160)	**(1)**	-	**-**	-	**(382)**	(160)	**-**	-	**(382)**	(160)
Reportable segment loss before income tax	**(2,234)**	(1,542)	**(74)**	(6)	**(689)**	(653)	**(2,997)**	(2,201)	**-**	(3,312)	**(2,997)**	(5,513)
Income tax (charge)/credit	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Capital expenditure	**100**	752	**-**	-	**-**	-	**100**	752				
Reportable segment assets	**3,737**	4,416	**31**	168	**177**	1,199	**3,945**	5,783				
Reportable segment liabilities	**755**	652	**58**	33	**920**	273	**1,733**	958				

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.

	Revenues US$ '000	Non-current assets US$ '000
Geographical information		
31 December 2016		
Continuing operations		
Australia	**261**	**2,983**
United States	**113**	**-**
Thailand	**841**	**-**
Other countries	**132**	**-**
	1,347	**2,983**
31 December 2015		
Australia	82	3,385
United States	177	-
Thailand	240	-
Other countries	205	-
	704	3,385

4 REVENUE

	2016 US$ '000	2015 US$ '000
Sale of gemstones and jewellery	**1,347**	704

5 COST OF SALES

Online:		
Cost of goods purchased	**(117)**	(304)
Mining:		
Labour and related costs	**(908)**	(313)
Fuel costs	**(294)**	(99)
Repairs and maintenance	**(152)**	(40)
Lease rentals and operating lease	**(802)**	(256)
Other mining and processing costs	**(270)**	(74)
Depreciation and amortisation	**(381)**	(125)
Write down of rough gemstone inventory to net realisable value	**(1,047)**	(453)
Change in inventory	**938**	667
	(3,033)	(997)

6 OTHER INCOME

Research and development incentive	**280**	-
Shares issued at premium*	**95**	-
Fuel levy credit	**114**	60
Net gain on disposal of property, plant and equipment	**-**	7
	489	67

* Unpaid directors' fees of US$260,625 were converted into 5,400,709 Common Shares. The conversion was be made at the volume weighted average price of the Company's shares over the period the fees were outstanding. The VWAP over the period of 3.4 pence represents a premium of 60% to the closing share price of 2.125 pence on Friday 15 April 2016 when the shares were issued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 OPERATING EXPENSES

	2016 US$ '000	2015 US$ '000
Auditors' remuneration – audit services	**(25)**	(64)
Auditors' remuneration – non-assurance services*	**(9)**	-
Auditors' remuneration	**(34)**	(64)
Commission	**(31)**	-
Depreciation and amortisation of property, plant and equipment	**(1)**	(35)
Directors' emoluments and fees	**(278)**	(228)
Labour and related costs	**-**	(153)
Lease rentals and operating lease	**-**	(138)
Net foreign exchange (loss)/gain	**(202)**	248
Office expenses	**(203)**	(236)
Professional and other services	**(767)**	(1,007)
Research and development	**(62)**	(89)
Royalties	**(27)**	(4)
Share option expense (Note 19)	**(47)**	-
Travel and accommodation	**(70)**	(171)
Other expenses	**(32)**	(84)
Total operating expenses	**(1,754)**	(1,961)

* Paid to BDO Tax (WA) Pty Ltd.

8 FINANCE (COST)/INCOME

	2016	2015
Interest income	**17**	8
Interest paid	**(42)**	(1)
Accretion expense – asset retirement obligation	**(21)**	(21)
Total finance cost	**(46)**	(14)

9 INCOME TAX CREDIT

	2016	2015
Current tax charge		
Current period	**-**	-
Deferred tax credit	**-**	-
Total income tax charge/(credit)	**-**	-

At year-end, the Group has unused losses carried forward of US$3,500,000 (2015: US$1,965,000) available for offset against suitable future profits. Most of the tax losses were sustained in Australia.

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$981,000 (2015: US$902,000).

