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Stellar Diamonds : Preliminary Economic Assessment for the proposed Tongo-Tonguma Mine



10/05/2016 | 10:44am CET

5 October 2016

AIM: STEL

Stellar Diamonds plc

('Stellar' or the 'Company')

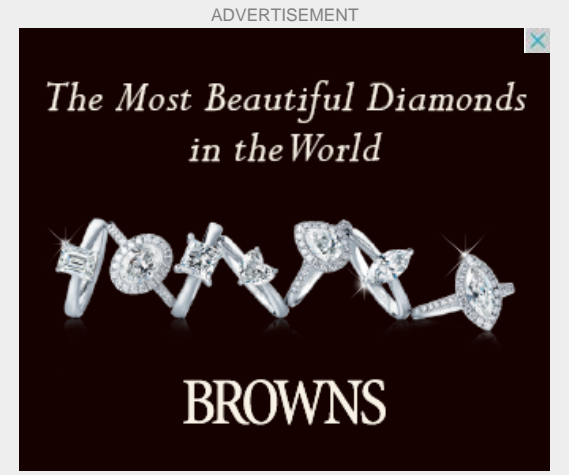
Preliminary Economic Assessment for the proposed Tongo-Tonguma Mine

Further to the announcement on 22 August 2016 on the proposed transaction ('the Transaction') (the 'Transaction Announcement') between Stellar Diamonds plc ('Stellar' or 'the Company') and Octea Mining ('Octea') to combine their adjacent Tongo and Tonguma diamondiferous kimberlite dyke properties in eastern Sierra Leone, Stellar announces the results of an independent Preliminary Economic Assessment ('PEA') for the combined mining project ('the Project').

The PEA demonstrates a financially robust and high margin 21 year life of mine over an initial resource of 4.5 million carats. The PEA also recognises considerable upside exists from additional high-grade kimberlite dykes on the properties which are not yet categorized into resource.

Highlights:

- Estimated pre-tax Project NPV(10) and IRR of \$172 million and 49% respectively
- Projected life of mine Project revenues of \$1,518m with operating costs of \$847 million
- Estimated operating margin of 50% over the life of mine
- First production expected within 12 months, ramping up to over 200,000 carats p.a. in 4th year
- Expected Capex of \$31.8 million in first two years (including



Income Statement Evolution
 Created with Highstock 4.2.3Million USD Sales Net income Rate of Net Profitability 20102012201320142015-6-5-4-3-2-10123-2000%-1500%
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15% contingency)

- **Estimated 3.96 million carats recoverable from the initial 4.5 million carats resource at a +1.18mm cut-off**
- **Recoverable diamond grades and values for first three kimberlites to be mined of:**
 - **Kundu: 260cpht and \$209 per carat (\$543 per tonne)**
 - **Lando: 220cpht and \$209 per carat (\$440 per tonne)**
 - **Tongo: 100cpht and \$310 per carat (\$310 per tonne)**
- **Exploration target of up to 8 million carats in addition to existing resource**

Chief Executive Karl Smithson commented:

'The PEA of the combined Tongo-Tonguma mine demonstrates robust financial returns for a modest capital requirement and supports the Board's decision to pursue this strategic acquisition. Three kimberlite dykes, Kundu, Lando and Tongo are contained within the mine plan and have compellingly high diamond grades and values and together support a long life of mine. We are further encouraged by the potential which exists to significantly increase the resource base by bringing a number of additional high grade kimberlites that have been discovered to date on both licences into the long term resource base.

'We continue to make good progress with the legal and other due diligence processes that are required to complete the Transaction and will provide further updates in due course.'

Resource Statements

Independent industry consultants Paradigm Project Management ('PPM') and SRK Consulting ('SRK'), based in South Africa ('the Consultants'), prepared the PEA on the basis of an underground mining scenario only. The consultants utilised independent resource statements prepared for Stellar by CAE Mining, in respect of Tongo Dyke-1, and Mineral Services Canada, in respect of Tonguma. Only 3 kimberlites dykes of a total of 11 on the properties (4 at Tongo and 7 at Tonguma) have been categorized as resource to date, being Tongo Dyke-1, Kundu and Lando for a total of 2.2 million tonnes and 4.50 million carats at a +1.18mm cut off.

