FRONTIER DIAMONDS LIMITED
ABN 39 616 232 556

Interim Financial Report for the Half-Year Ended
31 December 2017

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CORPORATE DIRECTORY

This half-year report covers the consolidated entity consisting of Frontier Diamonds Limited ("the Company" or "Frontier") and the entities it controlled during the half-year ended 31 December 2017 ("Consolidated Entity" or "Group"). The Group's presentation currency is United States Dollars.

OFFICERS	Johan van Reenen (Non-executive Director, Chairman) Jan Louw (Managing Director) Frank Petruzzelli (Executive Director) Michael Addison (Non-executive Director) Mark Licciardo (Joint Company Secretary) Adam Sutherland (Joint Company Secretary)
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AUSTRALIAN SECURITIES EXCHANGE CODES	FDX (Ordinary Shares)

Directors' report

Your Directors submit this report for the half year ended 31 December 2017.

Directors

The names of the Directors of Frontier Diamonds Limited in office at any time during the half-year and until the date of this report are:

Johan van Reenen – Non-executive Director, Chairman, appointed 6 September 2017
Jan Louw – Managing Director, appointed 29 June 2017
Frank Petruzzelli – Executive Director, appointed 1 December 2016
Michael Addison – Non-executive Director, appointed 6 September 2017
Chris Ritchie – Executive Director, resigned 6 September 2017

All Directors were in office from the beginning of the half-year until the date of this report except as stated above.

Company Secretaries

Chris Ritchie – resigned 28 February 2018
Mark Licciardo – Appointed Joint Secretary 1 March 2018
Adam Sutherland – Appointed Joint Secretary 1 March 2018

Review and results of operations

Operating results

The consolidated net loss for the Consolidated Entity for the half year US$4,564,915 compared with a net profit of US$1,761,955 for the half year ended 31 December 2016.

The first half of the year's diamond tenders saw a total of 4,327 carats offered for sale for US$1.5 million, achieving an average value of US$343/ct. The past three tenders that include June 2017 proceeds resulted in Sedibeng product sold for an average price of US $429/ct and the Star Diamond Mine product from tailings for US$130/ct.

Four exceptional stones recovered from Sedibeng Diamond Mine were sold during the past three tenders were 28.3 ct (US$5,286/ct); 27.9 ct (US$6,043/ct); 11.38 ct (US$8,602/ct) and a 31.2 ct gem quality stone sold for US$497 412 at US$15,942/ct.

Significant change in the state of affairs

Acquisition of Sedi Star Diamonds Pty Ltd and Sedi Diamonds Proprietary Limited and its controlling interests

On 22 December 2017 the Company closed its Prospectus, successfully raising in excess of AU$4 million dollars. On the same date the Company acquired 100% of the share capital in Sedi Star Diamonds Pty Ltd which also on the same date acquired 74% of Sedi Diamonds Proprietary Limited, a South African holding company that owned 100% interests in companies that owned the Sedibeng Diamond Mine and the Star Diamond Mine.

The acquisition of Sedi Star Diamonds Pty Ltd has been accounted for as a capital reorganization rather than a business combination under the Australian Accounting Standards. As such, the historical information of the Company will be presented as a continuation of the pre-existing accounting values of Sedi Diamonds Proprietary Limited and its controlling interests which operates the diamond mines.

Directors' report

Acquisition of Sedi Star Diamonds Pty Ltd and Sedi Diamonds Proprietary Limited and its controlling interests (continued)

The Company also converted US$2.7 million of convertible notes into equity and reduced liabilities by US$3.6 million through the issue of fully paid shares.

The Company was admitted to the official list of the Australian Securities Exchange on 3 January 2018 and commenced trading on 5 January 2018.

Summary review of operations

Sedibeng Diamond Mine

The Bobbejaan Fissure was intersected at Level 19, with the North and South stopes established and production commenced from the lower levels. Production will ramp up to allow full stope production from these high-grade areas. Delays with the West Sub Vertical winder shaft steelwork refurbishment and the decision to upgrade the level of repairs of all steelwork in the shaft and ore loading stations, impacted negatively on production from Levels 21, 22 and 23. All steel work from top to bottom with additional buntings between each existing one has been completed and normal production from Messina section can now resume.

Tonnes mined from Level 19 Dancarl and Levels 20 and 21 Messina had more dilution than planned resulting in the lower than budget grade. The lower grade performance will be addressed with the introduction of a new Sub Level Retreat mining method to all new stopes and will dramatically reduce waste dilution and improve ROM (Run of Mine) grade. This new mechanised mining method is commonly used to mine narrow vein, vertical ore bodies and will bring many additional production advantages and benefits to Star and Sedibeng Mine once introduced.

From an operational perspective, the Company will start to ramp up production at the Sedibeng Diamond Mine JV from January 2018 to treat ore at a rate of 10,000 tonnes per month nameplate capacity by June 2018. Optimising the current mining practice by introducing the Sub Level Retreat mining method will ensure that the anticipated reserve grades will be achieved consistently within expected operating cost and safety standards.

Directors' report

Star Diamond Mine

Works on the main vertical ventilation shaft between Level 11 and Level 12, affected stoping at Level 15 and Level 16 to the point where a decision was made, in the interest of safety, to accelerate the development of the new, lined decline ventilation shafts from Levels 11-12, Levels 10-11 and Levels 12-13. All new ventilation shafts are now completed with a proper durable lining that is accessible for maintenance and ventilation. During this period full utilization was made of the opportunity to install two winders on the main ventilation shaft from surface to Level 6 and Levels 6 -12 as alternative transportation for underground personnel.

This new 2nd escape upgrade had been a management priority and a concern from the regulator and has now been completed dramatically increasing the safety profile of the mine. The sinking and equipping of the main shaft up to Level 17 were also completed and the main winder can now operate down to Level 17, which will become the new main production level. Limited production results have been recorded at the Star Diamond Mine because of the ongoing development and capital project work describe above.

A total 457 linear metres of underground development on ore drives, cross cuts, shaft sinking, and service stations have been established during the period under review. Stoping commenced in January 2018 with optimal production of 6,000 tonnes per month scheduled to be reached in September 2018.

Development Projects

The Company mobilised to excavate and haul kimberlitic material from the established opencast Bellsbank Pit to the nearby Sedibeng Treatment Facility. Kimberlite material will be stockpiled separately for further bulk sample treatment.

The presence of green kimberlite and garnet indicator mineral in the calcretised weathered material experienced at 18 meters from surface are supportive of the historical core drilling results recorded.

The Company expects to excavate a total of 120,000 tonnes of kimberlite from the open cast pit established for the bulk-sample over the next six months.

Directors' report

Subsequent events

On 3 January 2018, the Company was admitted to the official list of the Australian Securities Exchange and the Company commenced trading on 5 January 2018.

On 22 February 2018 the Company announced the successful commissioning of a new bulk sample processing plant facility at its Sedibeng Diamond Mine. The facility has a designed nameplate capacity of 50tph for kimberlite ore and 150tph for tailings feed.

