



**Firestone Diamonds plc**  
Annual Report and Accounts 2019

**Registered number** 3589905

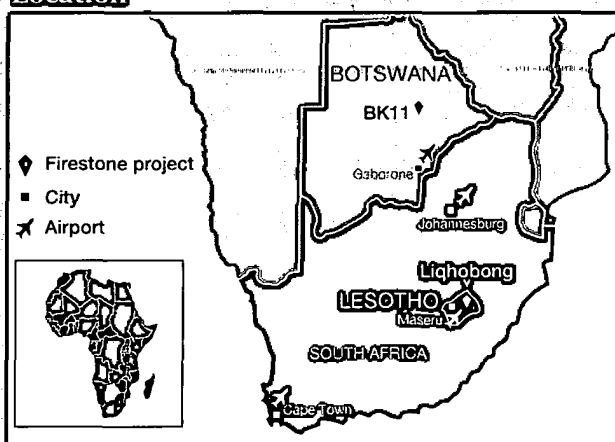
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# FIRESTONE DIAMONDS PLC

## A DIAMOND PRODUCER WITH OPERATIONS FOCUSED IN LESOTHO

The strong operating performance at Likhobong Mine resulted in diamond recoveries of 829 458 carats.

### Location



### Key highlights

– **FY2019 SAW RECORD  
TONNES MINED  
OF 8.1M.**

– **US\$11.6M CASH  
GENERATED FROM  
OPERATIONS  
BEFORE WORKING  
CAPITAL CHANGES.**

– **4-STAR NOSA RATING.**

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## 2019 SUMMARY

FIRESTONE SUCCESSFULLY COMPLETED ITS SECOND YEAR OF STEADY-STATE PRODUCTION, ENDING WITH A CASH BALANCE OF US\$26.3 MILLION

### Liqhobong Diamond Mine

Tonnes treated

**3.7m**

(2018: 3.8m)

Waste tonnes mined

**4.4m**

(2018: 2.9m)

Lost time injuries

**2**

(2018: zero)

Carats recovered

**829 458**

(2018: 835 832)

Carats sold

**774 830**

(2018: 831 637)

### Financial

Revenue (US\$)

**57.2m**

(2018: US\$62.2m)

Cash operating costs per tonne treated (US\$)

**11.48**

(2018: US\$11.62)

Adjusted EBITDA<sup>1</sup> (US\$)

**11.7m**

(2018: US\$7.7m)

Cash balance (US\$)

**26.3m**

(2018: US\$18.4m)

Loss after tax (US\$)

**56.9m**

(including an impairment charge of US\$41.6m)

(2018: US\$14.2m)

### Investment case

**Strong operational and safety track record**

**Low cost operation**

**Supportive cornerstone investors**

**Defined mineral resource with life of mine extension potential**

**Experienced management team**

**US\$26.3m cash on hand as at 30 June 2019**

<sup>1</sup> The measure of operational cash performance calculated as earnings before interest, tax, depreciation, amortisation and non-cash share-based payments expense.

## INTRODUCTION TO THE STRATEGIC REPORT



**Lucio Genovese**  
Non-Executive Chairman

“

WE CONTINUE TO PERFORM VERY WELL OPERATIONALLY, AS WE WORK WITH OUR SUPPORTIVE BANK, ABSA, AND BONDHOLDERS TO FIND LONGER-TERM SOLUTIONS IN A CHALLENGING DIAMOND MARKET”

### Summary

**4-star**

NOSA rating

**0.23**

LTIFR compares favourably to the Group's peers

### Dear shareholder

This has been an extremely challenging year for the diamond sector as a whole, with depressed diamond prices being experienced, particularly at the smaller end of the market, which is of particular relevance to Firestone. As a result the Company has received lower prices for diamonds sold during the year, which has resulted in a drop in revenue from expected levels. Our view of forecast diamond pricing over the short-term has also changed and this is the main reason for the US\$41.6 million impairment recorded for the year. Nevertheless the team on the ground at our Liqhobong Mine have done an excellent job at focusing on all elements under their control and this has resulted in a strong production result with cost control, in particular, offsetting some of the disappointing revenue shortfall.

More detail is provided later in this report regarding the difficult market conditions, but we have sought to manage the Company such that we can withstand the weakness and maintain our ability to enjoy the benefits of the anticipated market recovery, when it comes.

### Performance in FY2019

We are extremely proud of our safety record, which has been exemplary all through construction and during production. Whilst we still maintained an extremely good safety record this year, by industry standards, our record of 6.7 million hours worked without a lost time injury unfortunately came to an end when an incident occurred in the first quarter, followed by another in the final quarter to the end of June. Whilst the injuries were minor, we regard these matters very seriously. We have redoubled our efforts on safety and awareness, in order to ensure this does not become a trend and that we maintain industry-beating standards.

We were particularly pleased with the 4-star NOSA rating that was awarded to Liqhobong during the year in respect of an occupational health, safety and environmental management system audit, which acknowledges the Company's very high standards and performance in this regard.

Firestone realised an average diamond value for the year that was marginally weaker than a year earlier, mainly due to lower prices for smaller run-of-mine ("ROM") diamonds, with larger diamonds helping to boost the average value.

Several larger, more valuable diamonds, the occurrence of which is unpredictable, were recovered in the year. Highlights in this category included several plus-50 carat white and yellow diamonds, as well as some other, smaller high-valued coloured diamonds.

Management did an exemplary job at managing costs during the year, which were significantly lower than guidance and I am pleased to see the culture of cost consciousness which exists across the business. In addition to lower costs in local currency terms, the weaker local currency also provided opportunities which contributed to lower costs being reported in US Dollars.

Paul Bosma, in his first year as CEO, and the whole team have done a tremendous job at focusing on those metrics that are within our control, namely: safety, costs and production.

The actions taken at the back end of 2017 to restructure the balance sheet and defer debt have proven to be absolutely the correct decision at the time, given how much further markets have weakened since then. We continue to engage closely with our major shareholders, bondholders and lenders, who continue to provide us with strong support.

Prior to year end, ABSA agreed to waive certain covenants at the end of June measurement date, and our bondholders also agreed not to receive interest in cash for the twelve month period to end June 2020, subject to shareholder approval.

### Update and outlook for FY2020

Since the year end, the market has remained subdued and as a result we realised lower than expected average values for our September and October sales of US\$63 and US\$70 respectively. In terms of resource performance, lower carat recoveries have persisted in a particular area of the open pit which has resulted in fewer than expected carats being recovered.

In addition, production was hampered due to an electricity supply issue which occurred on 1 October 2019. Our Lihobong Mine is supplied electricity from the 'Muela Hydro-Power Station which is owned by the Lesotho Electricity Company ("LEC"). The power station commenced a two-month maintenance shutdown on 1 October 2019 at which time ongoing supply was expected to be provided by Eskom, South Africa's power utility company. However, due to factors that were beyond any of the parties' control, and mainly due to the long distance between the Mine and Eskom's nearest power generation facility, the quality of voltage was insufficient to run our processing plant. Management reacted swiftly, and a battery of diesel generators was sourced on a short-term rental basis. It took until 25 October 2019 to conclude the rental agreement, mobilise, site establish and synchronise with our electrical infrastructure before production recommenced on 26 October 2019.

Whilst we have been in discussions with ABSA Bank and our bondholders for several months to find a longer-term solution to the high levels of debt in the business, the combination of the factors above placed the Company under increased cash pressure in the short term and therefore the urgency to find an interim solution. As disclosed in note 1 – Going Concern, and subsequent to the year end, non-binding term sheets were received from ABSA Bank in respect of a 15-month capital deferral and from the bondholders in respect of providing a US\$6.0 million working capital facility over the same period.

In the coming year, we will focus on completing the financing arrangements, and expect to make progress on a potential extension to the current eight-year mine life. Investigations into the reasons for the lower recoveries are well underway and a process is in place to update the mineral resource in early 2020. We will also continue to ensure that we operate at the required rates and in the most efficient manner, to control costs and optimise revenue, while waste stripping increases as the Mine becomes deeper.

Total cash cost for the year, including waste, is expected to be higher than in FY2019 mainly as a result of the increased waste stripping requirement, and to range between US\$13.50 and US\$14.50 per tonne treated based on an average Rand:US Dollar exchange rate of R14.50.

### Board, corporate culture and governance

A number of changes to the Board reflect the current strategic issues facing the Company as we moved away from construction and ramp up to ongoing production in challenging market conditions. As mentioned last year, Patrick Meier joined the Board in July 2018, and assumed the role of Chair of the Audit Committee.

Eileen Carr joined the Board in April 2019, and has become a member of the Audit and Remuneration Committees. Patrick Meier also became the Chair of the Remuneration Committee at the end of April as Paul Sobie stepped down.

Since the financial year end, Michael Stirzaker has joined as the Pacific Road nominee to the Board, replacing Niall Young.

I would like to thank Paul Sobie and Niall Young for their hard work, engagement and wise counsel over many years. Their contributions were invaluable during a key part of the Company's transformation into a major diamond producer.

The Board has always been fully committed to high standards of governance. The Company has adopted the QCA Corporate Governance Code (the "QCA Code") and recognises that applying sound principles in running the Company will provide a solid basis for growth, optimisation of returns and enhance trust with our stakeholders.

We are committed to ensuring that the highest safety and environmental standards are maintained and see to it that appropriate systems and policies are in place to manage these risks appropriately. We take a serious approach to all safety and environmental incidents as we believe that the action taken when a minor incident occurs will significantly reduce the chances of a similar but more serious accident from occurring in the future.

Further, we take the maintenance of the highest standards of corporate culture, integrity and ethics to be key, and a priority for myself and the Board to instil at all levels of the Company. From a community relations point of view, our work is guided by our CSR Policy with its supporting procedures. The policy defines Lihobong's standards for corporate social responsibility and community relations which are essential in creating and sustaining lasting relations with the communities alongside which we operate.

In 2018, we conducted an independent community needs analysis so that, as a business, we remain relevant by aligning our goals with the long-term interests of communities affected by our operations. This analysis was used to inform the Company's CSR Policy and will continue to be useful in formulating our strategies and initiatives.

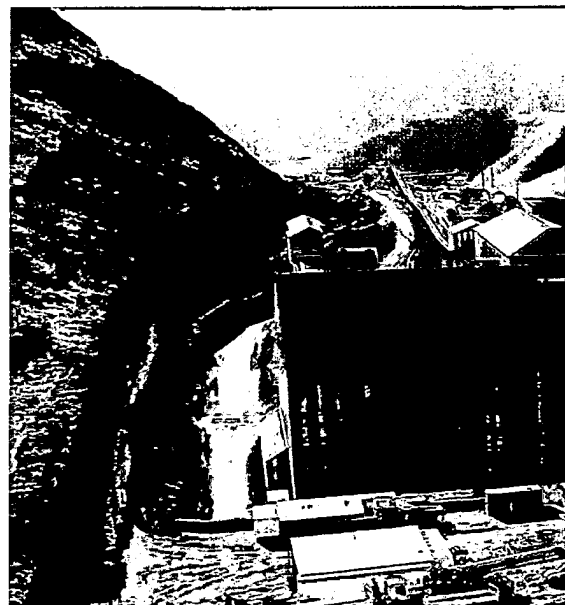
Each month, as part of maintaining open and transparent communication with our communities, we hold leadership meetings with the Company's management team and community leaders. Through these meetings, we have a consistent way of addressing grievances, designing projects and other social responsibility initiatives, and maintaining open communication and mutual relationships.

In the following sections of this Strategic Report, shareholders will find a discussion on the diamond market, Firestone's business model, strategy, key performance indicators, the risks facing the Company as well as the steps taken to mitigate those risks, a detailed operational review and a financial review. At the end of the Strategic Report, there is a report on other important aspects including health, safety, the environment and community engagement. This is followed by a brief look forward into the 2020 financial year and my concluding remarks.

## MARKET CONTEXT

“

WE EXPECT THE PRICES OF LARGER, BETTER QUALITY DIAMONDS TO REMAIN STRONG AND FOR THIS TO PARTIALLY OFFSET THE IMPACT OF LOW PRICES FOR ROM DIAMONDS WHICH WE EXPECT TO REMAIN AT CURRENT LEVELS OVER THE MEDIUM TERM”



The past year was a particularly challenging period for the diamond industry. The traditional peak retail selling period at the end of 2018 was disappointing, with consumer sentiment negatively affected by the United States stock market's worst performance for a decade, which ended the year down 4.4%. However, the dominant factor impacting the market is a surplus of supply.

The market weakness has been particularly prevalent in the smaller ROM category of diamonds, as opposed to the special plus-10.8 carat diamond category. There has been a relative divergence in prices between ROM diamonds and other diamond categories as a result of increased production of smaller diamonds over the past two years, along with challenges facing Indian manufacturers dealing in the smaller size categories and the impact of laboratory grown diamonds (“LGDs”) on smaller natural diamonds in this category. The tough market conditions are reflected in the reduced sales values recorded so far during 2019 by the two dominant diamond producers, De Beers and Alrosa, and is reflected in the weak share price performance of many of the diamond producers.

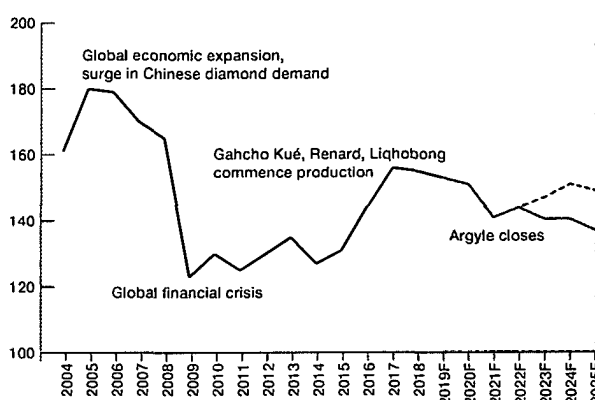
Firestone's average values realised for the year were impacted by the lower prices for ROM diamonds, which comprise a substantial portion of our production by volume. However, weaker prices for ROM diamonds were partially offset by strong prices being realised for larger, better quality diamonds. It is not possible to predict the recoverability of the larger, better quality diamonds that have a material impact on the average sale values realised.

### Supply

Supply is expected to reduce over coming years.

### Global diamond supply volume forecast

Production in millions of carats

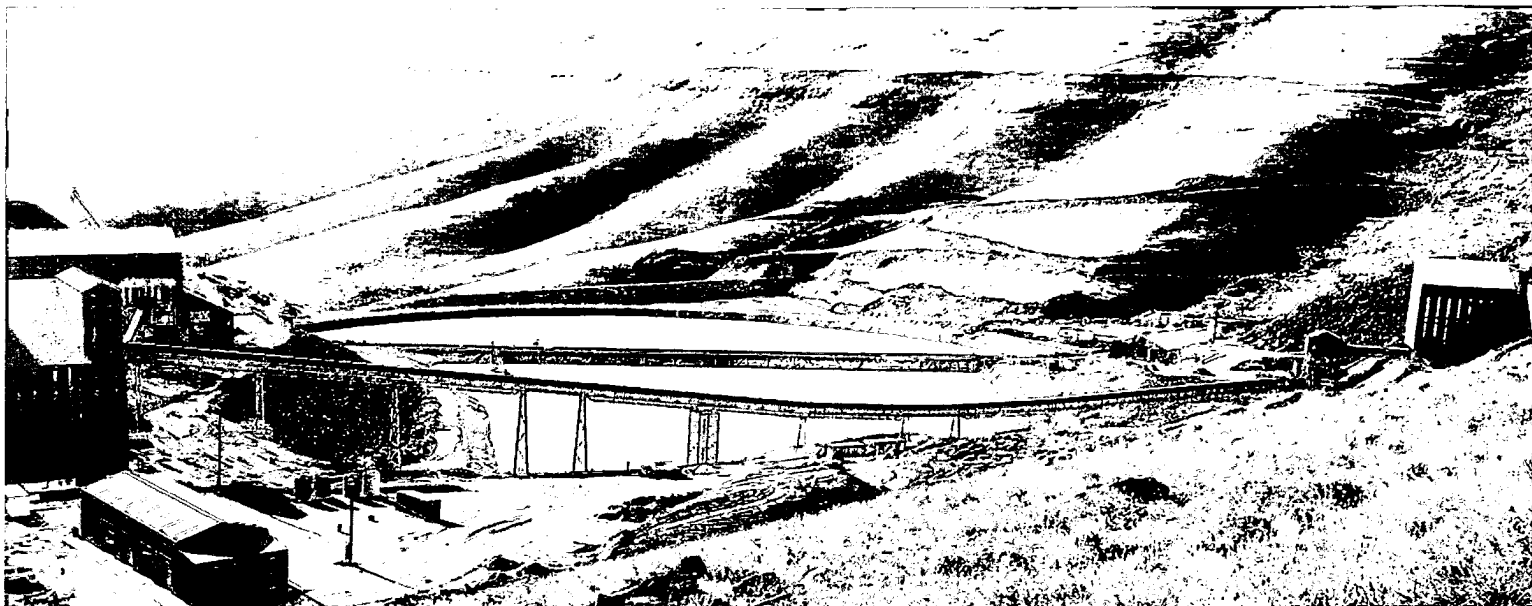


Source: Paul Zimnisky.