The tax on the Company's loss before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2016	2015
Loss before income tax	**(2,997)**	(2,201)
Taxation at 30%	**(885)**	(660)
Non-deductible expenses	**204**	80
Non-assessable income	**(84)**	-
Deferred tax assets not brought to account	**765**	580
Income tax charge/(credit)	**-**	-

10 PROPERTY, PLANT AND EQUIPMENT

		2016 US$ '000	2015 US$ '000
10.1	**COST**		
	Computer and other equipment	**26**	26
	Cutting and gemmological equipment	**7**	5
	Development costs	**2,150**	2,202
	Furniture, fittings and improvements to leased premises	**7**	7
	Plant, machinery and mining equipment	**1,217**	1,153
	Motor vehicles	**79**	77
	Assets under construction	**15**	-
		3,501	3,470
10.2	**ACCUMULATED DEPRECIATION**		
	Computer and other equipment	**(12)**	(4)
	Cutting and gemmological equipment	**(2)**	(1)
	Development costs	**(91)**	(26)
	Furniture, fittings and improvements to leased premises	**(2)**	(1)
	Plant, machinery and mining equipment	**(411)**	(118)
	Motor vehicles	**(31)**	(14)
	Assets under construction	**-**	-
		(549)	(164)
10.3	**NET 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
10.4	**MOVEMENTS FOR THE YEAR**		
	Opening carrying value		
	Computer and other equipment	**22**	1
	Cutting and gemmological equipment	**4**	-
	Development costs	**2,176**	2,097
	Furniture, fittings and improvements to leased premises	**6**	-
	Plant, machinery and mining equipment	**1,035**	-
	Motor vehicles	**63**	10
	Assets under construction	**-**	568
		3,306	2,676
	Additions at cost		
	Computer and other equipment	**-**	24
	Cutting and gemmological equipment	**2**	5
	Development costs	**2**	134
	Furniture, fittings and improvements to leased premises	**-**	7
	Plant, machinery and mining equipment	**79**	645
	Motor vehicles	**2**	70
	Assets under construction	**15**	-
		100	885

10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

10.4 MOVEMENTS FOR THE YEAR (CONTINUED)

	2016 US$ '000	2015 US$ '000
Transfers		
Development costs	**(60)**	-
Plant, machinery and mining equipment	**-**	508
Assets under construction	**-**	(508)
	(60)	-
Exchange differences		
Development costs	**(8)**	(36)
Plant, machinery and mining equipment	**(4)**	4
Motor vehicles	**-**	(1)
Assets under construction	**-**	(60)
	(12)	(93)
Disposals at book value		
Motor vehicles	**-**	(2)
	-	(2)
Depreciation charge		
Computer and other equipment	**(9)**	(3)
Cutting and gemmological equipment	**(2)**	(1)
Development costs	**(51)**	(19)
Furniture, fittings and improvements to leased premises	**(1)**	(1)
Plant, machinery and mining equipment	**(303)**	(122)
Motor vehicles	**(16)**	(14)
	(382)	(160)
Closing 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

The carrying amount of Property Plant and Equipment has been assessed against its recoverable amount 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 19,255,536 grams of sapphire over a 20 year mine life
- Discount rate 8%
- Selling price estimated at US$0.77 per carat
- Operational costs of US$0.66 per carat

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 the actual average selling price per carat for the 2016 financial year with the operating cost assumptions being based on FY17 budgets. An adverse 10% change to the discount rate, selling price or operating cost per carat estimates would result in an impairment charge of US$0.07 million, US$2.6 million and US$1.4 million respectively to the property, plant and equipment carrying value.

11 INTANGIBLE ASSETS

	2016 US$ '000	2015 US$ '000
11.1 COST		
Exploration and evaluation expenditure	**31**	79
	31	79
11.2 ACCUMULATED AMORTISATION		
Exploration and evaluation expenditure	**-**	-
	-	-
11.3 NET CARRYING VALUE		
Exploration and evaluation expenditure	**31**	79
	31	79
11.4 MOVEMENT FOR THE YEAR		
Opening carrying value		
Exploration and evaluation expenditure	**79**	-
	79	-
Additions at cost		
Exploration and evaluation expenditure	**7**	79
	7	79
Transfers		
Exploration and evaluation expenditure	**(56)**	-
	(56)	-
Exchange differences		
Exploration and evaluation expenditure	**1**	-
	1	-
Closing carrying value		
Exploration and evaluation expenditure	**31**	79
	31	79

12 INVENTORIES

	2016 US$ '000	2015 US$ '000
Rough gemstones and jewellery	**127**	233
Consumables	**9**	10
	136	243

No inventories have been pledged as security for liabilities and all rough gemstone is stated at its net realisable value.