The plant was successfully refurbished and wet commissioned at a total engineering cost of approximately US$0.6m. The total capital investment was approximately US$1.2 million compared with an estimated replacement value of the plant of approximately US$4.7 million.
Processing of approximately 30 kt per month of bulk sample or 90kt per month of Sedibeng tailings material was to commence in late February 2018.

On 7 March 2018, the Company announced the recovery of the first diamonds from the Bellsbank Exploration Project. The recovery of the first diamonds from the processing of a plant commissioning sample taken from the upper levels of the calcretised kimberlite facies of the Bellsbank Kimberlite Pipe is a positive indication of the mineralisation of the asset, while the gem qualities appear similar to the existing Sedibeng production. Lower uncalcretised kimberlite is expected to be intersected at a depth of 27m as established by historic drilling records.

No definitive diamond grade (cpht) was determined given the limited volumetric material processed. According to the CP (Competent Person), the current commissioning sample can be regarded as sub-economic 'mineralised waste'. It appears to be low-grade in-situ mineralisation that cannot be classified as either a Mineral Resource or Ore Reserve and is intended for stockpiling, to be treated at a later stage.

The Company will proceed to commission a public geological report accompanied by historic and current exploration results, including a description of the style and nature of mineralisation. This report will consider the results of the next 10m blast, which will expose the underlying hypabyssal kimberlite. Grade estimations will be established after taking a sufficient bulk sample of the exposed kimberlite.

On 1 March 2018, the Company announced the resignation of Mr Chris Ritchie as Company Secretary and the appointment of Joint Company Secretaries, Mr Mark Licciardo and Mr Adam Sutherland.

There have been no other matters or circumstances that have arisen since 31 December 2017.

Competent Person's Statement

The information in this announcement that relates to Exploration Targets, Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Stephen le Roux, a Competent Person who is a Member of the South African Council for Natural Scientific Professions. Mr le Roux is an independent geological consultant, self-employed and contracted for this work by Frontier Diamonds Limited.

Mr le Roux has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr le Roux consents to the inclusion in this announcement of the matters based on his information in the forma and context in which its appears

Directors' report

Forward-looking statements

This report contains forward looking statements that are subject to risk factors associated with resources businesses. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a variety of variables and changes in underlying assumptions which could cause actual results or trends to differ materially, including but not limited to price fluctuations, actual demand currency fluctuations, drilling and production results, reserve estimates, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory developments, economic and financial market conditions in various countries and regions, political risks, project delay or advancement approvals and cost estimates. Any reference to dollars, cents or $ in this report are to United States dollar currency, unless otherwise stated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under S307C and the Corporations Act 2001 is set out on page 39.

Signed in accordance with a resolution of the directors.

On behalf of the Directors

Johan van Reenen
Non-executive Chairman

16 March 2018
Cape Town, South Africa

Directors' declaration

In accordance with a resolution of the directors of Frontier Diamonds Limited, I state that:

In the opinion of the directors:

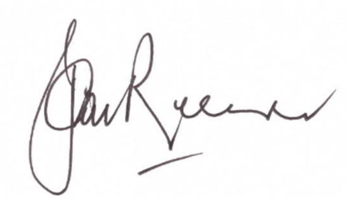
(a) the financial statements, and notes of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

(ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable after taking into account matters raised in Note 2 e (iii) of the accounts.

On behalf of the Board



Johan van Reenen
Non-executive Chairman

16 March 2018
Cape Town, South Africa

Consolidated statement of profit or loss and other comprehensive income

For the six months ended 31 December 2017

	Note	Consolidated 31 Dec 2017 US$	Consolidated 31 Dec 2016 US$
Operations			
Revenue from diamond sales		1,474,815	3,008,792
Costs of sales		(4,597,539)	(2,129,493)
Gross Profit / (Loss)		(3,122,724)	879,299
Other income		1,157	1,090,764
Investment revenue		32,363	1,075
Operating costs		(283,510)	(170,399)
Administration costs		(229,191)	(1,841)
IPO and listing costs		(742,537)	-
Interest expense		(58,598)	(24,035)
Finance costs		(181,541)	-
Fair value adjustments		19,666	(12,908)
Profit / (loss) before income tax expense	3	(4,564,915)	1,761,955
Income tax expense		-	-
Net Profit / (loss) for the period		(4,564,915)	1,761,955
Other comprehensive income for the period			
Items that may be reclassified to profit / (loss)			
Foreign currency translation		(173,165)	60,683
Total comprehensive profit / (loss) for the period		(4,738,080)	1,822,638
Profit / (loss) attributable for the period attributable to:			
Owners of the parent		(3,677,887)	1,303,368
Non-controlling interest		(887,028)	458,587
		(4,564,915)	1,761,955
Total comprehensive profit / (loss) for the period is attributable to:			
Owners of the parent		(3,817,861)	1,348,240
Non-controlling interest		(920,219)	474,398
		(4,738,080)	1,822,638
Earnings/ (loss) per share			
Basic and Diluted Earnings / (loss) per share		(2.74) cents	1.24 cents

The consolidated statement of profit or loss and comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 31 December 2017

	Notes	Consolidated 31 Dec 2017 US$	Consolidated 30 June 2017 US$
Current assets			
Cash & cash equivalents		3,165,814	169,806
Trade & other receivables	4	518,256	3,551,606
Prepayments		162,618	119,883
Inventories	5	675,331	219,765
Total current assets		4,522,019	4,061,060
Non-current assets			
Property, plant & equipment	7	16,806,537	13,117,107
Other assets	6	811,984	1,107,695
Deferred tax		291	278
Total non-current assets		17,618,812	14,225,080
Total assets		22,140,831	18,286,140
Current liabilities			
Trade and other payables	8	3,881,541	6,083,338
Other financial liabilities	9	264,771	601,388
Loan from associate company	10	-	4,139,321
Convertible notes	11	-	831,729
		4,146,312	11,655,776
Non-current liabilities			
Loan from associate company	10	5,980,790	-
Provisions	12	1,817,507	1,705,873
Total non-current liabilities		7,798,297	1,705,873
Total liabilities		11,944,609	13,361,649
Net assets		10,196,222	4,924,491
Equity			
Contributed equity	13	28,407,371	18,397,560
Foreign currency translation reserve	14	334,307	474,281
Merger reserve	14	(16,237,057)	(16,237,057)
Accumulated profits/ (losses)		(2,223,367)	1,454,520
Parent entity interests		10,281,254	4,089,304
Non-controlling interests	22	(85,032)	835,187
Total Equity		10,196,222	4,924,491