Factors impacting supply:

- lower production from ageing mines, including De Beers' Victor and Voorspoed Mines which are reaching the end of their lives, and Rio Tinto's Argyle Mine in Australia, which is due to close by end 2020;
- there is a lack of new discoveries. Alrosa completed work on its Verkhne-Munskoye Mine in Russia in late 2018, leaving only one large-scale mine available for development, Luaxe situated in Angola; and
- De Beers recently allowed its sight-holders to defer some of their allocations in an attempt to address the imbalance that currently exists in the diamond pipeline.

Supply peaked recently in 2017 at 152 million carats after production had commenced from several new mining operations including De Beers' and Mountain Province's jointly owned Gahcho Kué Mine, Stornoway's Renard Mine and the Company's own Likhobong Mine. Supply is expected to decrease to 134 million carats by 2022, mainly due to the expected closure of Rio Tinto's Argyle Mine in Australia at the end of 2020, which will result in 14 million carats lower supply annually. The reduction in supply should allow for excess inventories in the midstream to be worked through which should result in improved diamond prices for producers.



In this regard, Firestone's average annual production, at below 1 million carats, is not deemed to have a significant influence on the supply dynamics of the global diamond market. Furthermore, the Mine has limited ability to increase or decrease production volumes materially.

### Demand

Recent developments impacting demand:

- Tiffany & Co., a major global jewellery retailer, indicated that it would be entering the Indian market for the first time through a joint venture with Indian retail conglomerate Reliance, planning initially to open two stores, one in Delhi and another in Mumbai in 2020;
- up until Q4-2018, Greater China retail proxy, Chow Tai Fook, saw nine consecutive quarters of same store sales growth in Mainland China, and eight in Hong Kong/Macau;
- Chow Tai Fook is currently opening new stores at the fastest pace in the company's history;
- the Chinese Yuan continues to fall versus the US Dollar due to trade tensions between the two nations. A weaker Yuan tends to reduce Mainland Chinese diamond demand as consumer purchasing power is decreased, especially when shopping abroad;
- De Beers has increased its marketing spend for 2019 to US\$170 million, part of which will go towards the Diamond Producers Association ("DPA") budget, which is expected to be upward of US\$200 million; and
- the DPA's primary aim in 2019 is to promote self-purchasing, with a new campaign titled "For me, from me" as it identified that almost all of the growth seen in 2018 was due to self-purchasing.

The demand for diamond jewellery has remained steady with the US continuing to be the leading consumer. Diamond demand growth is highly correlated with global GDP growth and therefore the ongoing US-China trade war and other geopolitical uncertainties such as Brexit need to be resolved in order for demand to improve.

China continues to be the major source of growth for jewellery. In its recent half-year report, Tiffany's reported a 3% drop in worldwide sales from a year earlier, which was contrasted to double-digit growth in Mainland China during the first two quarters of the fiscal year. We expect this to continue.

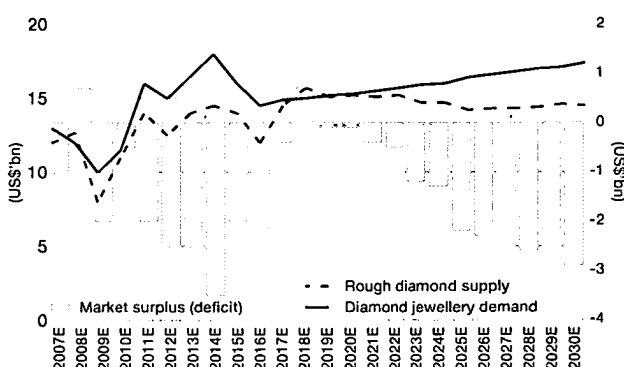
From a Firestone perspective, pressure on the ROM category of diamonds was consistently evident in all sales during the financial year as high inventories in the midstream continued to hinder demand. Q3's average value was boosted by the recovery of several larger, better quality diamonds.

During the year we held seven sales, which were all well attended.

### 2019 revenue

Quarter	Diamond sales (carats)	Price per carat
1	194 206	70
2	191 735	72
3	211 368	80
4	177 521	71
<b>Total</b>	<b>774 830</b>	<b>73</b>

### Forecast rough diamond supply-demand



Source: Berenberg.

Berenberg forecasts demand to remain steady, resulting in a supply-demand deficit starting to develop from 2020 due to a fall in rough supply.

### Looking forward

In the medium term, we expect prices to remain subdued for ROM diamonds, principally due to a build-up of inventory in the midstream which we think will take time to work through the diamond pipeline. Offsetting this, we expect to continue to see strong pricing for Liqobong's larger, better quality diamonds.

## BUSINESS MODEL



OUR BUSINESS MODEL UNDERPINS OUR AIM TO BECOME A SUSTAINABLE MID-TIER DIAMOND PRODUCER AND THE PREFERRED AND TRUSTED PARTNER OF CHOICE FOR OUR STAKEHOLDERS AND LOCAL COMMUNITIES”

### Inputs

#### People

We have an experienced and appropriately qualified team across all disciplines, comprising mining, processing, engineering, mineral resource management, security, safety, health and environmental, human resources and finance.

#### Knowledge and skills

We have a deep understanding of mining operations and how to implement systems, processes and governance frameworks to protect and enhance our stakeholders' interests.

#### Relationships

We have strong relationships with our key stakeholders, including the Government of Lesotho, our shareholders, lenders, local communities, suppliers and sales broker.

#### Physical assets

We have modern plant and equipment, which supports our efficient operations.

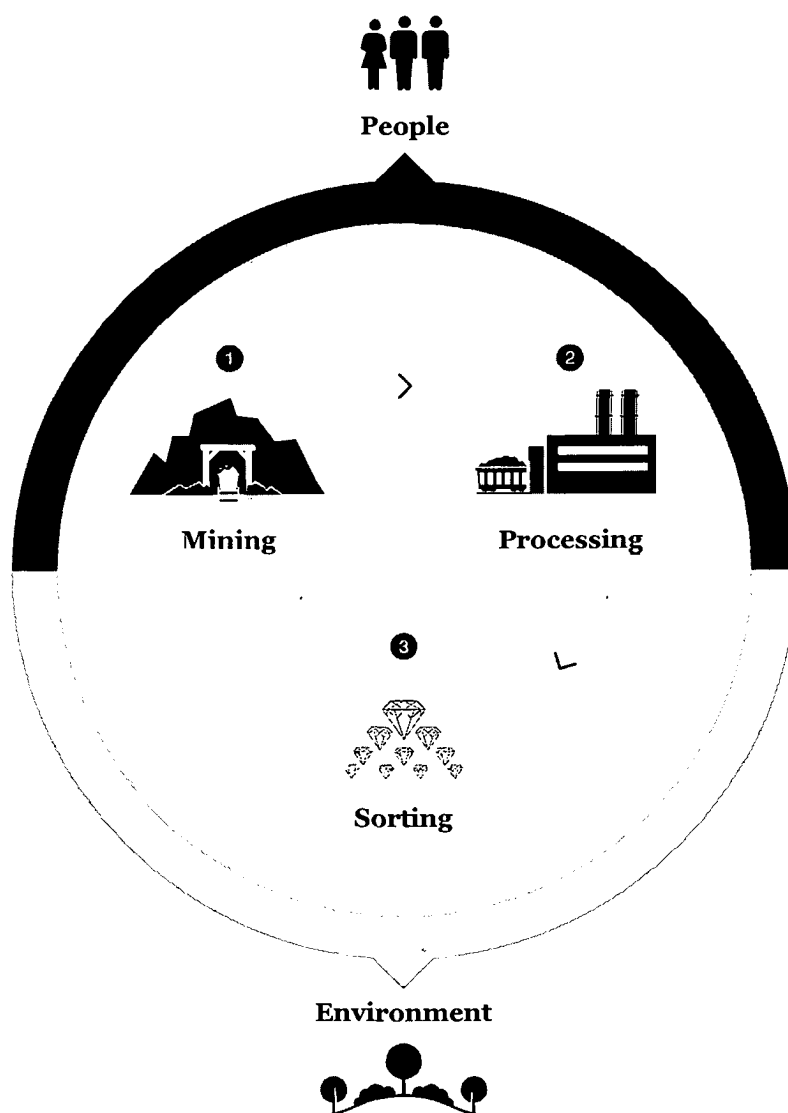
#### Natural resources

In addition to the ore body itself, the primary natural resources we rely on, are energy and water.

#### Financial capital

Firestone is financed by both equity and debt and has strong relationships with its shareholders and lenders. This gives us the financial support required to implement our mine plan.

### Our value creation model







## Mining

Ore and waste are mined by our specialist mining contractor, in accordance with our approved eight-year mine plan. We look to optimise operations as we gain more detailed knowledge of the open pit and have processes and procedures in place to manage operating costs, identify risk and mitigate that risk where possible. This approach helps to ensure our average costs are competitive.

## Processing

The mined ore is delivered to our processing plant, where diamonds are recovered using a secure, completely hands-off process, which ensures that nobody has physical access to the diamonds. Our plant is still relatively new, resulting in low running costs and lower capital replacement requirements.

We use a combination of waste rock from the pit and coarse tailings generated by the treatment plant to continuously strengthen and increase the wall height of our Residue Storage Facility ("RSF"). Fine tailings from the production facility are deposited in the RSF basin and excess water is recovered for reuse in the plant. We adopt a rigorous approach to environmental stewardship and our on-site environmental department ensures that we operate within acceptable limits for water, air and noise pollution.

## Sorting

Once the diamonds are recovered, we send them to our sales broker in Antwerp for cleaning and sorting. Our broker then parcels the diamonds and sells them through a tender process, ensuring that we achieve the best price for our diamonds. The revenue we earn depends on the quantity of carats we recover and sell each year and the average value per carat realised at sale. The average value is influenced by the quality of the diamonds and market pricing dynamics at the time of sale.

## People

Our people are an important asset for us. We have established teams in each discipline, staffed with the key skills and specialist knowledge they require. We are focused on the employment of local staff where those skills and experience are available in Lesotho. 95% of the people working for LMDC are Lesotho nationals. We also offer employment opportunities to local communities first and provide training to enhance employee skills. Our robust safety culture, procedures and processes help to keep our people healthy, safe and productive.

## Community

Strong stakeholder relationships are essential to retaining our licence to operate. We work closely with our communities to identify and develop sustainable projects to improve living standards. In addition, we contract with, and purchase goods and services from, as many locally registered businesses as possible. We also engage actively with the Government of Lesotho, which owns 25% of the Lihobong Mine and has two Directors on the Lihobong Diamond Development Company Board,

## Outputs

### Employees

Our people benefit from challenging and stimulating jobs with appropriate short and long-term pay structures, in a safe and healthy working environment.

### Communities

Our communities benefit from the jobs we provide, resulting in a stronger local economy, as well as our initiatives to improve living standards.

### Suppliers

Our suppliers have the opportunity to build long-term and mutually beneficial relationships with us and to grow their businesses alongside ours.

### Society

Wider society benefits from our strict protocols to protect the environment and from the royalties, direct and indirect taxes paid to the Government of Lesotho.





### Shareholders

Our approach aims to generate returns for shareholders over time, through strong cash flows once debt has been repaid.

# STRATEGY



WE HAVE FOUR STRATEGIC OBJECTIVES AND MADE GOOD PROGRESS AGAINST ALL OF THEM DURING THE YEAR. WE ALSO USE THE KEY PERFORMANCE INDICATORS ON PAGES 9 TO 12 TO MONITOR OUR STRATEGIC PERFORMANCE”

Strategic objective	Key achievements in 2019	Link to risk
 <b>Operational excellence</b> We look to continuously improve our operations and achieve our targets by enhancing throughput, minimising diamond damage and ensuring we have world-class maintenance programmes.	<ul style="list-style-type: none"> <li>Achieved all of our production targets for the year.</li> <li>Achieved very competitive operating costs.</li> <li>Exceeded the previous year's quantity of tonnes moved after successful integration of a new mining contractor.</li> <li>Reduced diamond damage to well below the industry standard.</li> </ul>	1 2 9 10 12 13 14
 <b>People</b> People are key to maximising returns, so we aim to attract, retain and develop a motivated, skilled and incentivised workforce, and to keep them healthy and safe.	<ul style="list-style-type: none"> <li>Achieved an outstanding 4-star NOSA rating following an external safety, health and environmental audit and fire risk assessment.</li> <li>Successful skills transfer to a number of local employees in key leadership positions.</li> <li>Prioritised local recruitment, with 95% of people at Lihobong Mine being Lesotho nationals.</li> </ul>	11 15 16
 <b>Licence to operate</b> We retain our licence to operate by bringing all local stakeholders, communities and the government on our journey, ensuring they benefit from our work and addressing their concerns.	<ul style="list-style-type: none"> <li>Maintained all licences to operate.</li> <li>Maintained an open dialogue with the community and worked with government departments and non-governmental organisations.</li> <li>Initiated various corporate social responsibility projects which enhanced the lives of the local communities, including the “Lema u Phele” (Plant and Live) initiative.</li> <li>No major environmental incidents.</li> </ul>	5 18 19
 <b>Shareholder return</b> We will generate returns for investors over time by achieving the three objectives above and by maximising our utilisation of the mineral resource, under given market conditions.	<ul style="list-style-type: none"> <li>Withstood extremely challenging market conditions and depressed diamond prices, with impact offset partially by cost reductions.</li> <li>Cash generated from operating activities of US\$17.0 million increased cash reserves and funded interest paid to ABSA Bank of US\$3.5 million and a US\$1.9 million capital repayment.</li> <li>Covenant waiver obtained from ABSA Bank in respect of breaches of two forward-looking covenants.</li> <li>Agreement reached with bondholders to issue interest shares on the Series A Eurobonds until 30 June 2020.</li> </ul>	3 4 6 7 8 17

## KEY PERFORMANCE INDICATORS



LIQHOBONG CONTINUED ITS STRONG OPERATIONAL PERFORMANCE FOR THE YEAR, MEETING MARKET GUIDANCE FOR DIAMONDS RECOVERED, ORE TONNES TREATED AND WASTE TONNES MINED, AND EXCEEDING MARKET GUIDANCE IN RESPECT OF OPERATING COSTS”

### Safety

**LTIFR 0.23**  
(2018: zero)

**Definition:**

Calculated as the total number of lost time injuries per million labour hours worked.