13 TRADE AND OTHER RECEIVABLES

	2016 US$ '000	2015 US$ '000
Trade receivables	**86**	25
Prepayments	**55**	67
Other receivables	**85**	110
	226	202

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2016, US$3,000 (2015: Nil) of trade receivables were past due and impaired. The aging analysis of these trade receivables is as follows:

Less than 90 days	**86**	25
More than 90 days	**-**	-

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

United States Dollars	**107**	44
Australian Dollars	**119**	158
	226	202

Translated into United States Dollars at foreign exchange rates applicable at reporting date. The Group's exposure to credit risk and impairment losses related to trade receivables is disclosed in note 26.1.

14 RESTRICTED CASH AND CASH EQUIVALENTS

Short-term deposits	**274**	389
	274	389

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).

15 CASH AND CASH EQUIVALENTS

Cash at bank and on hand	**326**	1,564
	326	1,564

Cash and cash equivalents consists of balances denominated in the following currencies:

United States Dollars	**240**	1,440
Australian Dollars*	**66**	51
Hong Kong Dollars*	**10**	73
Other currencies*	**10**	-
	326	1,564

* Translated into United States Dollars at foreign exchange rates applicable at reporting date. The Group's exposure to interest rate risk and sensitivity analysis for financial instruments is disclosed in note 26.

16 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 ("**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 licence 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 are in the process of being wound up.

	2016	2015
	US$ ‘000	US$ ‘000
Assets of disposal groups classified as held for sale		
Income tax receivable	**10**	10
Trade and other receivables	**7**	7
Cash and cash equivalents	**33**	33
Total assets	**50**	50
Liabilities of disposal groups classified as held for sale		
Trade and other payables	**85**	85
Total liabilities	**85**	85

Analysis of the results of discontinued operations and the results recognised on the measurement of assets of the disposal group is as follows:

Comparative information has been restated to ensure comparability.

Revenue	**-**	506
Other income	**-**	5
Operating expenses	**-**	(610)
Finance cost	**-**	(5)
Loss before tax on discontinued operations	**-**	(104)
Tax (charge)/credit	**-**	-
Loss after tax of discontinued operations	**-**	(104)
Loss on sale of group	**-**	(3,208)
Impairment loss on disposal group	**-**	-
Loss for the year from discontinued operations	**-**	(3,312)
Cash flow information		
Operating cash flows	**-**	357
Investing cash flows	**-**	82
Financing cash flows	**-**	-
Total cash flows	**-**	439

17 SHARE CAPITAL

17.1 Common share capital

	2016 US$ '000	2015 US$ '000
Authorised		
500,000,000 (2015: 500,000,000) common shares of US$0.0003 each	**150**	150
Issued		
222,610,604 (2015: 217,209,895) common shares of US$0.0003 each	**66**	64
Common share capital		
Balance at the beginning of the year	**64**	64
Shares issued during the year	**2**	-
Balance at the end of the year	**66**	64

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.

Reconciliation of number of common shares in issue	Number of shares 2016	Number of shares 2015
Shares in issue at beginning of the year	**217,209,895**	217,209,895
Shares issued	**5,400,709**	-
Shares in issue at end of the year*	**222,610,604**	217,209,895

* Includes 7,275,000 common shares acquired and held in trust for participating employees and the executive directors, through an employee share plan.