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

	Contributed Equity	Accumulated Profits / (Losses)	Foreign Currency Translation Reserve	Merger Reserve	Owners of the Parent	Non-controlling interest	Total Equity
Balance at 1 July 2016	-	-	-	-	-	-	-
Profit for the period	-	1,303,368	-	-	1,303,368	458,587	1,761,955
Other comprehensive income	-	-	44,872	-	44,872	15,811	60,683
Total comprehensive income for the half-year	-	1,303,368	44,872	-	1,348,240	474,398	1,822,638
Transactions with owners in their capacity as owners							
Transaction under common control (note 2(e)(xx))	16,237,114	267,537	-	(16,237,057)	267,594	94,019	361,613
Shares issued	217	-	-	-	217	-	217
Transaction costs on shares issued	-	-	-	-	-	-	-
Balance at 31 December 2016	16,237,331	1,570,905	44,872	(16,237,057)	1,616,051	568,417	2,184,468
Balance at 1 July 2017	18,397,560	1,454,520	474,281	(16,237,057)	4,089,304	835,187	4,924,491
Loss for the period	-	(3,677,887)	-	-	(3,677,887)	(887,028)	(4,564,915)
Other comprehensive income	-	-	(139,974)	-	(139,974)	(33,191)	(173,165)
Total comprehensive income for the half-year	-	(3,677,887)	(139,974)	-	(3,817,861)	(920,219)	(4,738,080)
Transactions with owners in their capacity as owners							
Shares issued	10,634,855	-	-		10,634,855	-	10,634,855
Transaction costs on shares issued	(625,044)	-	-	-	(625,044)	-	(625,044)
Balance at 31 December 2017	28,407,371	(2,223,367)	334,307	(16,237,057)	10,281,254	(85,032)	10,196,222

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the half-year ended 31 December 2017

	Note	Consolidated 31 Dec 2017 US$	Consolidated 31 Dec 2016 US$
Cash flows from operating activities			
Receipts from customers		1,474,815	3,008,792
Payment to suppliers and employees		(6,826,579)	(1,456,156)
Interest received		48	1,075
Interest paid		(58,598)	(24,035)
Net cash flows (used in) operating activities		(5,410,313)	1,529,676
Cash flows from investing activities			
Purchase of property, plant & equipment		(2,942,084)	(4,065,988)
Sale of property, plant & equipment		-	2,490
Proceeds from proportional release of guarantee		374,142	-
Net cash flows (used in) investing activities		(2,567,943)	(4,063,498)
Cash flows from financing activities			
Proceeds from the issue of shares		3,163,956	-
Proceeds from loans		126,522	-
Proceeds from the issue of convertible notes		1,945,724	-
Proceeds of loan from associate company		6,333,530	2,541,424
Repayment of other financial liabilities		(337,560)	-
Share issue costs		(248,047)	-
Net cash flows from financing activities		10,984,125	2,541,424
Net (decrease) / increase in cash held		3,005,869	7,602
Add opening cash brought forward		169,806	44,792
Effect of exchange rate changes on cash		(9,861)	3,769
Cash and cash equivalents at 31 December		3,165,814	56,163

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

1. Reporting entity

The interim financial report (Report) of Frontier Diamonds Limited (the Company) and its controlled entities (the Group) (Consolidated Entity) for the half-year ended 31 December 2017 was authorized for issue in accordance with a resolution of the Directors on 16 March 2018.

Frontier Diamonds Limited is a listed public company, trading on the Australian Securities Exchange, limited by shares, incorporated and domiciled in Australia.

The Group's registered office and principal place of business is Level 1, 412 Queen Street, Melbourne, Victoria 3000, Australia.

2. Basis of preparation and accounting policies

a. Basis of preparation

This general purpose interim financial report for the half-year ended 31 December 2017 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the interim half-year financial report be read in conjunction with the annual report for the year ended 30 June 2017 of Sedi Diamonds Proprietary Limited, Sedi Star Diamonds Pty Ltd and Frontier Diamonds Limited and considered together with any public announcements made by Frontier Diamonds Limited subsequent to its listing on the ASX on 3 January 2018 in accordance with the continuous disclosure obligations of the ASX Listing Rules and Corporation Act 2001.

b. Basis of measurement and reporting conventions including capital re-organisation

This interim financial report has been prepared on an accruals basis and is based on historical cost. The interim financial report is presented in United States dollars and all values are rounded to the nearest dollar unless otherwise stated.

On 22 December 2017 Frontier Diamonds Limited completed a transaction with the shareholders of Sedi Star Diamonds Pty Ltd in exchange for 105,244,450 shares ("the Transaction"). In accordance with Australian Accounting Standards, the acquisition does not meet the definition of a business combination as the Company was established for the sole purpose of facilitating the listing process and to acquire Sedi Star Diamonds Pty Ltd by way of an equity swap. The shareholders of Sedi Diamonds Proprietary Limited receive the same proportion of equity instruments in Frontier Diamonds Limited.

Consequently, this interim report presents:

- the results of the Consolidated Entity for the half year ended 31 December 2017 and 31 December 2016; and
- the Consolidated Entity position as at 31 December 2017 and 30 June 2017 as if the Transaction had occurred before the start of the earliest period presented.

Notes to the financial statements

2. Basis of preparation and accounting policies (continued)

The comparative financial information included in the Group's financial statements is that of Sedi Diamonds (Pty) Ltd and its controlled interests and the Company as if the Transaction has occurred before the start of the earliest period presented. The capital structure of the legal acquirer, the Company, is adopted in the interim report.

The accounting policies adopted are consistent with the accounting policies adopted in Sedi Diamonds (Pty) Ltd and Frontier Diamonds Limited's last financial statements for the year ended 30 June 2017.

c. Estimates

The preparation of the half-year financial statements require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these consolidated half-year financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were, other than described in the notes below are the same as those applied to the consolidated Sedi Diamonds Proprietary Limited and Frontier Diamonds Limited's financial reports as at and for the year ended 30 June 2017.

d. Adoption of new and revised accounting standards

In the Financial Period, the Company has reviewed all of the new and revised Standards and Interpretation issued by the AASB that are relevant to its operation and effective for annual reporting periods beginning on or after 1 July 2017. It has been determined by the Company that, there is no impact, material or otherwise, of the new and revised standards and interpretations on its business and therefore no change is necessary to Company accounting policies. No retrospective change in accounting policy or material reclassification has occurred requiring the inclusion of a third Statement of Financial Position as at the beginning of the comparative financial period, as required under AASB 101.

Notes to the financial statements

2. Basis of preparation and accounting policies (continued)

e. Significant accounting policies

i. Principles of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The group's voting and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into lone with the Group's accounting policies. All intra-group assets and liabilities, equity and cash flows relation to transaction between members of the Group are eliminated in full on consolidation.

A change in ownership interest of a subsidiary, without loss of control, is accounted for an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary;
- De-recognises the carrying amount of any non-controlling interests;
- De-recognises the cumulative translation differences recorded in equity;
- Recognises the fair value of consideration received;
- Recognises the fair value of ay investments; and
- Recognises any surplus or deficit in profit and loss.

Notes to the financial statements

2. Basis of preparation and accounting policies (continued)

Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

ii. Foreign currency transaction and balances

Functional and presentation currency

The functional currency of each entity within the Group is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in United States dollars, which is the presentation currency of the parent entity.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continued to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair values are reported at the exchange rates at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognized in profit or loss.

Exchange differences arising on the translation of non-monetary items are recognized directly in other comprehensive income to the extent that the underlying gain or loss is recognized in other comprehensive income, otherwise the exchange difference is recognized in profit or loss.