**Performance:**

The Group continued its solid performance from a safety perspective, recording a Lost Time Injury Frequency Rate (“LTIFR”) of only 0.23, which compares favourably to the Group’s peers. Management consider safety very seriously and, fortunately, the two contractors who were injured during the year only experienced minor injuries and both reported back to work after a recovery period.

**Risk management:**

Policies, procedures and monitoring systems are assessed and updated regularly in order to reduce the possibility of accidents occurring which could result in injury.

**Outlook:**

Our aim is to have no injuries by maintaining and improving upon our very high safety standards.

Link to strategy:

Link to remuneration: Yes

### Ore tonnes

**3.7mt**  
 **4%**  
(2018: 3.8mt)

**Definition:**

The quantity of ore tonnes treated by the plant, which has a nameplate capacity of 500 tonnes per hour. Ore is supplied to the plant from the Mine itself or from stockpiles.

**Performance:**

The plant treated 3.7 million tonnes for the year, which was marginally less than the previous year, but within guidance of between 3.6 and 3.8 million tonnes, despite various production delays caused by unanticipated equipment breakdowns.

**Risk management:**

Liqhobong is staffed with appropriately skilled people who ensure that operations run smoothly. An ore stockpile provides security of supply of material to the plant for treating for a period of up to three days should the main pit become inaccessible for any reason.

**Outlook:**

FY2020 guidance is to treat between 3.6 and 3.8 million tonnes of ore.

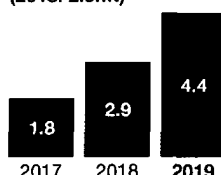
Link to strategy:

Link to remuneration: Yes

## KEY PERFORMANCE INDICATORS CONTINUED

## Waste tonnes

4.4mt

 53%  
(2018: 2.9mt)
**Definition:**

The quantity of waste tonnes mined. This activity is required to develop the Mine so that a sufficient quantity of ore is available for treating.

**Risk management:**

The waste stripping plan ensures that adequate quantities of ore are accessible to meet the throughput requirements of the treatment plant for a sustained period.

**Performance:**

Waste stripping activities during the year ramped up significantly from 2018 in accordance with the Mine's development plan. The 4.4 million tonnes of waste stripped during the year was within guidance of between 4.3 and 4.8 million tonnes, and was significantly higher than the 2.9 million waste tonnes mined in the previous year.

**Outlook:**


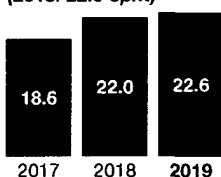
FY2020 guidance is to mine between 6.0 and 6.5 million tonnes of waste, a substantial further increase on the tonnage mined during the year. According to the most recently updated Mine plan, waste tonnage will peak at 6.5 million tonnes for the next three years, and will decrease substantially thereafter.

Link to strategy: 

Link to remuneration: Yes

## Grade

22.6 cpht

 3%  
(2018: 22.0 cpht)
**Definition:**

Calculated as the quantity of carats recovered for every 100 tonnes of ore treated.

**Risk management:**

The Mine's Mineral Resource Management ("MRM") department reconciles grade recovery daily to identify any anomalies, which are then investigated further to determine whether there are issues with either the resource or the plant's recovery process. Red area tailings are reprocessed through an audit plant to ensure that all diamonds are being recovered by the main treatment plant.

**Performance:**

The grade for the year was higher than the previous year due to higher-grade ore blocks being mined. However, the Mine Oall Factor ("MOF"), which is a function of the actual quantity of carats recovered as a percentage of the expected quantity of carats according to the reserve model of a particular ore block, was lower at 91% compared to 98% in the previous year. Reasons for the lower MCF are being investigated and any amendments, if necessary, will be applied when the mineral resource is updated during the 2020 financial year. The MCF of 91% is nevertheless still within the 10% to 15% margin of acceptance for an Indicated Resource.

**Outlook:**

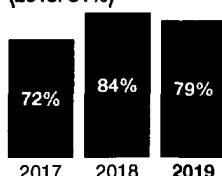
Mining continues according to the most recently adopted life of mine ("LOM") plan and the grade is expected to be between 22 and 23 cpht for FY2020. A number of workstreams are underway to better understand the lower MCF.

Link to strategy: 

Link to remuneration: Yes

## Plant utilisation

79%

 6%  
(2018: 84%)
**Definition:**

Calculated as a combination of the percentage of time that the plant is available and utilised.

**Risk management:**

The Mine's engineering department adheres to a strict preventative maintenance system aimed at reducing unexpected equipment failures and delays.

**Performance:**

Plant utilisation for the year was lower, mainly as a result of an unexpected failure of one of the scrubbers during the year, which led to significant downtime and lower overall plant utilisation.

**Outlook:**

We aim to achieve overall utilisation of 81%, which is calculated as 90% utilisation of 90% plant availability.

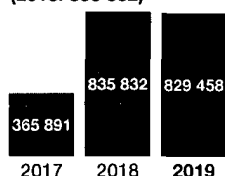
Link to strategy:  

Link to remuneration: Yes

## Carats recovered

**829 458**

↓ **1%**  
(2018: 835 832)



Link to strategy:

### Definition:

The quantity of carats recovered by the plant from the ore treated.

### Risk management:

The Mine's MRM department reconciles grade recovery daily to identify any anomalies, further details of which are provided in the section above which deals with grade.

### Performance:

Recoveries for the year of 829 458 carats was within the guidance range of 820 000 to 870 000 carats, and lower than the previous year mainly due to fewer tonnes treated of 3.7 million tonnes compared to the previous year of 3.8 million tonnes.

### Outlook:

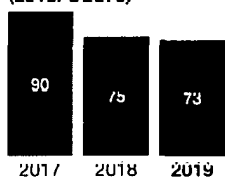
FY2020 guidance is to recover between 820 000 and 870 000 carats.

Link to remuneration: **Yes**

## US\$ per carat

**US\$73**

↓ **3%**  
(2018: US\$75)



Link to strategy:

### Definition:

The average value per carat realised from all sales for the year by dividing revenue by the quantity of gem carats sold for the year.

### Risk management:

Revenue is mainly impacted by the average diamond value realised, which is something that is beyond the Group's control.

### Performance:

Average value per carat was lower than expected in the current year as a result of recovering fewer larger, higher-value diamonds generally and continued lower average prices realised for ROM category diamonds, which decreased by over 20% between September 2018 and the year end and have remained at similar levels.

### Outlook:

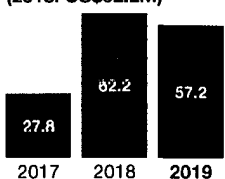
We expect the average value of ROM category diamonds to remain at current levels for the foreseeable future, and expect to realise continued strong average values for larger, better quality diamonds. In the longer term, as discussed elsewhere in this report, we expect the market to improve as the supply-demand balance normalises.

Link to remuneration: **Yes**

## Revenue

**US\$57.2m**

↓ **8%**  
(2018: US\$62.2m)



Link to strategy:

### Definition:

The gross sales value for diamonds sold during the year, before deducting sales-related costs and royalties.

### Risk management:

Revenue is mainly impacted by the average diamond value realised, which is something that is beyond the Group's control.

### Performance:

Revenue was lower than the previous year, due to 56 807 fewer carats sold and a lower average value realised of US\$73 per carat compared to US\$75 per carat in the previous year.

### Outlook:

The outlook for revenue, which is a function of carats recovered and US\$ per carat realised, can be determined by referring to those specific sections above.

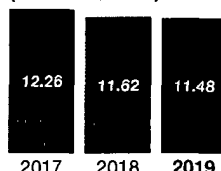
Link to remuneration: **Yes**

## KEY PERFORMANCE INDICATORS CONTINUED

## US\$ per tonne treated

**US\$11.48****↓ 1%**

(2018: US\$11.62)

**Definition:**

The cash operating cost per tonne treated, which is calculated by dividing total cash operating costs, including waste, by the quantity of ore tonnes treated.

**Risk management:**

Operating costs are closely managed against Board-approved budgets and are measured against forecasts which are updated regularly to ensure that they are relevant and appropriate. Currency hedge contracts are used where appropriate to mitigate a portion of the exchange rate risk.

**Performance:**

As a result of continued strong cost management and a weak local currency, the cash operating cost for the year of US\$11.48 per tonne treated was lower than the previous year of US\$11.62 per tonne treated, and 23% lower than the lower limit of guidance of between US\$15.00 and US\$16.00 per tonne treated.

**Outlook:**

FY2020 guidance is for an operating cost of between US\$13.50 and US\$14.50 per tonne treated, based on an average exchange rate of LSL14.50 to the US Dollar.

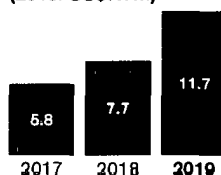
Link to strategy:

Link to remuneration: Yes

## Adjusted EBITDA

**US\$11.7m****↑ 52%**

(2018: US\$7.7m)

**Definition:**

The measure of operational cash performance calculated as earnings before interest, tax, depreciation, amortisation and non-cash share-based payment expense.

**Risk management:**

Average diamond value achieved is beyond the Group's control. However, cost management and the use of currency hedge contracts to limit the impact of changes in exchange rates on operating costs are within management's control, and are carefully managed.

**Performance:**

Adjusted EBITDA was significantly higher than the previous year mainly due to lower cost of sales. During the year, the mining cost was 15% lower as a result of a change in mining contractor and US\$3.0 million of waste stripping cost that was capitalised to the cost of the asset.

**Outlook:**

Adjusted EBITDA for FY2020 is expected to be significantly lower than FY2019, as a result of lower forecast average diamond values for the year as a result of the continued weak diamond market, a forecast increase of 1.5 million waste tonnes for the year and increased operating costs in respect of the battery of diesel generators being used to supply electricity to the operations while the 'Muela Hydro-Power Station is out of operation for a two-month maintenance period.

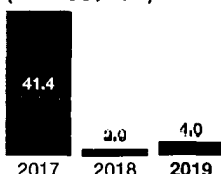
Link to strategy:

Link to remuneration: Yes

## Capex

**US\$4.0m****↑ 100%**

(2018: US\$2.0m)

**Definition:**

Amount spent on capital items.

**Risk management:**

A systematic preventative maintenance programme is in place to ensure that equipment lasts as long as possible before requiring replacement.

**Performance:**

Capex expenditure increased during the year and includes US\$3.0 million of capitalised waste stripping costs (2018: US\$nil).

**Outlook:**

Capex spend is expected to increase in FY2020 as a result of increased waste stripping to between 6.0 and 6.5 million tonnes.

Link to strategy:

Link to remuneration: No

## RISK REVIEW

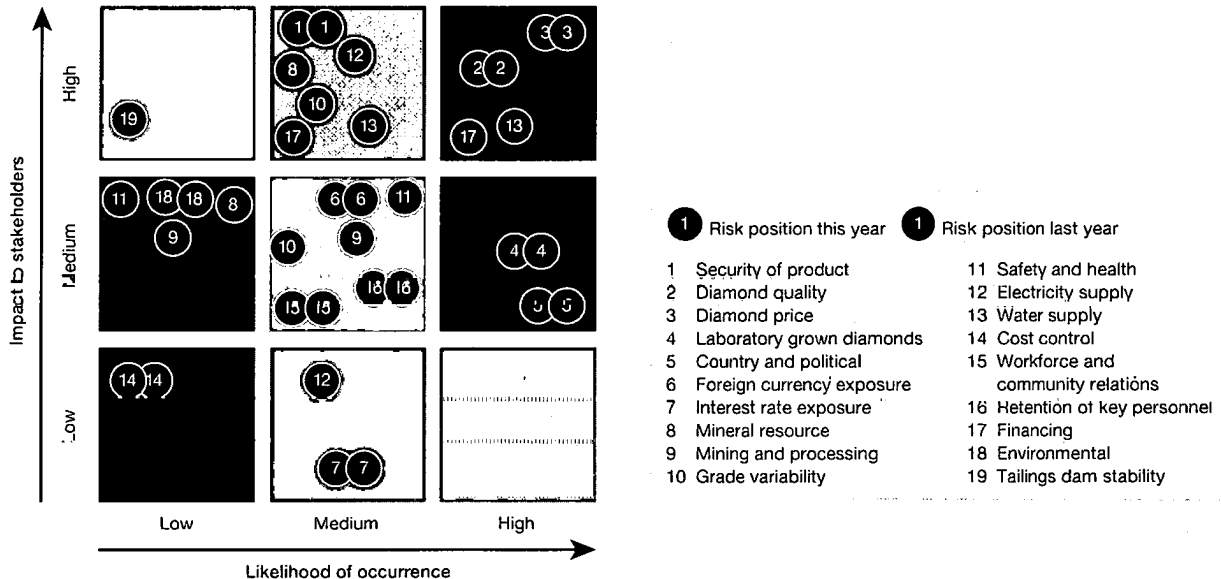
“

WHILST CONTINUING TO STRIVE TOWARDS THE SUCCESSFUL AND SAFE OPERATION OF THE LIQHOBONG MINE IN LESOTHO, AND IDENTIFYING AND MANAGING RISKS TO WITHIN ACCEPTABLE LIMITS, WE HAVE FOCUSED ON THE GROUP'S FUNDING AND LIQUIDITY LEVELS, WORKING WITH ABSA BANK AND THE BONDHOLDERS TO FIND A LONGER-TERM SOLUTION TO THE IMPACT OF A CONTINUED WEAKER DIAMOND MARKET”

Having completed our second year of commercial production, the focus has shifted to finding a longer-term solution to the Group's high debt levels, while ensuring that the Mine operates successfully over its planned life and at the designed specification in order to maximise returns to all stakeholders over time.




The Company is exposed to a number of risks and uncertainties, which, if they occur, could have a material impact on the successful achievement of its goals. Management of these risks and uncertainties is a key function of the Board and management of the Company.