17.2 A class share capital

	2016 US$ '000	2015 US$ '000
Authorised		
66,666,667 A class shares of ZAR 0.0003 each	**3**	3
Issued		
1,138,908 (2015: 1,480,393) 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**").	**1**	1

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)	**67**	65

17 SHARE CAPITAL (CONTINUED)

Reconciliation of A Class share capital	**Number of shares 2016**	Number of shares 2015
Shares in issue at beginning of the year	**1,480,393**	1,480,393
Share buy back pursuant to A Class rights	**(341,485)**	-
Shares in issue at end of the year	**1,138,908**	1,480,393

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 exiting 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.

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.

17 SHARE CAPITAL (CONTINUED)

Rights attaching to A Class shares (continued)

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.

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.

17 SHARE CAPITAL (CONTINUED)

Rights attaching to A Class shares (continued)

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.

18 SHARE PREMIUM

	2016 **US$ '000**	2015 US$ '000
Balance at beginning of the year	**51,711**	51,711
Issue of shares at a premium	**164**	-
Balance at end of year	**51,875**	51,711

19 SHARE OPTION RESERVE

Balance at beginning of the year	**-**	-
Share options issued	**47**	-
Balance at end of year	**47**	-

19 SHARE OPTION RESERVE (CONTINUED)

Share-based payments

The Group established a share option plan that entitles certain senior employees the opportunity to purchase shares in the Group. Options are to be allocated when Capricorn Sapphire Pty Ltd, the Group's subsidiary which operates the Group's sapphire mine, has its first profitable quarter. In accordance with the plan, options are exercisable over a period of 3 years and vest as follows:

- 31 December 2017 – 33.3% of total share options granted;
- 31 December 2018 – 33.3% of total share options granted; and
- 31 December 2019 – 33.3% of total share options granted.

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

Grant date	Number of share options	Vesting conditions	Contractual life
20 May 2016	12,000,000	Three years of service	7 years
Total share options	12,000,000		

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

	2016		2015	
	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		**-**		-
Issued during the year	**3.5**	**12,000,000**		-
Exercisable at the end of the year	**3.5**	**12,000,000**		-

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.

Share option assumptions at issue date	Senior employees
Share price	2.2 pence
Exercise price	3.5 pence
Expected volatility	60%
Expected dividends	0%
Risk-free interest rate (based on UK government bonds)	0.50%
Option life	7 years

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 listed on the AIM market of the London Stock Exchange.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20 FOREIGN CURRENCY TRANSLATION RESERVE

	2016 **US$ '000**	2015 US$ '000
Balance at beginning of the year	**(144)**	(1,531)
Disposal of operations	**-**	1,829
Translation of foreign operations	**171**	(442)
- Continuing operations	**171**	(442)
- Discontinued operations	**-**	-
Balance at end of the year	**27**	(144)

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

21 EARNINGS PER SHARE

20.1 Basic and diluted loss per share

The calculation of basic and diluted loss per share at 31 December 2016 was based on the loss attributable to common shareholders from continuing operations of US$2,997,000 (2015: US$2,201,000), discontinued operations of US$Nil (2015: US$3,312,000) and a weighted average number of common shares outstanding during the year ended 31 December 2016 of 221,012,586 (2015: 217,209,895) calculated as follows:

	2016 **US$ '000**	2015 US$ '000
Loss attributable to common shareholders from continuing operations	**(2,997)**	(2,201)
Loss attributable to common shareholders from discontinued operations	**-**	(3,312)

Weighted average number of common shares	**Number of shares 2016**	Number of shares 2015
Weighted average number of common shares	**221,012,586**	217,209,895
Basic and diluted loss per common share from continuing operations (US cents/share)	**(1.36)**	(1.01)
Basic and diluted loss per common share from discontinued operations (US cents/share)	**-**	(1.52)
Basic and diluted loss per common share from all operations (US cents/share)	**(1.36)**	(2.53)

22 PROVISION FOR ENVIRONMENTAL REHABILITATION

	2016 **US$ '000**	2015 US$ '000
Balance at beginning of the year	**337**	205
(Decrease)/additions	**(116)**	133
Unwinding of discount	**21**	21
Foreign exchange	**(5)**	(22)
Balance at end of the year	**237**	337