Group companies

The financial result and position of foreign operation whose foreign operations with function currencies other than United States dollars are translated as follows:

- Assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
- Income and expenses are translated at average exchange rates for the period; and
- Retained earnings and reserves are translated at the exchange rate prevailing at the date of the transactions

Exchange differences arising on translation of foreign operations with functional currencies other than United States Dollar are recognized in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognized in the profit or loss in the period in which the operation is disposed of.

Notes to the financial statements

2. Basis of preparation and accounting policies (continued)

iii. Going concern

The Consolidated Entity's financial statements have been prepared and presented on a basis assuming it continues as a going concern. The going concern basis of accounting contemplates the continuity of normal business activities, including the realization of assets and settlement of liabilities in the normal course of business.

The Consolidated Entity incurred a net loss for the half year of US$4,564,915 (31 December 2016: profit US$1,761,955). At 31 December 2017 the Company had cash at bank totaling US$3,165,814 (30 June 2017: US$169,806) and working capital of US$375,707 (30 June 2017: deficiency of US$7,594,716).

The Company has significant operational and capital expenditure in the next half of the financial year and it is unlikely that revenue generated from operations will be sufficient to fund these operations in the required timeframe due to the development and remediation works at both Sedibeng and Star Diamond delaying the commencement of the planned ramp up of production until January / February 2018.

Subsequent to 31 December 2017, the Company intend to raise up to AU$4.0 million through a combination of convertible notes and debt funding to allow the Company to proceed with the development of the Bellsbank Kimberlite development, fund the additional capital expenditure required to implement the new mining plan and provide general working capital.

Should the Company be unsuccessful in raising the debt funding it is the Company's intention to raise additional capital to ensure the ongoing development of the Company's operations until they are self-funding in FY2019.

While the directors will be expending their best efforts to raise the debt and/or equity the raising of such funding cannot be assured.

As a result of the above uncertain events, there exists a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors are of the opinion that, as at the date of these consolidated financial statements the Company is a going concern and as a result, the interim financial report for the half-year ended 31 December 2017 does not include any adjustments relating to the recoverability and classification of the recorded asset amounts or the amount and classification of liabilities that might be necessary should the Company not continue as a going concern.

iv. Revenue

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

Interest is recognized, in profit or loss, using the effective interest rate method.

Notes to the financial statements

2. Basis of preparation and accounting policies (continued)

v. Decommissioning, mine closure and environmental rehabilitation

The obligation to restore environmental damage caused through mining is raised as the relevant mining takes place. Assumptions have been made to the remaining life of existing operations based on studies conducted by independent technical advisers.

The estimated cost of decommissioning and rehabilitation will generally occur on or after the closure of the mine, based on current legal requirements and existing technology. A provision is raised on the present value of the estimated costs. These costs are included in the cost of the related asset. The capitalized assets are depreciated in accordance with the accounting policy for property, plant and equipment. Increases in the provision, as a result of the unwinding of discounting are charged to profit or loss within finance expense. The cost of the ongoing programs to prevent and control pollution, and ongoing rehabilitation costs of the Company's operations, is charged against income as incurred.

vi. Property, plant and equipment

Property, plant and equipment are depreciated on the straight-line basis or units of production method over their expected useful lives to their estimated residual value.

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

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

Item	Average useful life / depreciation rate
Land and buildings	Life of mine / units of production
Mineral properties	Life of mine / units of production
Mining claims	Life of mine / units of production
Mine development costs	Life of mine / units of production
Motor vehicles	5 years / 20% straight line basis
Office equipment	10 years / 10% straight line basis
Computer equipment	4 years / 25% straight line basis

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

Depreciation of mineral properties is based on the current life of mine plan. The current mine plan indicates a useful life of 11 years (2016: 11 years).

Subsequent expenditure to an item of equipment and vehicles is capitalized when it is probable that the future economic benefits from the use of the assets will be increased. All other subsequent expenditure is recognized as an expense in the period in which it is incurred.

Surpluses (deficits) on disposal of equipment and vehicles are credited (charged) to profit or loss. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

Notes to the financial statements

2. Basis of preparation and accounting policies (continued)

vi. Property, plant and equipment (continued)

Mine development costs incurred to maintain current production are included in the operating costs. Mine development costs incurred to expand the capacity of operating mines, to develop new ore bodies or to develop mine areas in advance of current production are capitalized and charged to operations over the remaining life of the mine. If it is determined that an investment in capitalized mine development is not recoverable over the productive life of the mine, the unrecoverable portion is charged to earning in the year such determination is made.

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

Mineral properties are reflected at cost. Mineral properties are amortised using the units of production method. Where the mineral property has diminished below carrying value, a write down is reflected through profit or loss in the year in which it occurs.

Depreciation and amortization of mine development costs, mine plant facilities and mineral properties are computed principally by the units of production method based on estimated quantities of proven and probable ore reserves.

Proven and probable ore reserves reflect quantities of economically recoverable reserves which can be recovered in the future from known mineral deposits. Such estimates are based on current and projected costs and process. Where the ore reserves are not well defined because ore bearing structures are open at depth or open laterally, the straight-line method is applied.

vii. Impairment of Assets

At the end of each reporting period, non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

viii. Financial instruments

The Company classifies financial assets and financial liabilities into the following categories:

- Loans and receivable; and
- Financial liabilities measured at amortised cost.

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Notes to the financial statements

2. Basis of preparation and accounting policies (continued)

viii. Financial instruments (continued)

Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

Financial instruments are recognized initially where the Company becomes a party to the contractual provisions of the instruments. The Company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Revenues, expenses and assets are recognized net of the amount of goods and services tax (GST) or valued added tax (VAT), except where the amount of GST/VAT incurred is not recoverable from the tax office. Receivables and payables are stated inclusive of the amount of GST/VAT receivable or payable. The net amount of GST/VAT recoverable from, or payable to, the tax office is included with other receivables or payables in the statement of financial position. Cash flows are presented on a gross basis. The GST/VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

Loans and receivable are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses. Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Loans to (from) group companies include holding companies, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs. Loans to group companies are classified as loans and receivables. Loans from group companies are classified as financial liabilities measured at amortised cost/

Loans to (from) shareholders, directors, managers and employees are recognized as financial assets and classified as loans and receivables or as financial liabilities and classified as financial liabilities at amortised cost.

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organisation and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Trade and other receivable are classified as loans and receivable.

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Notes to the financial statements

2. Basis of preparation and accounting policies (continued)

viii. Financial instruments (continued)

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

Bank overdraft and borrowing are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried on the balance sheet. Interest expense in this context includes initial transaction costs and a premium payable on redemption, as well an any interest payable while the liability is outstanding.

ix. Inventories

Inventories, which include rough diamonds, are stated at the lower of cost of production on the weighted average basis or estimated net realizable value. Cost of production includes labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business less marketing costs. Consumables stores are states at the lower of cost on weighted average basis or estimated replacement value. Work in progress is stated at raw material cost including allocated labour and overhead costs.

x. Provisions

Provisions are recognized when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

xi. Current tax assets and liabilities

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

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

Notes to the financial statements

2. Basis of preparation and accounting policies (continued)

xii. Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction , affects neither accounting profit nor taxable profit (tax loss).
A deferred tax liability is recognised for all temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.
A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction affects neither accounting profit nor taxable profit (tax loss).