The following risks have been identified as the main risks that could possibly impact on the Company achieving its goals:





# RISK REVIEW CONTINUED




## Commodity risks

Impact	Mitigation	Reason for change
<b>1 Security of product</b> Diamonds are highly valued and easily transportable. Product security is a key risk area that is constantly reviewed. Crime and theft syndicates are very sophisticated and operate globally.	Liqhobong operates a completely closed, hands-off diamond recovery process that ensures that there is no physical access to diamonds. In addition to a permanently monitored camera surveillance system, security protocols are reviewed and updated on a regular basis. Personnel who exit the recovery area or red area are subjected to a full body search and selective X-ray scanning.	 No change
<b>2 Diamond quality</b> Diamond deposits are unique with regard to diamond quality and size frequency distribution. There is a risk that even if the expected quantity of carats is recovered, the quality of the diamonds recovered is lower than expected, resulting in lower revenues. The frequency of recovery of large (greater than 10.8cts), better quality diamonds is especially difficult to predict.	Our latest LOM plan and budgets were adjusted to reflect the lower actual US Dollar per carat realised.	 No change
<b>3 Diamond price</b> The Group's financial performance is primarily determined by the volume of diamonds recovered and the average value realised from the sale of its rough diamonds. Rough diamond prices are influenced by many factors beyond the Group's control, including: <ul style="list-style-type: none"> <li>• over/undersupply of rough diamonds;</li> <li>• the impact of laboratory grown diamonds;</li> <li>• economic factors globally affecting consumer demand;</li> <li>• consumer trends;</li> <li>• secondary market financing; and</li> <li>• the impact of the exchange rate of the Indian Rupee against the US Dollar, particularly as it impacts the lower-quality ROM category diamonds.</li> </ul>	The Group monitors the market continuously to ensure that it is up to date on current diamond market information and trends.  Conservative average diamond values are used when modelling cash requirements for the Group to ensure that it is funded with sufficient headroom to withstand potential lower pricing outcomes, and in order for corrective action to be taken at the appropriate time.	 No change



## External risks

Impact	Mitigation	Reason for change
<b>4 Laboratory grown diamonds ("LGDs")</b> LGDs have been available for many years. Technological advancements have resulted in gem-quality LGDs being more widely available. There is a risk that the demand for natural diamonds could be impacted. De Beers manufactures and sells LGD jewellery under its Lightbox brand. In the longer term, the risk is a reduction in demand for the lower-quality, smaller ROM category diamonds as consumers may instead opt for similar priced LGDs.	Since the introduction of Lightbox, the prices of LGDs have continued to decline. Natural diamonds are required to be certificated, and this represents a key industry control which is essential to maintaining consumer confidence. In addition, marketing work performed by the leading diamond producers, and the expanding Diamond Producers Association, will assist in maintaining the profile of natural diamonds as the premium product.	 No change
<b>5 Country and political</b> Liqhobong is situated in Lesotho, which has experienced two changes of government in recent years. Lesotho is an emerging market economy which is generally subject to greater volatility and political risk.	The Firestone team has extensive experience of operating in Southern Africa. The Company keeps in close contact with representatives of the Government of Lesotho to ensure it keeps abreast of all political and regulatory developments.	 No change



Impact	Mitigation	Reason for change
<b>6 Foreign currency exposure</b> The Group earns revenue in US Dollars from the sale of its rough diamonds and incurs operating costs in mainly the Lesotho Maloti (which is pegged to the South African Rand), and to a lesser extent, the Pound Sterling. Fluctuations in these currencies may have a significant impact on the Group's financial performance.	The Group monitors the movement of the Rand against the US Dollar very closely. The Group has a policy to lock in exchange rates where significant capital expenditure is to be incurred. Where possible, and where liquidity allows, short-term forward contracts are entered into when Rand weakness is experienced, to the extent that the Group requires funding for short-term purposes.	 No change
<b>7 Interest rate exposure</b> The Group is exposed to risk posed by floating interest rates charged on the Project's debt facilities. Rising interest rates pose a risk to the Group's cash flow, which could lead to the Group not being able to meet its operational and debt covenant cash requirements.	By applying the Group's hedging policy, the Group has entered into floating-to-fixed interest swaps for up to 50% of the ABSA debt, which will ensure that a portion of the total interest charge remains fixed for the duration of the debt facility.	 No change
<b>8 Mineral resource (closely associated with risk 10 – Grade variability)</b> The Group's financial performance is impacted by the quantity of carats recovered at Liqobong, and is based on the stated resource. The resource as determined is based on actual results from drilling and bulk sampling which was done during the feasibility stage. This is then extrapolated across the deposit. There is a risk of resource over-estimation in areas where there are fewer sampling points.	Liqobong's resource was independently verified. The Mine's MRM department reconciles resource grades against recovered grades which would identify material changes that would require further investigation. The mineral resource will be updated during the 2020 financial year to reflect the latest geological model.	 Re-instated risk with increased impact to shareholders. The risk has been re-instated due to a possible impact of lower grades inherent in the resource and a possible indication of resource over-estimation in certain portions of the ore body. The impact to shareholders is assessed as high as it relates to the quantity of carats available for sale which relates directly to revenue.

## Operational risks





Impact	Mitigation	Reason for change
<b>9 Mining and processing</b> The successful operation of a diamond mine is dependent upon its ability to extract ore at a sufficient rate to meet the planned treatment capacity of the processing plant, which is 500 tonnes per hour. A number of factors affect ore and waste rock mining from the pit. These include inclement weather conditions, mining equipment reliability and achieving mining targets. Risks facing ore treatment include unscheduled shutdowns, technical failures, higher than expected wear rates and power outages.	Liqobong has established teams with core competencies in each discipline: mining, plant operations, health and safety, engineering and support services. Each team is staffed by those with the key skills and specialist knowledge required of each distinct discipline. A structured planned maintenance programme is followed ensuring maximum operational uptime and reducing the number of unscheduled plant stoppages. Ore and waste tonnages, recovery results and other performance metrics are monitored daily to ensure early identification of any adverse trends. An ore stockpile is maintained which is sufficient to keep the plant in operation for up to three days should mining from the pit be interrupted.	 The risk of maintaining required rates of ore and waste rock mined from the pit increases as the required quantities increase.
<b>10 Grade variability (closely associated with risk 8 – Mineral resource)</b> The Group's financial performance is impacted by the quantity of carats recovered by the Liqobong treatment plant. The treatment plant is specified to process ore at a rate of 500 tonnes per hour. Grade variability results in greater or fewer carats recovered and consequently impacts revenue.	Liqobong's grade estimate was based on large diameter drilling and bulk sampling, and was independently compiled and signed off. At an operational level, Liqobong's MRM department focuses on grade control on an ongoing basis. Grades recovered are reconciled to the resource grades of particular areas mined to ensure that discrepancies are identified. The Mine operates an audit plant which reprocesses red area recovery tailings to ensure that all diamonds are recovered.	 The impact to shareholders is reassessed as having a high impact to shareholders as it relates to the quantity of carats available for sale which relates directly to revenue.

# RISK REVIEW CONTINUED

## Operational risks continued

Impact	Mitigation	Reason for change
<b>11 Safety and health</b> Mining operations involve a range of day-to-day activities which could result in accidents, and in the worst case, the loss of life, should safety standards not be adhered to.	Liqhobong is focused on maintaining its safety record through continued adherence to strict safety policies. The Company follows a risk-based approach, assessing and adequately addressing the risks in a particular work area prior to work being performed in that area. Continuous training takes place and safety awareness is practised by all employees.	 Safety and health has been reassessed as having a medium likelihood of occurrence due to the increase in lost time injuries experienced during the year, and considering the inherent risks associated with mining activities in challenging environments.
<b>12 Electricity supply</b> Liqhobong is connected to the Lesotho National Power Grid which supplies power from its 'Muela Hydro-Power Station through its distribution network which includes the 132kW power line that was constructed as part of the Mine's development. In instances when the Hydro-Power Station is not in operation, the Mine is unable to receive sufficiently stable grid power to continue operations. In these instances, the only alternative is for the Mine to rent diesel-powered generating units, which take time to site establish and result in additional operating costs.	A power factor correction unit is installed on site, which manages constant power supply to the Mine site and eliminates any power surges. The Mine has a close relationship with the Lesotho Electricity Company ("LEC") which ensures prompt action if and when power supply problems occur.  Due to the issues experienced in October and November 2019, the Mine will prepare in advance of future maintenance taking place at the 'Muela Hydro-Power Station to rent diesel generators in order to supply alternative power. The Hydro-Power Station has only halted operations twice in the past five years for maintenance.	 The impact to stakeholders has been reassessed as high (previously low), due to the recent power interruption which resulted in the plant stopping operations for a four-week period while an alternative power supply arrangement was put in place. During this time no processing took place, no carats were recovered and therefore no revenue was generated.
<b>13 Water supply</b> Southern Africa, including Lesotho, continues to experience the after-effects of one of the worst droughts in recent history. The limited availability of water storage facilities in the Liqhobong valley poses a risk to normal operation of the treatment plant.	The Mine currently has sufficient storage capacity for its water needs under normal annual rainfall conditions and carefully manages its various water storage facilities, ensuring that as much water as possible is harvested and stored on site.  The Mine also prioritises effective water use. It operates a closed circuit, encourages reducing water use and recycles all water for further use. The Mine has the necessary approvals in place to build another water storage dam should the need arise, however this represents a substantial capital item that would have to be separately funded.	 Due to global climate change, weather patterns have become unpredictable and as such the likelihood of occurrence has changed to high.
<b>14 Cost control</b> The total operating costs of mining activities comprise both fixed and variable components. There is a risk that fixed costs may increase ahead of expectations or that variable costs escalate, resulting in lower profitability.	Firestone has a culture of cost consciousness which ensures that all costs are carefully considered on a continuous basis. The Group also measures its performance on a monthly basis against the approved budget and most recent forecast to ensure that costs are in line with expectations and discrepancies are investigated.	 No change
<b>15 Workforce and community relations</b> The Group's performance is impacted by relations with its workforce and local communities. There is a risk that increased workforce and community expectations can lead to labour or community unrest and strikes.	Our workforce and surrounding communities form an integral part of Firestone's strategy. The Company operates strict safety protocols which aim at ensuring employees' safety, and adequate long and short-term remuneration structures assist in maintaining a committed and motivated workforce. There is a Community Relations department which attends regular meetings with the local communities to ensure that mutually beneficial relations are maintained. The Company has successfully implemented a number of community initiatives including water reticulation for the local Liqhobong village and the construction of two road bridges which are crucial to linking local villages with the nearest town.	 No change

## Strategic risks

Impact	Mitigation	Reason for change
<b>16 Retention of key personnel</b> The Group is heavily reliant on a small group of key staff to achieve its objectives.	Firestone ensures that appropriate remuneration structures are in place to attract and retain staff with the required skills and experience to ensure that operational requirements are met. Remuneration structures include a balance of fixed and variable remuneration based on the key performance indicators for the individual and for the Group as a whole.	 No change
<b>17 Financing</b> Mining activities are subject to a number of inherent risks. The most significant risk is lower than expected diamond revenues or an interruption to operations, as this could lead to a shortfall in the amount of cash required to fund ongoing operational costs and debt repayments.	Management prepares detailed annual budgets and monthly forecasts based on recent performance and results to ensure that it is adequately financed. Action is taken at the appropriate time if and when it appears that a funding shortfall may occur.	 The weaker diamond market has persisted, resulting in lower cash generated than expected. Additionally, capital repayments to ABSA Bank re-commenced from 30 June 2019 and are scheduled to amount to US\$10.2 million during the 2020 financial year. Subsequent to the year end, the Group received a non-binding term sheet from ABSA Bank to restructure its debt, with the deferral of capital repayments for a 15-month period, and from its bondholders, to provide a working capital facility to fund short-term forecast cash flow shortfalls. There is a risk that the financing arrangements are not concluded as anticipated. Furthermore, the risk exists that, even if the financing arrangements are concluded as anticipated, that, subject to the quantity and quality of larger diamonds and subdued prices for particularly the lower-quality, smaller ROM category diamonds continuing, the Group may require further restructuring of its debt facilities and/or additional cash injection.
<b>18 Environmental</b> Liqhobong operates in an environmentally sensitive area, high up in a valley, which is a catchment area for the Motete and Malibamat'so rivers which ultimately flow into the Katse Dam. The Katse Dam supplements the water supply to South Africa. There is a risk that the mining operations could impact the immediate environment or cause contamination to the downstream aquatic system.	Environmental management forms an integral part of Firestone's strategy. There is an environmental department which operates on site, and which conducts regular tests on water, air and noise pollution to ensure that all disturbances are within acceptable limits. Any deviations are identified and corrective action is taken immediately.	 No change
<b>19 Tailings dam stability</b> A risk exists of over-topping or a breach of the structural integrity of the dam wall resulting in a partial or full failure. Risks include the loss of life of people or animals situated below the flood line, and widespread environmental damage should a failure occur.	The wall of the tailings dam is constructed using a combination of tailings and waste rock, making it inherently more stable than tailings facilities that are constructed using tailings only. The dam is built according to the downstream construction method and was independently signed off by a reputable engineer who has Lesotho-specific experience. It is constructed to withstand a 100-year rain event. Risk assessments are carried out regularly to identify changes in key measures which may indicate an increased risk or potential failure and mitigating action is taken accordingly.	 New risk This risk has been added due to increased concerns regarding the stability of tailings dams following the recent failure of tailings dams in Brazil. This risk is assessed as having a high impact to stakeholders, however the likelihood of occurrence is assessed as being low.

## CEO'S REVIEW



**Paul Bosma**  
Chief Executive Officer

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**LIQHOBONG CONTINUED ITS STRONG OPERATIONAL PERFORMANCE, MEETING OR EXCEEDING GUIDANCE IN ALL RESPECTS. THE WEAKER DIAMOND MARKET HAS, HOWEVER, IMPACTED THE COMPANY”**

### Highlights

**3.7m**

ore tonnes treated

**829 458**

carats recovered

**4.4m**

waste tonnes mined

**US\$11.48**

cash operating cost per tonne treated

**311**

carat near-gem diamond recovered,  
the largest to date at Likhobong

**70**

carat white diamond sold for US\$1.6m,  
the most valuable diamond sold to date



**18 carat vivid  
yellow diamond**

### Introduction

In my first year as CEO of the Company, I am pleased to report on another strong operational performance from our Likhobong Diamond Mine in Lesotho. However, this was against the backdrop of lower revenue as a result of fewer carats sold, a deteriorating diamond market and poor average sales values received for the ROM diamonds less than approximately 0.7 carats per stone that form the bulk of Likhobong's production by volume. Nevertheless, we managed to end the year with a higher cash balance of US\$26.3 million, mainly due to the 18-month debt repayment holiday agreed with ABSA Bank at the end of 2017. We resumed repayment of our principal debt with ABSA from June 2019.

During the year there were two lost time injuries that occurred after working 6.7 million hours lost time injury free. Fortunately, the two affected contractors sustained minor injuries and were able to return to work after a period of recovery. There were no major environmental incidents during the year, only minor incidents relating mainly to isolated spillages. We recognise that the communities situated in the vicinity of the Mine are crucial stakeholders and an important source of local employment. We aim to provide benefits to those communities and one of the projects that was initiated during the year, "Lerna u Phele" which means plant and live, involves providing assistance to local farmers in order for them to grow and harvest fresh produce for sale to the Mine. Five villages have participated so far and the initiative will be expanded in the future to increase the variety and quantity of the fresh produce available for purchase by the Mine.

The operations performed solidly during the year, achieving guidance in respect of the quantity of carats recovered, ore and waste tonnes mined, and exceeding guidance in respect of operating costs. A record quantity of 8.1 million tonnes was mined during the year in terms of the most recent mine plan, which is 1.4 million tonnes more than the 6.7 million tonnes mined in the previous year and includes 4.4 million tonnes of waste (2018: 2.9 million tonnes). The objective of the mine plan is to deliver the best returns in the medium term at low risk whilst at the same time offering optionality of taking advantage of the longer life of mine should the average diamond values increase or should there be an improvement in market conditions.

Operating costs continued to be very well managed and were well below guidance for the year, both in local currency terms and in US Dollar terms due to a weaker Lesotho Maloti.

Water supply is crucial to the Mine's operations and, during the year, the rainy season commenced very late; however, we managed to fill our water reservoirs during April just in time, before the onset of the dry season. Unpredictable weather patterns linked to global climate change have become a reality over the last few years in Southern Africa and the rest of the world and we monitor our water availability and consumption closely. Electricity supply is also crucial for the Mine's operations, as highlighted by the power interruption, which occurred subsequent to the year end, and as more fully described in the Introduction to the Strategic Report, under the heading "Update and outlook for FY2020" on page 3.

In order for Firestone to thrive, we need to regularly recover larger, better quality diamonds and we need to see an increase in the price we receive for our ROM diamonds. We expect ROM prices to recover, assuming consumer demand for diamond jewellery remains stable, as supply decreases as predicted through 2020 and 2021 due to the closure of mines, most notably the Argyle Mine in Australia.