Inferred Resources (by Mineral Services Canada and CAE Mining)

	Dyke	Classification	cut-off	Depth (m)	Tonnes (mT)	Grade (cpt)	Carats (mcts)
Tonguma	Kundu	inferred	+1.18mm	20 - 200	0.5	2.9	1.5
Tonguma	Lando	inferred	+1.18mm	20 - 200	0.8	2.5	2.1
Tongo	Dyke-1	inferred	+1.18mm	0 - 300	0.9	1.0	0.9
Total		inferred			2.2		4.50

A further four dykes have been drilled out at Tonguma and along with certain sections of Lando and Kundu are classified by Mineral Services Canada as 'exploration target' which offers a mid-range total of 5.6 million tonnes and potential for a further 7.96 million carats for the Project. Although it can't be guaranteed that further exploration will result in this exploration target becoming a mineral resource, the Directors consider that this target demonstrates significant upside to the overall resource base of the Project and it is the intention to bring the 'exploration target' into the JORC resource category in due course through further drilling and sampling.

Exploration Target at Tonguma (by Mineral Services Canada)

Dyke	Cut-off	Depth (m)	Tonnes Range (mT)	Grade range (cpt)	Mid range tonnage (mT)	Mid range Grade (cpt)	Carats (mcts)
Kundu	+1.18mm	200 - 500, and segments 20 - 200m	3.0 - 1.5	1.7 - 4.0	1.15	2.9	3.28
Lando	+1.18mm	200 - 500, and segments 20 - 200m	3.0 - 1.1	1.5 - 3.5	0.85	2.5	2.13

Managers

Name	Title
Nicholas Karl Smithson	Chief Executive Officer & Director
Peter Gilbert Greenall Daresbury	Non-Executive Chairman
Rowan D. Carr	Chief Operating Officer
Philip Knowles	Chief Financial Officer & Secretary
Steven J. Poulton	Non-Executive Director

[» More about the company](#)

Sector and Competitors

	1st jan.	Capitalization (M\$)
W.AFRICA DMNDS		3
AK ALROSA PAO	--.--%	9 435
LUCARA DIAMOND CORP	72.35%	1 065
PETRA DIAMONDS LIMITED	64.11%	981
DOMINION DIAMOND CORP	-18.79%	731
GEM DIAMONDS LIMITED	-13.69%	197

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Kpandebu +1.18mm 0 - 500m	0.2 0.4	- 0.9 2.1	- 0.3	1.5	0.45
Panguma +1.18mm 0 - 500m	1.0 1.9	- 0.9 2.0	- 1.45	1.5	2.10
Tongo 0 - 500	0.9 1.9	- no info.	1.4		
Seleima 0 - 500	0.3 0.5	- no info.	0.4		
			5.55	7.96	

Recoverable Resources

In preparing the mine plan and financial model for the PEA the Consultants used the total diamond resource of 5mcts and applied a standard +1.18mm plant cut off across all three dykes and also applied a recovery factor which could be expected during the mining and processing of the kimberlite ore. This resulted in an estimate of 3.96 million carats of recoverable resource during the life of mine from the total Project resource of 4.5 million carats. Diamond values range from \$209/ct for Kundu and Lando to \$310/ct for Tongo Dyke-1.

Recoverable Resources (by PPM/SRK PEA)

Dyke	Classification	cut-off	Depth (m)	Tonnes (mT)	Grade (cpt)	Carats (mcts)	Diamond Value \$/ct
Tonguma Kundu	inferred	+1.18mm	20 200	- 0.5	2.6	1.30	209
Tonguma Lando	inferred	+1.18mm	20 200	- 0.8	2.2	1.76	209
Tongo Dyke-1	inferred	+1.18mm	20 300	- 0.9	1.0	0.90	310
Total	inferred			2.2		3.96	

Underground Mining

The underground mine plan is currently configured as a series of declines from surface at Kundu, Lando and Tongo. The declines will be 4m x 4m in cross section and will be developed at an angle of 8-degrees. Mining levels will be interspaced at 35m depth with the first levels being developed at 40m below surface. Based on the current resource models, Tongo will have a planned 11 levels, Lando 10 levels and Kundu 5 levels during the 21 year life of mine. The ore bodies will be accessed by 2m x 2m drives and cross-cuts into stopes that are mined by traditional overhand shrinkage stoping mining methods, with the ore being drawn from access points and transported on underground locos and tipped into bins on an ore pass system. These ore bins will feed haulage trucks that will transport the ore to surface and onto the processing plant. The existing 50tph processing plant at Ocea's Koidu Mine is to be relocated to Tonguma and be further upgraded to serve as the processing plant for the new mine. This will save considerable time in getting the Project to production.