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

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

xiii. Tax expense

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- A transaction or event which is recognised, in the same or a different period, to other comprehensive income; or
- A business combination

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charges or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

xiv. Segment information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision makers) in assessing performance and in determining the allocation resources. The two reportable segments are the Sedi Diamond Mine and the Star Diamond Mine.

Notes to the financial statements

2. Basis of preparation and accounting policies (continued)

xv. Earnings per share

Basic earnings per share is calculated by dividing:

- The profit attributable to members of the parent entity, excluding any costs of servicing equity other than ordinary shares; and
- By the weighted average number of ordinary shares outstanding during the financial year. Adjusted for bonus elements in ordinary shares issued during the year (if any).

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- The after-income tax effect of interest and other financing costs associated with the dilutive potential ordinary shares; and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

xvi. Share-based payments

Share-based payments are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date of the goods or services are received.

This far value of options is determined using the Black-Scholes pricing model.

The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

xvii. Compound interest instruments

The liability component of the compound financial instruments is initially recognised at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised at the difference between the fair value of the component of a compound financial instrument as a whole and the fair value of the liability component.

Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognised in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

Notes to the financial statements

2. Basis of preparation and accounting policies (continued)

xviii. Capital re-organisation accounting

Business combinations involving entities under common control are accounted for using the predecessor accounting method. Under this method:

- Carrying values are not restated in the accounts of the acquiring entity, rather prior book values are maintained. As a result, no fair value adjustments are recorded on the acquisition; and
- The carrying value of net assets or liabilities acquired is recorded as a separate element of equity – Merger reserve.

xviv. Critical accounting judgements and estimates

The presentation of financial statements requires the use of certain critical accounting judgements and estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. There are no areas involving a high degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements except for the following:

Key judgement: capital reorganization

The acquisition of 100% of the issued capital of Sedi Star Diamonds Pty Ltd and 74% of Sedi Diamonds (Pty) Ltd by the way of issuing the vendor shareholders of Sedi Star Pty Ltd and Sedi Diamonds (Pty) Ltd fully paid shares in the Company, has been determined by management to be a capital re-organisation as the transaction does not meet the definition of a business. Capital re-organisation transactions are a complex accounting area because there are no specific applicable accounting standards to these types of transactions. In the absence of specific guidance management has used the guidance in ASSB 108 Accounting Policies, Change in Accounting Estimates and Error (para 10) whereby management have used its judgment in developing and applying a relevant and reliable accounting policy using pre-combination book values to account for this transaction as no substantive economic change has occurred.

Key estimate: Environment rehabilitation provision

Refer to Note 12.

Key estimate: Valuation of mining assets

While conducting an impairment review of its assets, the Group exercises judgement in making assumptions about future rough diamond prices, volumes of production, ore reserves and resources included in the current life of mine plans, feasibility studies, future development and production costs and macroeconomic factors such as inflation and discount rates. Changes in estimates used can result in significant changes to the Statement of Comprehensive income and Statement of Financial Position. The Group prepares value in use impairment models and assesses mining assets for impairment. The policy in respect of impairment reviews is set out in note 2(e)(vii).

The estimate also requires determination of the most appropriate inputs to the valuation model.

Notes to the financial statements

2. Basis of preparation and accounting policies (continued)

xviv. Critical accounting judgements and estimates (continued)

Key estimate: Valuation of inventory

Inventories, which include diamonds, are stated at the lower of cost-of-production on the weighted average basis or estimated net realizable value. In estimating the net realizable value, the Company has estimated the average selling price of the inventory. Changes in estimates used can result in significant changes to the Statement of Comprehensive income and Statement of Financial Position.

xx. Common Control Entity

On 1 December 2016, Frontier Diamonds Limited (the acquirer) was incorporated in Australia primarily the purpose of acquiring a controlling interest Sedi Diamonds (Pty) Ltd.

On 22 December 2017, the Company completed a transaction with the vendor shareholders of Sedi Star Diamonds Pty Ltd under common control to acquire 100% of the share capital in Sedi Star Diamonds Pty Ltd in exchange for 105,244,450 ordinary shares in the Company and Sedi Diamonds (Pty) Ltd under common control to acquire 74% of the share capital in Sedi Diamonds (Pty) Ltd. The above is treated as a capital re-organization as the Company does not meet the definition of a business under AASB 3 *Business Combination*.

Refer to Notes 2 Basis of measurement and reporting conventions, including capital reorganization; Note 2 (e)(xviv) Capital re-organisation accounting; and Note 2 (e) (xviv) Critical accounting judgements and estimates for further information.

Reconciliation of the merger reserve as at the date of capital re-organisation is as follows:

Share capital	US$
Share capital of Sedi Diamonds Proprietary Limited	77
Less share capital of Sedi Diamonds Proprietary Limited due to non - controlling interest	(20)
Less share consideration to the Sedi Diamonds Proprietary Limited vendor shareholders	(16,237,114)
Merger reserve	(16,237,057)

Notes to the financial statements

3. Profit / loss for the half-year

Profit / (loss) for the half-year includes the following items:

	31 Dec 2017 US$	31 Dec 2016 US$
Revenue		
Sale of diamonds	1,474,815	3,008,792
Cost of sales		
Labour	(77,335)	(92,735)
Stores	(243,047)	(123,071)
Movement in diamond inventory	411,133	(373,257)
Electricity	(944,688)	(740,071)
Royalties	-	(12,902)
Depreciation	(113,855)	(365,883)
Contract mining fees	(3,629,747)	(421,574)
	(4,597,539)	(2,129,493)
Other income		
Equipment rental income	1,157	1,090,764
Investment income	32,363	1,075
	33,520	1,091,839
Overheads		
Operating costs	(283,510)	(170,399)
IPO / listing costs	(742,537)	-
Administration costs	(229,191)	(1,841)
Interest expense	(58,598)	(24,035)
Fair value adjustments	19,666	(12,908)
Finance costs	(181,541)	-
	(1,475,711)	(209,183)

Notes to the financial statements

4. Trade and other receivable

	31 Dec 2017	30 June 2017
	US$	US$
Trade receivables [1]	14,614	1,806,879
Deposits	147,637	71,502
Value added tax receivable	282,295	202,408
Other receivables	73,710	26,913
Loan receivables [2]	-	1,443,904
	518,256	3,551,606

1. The trade receivables are due within normal trading terms and there are no trade receivables classified as past due. Trade receivables are due within 2-4 days of awarding the rough diamond sales tender to the successful bidder. No trade receivables are considered to be past due or impaired.

2. Loan receivables are amounts owing from a related entity, Lutzville Engineering Labour Brokers Proprietary Limited controlled by Mr Jan Louw is unsecured, interest free and repayable on demand.