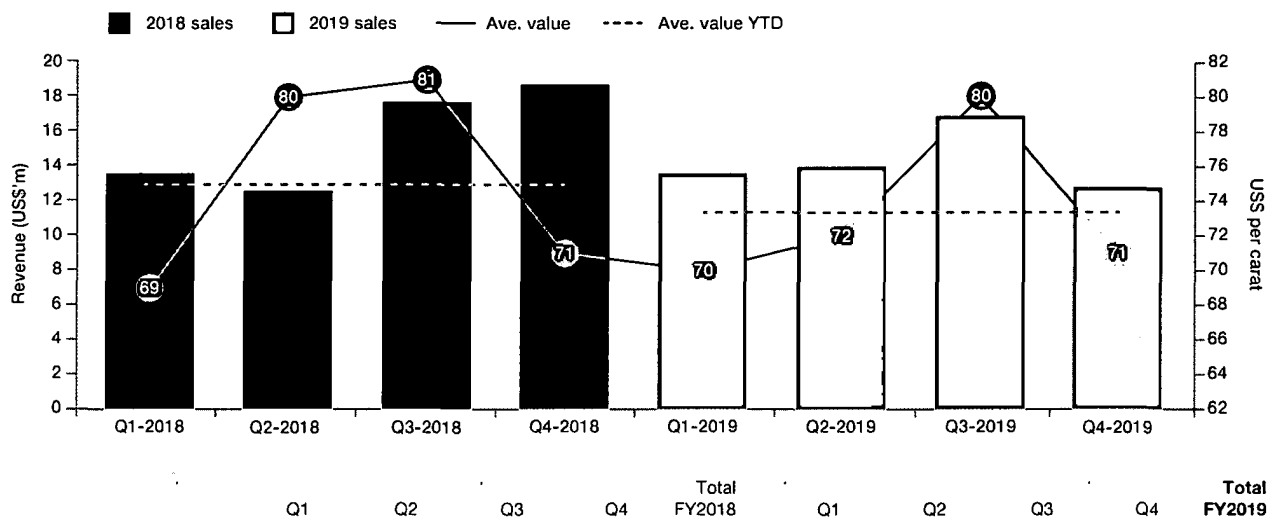
Our focus is to ensure that the Company makes it through the current downturn in the diamond industry by continuing to excel at the factors that we can control, such as safety, production and operating costs, and by working with our debt holders and major shareholders to find a longer-term solution to the high levels of debt in the business.

### Diamond recoveries

A number of noteworthy diamonds were recovered during the year, including:

- our largest diamond to date, a 311 carat near-gem diamond;
- our most valuable diamond to date, a 70 carat white diamond that sold for \$1.6 million; and
- a number of pink fancy diamonds that achieved good sales values at our tenders held in Antwerp.

### Diamond sales



	Q1	Q2	Q3	Q4	Total FY2018	Q1	Q2	Q3	Q4	Total FY2019
<b>Revenue</b>										
Diamonds sold (carats)	195 330	156 942	217 380	261 985	831 637	194 206	191 735	211 368	177 521	774 830
Revenue (US\$'m)	13.5	12.5	17.6	18.6	62.2	13.5	13.9	16.8	12.7	56.9
Average value (US\$/ct)	69	80	81	71	75	70	72	80	71	73
Number of sales	2	2	2	2	8	1	2	2	2	7
<b>Diamonds which sold for over US\$500 000 each</b>										
Number					2					5
Value (US\$'m)					2.1					4.9

The Group realised revenue for the year from its seven sales amounting to US\$56.9 million from the sale of 774 830 gem carats at an average value of US\$73 per carat. During the year, higher revenue from an increased number of valuable diamonds sold for more than US\$500 000 each was offset by a decrease in the average prices for ROM diamonds.

## CEO'S REVIEW CONTINUED

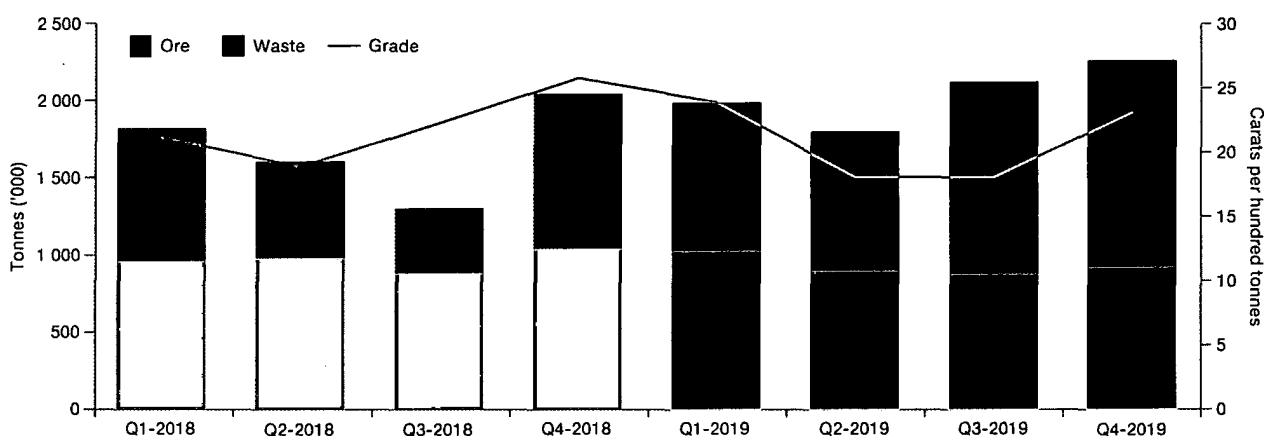
### Diamond sales *continued*

The average value of Lihobong's larger, better quality diamonds, which includes all diamonds larger than 10.8 carats, was 48% higher than in the prior year, buoyed by the recovery of several high-value diamonds which included a 70 carat white diamond which sold for US\$1.6 million and a 46 carat white cleavage diamond which sold for US\$1.2 million. However, the positive impact was offset by a lower average value realised for ROM diamonds, which decreased by 23% during the year due to a combination of an over-supply of smaller goods and reduced lending in the industry.

Revenue was also lower due to 56 807 fewer carats sold compared to the previous year as a result of the timing of sales and seven sales during the year compared to eight sales in the previous year. Although the average value was lower for the year, it was broadly in line with the base case assumption used for purposes of the ABSA debt restructuring which took place during the previous year.

	Q1	Q2	Q3	Q4	2019	2018
<b>Production</b>						
Ore (tonnes)	1 012 323	884 252	862 838	904 902	3 664 315	3 802 568
Waste (tonnes)	961 013	902 151	1 242 481	1 337 281	4 442 926	2 910 634
<b>Total (tonnes)</b>	<b>1 973 336</b>	<b>1 786 403</b>	<b>2 105 319</b>	<b>2 242 183</b>	<b>8 107 241</b>	<b>6 713 204</b>
Carats recovered (carats)	240 733	224 947	155 206	208 572	829 458	835 832
Grade (carats per hundred tonnes)	23.8	25.4	18.0	23.0	22.6	22.0

### Production



During the year, a record 8.1 million tonnes was mined, which was 1.4 million tonnes more than the prior year of 6.7 million tonnes. The amount of ore tonnes treated for the year is a function of the quantity of tonnes available from mining and from stockpiles, and the availability of the treatment plant which can be impacted by unscheduled maintenance and breakdown delays. During the first quarter, over 1 million tonnes of ore was treated. However, fewer tonnes of ore were treated during Q2 and Q3 due to unplanned downtime as a result of a scrubber failure in November and front end and conveyor breakdowns during early January 2019, at a time when it was challenging to mobilise support crews from South Africa. During the fourth quarter, production increased to just over 0.9 million tonnes and contributed towards the achievement of guidance for the year in respect of ore tonnes treated and carats recovered.

Although the grade for the year of 22.6 cpht was marginally higher than the prior year's 22.0 cpht, a lower Mine Call Factor ("MCF") of 91% was recorded (2018: 98%). MCF is a function of the actual quantity of carats recovered as a percentage of carats according to the reserve model of a particular ore block. An investigation commenced into the reasons for the lower than expected MCF, particularly in one area in the south eastern part of the open pit. These results will be incorporated in the updated block model which is expected to be completed during the 2020 financial year.

Waste mining for the year of 4.4 million tonnes was 1.5 million tonnes more than the previous year of 2.9 million tonnes. During the first two quarters of the year, 1.0 million tonnes and 0.9 million tonnes of waste was mined, which was lower due to restricted access to Cut 2 south and poorer equipment availability during that period. However, there was a marked improvement during Q3 and Q4 as equipment availability and access to Cut 2 improved and additional fleet was supplied by the mining contractor.

### Mine development

During the year further work was conducted to determine the viability of a Cut 3 open pit extension based on revised, steeper slope angles. The results of the exercise indicated that a Cut 3 was potentially viable and could extend the mine life by approximately three years should the key economic factor, the average diamond value, improve over time. However, based on average diamond values realised, and considering the increased cost of moving the additional waste tonnes, the extension was not considered economically viable at that stage. However, we continue to assess alternative life of mine extension options that are based on steeper slope angles which may result in a partial as opposed to a full third cut. Work in this regard is expected to be completed during the 2020 financial year.

## Diamond breakage

During the year, a number of minor modifications were made to the recovery process which resulted in a substantial decrease in diamond damage to below 2%, which is well within accepted industry standards.

## Resource and reserve statement

### Diamond Resource and Reserve update for Liqhobong Diamond Resource

#### Diamond Resource

The Diamond Resource was updated at the end of the financial year to account for the mining that took place during the year. A total of 3.694 million tonnes and 1.103 million carats were depleted. There was a net loss of 0.053 million tonnes containing 0.015 million carats due to changes in the pipe contact. At the end of the year, a total of 0.071 million tonnes of ore and 0.018 million carats was estimated to reside on the ROM, in the pit and in low-grade stockpiles. Therefore, as at 30 June 2019, the total Indicated Resource was 25.234 million tonnes at a grade of 27 cpht containing 6.693 million carats, which is a 13.7% reduction compared to the 2018 Indicated Diamond Resource statement. There were no changes to the Inferred Resource.

#### Diamond Resource statement for Liqhobong Main Pipe as at 30 June 2019 (including reserves)

Diamond Resource category	Depth from and to	Diamond Resource				
		Volume in m <sup>3</sup> (millions)	Density (tonnes/m <sup>3</sup> )	Metric tonnes (millions)	Grade (cpht)	Carats (millions)
Indicated	2 603 masl to 2 467 masl	9.618	2.62	25.234	27	6.693
Inferred	2 467 masl to 2 127 masl	18.135	2.65	48.064	28	13.553
<b>Total Diamond Resource</b>		<b>27.753</b>	<b>2.64</b>	<b>73.298</b>	<b>28</b>	<b>20.246</b>

- Diamond Resources as at 30 June 2019, reported inclusive of reserves.
- Tonnes are metric tonnes and totals are rounded.
- Stated at a bottom cut-off of 1.25mm square apertures.

#### Diamond Reserve

The Diamond Reserve was updated at the end of the financial year to account for mining that took place during the year. Therefore, as at 30 June 2019, the total Probable Reserve was 25.230 million tonnes at a grade of 22 cpht containing 5.623 million carats, which is an 11.6% increase compared to the 2018 Probable Diamond Reserve statement. Improved pit design optimisation initiatives resulted in increased recoverable reserves during the period.

In addition to the Probable Diamond Reserve, the 2017 split shell mine plan also assumes mining of a portion of the Inferred Diamond Resource totalling some 5.5 million tonnes and 1.33 million carats. The latest mine plan contemplates mining of a Cut 1 and Cut 2 and has the optionality to revert to a longer LOM plan, which includes a Cut 3, should there be a general improvement in the project economics including average diamond values or exchange rate, or further optimisation which is made possible by adopting steeper slope angles.

#### Diamond Reserve statement for the Liqhobong Main Pipe as at 30 June 2019

Diamond Reserve category	Depth from and to	Diamond Reserve			
		Density (tonnes/m <sup>3</sup> )	Metric tonnes (millions)	Grade (cpht)	Carats (millions)
Probable	2 603 masl to 2 467 masl	2.62	25.230	22	5.623
<b>Total Diamond Reserve</b>		<b>2.62</b>	<b>25.230</b>	<b>22</b>	<b>5.623</b>

- The above Diamond Reserve is stated at a 1.25mm slotted screen bottom cut-off.
- The average diamond price per carat is estimated at US\$77/ct.
- The plant is currently using a bottom cut-off configuration of 1.25mm slotted screens which necessitates the application of a resource to reserve modifying factor of 0.84 for mine planning purposes.
- Tonnes are metric tonnes and totals are rounded.

During the 2020 financial year, the geological model will be updated to reflect all geological changes that have taken place since production commenced. Once the geological model is updated, a revised block model will be generated, which will provide the necessary information to determine the potential for a life of mine extension.

## FINANCIAL REVIEW



**Grant Ferriman**  
Chief Financial Officer

“

**WE ACHIEVED A STRONG  
OPERATING CASH RESULT  
FOR THE YEAR”**

### Highlights

**US\$57.2m**  
revenue

**774 830**  
carats sold

**US\$10.3m**  
gross profit

**US\$73**  
average value per carat

**US\$56.9m**  
loss after tax (including an impairment charge  
of US\$41.6 million)

**US\$11.7m**  
Adjusted EBITDA

**US\$26.3m**  
in cash

### Summary

The Group had a good year from an operating perspective, having produced at similar levels to the previous year at an operating cost of US\$46.9 million, which was US\$10.2 million lower than the previous year's US\$57.1 million. Operating costs, which continued to be very well managed during the year, included the full impact of the lower cost structure of a new mining contractor, which took over mining activities in the second half of the previous financial year. However, continued challenging conditions in the diamond industry resulted in an impairment charge of US\$41.6 million and a tax charge of US\$6.3 million, due to the write-back of a deferred tax asset which relates to the impairment, resulting in a loss for the year of US\$56.9 million (2018: US\$14.2 million), and placing the Group's Statement of Financial Position into a negative equity position.

Operational cash performance as measured by Adjusted EBITDA was US\$11.7 million, which was US\$4.0 million better than the previous year of US\$7.7 million. After working capital changes and capital spend, the operating cash result is US\$13.1 million, which compares highly favourably to an outflow in the previous year of US\$0.6 million. However, this is impacted by the timing of the June 2018 sale proceeds of US\$10.4 million which were received at the beginning of the current financial year, and which, once accounted for, result in a more comparable operating cash result of US\$2.7 million versus US\$1.8 million in the previous year.

Net increase in cash was US\$7.3 million (2018: US\$0.9 million), mainly due to very low ABSA capital repayments of US\$1.9 million in June 2019, after an 18-month capital grace period, and the Group ended the year with cash balances of US\$26.3 million (2018: US\$18.4 million), of which US\$17.5 million (2018: US\$9.7 million) was unrestricted.



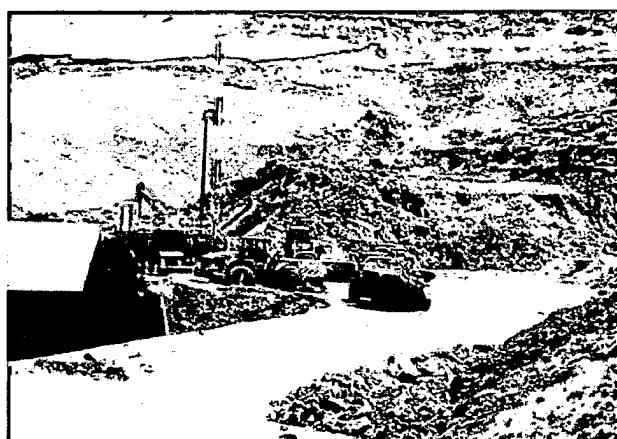


During the early part of the year, and as a result of the continued weaker diamond market, the Company engaged with the bondholders to consider ways to restructure the bond portion of the Company's debt, having responded in the previous year by choring up cash reserves and by restructuring the Group's principal debt with ARSA Bank. Engagement continued into the second half of the year when it became evident that, based on lower average diamond value scenarios, Liphobong forecast that it would breach two of its forward-looking covenants with ABSA Bank, namely the forecast debt service cover ratio and the loan life cover ratio, further details of which are provided in note 26 of this Annual Report. Through the mutual support and co-operation of ABSA Bank and the bondholders, agreement was reached and a covenant waiver was granted by ABSA Bank on 28 June 2020. At the same time, the bondholders agreed to receive interest on the Series A Eurobonds in shares rather than in cash, as required by ABSA, and a further condition of maintaining a minimum Group working capital level of US\$2.0 million was agreed to.