23 TRADE AND OTHER PAYABLES

	2016 US$ '000	2015 US$ '000
Non-current		
Mining lease creditor	**29**	58
Current		
Trade and other payables	**606**	311
Short term advances due to directors (Note 29)	**331**	252
	937	563
Total trade and other payables	**966**	621

Trade and other payables consists of balances payable in the following currencies:

	2016 US$ '000	2015 US$ '000
United States Dollars	**585**	316
Australian Dollars	**317**	298
British Pounds	**3**	3
Other currencies	**61**	4
	966	621

24 CONVERTIBLE LOANS

	2016 US$ '000	2015 US$ '000
Loan from director – Edward Nealon	**158**	-
Loan from director – Nicholas Sibley	**158**	-
Loan from shareholder - Ashwath Mehra	**214**	-
	530	-

The above unsecured loans bear interest at 10% per annum, which is payable quarterly in arrears and were converted to share capital on 5 January 2017 (Note 30).

25 NOTES TO THE STATEMENT OF CASH FLOWS

25.1 Cash utilised by operations

	2016 US$ '000	2015 US$ '000
Loss before income tax	**(2,997)**	(5,513)
Adjusted for:		
▪ Depreciation and amortisation of property, plant and equipment	**382**	160
▪ Shares issued at premium	**(95)**	-
▪ Finance cost	**25**	(3)
▪ Unwinding of discount	**21**	21
▪ Write off/(back) of trade receivables	**3**	(7)
▪ Net gain on disposal of property, plant and equipment	**-**	5
▪ Group sold loss	**-**	3,208
▪ Share options expense	**47**	-
▪ Net foreign exchange difference	**202**	(248)
Cash from operations before working capital changes	**(2,412)**	(2,377)
Working capital changes:		
Inventories	**107**	(259)
Trade and other receivables	**(28)**	539
Trade and other payables	**606**	(535)
Cash utilised by operations before interest and tax	**(1,727)**	(2,632)

25 NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

	2016 US$ '000	2015 US$ '000
25.2 Proceeds from disposal of group, net of cash and overdraft disposed		
Property, plant and equipment	-	11,792
Inventory	-	385
Receivables	-	1,942
Cash and cash equivalents	-	434
Payables	-	(9,926)
Bank overdraft	-	(549)
	-	4,078
Non-controlling interest	-	1,539
Foreign currency translation reserve	-	1,829
Loss on sale of group	-	(3,208)
Proceeds from sale	-	4,238
Minority shareholders' share paid out	-	46
Net cash of group sold	-	117
Net cash proceeds	-	4,401

26 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.

26.1 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.

26.2 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.

26 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial liabilities
Financial liabilities are payable as follows:

	Trade and other payables US$ '000
31 December 2016	
Less than one year	**1,467**
One to five years	**29**
31 December 2015	
Less than one year	563
One to five years	58

26.3 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 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 2015.

	2016 US$ '000	2015 US$ '000
Profit or loss		
Australian Dollars	**(108)**	(184)
Hong Kong Dollars	**(1)**	(7)
Other currencies	**5**	1

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.

26.4 Price risk

The Group 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.

26 FINANCIAL RISK MANAGEMENT (CONTINUED)

26.5 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 135% in 2016 (2015: 117%). 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.

27 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
2016			
Trade and other receivables (excluding prepayments)	13	**171**	**171**
Cash at bank and on hand	14 & 15	**600**	**600**
Loans and receivables		**771**	**771**
Trade and other payables	23	**966**	**966**
Financial liabilities measured at amortised cost		**966**	**966**
Convertible loans	24	**530**	**530**
Convertible loans at fair value		**530**	**530**

27 FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments by category (continued)

	Note	Carrying amount US$ '000	Fair value US$ '000
2015			
Trade and other receivables (excluding prepayments)	13	135	135
Cash at bank and on hand	14 & 15	1,953	1,953
Loans and receivables		2,088	2,088
Trade and other payables	23	621	621
Financial liabilities measured at amortised cost		621	621

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 date (unobservable inputs) (Level 3).