5. Inventories

	31 Dec 2017	30 June 2017
	US$	US$
Rough diamonds	675,331	219,765
	675,331	219,765

6. Other assets

	31 Dec 2017	30 June 2017
	US$	US$
Investment in other assets [1]	811,945	1,107,658
Investment in Rand Mutual Assurance Company	39	37
	811,984	1,107,695

[1] Companies within the Group make monthly contributions to an investment product for the purpose of environmental rehabilitation. The nature of the Guardrisk mining rehabilitation policy is that it is a contingency policy. A contingency policy is similar to a conventional policy however, if there is not a claim during the policy period, the policy holder is entitled to the Experience Account Balance (EAB) of the facility. The EAV is calculated as the sum of all premiums paid to date, less Guardrisk's fees plus the investment income earned by the facility less the investment fees. The EAB is also only payable provided the original guarantee which has been lodged with the DMR is returned to Guardrisk.

Both investments are held at fair value as at 31 December 2017.

Notes to the financial statements

7. Property, plant and equipment

	31 Dec 2017 US$	30 June 2017 US$
a) Property, plant and equipment at cost	16,806,537	13,117,107

	Six months ended 31 Dec 2017 US$	Twelve months ended 30 June 2017 US$
b) Reconciliation: Total		
Carrying amount at beginning	13,117,107	6,219,436
Movement in carrying value as a result of foreign currency variations	861,200	-
Additions	2,942,084	7,175,537
Disposals	-	(608)
Depreciation	(113,855)	(277,258)
Carrying amount at end	16,806,537	13,117,107
c) Reconciliation: Land & buildings		
Carrying amount at beginning	416,356	416,356
Movement in carrying value as a result of foreign currency variations	19,821	-
Additions	-	-
Disposals	-	-
Depreciation	(1,327)	-
Carrying amount at end	434,850	416,356
d) Reconciliation: Mine development		
Carrying amount at beginning	12,630,691	5,718,907
Movement in carrying value as a result of foreign currency variations	838,489	-
Additions	2,942,084	7,175,537
Disposals	-	(608)
Depreciation	(106,907)	(263,145)
Carrying amount at end	16,304,357	12,630,691
e) Reconciliation: Motor vehicles		
Carrying amount at beginning	67,534	76,797
Movement in carrying value as a result of foreign currency variations	2,876	-
Additions	-	-
Disposals	-	-
Depreciation	(4,328)	(9,263)
Carrying amount at end	66,082	67,534

Notes to the financial statements

7. Property, plant and equipment (continued)

	Six months ended 31 Dec 2017 US$	Twelve months ended 30 June 2017 US$
f) Reconciliation:		
Computer & office equipment		
Carrying amount at beginning	2,527	7,376
Movement in carrying value as a result of foreign currency variations	14	-
Additions	-	-
Disposals	-	-
Depreciation	(1,293)	(4,849)
Carrying amount at end	1,248	2,527

8. Trade and other payables

	31 Dec 2017 US$	30 June 2017 US$
Trade payables	3,292,204	6,067,368
Accruals	365,615	6,817
Accrued royalty payments	9,592	9,153
Loan payables	214,130	-
	3,881,541	6,083,338

Loan payables are unsecured, interest free and repayable on demand. Included in the loan payables are loans from related parties. Refer to note 20.

9. Other financial liabilities

	31 Dec 2017 US$	30 June 2017 US$
Deferred settlement on acquisition of plant & equipment	192,059	485,736
Deferred settlement on acquisition of Bellsbank mining right	72,712	115,652
	264,771	601,388

Sedi Diamonds Proprietary Limited entered in a purchase agreement with Superkolong (Pty) Ltd, a South African entity to acquire plant and machinery to construct the tailings plant. The agreement contained deferred payment terms. As at 31 December 2017 the amount outstanding is US$192,059.

Messina Diamonds (Pty) Ltd, a subsidiary of the Company entered into an acquisition agreement for the purchase agreement for the acquisition of mining right of that Bellsbank property from Van Wyk Diamante CC, a South African entity. The agreement contained deferred payments terms. As at 31 December 2017 the amount of US$72,712 is outstanding.

Notes to the financial statements

10. Loan from associate companies

	31 Dec 2017 US$	30 June 2017 US$
Loan due to Frontier Mining (Projects) Pty Ltd [1]	3,477,875	1,666,782
Loan due to Frontier Mining (Projects) Pty Ltd [2]	2,502,915	2,472,539
	5,980,790	4,139,321

1. This loan is unsecured, interest free and no formal terms of repayment has been established
2. This loan bears interest at 9% per annum and repayable on 1 July 2019 or on request from the lender.

As at 22 December 2017, Frontier Mining (Projects) Pty Ltd has given a written confirmation and agreed to unconditionally defer settlement of the amounts owing until 1 February 2019.

11. Convertible notes

	31 Dec 2017 US$	30 June 2017 US$
Convertible notes, at amortised cost	-	831,729

The convertible notes automatically convert into fully paid ordinary shares on the same date that the shares are issued pursuant to the Company's proposed Initial Public Offering (IPO) at AU$0.16 cents, a discount of 20% to the IPO Offer price.

On August 2017, the Company issued an additional AU$2.5 million (US$1.9 million) in Convertible Notes. These funds were lent to Sedi Star Diamonds Pty Ltd, which on lent the funds to Sedi Diamonds (Pty) Ltd pursuant to a loan agreement. The funds were used to allow the continued development and operations of the Star Diamond Mine and Sedibeng Diamonds JV Mine to continue as well as for the stripping of the Bellsbank Pipe to allow for a bulk sampling program to commence in the first quarter of FY2018.

In addition, a total of 14.7% of the gross revenue received by Sedi Diamonds (Pty) Ltd is payable to the note holders on the first 2,000,000 tonnes processed on the Sedibeng JV Diamond Mine Tailings Dump Project as royalty payment. This represents a royalty equivalent of 0.42% of the gross revenue received by Sedi Diamonds (Pty) Ltd on the first 2,000,000 tonnes processed on the Sedibeng JV Diamond Mine Tailings Dump Project for each AU$100,000 (US$76,920). The entitlement to the royalty stream remains with the note holder after the conversion of the notes into fully paid ordinary shares.

No royalty liability has been accrued as at 31 December 2017 due to no JORC compliant resource calculation being currently available on the Sedibeng JV Diamond JV Mine Tailings Dump Project.

All the convertible notes were convertible to shares on the 22 December 2017. Refer to Note 13.

Notes to the financial statements

12. Provisions

	31 Dec 2017 US$	30 June 2017 US$
a) Environmental rehabilitation provision	1,817,507	1,705,873

	Six months ended 31 Dec 2017 US$	Twelve months ended 30 June 2017 US$
b) Reconciliation:		
Environmental rehabilitation provision		
Carrying amount at beginning	1,705,873	1,482,204
Movement in carrying value as a result of foreign currency variations	83,943	343,348
Change in estimate	(22,177)	(215,923)
Imputed interest	49,867	96,244
Carrying amount at end	1,817,507	1,705,873

The provision is based on management's best estimate of the cost of all known obligations. It is however reasonable to expect that changes will occur in rehabilitation costs as a result of changes in regulations or cost estimates.

Cost estimates are not reduced by potential proceeds from the sale of assets. The present value was arrived at after applying an inflation rate of 4.2% (30 June 2017: 4.8%) and discounting future cash flows based on a risk-free rate of 8.51% (30 June 2017: 8.15%).