The Group remains under considerable cash pressure due to the weaker diamond market, and the situation was exacerbated by the commencement of capital repayments to ABSA Bank after an 18-month capital grace period which ended on 30 June 2019, and by the loss of revenue in October and November 2019 due to the power supply issue. Subsequent to the year end, a non-binding term sheet was received from ABSA Bank to defer capital repayments for a further 15-month period to 31 March 2021, and additionally, a non-binding term sheet was received from the bondholders to provide the Company with a US\$6.0 million working capital facility to fund short-term forecast cash flow shortfalls which result from the irregular timing of diamond sales proceeds during the same period. The financing arrangements are discussed under the heading "Update and outlook for FY2020" in the Chairman's Introduction to the Strategic Report on page 3, and in the Going Concern statement on page 68. It is anticipated that definitive agreements will be concluded during the first quarter of 2020. Discussions will continue with ABSA Bank and the bondholders during the 2020 financial year as further information becomes available regarding the potential extension of the mine life in order for a longer-term solution to be structured to address the Group's high levels of indebtedness, at lower average diamond values.

### Statement of profit and loss

US\$'million	2019	2018
<b>Revenue</b>	<b>57.2</b>	<b>62.2</b>
Less:		
Cost of sales	46.9	57.1
<b>Gross profit</b>	<b>10.3</b>	<b>5.1</b>
Other income	1.5	1.3
Selling and administrative costs	5.9	6.1
BK11 care and maintenance	0.3	0.5
Corporate costs	3.2	3.4
Amortisation and depreciation	1.4	2.4
Share-based payments	0.6	1.3
Impairment	41.6	—
Net finance cost	9.3	10.2
<b>Loss before tax</b>	<b>50.5</b>	<b>17.5</b>
Income tax (charge)/credit	(6.4)	3.3
<b>Net loss after tax</b>	<b>56.9</b>	<b>14.2</b>



## FINANCIAL REVIEW CONTINUED

### Cost of sales

Cost of sales relates to Liqhobong and comprises the on-mine operating costs, depreciation and amortisation expenses that are associated with the diamonds sold during the year.

US\$/million	2019	2018
On-mine cash costs excluding waste stripping	32.0	35.0
Waste stripping cost	10.0	8.6
On-mine cash costs	42.0	44.2
Less: Waste stripping cost capitalised	(3.0)	—
Waste stripping amortised	0.3	0.3
Depreciation	8.6	10.5
Diamond inventory movement	(1.3)	1.3
Share-based payments	0.3	0.8
<b>Cost of sales</b>	<b>46.9</b>	<b>57.1</b>
<b>Production</b>		
Ore (million tonnes)	3.66	3.80
Waste (million tonnes)	4.44	2.91
<b>KPIs:</b>		
Cash operating cost (US\$):		
– per tonne treated	11.48	11.62
– per tonne mined	5.19	6.59
Cash operating cost (LSL):		
– per tonne treated	162.23	149.40
– per tonne mined	73.32	84.70
Accounting cost per tonne treated (US\$)	13.09	14.45

Cost of sales for the year of US\$46.9 million was US\$10.2 million lower than the previous year's US\$57.1 million, mainly due to US\$2.2 million lower on-mine cash costs, US\$3.0 million of waste costs being capitalised to the balance sheet, and US\$1.9 million lower depreciation.

On-mine cash costs of US\$42.0 million were US\$2.2 million lower than the prior year of US\$44.2 million despite a 21% increase in tonnes moved for the year to 8.1 million tonnes (2018: 6.7 million tonnes). A combination of continued stringent cost management and lower costs contributed to the lower cost per tonne mined for the year, in Lesotho Maloti, of LSL73.32 compared to LSL84.70 in the previous year. The cost per tonne mined was also favourable in US Dollar terms at US\$5.19 compared to US\$6.59 in the previous year. Mining costs were 24% lower for the year at US\$2.36 per tonne moved compared to US\$3.11 per tonne moved in the prior year, including waste, due to a change in rates from a new mining contractor, which accounts for 15% of the variance, and a weaker Lesotho Maloti versus the US Dollar of LSL14.14:US\$1 (2018: LSL12.86:US\$1) which accounts for the remaining 9% of the variance.

During the year, particularly in the first half, several unexpected production interruptions were experienced. Minor delays occurred due to snowfall which hampered access to ore in the pit, and when one of the two scrubbers was removed from production for a three-week period while a replacement part was manufactured.

Despite the interruptions, which resulted in marginally fewer tonnes treated during the year of 3.7 million tonnes (2018: 3.8 million tonnes), and inflationary cost increases in Lesotho, the cash operating cost per tonne treated was lower than the previous year at US\$11.48 (2018: US\$11.62), which is an excellent result.

### Gross profit

Lower revenue for the year of US\$57.2 million (2018: US\$62.2 million) was offset by lower cost of sales of US\$46.9 million (2018: US\$57.1 million), resulting in a US\$5.2 million increase in gross profit to US\$10.3 million for the year (2018: US\$5.1 million). This represents a significant increase in margin to 18% (2018: 8%), despite a lower average value achieved for the year of US\$73 per carat (2018: US\$75 per carat).

### Liqhobong selling and administrative expenses

Selling and administrative costs are specific to the Liqhobong operation and incorporate costs to maintain the administrative function of the business and all costs in respect of selling the diamonds that are recovered from the Mine. Costs for the year of US\$5.9 million were US\$0.2 million lower than the previous year of US\$6.1 million, mainly due to lower selling costs as a result of lower revenue for the year.

### Corporate overhead

Corporate costs for the year of US\$3.2 million were marginally lower than the previous year's US\$3.4 million and reflect management's continued efforts in reducing operating costs across the business.

### Impairment

The value of the Liqhobong cash-generating unit was reassessed at year end based upon key assumptions that were considered reasonable as at the year end, adjusting for relevant impacts that have occurred since the year end, as disclosed more fully in note 10 – Impairment.

The key assumptions include forecast average diamond values and Mine Call Factor ("MCF"), both of which changed compared with those applied in the previous year. The diamond market has remained weak, particularly in respect of the smaller, lower-quality diamonds which comprise 80% of Liqhobong's production by volume. Based on the forecast diamond supply/demand dynamics as discussed more fully in the Market Context section of this report on pages 4 and 5, we forecast flat pricing for better quality stones over the next four years, thereafter increasing by 1.5% real. The pricing for lower-quality goods is forecast to recover to 2017 price levels by the 2023 financial year and to recover further to 2013 price levels by the 2024 financial year, at a stage where global supply is forecast to be at similar levels to those in 2013. Previously, an MCF of 100% was assumed. Due to the lower than expected MCFs being realised, as more fully discussed in the Grade and Adjusted EBITDA key performance indicators on pages 10 and 12 respectively, a forecast MCF of 95% has been applied throughout the life of mine.

These assumptions, together with others, were applied to the existing seven year life of mine plan, resulting in a recoverable value for the asset of US\$64.3 million, which was US\$38.3 million lower than its carrying value of US\$102.6 million, giving rise to an impairment charge.

## Net finance expense

Net finance cost includes the amortisation of upfront fees and, in the case of the ABSA debt facility, the upfront insurance premium paid to the Export Credit Insurance Corporation of South Africa ("ECIC").

Cost of financing (US\$ million)	2019					2018				
	Cash cost	Settled in shares	Capitalised	Amortised cost	Total cost	Cash cost	Settled in shares	Capitalised	Amortised cost	Total cost
ABSA debt facility <sup>1</sup>	3.5	—	—	2.4	5.9	3.2	—	—	3.0	6.2
Series A Eurobonds	—	2.4	—	1.3	3.7	—	2.4	—	1.3	3.7
Series B Eurobonds	—	—	0.6	0.1	0.7	—	—	0.5	0.1	0.6
Other finance cost	0.1	—	0.1	0.3	0.5	0.2	—	—	0.3	0.5
	3.6 <sup>1</sup>	2.4	0.7	4.1	10.8	3.4	2.4	0.5	4.7	11.0
Less: Finance income	1.0	—	0.5	—	1.5	0.8	—	—	—	0.8
<b>Net finance cost</b>	<b>2.6</b>	<b>2.4</b>	<b>0.2</b>	<b>4.1</b>	<b>9.3</b>	<b>2.6</b>	<b>2.4</b>	<b>0.5</b>	<b>4.7</b>	<b>10.2</b>

1 In addition, US\$1.3 million in cash finance cost was paid during the year, US\$0.9 million of which was accrued in the previous year, and US\$0.4 million in respect of an ECIC premium adjustment. Total cash finance cost per the cash flow is therefore US\$4.9 million.

During the year, the average US Dollar three-month LIBOR rate was 2.53%, which was higher than the average rate of 1.66% in the previous year.

## Tax charge

The tax charge for the year of US\$6.4 million comprises a decrease in the deferred tax asset recognised in Lihobong of US\$6.3 million, and an income tax charge of US\$0.1 million in Kopane Diamonds. Based on the financial model used for purposes of the impairment assessment discussed above, no tax losses are forecast to be utilised over the next three-year period to June 2022, resulting in the reversal of the deferred tax asset and the subsequent deferred tax charge, which are further discussed in note 11 and 14. The tax charge in Kopane Diamonds relates to expired tax credits which are chargeable against income.

## Net loss for the year

The Group recorded a net loss for the year of US\$56.9 million, which was US\$42.7 million more than the prior year's loss of US\$14.2 million, due mainly to the impairment charge of US\$41.6 million, and associated deferred tax asset reversal of US\$6.3 million.

## Debt

At the year end, on 28 June 2019, the Company repaid US\$1.9 million of the ABSA debt facility after an 18-month capital grace period which had been provided by ABSA Bank as part of a debt restructuring that took place during 2017.

## ABSA debt and Eurobonds

	Interest rate	Facility amount	2019 US\$m	2018 US\$m
ABSA debt facility	US\$ three-month LIBOR plus margin	82.4	65.9	67.8
Eurobond (Series A)	8% p.a.	30.0	30.0	30.0
Eurobond (Series B)	8% p.a.	15.0	8.1 <sup>1</sup>	7.5
		127.4	104.0	105.3

1 Balance increases each year due to capitalised interest.

## FINANCIAL REVIEW CONTINUED

### Scheduled loan balance and interest margins on the ABSA debt facility

Year	Loan balance			Interest – US\$ three-month LIBOR plus:			
	A Loan US\$m	B Loan US\$m	Total US\$m	A Loan		B Loan	
				Tranche A 85% %	Tranche B 15% %	Tranche A 85% %	Tranche B 15% %
2019	36.1	29.8	65.9	1.80	7.50	3.05	7.50
2020	15.9	39.9	55.8	1.80	7.50	3.55	7.50
2021	—	41.8	41.8	—	—	4.05	7.50
2022	—	20.6	20.6	—	—	4.05	7.50
2023	—	9.0	9.0	—	—	4.55	7.50

## Notes:

- The ECIC insurance provides ABSA Bank with cover over both Tranche A and Tranche B (together 100%) in respect of political risk and over Tranche A (85%) in respect of commercial risk.
- The effective interest rate is in aggregate 9.56% (2018: 9.29%), including upfront costs.
- The values stated above are subject to change, pending completion of the proposal to defer capital repayments for a 15-month period.

### Covenants

In terms of the debt restructuring that took place in 2017, ABSA debt covenants were due to be measured on 30 June 2019. Management assessed the forward-looking covenants ahead of time and determined that it was likely that certain of the covenants would be breached. Liqhobong applied to ABSA Bank, which, after due consideration of the circumstances, and paying particular regard to the weaker diamond market, granted a waiver in respect of two covenant breaches in respect to the forecast debt service cover ratio and the loan life cover ratio. ABSA Bank provided the covenant waivers on two conditions: firstly that no cash payments were to be made to the bondholders in respect of interest due for the twelve-month period from 1 July 2019 to 30 June 2020; and secondly that the Group maintain a minimum working capital level of US\$2.0 million.

### Cash flow

US\$m million	2019	2018
<b>Operating cash flows</b>		
Loss before taxation	(50.5)	(17.5)
Adjustments:		
Impairment charge	41.6	—
Depreciation and amortisation	10.3	13.2
Equity-settled share-based payments	0.8	1.9
Changes in provisions	0.2	(0.1)
Net finance cost	9.3	10.2
<b>Adjusted EBITDA</b>	<b>11.7</b>	<b>7.7</b>
Working capital changes	5.4	(14.3)
Stay-in-business capital	(4.0)	(2.0)
<b>Operating cash result</b>	<b>13.1</b>	<b>(8.6)</b>
<b>Cash (repaid)/raised</b>		
Proceeds from share issue	—	24.1
Increase in borrowings	—	2.0
ABSA repayments	(1.9)	(13.5)
Finance income	1.0	0.3
Finance cost	(4.9)	(3.4)
<b>Net cash (repaid)/raised</b>	<b>(5.8)</b>	<b>9.5</b>
<b>Net increase in cash</b>	<b>7.3</b>	<b>0.9</b>
Opening cash	19.0 <sup>1</sup>	17.5
<b>Closing cash</b>	<b>26.3</b>	<b>18.4</b>

1 Opening cash balance is adjusted for foreign exchange.

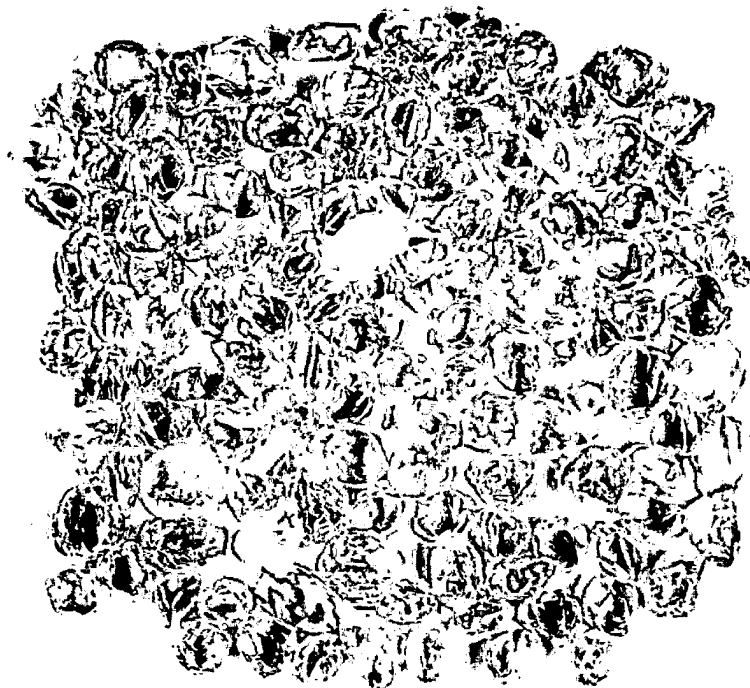


The Group's cash performance, as measured by Adjusted EBITDA, which is determined as earnings before interest, taxation, depreciation, amortisation and non-cash share-based payment expense, was US\$11.7 million for the year, which was US\$4.0 million more than the previous year of US\$7.7 million. Working capital inflow of US\$5.4 million included US\$10.4 million proceeds from a sale that took place in June 2018 and which were received in July 2019, the current financial year.

Stay-in-business capital relates to the Liqhobong Mine and includes capitalised waste stripping cost of US\$3.0 million and the cost of changes that were made to certain parts of the recovery process which contributed to a significant reduction in diamond breakage during the year to within industry acceptable levels.

Net cash repaid during the year of US\$5.8 million included a US\$1.9 million capital repayment to ABSA Bank on 30 June 2019, and interest paid to ABSA of US\$4.9 million, offset by interest income on cash balances of US\$1.0 million.