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

	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total US$ '000
2015				
Convertible loans	**-**	-	**-**	**-**

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.

27 FINANCIAL INSTRUMENTS (CONTINUED)

Recognised fair value measurements (continued)

(ii) Fair value hierarchy (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 imports (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.

28 COMMITMENTS AND CONTINGENCIES

28.1 *Capital commitments*

No capital commitments existed at year end (2015: US$Nil).

28.2 *Finance lease commitments*

Non-cancellable lease rentals are payable as follows:

	2016	2015
	US$ ‘000	US$ ‘000
Less than one year	**10**	9
Between two and five years	**-**	-
	10	9

These leases relate to the rental of business premises.

There are no contingencies for the year ended 31 December 2016 (December 2015: nil).

29 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 22.9% (2015: 15.5%) of the voting shares of Richland Resources.

29 RELATED PARTIES (CONTINUED)

	2016 US$ '000	2015 US$ '000
Short-term benefits		
Directors' emoluments for the year		
Services as directors of the Company		
Non-executive directors		
Salary	**80**	80
Executive directors		
Salary	**40**	40
Services as directors of the subsidiaries		
Executive directors		
Salary	**158**	88
Consulting fees paid to Strategic Works Consulting Limited in respect of Ami Mpungwe	**-**	20
Short term advances from directors (unpaid directors' fees and advances)		
Ami Mpungwe	**23**	68
Edward Nealon	**20**	59
Nicholas Sibley	**164**	53
Bernard Olivier	**124**	72
	331	252

See note 24 for details of interest bearing borrowings from directors.

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 (2015: US$ 0.2 million). No terminal or other long term benefits were paid to key management personnel during the year (2015: Nil).

Group entities

Significant subsidiaries	Country of incorporation	Products/Services	Net amounts owing by Subsidiaries to other Group companies 2016 US$ '000	2015 US$ '000	Functional currency	Share holding %
Richland Gemstones Ltd	Hong Kong, China	Polished and jewellery sales	**(142)**	(230)	US$	100%
Richland Corporate Ltd	Bermuda	Investment holding company	**(1,773)**	(1,763)	US$	100%
Capricorn Sapphire Pty Ltd	Australia	Sapphire mining	**(5,459)**	(4,141)	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.

30 SUBSEQUENT EVENTS

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 at 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, being the latest practicable date prior to the date of the announcement of the placing.

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 the 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 Placing, agreed 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 Directors, Edward Nealon and Nicholas Sibley, each providing US$150,000, with the balance of US$200,000 provided by long term shareholder, Ashwath Mehra. 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**").

In addition, 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 new Common Shares at the Placing Price. Mr Mehra has agreed to the early repayment of his proportion of the Loan Facility on the basis that he will be paid the balance of the Minimum Notional Interest due to him 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 accrued 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, which took place on our around 5 January 2017.

Directors' & Managers Fee Conversion

As announced on 13 December 2016, 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 of US$0.0003 each in the capital of the Company ("**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' & Managers Fee Conversion**"). The conversion price represent a premium of approximately 55 per cent. to the Company's closing mid-market share price of 1.125 pence on 12 December 2016 being the latest practicable date prior to the date of this announcement. In total, unpaid fees of US$117,085 was converted into 5,392,520 new Common Shares and was admitted to trading on AIM on 5 January 2017 alongside the admission of the placing shares and loan settlement shares described above.

As announced on 19 April 2017, Ami Mpungwe, a non-executive director of the Company, agreed, in order to preserve the Company's cash resources, to convert his outstanding directors fees for the period 1 April 2016 to 1 April 2017 into Common Shares at a price of 1.74 pence per new Common Share (the "**Conversion**"), being the same price at which certain other Directors and Managers converted their unpaid fees into Common Shares as announced on 13 December 2016. 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, being the latest practicable date prior to the date of the announcement of the conversion. Accordingly, Mr Mpungwe's unpaid fees of US$30,250 were converted into, in aggregate, 1,371,576 new Common Shares.

31 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.