As part of the Company's environmental management plan ("EMP"), that was approved by the South African Department of Mineral Resources ("DMR"), the DMR has been issued with guarantees equivalent to the value of the Company's obligations in terms of the EMP. The guarantees are in the form of a rehabilitation insurance product.

Notes to the financial statements

13. Contributed equity

Reconciliation of movement in share capital	31 Dec 2017		30 June 2017	
	$	No.	$	No.
Opening balance at the beginning of the period	18,397,560	130,680,584	-	-
Issued not for cash			222	300
Issued for cash [1]	3,132,686	20,305,200	2,301,129	25,435,834
Issued for acquisition of Sedi Star Diamonds Pty Ltd [2]	-	-	16,237,114	105,244,450
Issued to extinguish debt [3]	3,625,986	23,502,629	-	-
Issued to consultants [4]	192,748	1,249,340	-	-
Issued to management [5]	308,560	2,000,000	-	-
Issued on conversion of convertible notes [7]	3,374,875	21,875,000	-	-
Less: Transaction costs	(625,044)	-	(140,905)	-
On issue at end of the period – fully paid	28,407,371	199,612,753	18,397,560	130,680,584

[1] On 22 December 2017, the Company issued 20,305,200 fully paid shares to subscribers to the Company's IPO.

[2] On 22 December 2017, the company issued 105,244,450 fully paid ordinary shares to the Sedi Diamonds Proprietary Limited vendor shareholders to complete the capital re-organisation of the Company and Sedi Star Diamonds (Pty) Ltd. For the purpose of comparative figure, the capital re-organisation is assumed to have taken place at the earliest period presented.

[3] On 22 December 2017, the Company issued 23,502,629 to Frontier Mining Projects (Pty) Ltd in settlement of US$3,625,986 of the debt between Sedi Diamonds Proprietary Limited and Frontier Mining Projects (Pty) Ltd.

[4] On 22 December 2017, the Company issued 1,249,340 fully paid ordinary shares for no cost to consultants who had assisted the Company in the preparation and execution of its IPO.

[5] On 22 December 2017, the Company issued 2,000,000 fully paid ordinary shares for no cost to four key members (or their nominees) of the Company's management team for the additional work and incentive to achieve a successful IPO and listing on the official list of the ASX.

- Jan Louw – Managing Director 500,000 shares
- Frank Petruzzelli – Executive Director 500,000 shares
- Marco Möller – Chief Financial Officer 500,000 shares
- Chris Ritchie – Company Secretary 500,000 shares

[7] At 22 December 2017, convertible notes issued by the Company were converted into fully paid ordinary shares as per the terms of the convertible note agreements.

Notes to the financial statements

14. Reserves

Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on translation from functional currency to presentation currency.

Merger reserve

The merger reserve arises from the capital re-organisation and records the effect between the consideration paid and the capital of the acquire.

15. Dividends

No dividend has been paid or is proposed in respect of the half-year ended 31 December 2017 (30 June 2017: Nil).

16. Share Based Payments

During the six months ended 31 December 2017 the Company issued:

1,249,340 fully paid ordinary shares at no cost to consultants involved in the Company's IPO.
2,000,000 fully paid ordinary shares at no cost to management involved in the Company's IPO.

These shares have been valued and expensed in the Company's accounts based on the IPO listing price of AU$0.20 as the fair value of the services cannot be reliably measured.

17. Earnings / (loss) per share

	31 Dec 2017 US$	31 Dec 2016 US$
Total profit/(loss) for the period attributable to the owners of the parent	(3,677,887)	1,303,368
Weighted average number of ordinary Shares in calculating basic earnings / (loss) per share	134,052,266	105,244,750

The weighted average number of ordinary shares outstanding (the denominator of the EPS calculation) for the half-years ended 31 December 2017 and 31 December 2016 has been adjusted to reflect the capital re-organisation.

Notes to the financial statements

18. Contingent assets & liabilities

Other than as disclosed in note 11 there are no other material contingent liabilities.

19. Segment information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision makers) in assessing performance and in determining the allocation resources. The three reportable segments are the Sedi Diamonds Mine, the Star Diamond Mine and Other.

	Sedi Diamond Mine	Star Diamond Mine	Other	Total
For the half year ended 31 December 2017				
Revenue	1,452,951	21,864	-	1,474,815
Net loss	(1,443,948)	(1,605,069)	(1,515,898)	(4,564,915)
For the half year ended 31 December 2016				
Revenue	1,807,618	1,201,174	-	3,008,792
Net profit	349,427	1,414,369	(1,841)	1,761,955
As at 31 December 2017				
Net assets	21,585,748	(14,056,488)	2,666,963	10,196,222
As at 30 June 2017				
Net assets	16,675,983	(13,041,748)	1,290,256	4,924,491

20. Related party transactions

Key Management Personnel	Nature of transaction	Transaction Value US$	Payable / (receivable) Balance [1] US$
Jan Louw	Issue of 72,618,670 fully paid ordinary shares [2]	11,328,513	0
	Issue of 23,502,629 fully paid ordinary shares [4]	3,666,410	0
	Executive salary & director fees [6]	72,713	72,713
	Contract Mining Fees paid (or payable) to Frontier Mining Projects (Pty) Ltd [5]	3,629,747	3,477,875
	Loan owing to Frontier Mining Projects (Pty) Ltd[5]	-	2,502,915
	Issue of 500,000 fully paid ordinary shares [7]	78,000	0
Johan van Reenen	Issue then conversion of 400,000 convertible notes [10]	62,400	0
	Director Fees [6]	14,625	14,625
Frank Petruzzelli	Issue of 500,000 fully paid ordinary shares [7]	78,000	0
	Consulting fees / Director fees [6]	58,500	58,500
	Associate company reimbursement of expenses paid on behalf of Frontier Diamonds Ltd [8]	16,838	16,838
	Associate company short term loan to Frontier Diamonds Ltd [9]	31,200	31,200
Michael Addison	Director fees [6]	11,700	11,700
	Issue of 10,000 fully paid ordinary shares [11]	1,560	0
Marco Moller	Consulting fees [6]	58,170	14,543
	Issue of 500,000 fully paid ordinary shares [7]	78,000	0
Jacques Cilliers	Issue of 32,625,780 fully paid ordinary shares [3]	5,089,622	0
	Issue of 23,502,629 fully paid ordinary shares [4]	3,666,410	0
	Consulting fees [6]	9,453	9,453
	Contract mining fees paid (or payable) to Frontier Mining Projects (Pty) Ltd [5]	3,629,747	3,477,875
	Loan owing to Frontier Mining Projects (Pty) Ltd[5]	-	2,502,915
Martin van Zyl	Consulting fees [6]	53,323	53,323

Notes to the financial statements

20. Related party transactions (continued)

Key Management Personnel	Nature of transaction	Transaction Value US$	Payable/ (receivable) Balance [1] US$
Chris Ritchie	Issue of 500,000 fully paid ordinary shares [7]	78,000	0
	Consulting / Director / Company Secretarial Fees [6]	58,500	58,500
	Short term loan to Frontier Diamonds Ltd [12]	112,730	112,730