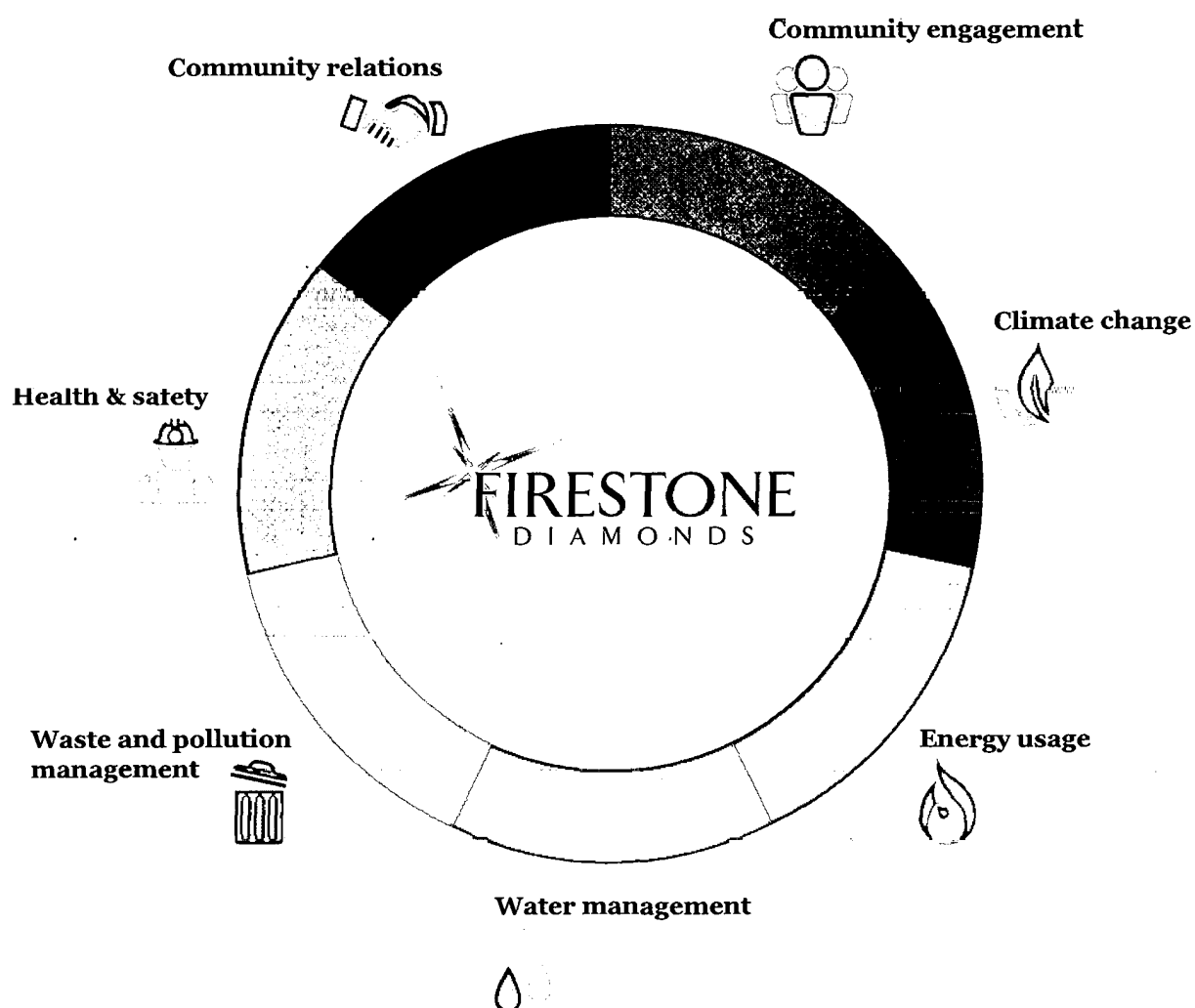
The result for the year was a net increase in cash of US\$7.3 million, and a closing cash balance of US\$26.3 million (2018: US\$18.4 million).



## HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY

“

WE ARE COMMITTED TO CONTINUALLY ACHIEVING  
EXCEPTIONAL HEALTH, SAFETY AND ENVIRONMENTAL  
STANDARDS AND TO BENEFICIAL ENGAGEMENT WITH  
OUR LOCAL COMMUNITIES”





### Our approach

In keeping up with our vision to become a successful mid-tier diamond producer and the preferred and trusted partner of choice of all stakeholders and local communities where our operations are located, Firestone has committed to comply with all relevant local regulatory requirements and is guided by international best practice, by establishing at its operations an Environmental and Social Management System ("ESMS"), driven by Group and site-specific policies.

Our executive team regularly meets with investors and investor representative organisations across the world to discuss a range of strategy and governance topics, including our approach to environmental, social and governance matters.

At an operational level, our operational management team aims to continually improve our environmental management systems. They are dedicated to promoting and maintaining high standards of environmental management by implementing sound procedures and monitoring processes, as well as by raising environmental awareness amongst our employees and local communities.

Our operation is subject to significant environmental regulation under applicable local legislation and we conduct regular internal and external audits to ensure that we meet and go beyond compliance in the most crucial areas.

Our work is guided by our CSR Policy with its supporting procedures. The policy defines LMDC's standards for corporate social responsibility and community relations, which are essential in creating and sustaining lasting relations with the communities alongside which we operate.

In 2018, we conducted an independent needs analysis so that, as a business, we remain relevant by aligning our goals with the long-term interests of communities most affected by our operations. This analysis was used to inform the Company's policy and will continue to be useful in the formulation of our strategies and initiatives as we move forward.



## HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY CONTINUED



### Health & safety

**Two non-disabling lost time injuries (“LTIs”) (2018: zero)**

**365 328 LTI-free man hours worked since the last LTI occurred**

**4-star NOSA<sup>1</sup> rating**

**Health campaigns conducted**

- Cancer awareness (breast and prostate)
- HIV AIDS awareness
- Blood donations

**Independent Fire and Occupational Health Risk Assessments conducted**

<sup>1</sup> National Occupational Safety Association (“NOSA”) independent SHE Management System (“SMS”) audit completed, based on the requirements of OHSAS 18001 and ISO 14001 (maximum rating of 5-star).

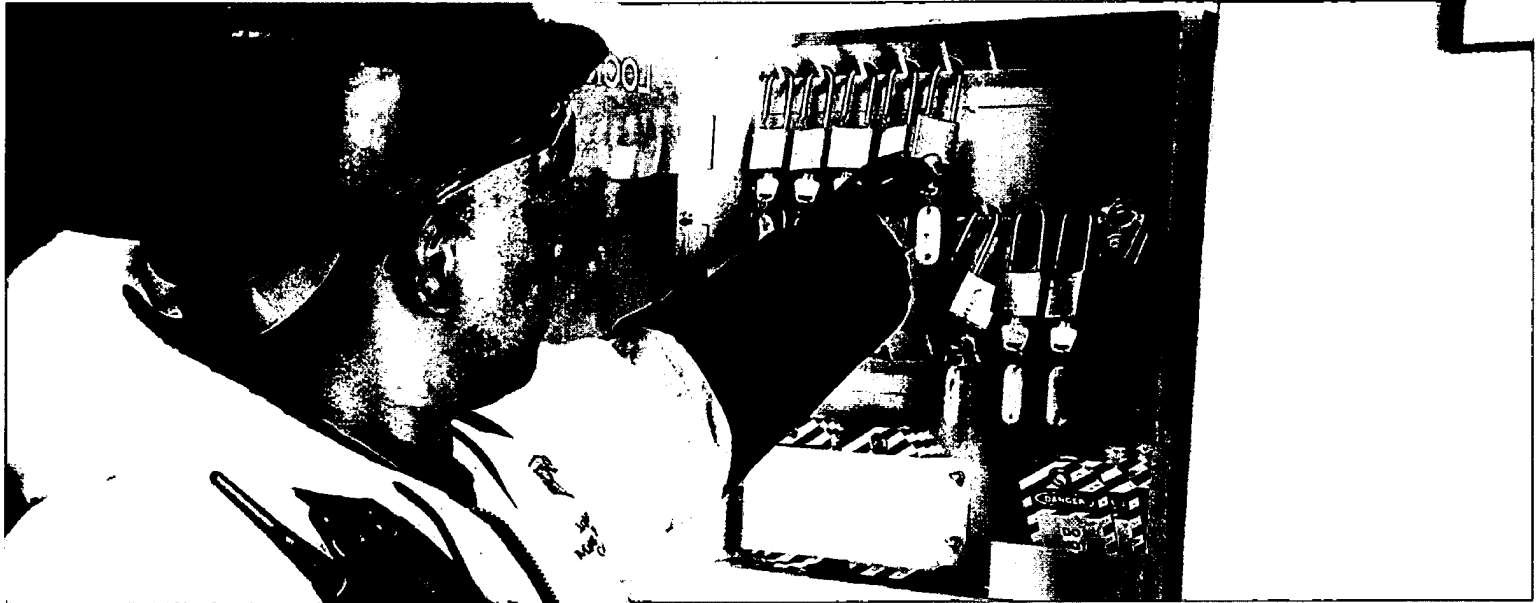
#### Our approach

Firestone strives to provide all its employees and contractors with a safe and healthy working environment. We aim to achieve this by maintaining a high standard of safety reporting, adherence to policies and procedures, holding awareness campaigns, running training programmes and by instilling a strong culture of safety awareness and ownership. Regular training and retraining of employees and contractors takes place at the Mine and it is mandatory for all visitors to the Mine to have a comprehensive safety induction session.

Whilst the operations have been designed in such a way that they are as safe as possible, and policies and procedures are in place to help prevent accidents from happening, they can still occur. In many instances, accidents are as a result of non-compliance with standard safety procedures, whereupon refresher training is conducted and safety standards are reinforced. The Company operates a Safety Management System which records all incidents as well as near misses. All incidents are investigated to identify the reasons for them happening, and corrective action is taken to prevent them from being repeated.







Weekly incident review meetings chaired by the Mine's General Manager and attended by both Lihobong and contractor department heads take place, whereby each incident is discussed in detail and learnings and next steps are recorded and implemented.

During the year, two LTIs were recorded, in September 2018 and April 2019. Fortunately, the LTIs were not severe and both affected contractors returned to work after a period of recovery. Intensive investigations were conducted, root causes identified, and corrective and preventive actions were implemented. Management has also revisited its strategies within the Safety Management System to proactively manage future high-risk activities. Extensive employee awareness campaigns were also conducted following these LTIs.

The Lihobong Mine was recently awarded a 4-star rating under the NOSA Star Grading system (maximum rating of 5-star). The NOSA audit is an independent assessment of the Mine's risk management system that is used in the everyday business operations. All recommendations proposed from the 2018 audit, also performed by NOSA, on the conformity of the Safety, Health and Environmental Management System with applicable legislation, risk exposure and NOSA requirements were successfully implemented during the year.

An Occupational Health Risk Assessment was conducted during the year by an independent expert to identify all occupational health stresses in order to ensure that adequate and appropriate measures are implemented to protect employees' health. Health awareness sessions contributed significantly to an improvement on the chronic illness management programme, where our employees are monitored and guidance is offered to ensure adherence to medication requirements. Several health campaigns were undertaken, including cancer awareness which focused on prostate and breast cancers. Fifty Lihobong employees contributed to the national blood services donation campaign during the year.



## HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY CONTINUED



### Environment

**Zero (2018: zero) major environmental incidents**

**Clean drinking water sourced from spring**

**Dust fallout monitoring programme implemented**

**Financial provision for rehabilitation was independently verified during the year**

#### Our approach

We conduct business in a sustainable, socially and environmentally responsible manner, since our long-term success is dependent upon the protection of the environment and the efficient management of the mining and processing of our mineral resource. We are committed to comply with all relevant local regulatory requirements in addition to being guided by international best practice. We aim to achieve this through our site-specific Environmental and Social Management System ("ESMS").

Our employees and contractors form an integral part of the Company's ESMS, and through inductions and training are aware of their impact on the environment and their responsibilities. Management systems include information on how to contribute meaningfully to biodiversity and conservation, as well as the procedures in place to reduce, reuse and recycle waste, thereby promoting efficient use of natural resources and minimising the quantity of final waste disposal.



### Water management

Firestone views water not only as a scarce resource, but also as a vital resource that affects the livelihood of communities, and the general health of the environment. Water management has been identified as one of the Company's most significant environmental and business risks.

Operational activities at the Mine require substantial volumes of water. Managing water supply is increasingly important given the fact that water is becoming a scarce resource in Southern Africa, due to recent droughts, which resulted from increasingly irregular annual rainfall patterns. We are therefore committed to responsible water management by continually assessing our impact on the natural water resources with a strong focus on water reclamation, recycling and reuse in the operation.

During the year, we completed a project which provides clean drinking water sourced from a fresh water spring that is situated on the Mine. We participate in forums with the other mines, relevant government agencies and non-governmental organisations ("NGOs") to discuss and share lessons learnt and exchange ideas regarding the environmental management of water resources and other environmental topics of mutual concern.



## Waste and pollution management

At an operating level, Liqhobong's environmental focus continues to be on waste management, water monitoring, incident reporting and auditing of contractor activities. There is a strong culture of reusing and recycling at the Mine and all waste is handled and disposed of in a responsible manner.

Swift action is taken when our systems identify an increase in potential impact on the environment. During the year, our systems identified an increase in dust being generated on site due to the typically dry weather conditions, and an increase in the risk of water pollution downstream from the Mine. A dust fallout monitoring system was implemented which confirmed that the air quality remained within specification, and provides a way of measuring the impact on an ongoing basis. An additional water seepage dam was constructed downstream of the Mine to reduce the risk of contamination of local water courses in the area.

The Company adopted a waste segregation at source policy which allows for the separation and collection of recyclable and hazardous materials that are removed and disposed of by accredited service providers.



## Energy usage

Managing our energy usage is not only an environmental prerogative in combating climate change, but it is also a financial objective, given the rising electricity tariffs. Therefore, Firestone, through its operations, aims to reduce energy consumption and increase energy efficiency wherever possible. A variety of energy-saving initiatives are already in place at our operations and these include the installation of green energy efficient lighting throughout the Mine as well as a power factor correction capacitor as a way of reducing energy usage by putting less strain on the electricity grid.

Diamond mining is an energy intensive activity and all the energy used at our operations is externally supplied by the national power utility company, Lesotho Electricity Company ("LEC"), which generates hydro-power electricity from its 'Muela Hydro-Power Station in Lesotho and purchases electricity from Electricidade de Mocambique in Mozambique and from Eskom in South Africa. At our Lesotho operations, the majority of the electricity we utilise is generated from the LEC's clean hydro-power station.



## Climate change

Climate change is one of the defining challenges of our time and understanding the impact of the Group on climate change is a critical strategic issue for us.

Firestone is currently investigating strategies to help deal with these challenges and putting in place monitoring systems to establish a baseline of its footprint. The strategy will focus on greenhouse gas emissions, investing in low emissions technologies and working with other stakeholders to enhance market response to climate change challenges.



## HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY CONTINUED



### Community

**95% (2018: 94%) employed from Lesotho**

**Two river crossings constructed**

**Road upgrades**

**“Lema u Phele” (Plant and Live) project initiated**

**Sanitation project initiated**

#### Our approach

Firestone is committed to a Corporate Social Responsibility and Investment (“CSRI”) programme in order to build and strengthen long-term, transparent and mutually beneficial relationships with, in particular, our two closest villages, Lqhobong and Pulane, which are most affected by our operations. These relationships are important in balancing the community's expectations against the Group's strategy to develop sustainable projects and increase basic living standards in the area. We have therefore maintained an open dialogue with the community, worked together with government departments and NGOs and, over the years, consistently delivered on resulting projects and initiatives.



### Community engagement

One of the challenges we face is that of increasing community expectation. We continue to engage with our community through our monthly meetings with the community leadership. This forum is useful in the planning of community social responsibility initiatives and in ensuring ongoing harmonious relationships between the Company and the local communities.

We recognise the employment needs of the local communities and the positive impact that employment has on the local economy. It is for this reason that we prioritise employing people from the local communities before searching further afield. We are particularly proud that Lqhobong Mine employs 95% of its people from within the country.