Financial Model

The financial model prepared by PPM for the underground mining study is based on mining the 3.90mcts of the 3.96mcts recoverable resource at Tongo, Kundu and Lando and does not include any of the 7.96mcts 'exploration target' carats which may be brought into a future resource estimation.

The initial two year capital requirement to bring the mine into production is estimated to be \$31.8 million (including a 15% contingency) and \$90 million over the 21 year life of mine. Based on the life of mine project costs (\$847 million) and revenues (\$1,518 million) the financial model demonstrates an NPV(10) of \$172 million and IRR of 49% on a pre-tax basis. Based on the un-escalated operating costs and carat recovery over the life of mine, the cost per carat at the present time is estimated at \$115.3 per carat against the un-escalated average diamond price (across all three kimberlites) of \$228.6 per carat, giving an operating margin of 49.6%.

Sensitivity Analysis

Sensitivity analyses were conducted by flexing by +25% to -25% the three key parameters of revenue, capital expenditure and operating costs around the base case \$172m pre-tax NPV. This analysis confirms that

the Project is financially robust. A graph of the sensitivity analysis can be seen at the following link;

[Sensitivity Analysis Graph](#)

A summary of the financial model as prepared by PPM and SRK are given in the table below:

Tongo Dyke-1

Tonguma Kundu Dyke	Pre-Tax Model
Tonguma Lando Dyke	
Life of mine (years)	21
Total tonnes mined	6,062,613
Carats recovered	3,905,490
Average recovered/diluted grade (cpht)	64.4
Years 1-2 capital cost (US\$m)	31.8
Cost per carat (US\$)	115.3
Revenue per carat (US\$) average	228.6
Operating margin %	49.6
Life of mine gross revenues (US\$m)	1,518
Life of mine working costs (US\$m)	847.1
Life of mine net cash inflows (US\$m) after capex	580.3
Net Present Value (at 10% discount rate) (US\$m)	172
IRR	49%

The Tongo-Tonguma PEA report will be available for download from the Company's website www.stellar-diamonds.com

Transaction Update

Work on the Transaction continues with ongoing legal and due diligence work. The Competent Persons Report on the Project will be announced in due course and marketing to new investors and existing shareholders will then commence. By virtue of the Transaction being classified as a reverse takeover under the AIM Rules for companies, trading in the Company's shares on AIM will remain suspended until either an admission document is published or the Company announces its or Ocea's withdrawal from the Transaction.

The Transaction, if completed, would result in Stellar having a 75% economic interest in the Project following, *inter alia*, preferential repayment of the initial investment made by Stellar and payment of certain revenue royalty payments as outlined in the Transaction Announcement. Shareholders should note that the Transaction remains subject to a number of conditions, including *inter alia*, publication of an admission document and shareholder approval.

Review by competent person

This announcement has been reviewed by Karl Smithson, Chief Executive of Stellar, a qualified geologist and Fellow of the Institute of Materials, Metals, Mining, with 27 years' experience.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

Caution regarding forward looking statements

Certain statements in this announcement, are, or may be deemed to be, forward looking statements. Forward looking statements are identified by their use of terms and phrases such as 'believe', 'could', 'should', 'envisage', 'estimate', 'intend', 'may', 'plan', 'potentially', 'will' or the negative of those, variations or comparable expressions, including references to assumptions. These forward looking statements are not based on historical facts but rather on the Directors' current expectations and assumptions regarding the Company's future growth, results of operations, performance, future capital and other expenditures (including the amount, nature and sources of funding thereof), competitive advantages, business prospects and opportunities. Such forward looking statements reflect the Directors' current beliefs and assumptions and are based on information currently available to the Directors.

A number of factors could cause actual results to differ materially from

the results discussed in the forward looking statements including risks associated with vulnerability to general economic and business conditions, competition, environmental and other regulatory changes, actions by governmental authorities, the availability of capital markets, reliance on key personnel, uninsured and underinsured losses and other factors, many of which are beyond the control of the Company. Although any forward looking statements contained in this announcement are based upon what the Directors believe to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with such forward looking statements. Accordingly, readers are cautioned not to place undue reliance on forward looking statements. Subject to any continuing obligations under applicable law or any relevant AIM Rule requirements, in providing this information the Company does not undertake any obligation to publicly update or revise any of the forward looking statements or to advise of any change in events, conditions or circumstances on which any such statement is based.

About Stellar Diamonds plc

Stellar is an AIM listed (AIM: STEL) West African focused diamond company with projects at the trial mining and mine development stages in Guinea and Sierra Leone.

**** ENDS ****

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