1. Amounts outstanding as at 31 December 2017
2. The Company issued 72,617,670 fully paid ordinary shares to Lutzville Engineering (Pty) Ltd on acquisition of Sedi Star Diamonds Pty Ltd. Refer to note 13.
3. The Company issued 32,625,780 fully paid ordinary shares to Reddoor Resources (Pty) Ltd on acquisition of Sedi Star Diamonds Pty Ltd. Refer to note 13.
4. The Company issued 23,502,629 fully paid ordinary shares to Frontier Mining Projects (Pty) Ltd for extinguishment of loans between Sedi Diamonds Proprietary Limited and Frontier Mining Projects (Pty) Ltd. Refer to note 13.
5. Pursuant to the Contract Mining Agreement between Sedi Diamonds Proprietary Limited and Frontier Mining Projects (Pty) Ltd ending 31 December 2021, the group incurred contract mining fees of US$3,629,747 during the period. Mr Jan Louw and Jacques Cillies have 51% and 23% interest in Frontier Mining Projects (Pty) Ltd respectively. Refer to note 10.
6. Various directors and senior management have consulting contracts with various entities of the group.
7. The Company issued 500,000 shares to each of Mr Jan Louw, Mr Frank Petruzzelli, Mr Marco Moller and Mr Chris Ritchie (through their nominees) on completion of the successful IPO and listing. Refer to note 13.
8. MDB Business & Taxation Advisors Pty Ltd, an entity associated with Mr Frank Petruzzelli paid expenses on behalf of Frontier Diamonds Ltd.
9. MDB Corporate Advisors Pty Ltd, an entity associated with Mr Frank Petruzzelli provided the company with a short term loan. Refer to note 8.
10. Mr van Reenen subscribed for 400,000 convertible notes. These were converted into fully paid ordinary shares and accounted for at fair value.
11. Mr Addison subscribed for 10,000 fully paid ordinary shares pursuant to the Company's IPO.
12. Mrs Tracey Ritchie, wife of Mr Chris Ritchie provided the company with a short term loan. Refer to note 8.

Notes to the financial statements

21. Interests in Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries as listed below.

The subsidiaries listed below have share capital consisting solely of ordinary which are held directly by the Group. The proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's principal place of business is also its country of incorporation.

Name of subsidiary	Principal place of business	Ownership interest held by the Group		Proportion of Non-controlling interests	
		31 December 2017	30 June 2017	31 December 2017	30 Jun 2017
		%	%	%	%
Sedi Star Diamonds Pty Ltd	Australia	100	-	-	-
Sedi Diamonds Proprietary Limited	South Africa	74	-	26	-
Messina investments (Pty) Ltd[1]	South Africa	74	-	26	-
Autumn Star Diamonds (Pty) Ltd[1]	South Africa	74	-	26	-
Messina Diamonds (Pty) Ltd[1]	South Africa	74	-	26	-
Sedibeng Diamond Mine JV[1]	South Africa	74	-	26	-
Star Diamond Mine (Pty) Ltd[1]	South Africa	74	-	26	-
Dancarl Diamonds (Pty) Ltd[1]	South Africa	74	-	26	-

[1] These subsidiaries are 100% owned directly or indirectly by Sedi Diamonds Proprietary Limited of which the Company has a 74% interest in it.

Notes to the financial statements

22. Non-controlling interests

Set out below is the summarized financial information for Sedi Diamonds Proprietary Limited and its controlled entities that has non-controlling interests that are material to the Group, before any intragroup eliminations.

	31 Dec 2017 US$	30 June 2017 US$
Summarised Financial Position		
Current assets	1,244,580	3,866,983
Non-current assets	17,618,812	14,225,080
Current liabilities	(9,051,680)	(13,173,934)
Non-current liabilities	(10,138,756)	(1,705,873)
Net Assets	(327,044)	3,212,256
Carrying amount of non-controlling interests	(85,032)	835,187

	Half year ended 31 Dec 2017 US$	Half year ended 31 Dec 2016 US$
Summarised Financial Performance		
Profit/(loss) after tax	(3,411,646)	1,763,796
Other comprehensive income after tax	(281,418)	60,811
Total comprehensive income	(3,693,064)	1,824,607
Profit/(loss) attributable to non-controlling interests	(887,028)	458,587
Summarised Cash Flow Information		
Net cash from/(used in) operating activities	(5,650,711)	4,540,980
Net cash from/(used in) investing activities	(2,779,768)	(4,161,156)
Net cash from/used in) in financing activities	8,422,199	(372,040)
Net increase/(decrease) in cash and cash equivalents	(8,280)	7,784

Notes to the financial statements

23. Subsequent Events

On 3 January 2018, the Company was admitted to the official list of the Australian Securities Exchange and the Company commenced trading on 5 January 2018.

On 22 February 2018 the Company announced the successful commissioning of a new bulk sample processing plant facility at its Sedibeng Diamond Mine. The facility has a deigned nameplate capacity of 50tph for kimberlite ore and 150tph for tailings feed.

The plant was successfully refurbished and wet commissioned at a total engineering cost of approximately US$0.6m. The total capital investment was approximately US$1.2 million compared with an estimated replacement value of the plant of approximately US$4.7 million.

Processing of approximately 30 kt per month of bulk sample or 90kt per month of Sedibeng tailings material was to commence in late February 2018.

On 7 March 2018, the Company announced the recovery of the first diamonds from the Bellsbank Exploration Project. The recovery of the first diamonds from the processing of a plant commissioning sample taken from the upper levels of the calcretised kimberlite facies of the Bellsbank Kimberlite Pipe is a positive indication of the mineralisation of the asset, while the gem qualities appear similar to the existing Sedibeng production. Lower uncalcretised kimberlite is expected to be intersected at a depth of 27m as established by historic drilling records.

No definitive diamond grade (cpht) was determined given the limited volumetric material processed. According to the CP, the current commissioning sample can be regarded as sub-economic ‘mineralised waste’. It appears to be low-grade in-situ mineralisation that cannot be classified as either a Mineral Resource or Ore Reserve and is intended for stockpiling.

The Company will proceed to commission a public geological report accompanied by historic and current exploration results, including a description of the style and nature of mineralisation. This report will consider the results of the next 10m blast, which will expose the underlying hypabyssal kimberlite. Grade estimations will be established after taking a sufficient bulk sample of the exposed kimberlite

On 1 March 2018, the Company announced the resignation of Mr Chris Ritchie as Company Secretary and the appointment of Joint Company Secretaries, Mr Mark Licciardo and Mr Adam Sutherland.

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DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF FRONTIER DIAMONDS LIMITED

As lead auditor for the review of Frontier Diamonds Limited for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Frontier Diamonds Limited and the entities it controlled during the period.

Jarrad Prue

Director

BDO Audit (WA) Pty Ltd

Perth, 16 March 2018

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Frontier Diamonds Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Frontier Diamonds Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the Corporations Act 2001 including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Emphasis of matter – Material uncertainty relating to going concern

We draw attention to Note 2(e)(iii) in the half-year 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 conclusion is not modified in respect of this matter.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 31 December 2017 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

BDO

J Prue

Jarrad Prue

Director

Perth, 16 March 2018