We understand the importance of communication and sharing news in building relationships with our local community and wider stakeholders. During the year, we introduced a newsletter for the local community which will be published on a quarterly basis.



## Community relations

Following the independent needs analysis study that was conducted in the previous year, Lihobong has endeavoured to assist in implementing initiatives relating to the community's most significant challenges as highlighted by the study and to enhance the livelihoods of the local community. The following initiatives were undertaken during the year.

- a local procurement project called "Lema u Phela" in the local Sesotho language which translated is "Plant and Live", whereby fresh agricultural products are sourced from the local community. This project provides income generating opportunities to subsistence farmers in nearby villages. There is the potential to expand this initiative further and to train local farmers on pest control, post-harvest field management as well as diversifying produce to include additional agricultural products;
- a lack of access to water and sanitation facilities is considered to be one of the most crucial challenges, particularly in rural areas. Lihobong Mine manages a sanitation improvement programme which provides for toilets to be constructed for each household in the two villages, Lihobong and Pulane. Good progress was made on this initiative during the year;
- during the year we also provided educational material to the local pre-school, which is situated in Lihobong village; and
- we also, together with the assistance of our mining contractor, improved two river crossings previously destroyed by flooding, by constructing two road bridges. These bridges connect local villages with the nearest main town, Ha Lejone, and replaces the crossings that were regularly swept away during the rainy season.

Annual compensation payments for loss of communal grazing land and loss of arable fields due to the construction of the Mine access road were made.

Fostering and building relationships with the communities living around the Mine is a very important activity that the Company takes very seriously. The Company strives to be fair in its dealings with the community and to ensure that it is uplifted through employment opportunities and through value-adding community projects.

### Looking forward to the 2020 financial year

We have every confidence that conditions in the diamond market will eventually improve, and we will continue to manage the business to ensure we are able to see out the current low point in the price cycle. We are confident that we will continue to manage the operations at the highest level, by excelling at the elements under our control.

We will continue to work with our various stakeholders to improve the balance sheet and provide a better basis for the long-term health of the Company.

Lastly, I would like to extend my thanks to our shareholders and lenders for their continued support, the management team and our staff for the excellent operational performance during the year and for maintaining our first-rate safety record. I look forward to updating our shareholders and stakeholders in the coming months.

### Strategic Report

This Strategic Report was approved by the Board on 19 December 2019 and is signed on its behalf by:

**Lucio Genovese**  
Non-Executive Chairman

**Paul Bosma**  
Chief Executive Officer

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

### THE BOARD PROVIDES LEADERSHIP TO PROMOTE THE INTERESTS OF ALL STAKEHOLDERS



#### Lucio Genovese

##### Non-Executive Chairman

Mr Genovese has 31 years of experience in both the merchant and financial sector of the metals and mining industry. Mr Genovese is the CEO of Nage Capital Management in Baar, Switzerland. He is also a member of the board of Ferrexpo PLC and Nevada Copper Inc. and has been actively involved in the development of Mantos Copper S.A., where he is also a board member. He was previously employed at Glencore International AG where he held several senior positions, including CEO of the CIS region and manager of the Moscow office. Mr Genovese is a qualified Chartered Accountant and has a BComm and BAcc from the University of the Witwatersrand, Johannesburg (South Africa).

NC



#### Paul Bosma

##### Chief Executive Officer

Mr Bosma is a qualified geologist with more than 26 years of experience in the mining industry, of which 14 years were in the diamond industry, where he worked for De Beers. Before joining Firestone Diamonds, Mr Bosma was the Vice President of Pala Investments, an international mining investment fund based in Switzerland, prior to which he was the General Manager of a joint venture between De Beers and Anglo Gold Ashanti. He joined Firestone Diamonds in July 2014 as Mineral Resource Manager, and later as General Manager of the Lihobong Mine, where he successfully managed the ramp-up to full commercial production. Mr Bosma was appointed Chief Executive Officer of Firestone Diamonds in July 2018. He holds a BSc (Honours) and an MSc degree as well as an MBA from the University of Cape Town Graduate School of Business.

SHECC



#### Eileen Carr

##### Non-Executive Director

Ms Carr is a Chartered Certified Accountant who has over 30 years of experience in the resource sector overseeing the development of mining operations across the world, including the Freda Rebecca Gold Mine in Zimbabwe, the Ayanfuri Gold Mine in Ghana, the Kalsaka Gold Mine in Burkina Faso and the Angovia Gold Mine in Ivory Coast. Ms Carr began her career in the resources sector at Cluff Oil Holdings where she ran the Shanghai office, followed by Marc Rich Holdings (subsequently Glencore) where she held the position of business manager for the Russian upstream oil and gas joint ventures. Since then, she has gone on to serve as Finance Director or Non-Executive Director at several companies in the resources sector and was Finance Director at both AIM-listed Monterrico Metals plc and Cluff Gold plc. Ms Carr is currently a Non-Executive Director of Sylvania Platinum Limited and Bacanora Lithium plc, both of which are listed on AIM. Ms Carr holds an MSc in Management from London University and is a SLOAN fellow of the London Business School.

AC RC



#### Keith Johnson

##### Non-Executive Director

Mr Johnson has over 26 years of experience in the natural resources sector, 18 of which were in the mining industry, where he held various senior positions within Rio Tinto plc, including on its executive committee from 2003 to 2009. From 2003 to 2007, he had overall responsibility for Rio's global diamond business, which accounted for over US\$1 billion in revenue and operated across three continents. In 2007, Mr Johnson was appointed head of business resources, where he was part of the team responsible for the integration of Alcan Inc., following its acquisition in October 2007.

In January 2010, Mr Johnson joined FTSE 250 oil and gas company BG Group plc, as general manager of strategy and portfolio development. He holds an MBA in Finance and a BSc degree in Mathematics and Operational Research. Mr Johnson is Resource Capital Fund VI L.P.'s nominated Non-Executive Director of the Company.

AC RC

#### Key

AC

Audit Committee

NC

Nomination Committee

RC

Remuneration Committee

SHECC

SHEC Committee



### Ken Owen

#### Non-Executive Director

Mr Owen has over 40 years of experience in the mining industry. From 1974 to 1995, he worked for De Beers Consolidated Mines, holding the position of consulting engineer for the group's mines from 1988 to 1992 and general manager of the Premier Diamond Mine until 1995 when he was transferred to Anglo American South Africa as senior vice president of mining.

In 2003, Mr Owen joined the international mining and geological consultancy firm SRK Consulting, as an associate consultant. In 2006, he joined Mwana Africa plc, an AIM-listed junior miner (subsequently Asa Resource Group plc) as Technical Director, retiring in 2009. Mr Owen holds an MSc in minerals production management from Imperial College, London.

**SHECC**



### Michael Stirzaker

#### Non-Executive Director

Mr Stirzaker has over 30 years of commercial experience, mainly in mining finance and mining investment. He began his career in Sydney as a Chartered Accountant with KPMG. Thereafter, he moved into investment banking with Wardley James Capel (part of the HSBC Group) and then Kleinwort Benson Limited in London. From 1993 to 2007 he was part of the natural resource advisory and investment firm RFC Group Limited, where he became Joint Managing Director. He has also been a shareholder and Director of Tennant Metals (Pty) Limited, a privately owned physical-metal trader and investor, and was the Finance Director of Finders Resources Limited, an ASX-listed company producing copper in Indonesia. In 2010, Mr Stirzaker joined the private equity mining fund manager Pacific Road Capital Management, as a Partner. He holds a Bachelor of Commerce degree from the University of Cape Town. Mr Stirzaker is Pacific Road Capital Management's nominated Non-Executive Director of the Company.



### Patrick Meier

#### Non-Executive Director

Mr Meier has over 30 years of experience in investment banking with specialist knowledge of the mining sector. He is Chairman of Anglo Pacific Group plc, the London-listed Natural Resources Royalty Company. He also acts as a senior adviser to Bacchus Capital Advisers, an advisory boutique, and in various other advisory roles from time to time. Mr Meier headed up the investment banking activities for RBC Capital Markets in Europe and Asia and drove a major expansion of RBC's European presence. Prior to this role, he headed up RBC's activities in the metals and mining sector in Europe, Africa and Asia for many years, and continues to enjoy strong relationships within the sector. He also served as a Director on the board of RBC's main operating subsidiary in Europe. He has an MA in Natural Sciences from Cambridge University.

**AC NC RC**



### Grant Ferriman

#### Chief Financial Officer

Mr Ferriman is part of the senior leadership team and attends all Board meetings by invitation. He is a qualified Chartered Accountant with 19 years of experience, including twelve years in the mining industry. He was appointed as Chief Financial Officer of Firestone Diamonds in 2012, and was part of the team which financed the construction of the Lihobong Mine which was brought into production during 2016, within the original cost budget. Prior to joining the Company, he was the group financial controller for Mwana Africa plc (subsequently Asa Resource Group plc), an AIM-listed junior mining company with assets based in South Africa, Zimbabwe and the DRC, where he was responsible for reporting and control systems across the Group. Mr Ferriman has extensive experience in public company reporting in the United Kingdom and the development and implementation of control systems for companies with assets based in Southern Africa. He holds an honours bachelor of accounting science degree from the University of South Africa and is a member of the South African Institute of Chartered Accountants.

## CORPORATE GOVERNANCE STATEMENT

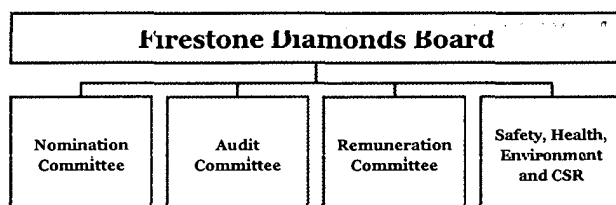


**Lucio Genovese**  
Non-Executive Chairman



**WE ARE FULLY COMMITTED TO HIGH STANDARDS OF GOVERNANCE AND HAVE ADOPTED THE QCA CORPORATE GOVERNANCE CODE FOR SMALLER QUOTED COMPANIES”**

### Summary



### Role of the Board

The Board's responsibilities are set out in a Schedule of Matters reserved for it. The key tasks of the Board are:

- setting the Group's values and standards;
- approving long-term objectives and strategy;
- approving operating cost and capital budgets and plans;
- reviewing performance against budgets and plans in the context of the strategy, and ensuring any necessary corrective actions are taken;
- approving the Annual Report and Accounts, material contracts and major projects;
- determining the financial structure of the Group, including the dividend policy;
- considering whether the internal control and risk management environments are appropriate, as reported by the Audit Committee; and
- approving communication with shareholders and to the market.

### Dear shareholder

I have pleasure in presenting Firestone Diamonds' Corporate Governance Statement. This report summarises the Company's governance framework and highlights the work the Board has done during the year to develop our governance approach and practice. The ultimate responsibility for the quality of, and approach to, corporate governance lies with me as Chairman of the Board and I am assisted in this by the Company Secretary.

### Compliance with a recognised Corporate Governance Code

From 28 September 2019, AIM companies of the London Stock Exchange have been required to provide details of the recognised corporate governance code that the Board of Directors has decided to apply, and to explain how the Company complies with that code, and, where it departs from the chosen corporate governance code, provide an explanation of the reasons for doing so. The Board has adopted the Quoted Companies Alliance corporate governance guidelines and code for smaller quoted companies (the "QCA Code") as published in April 2018 as it believes that this is most suited to a company of Firestone's size and stage of development. As a Board, we are fully committed to supporting high standards of governance and recognise that by applying sound principles in running the Company, we will provide a solid basis for growth and establish trust with our stakeholders. It is our intention to be open and transparent about our governance arrangements and thus we use the Annual Report and Accounts to provide details of changes and improvements we have made during the year.

Since the year end there have been some changes to the composition of the Board of Directors. In July 2019, Niall Young stepped down and was replaced by Michael Stirzaker as a Non-Executive Director, and as the nominee for Pacific Road Capital Management. Niall made a strong contribution to the Company and the Board during his term and we will miss his commitment and wise counsel. I look forward to Michael's contribution in the future.

### Culture

It is a requirement of the QCA Code that I set out how the Company's culture is consistent with the Company's objectives, strategy and business model. We consider our culture to encompass safety, respect for our colleagues and for the communities we work in, cost consciousness, and a commitment to legal and regulatory compliance, integrity and sound business ethics.

**Lucio Genovese**  
Non-Executive Chairman  
19 December 2019



## Introduction to the QCA Code

The Board is collectively responsible to the shareholders of Firestone for the effective oversight and long-term success of the Company. The Corporate Governance Statement on pages 38 to 42 explains the key features of the Company's governance structure and describes how Firestone applied the QCA Code principles.

### Principle 1:

Establish a strategy and business model which promotes long-term value for shareholders.

- ▶ See Strategic Report, in particular the Business Model, Strategy and Key Performance Indicators.

### Principle 2:

Seek to understand and meet shareholders' needs and expectations.

- ▶ See Corporate Governance Statement, in particular the Chairman's Introduction to Governance and Relations with Shareholders.

### Principle 3:

Take into account wider stakeholder and social responsibilities and their implications for long-term success.

- ▶ See Strategic Report, in particular the Health, Safety, Environment and Community.

### Principle 4:

Embed effective risk management, considering both opportunities and threats throughout the organisation.

- ▶ See Strategic Report, in particular the Risk Review and Audit Committee Report.

### Principle 5:

Maintain the Board as a well-functioning, balanced team led by the Chair.

- ▶ See Corporate Governance Statement, in particular Composition of the Board and Independence.

### Principle 6:

Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.

- ▶ See Corporate Governance Statement, in particular Composition of the Board and Independence.

### Principle 7:

Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.

- ▶ See Corporate Governance Statement, in particular Performance Evaluation and the Remuneration and Nomination Committee Reports.

### Principle 8:

Promote a culture that is based on ethical values and behaviours.

- ▶ See Corporate Governance Statement, in particular the section on Culture.

### Principle 9:

Maintain governance structures and processes that are fit for purpose and support good decision-making.

- ▶ See Chairman's Statement in the Introduction to the Strategic Report and Corporate Governance Statement, in particular Composition, Qualification and Independence of the Board.

### Principle 10:

Communicate how the Company is governed and is performing by maintaining dialogue with stakeholders.

- ▶ See Corporate Governance Statement, in particular Relations with Shareholders.

## CORPORATE GOVERNANCE STATEMENT CONTINUED

### Composition of the Board

The Board consists of seven Directors: the Non-Executive Chairman, one Executive Director, and five further Non-Executive Directors. The Board considers this to be an appropriate balance of Executive and Non-Executive Directors. The skill set of the Board includes experience in corporate finance, mining and exploration, and investor relations. As the requirements and focus of the Company change in the future, so too will the Board composition as we ensure that the skills required are in place. Details of each of the Directors' experience and background are given in their biographies on pages 36 and 37.

### Independence

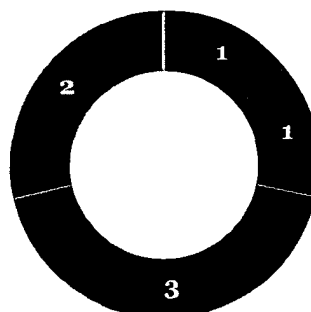
The Board considers four of its six Non-Executive Directors, Lucio Genovese, Ken Owen, Patrick Meier and Eileen Carr, to be fully independent. This complies with the QCA Code, which requires that at least two members of the Board should be independent. The Board has reviewed the independence of Non-Executive Directors Michael Stirzaker and Keith Johnson and is aware that these Directors will not be considered to be independent as they are the nominated Non-Executive Directors of major shareholders of the Company: Pacific Road Capital Management and Resource Capital Fund respectively. The Board maintains, however, that these Directors have retained their independence of thought and support for the interests of all of the Company's shareholders.

### Appointments to the Board and re-election

The Board has delegated the tasks of reviewing Board composition, searching for appropriate candidates and making recommendations to the Board on candidates to be appointed as Directors to the Nomination Committee. Further details on the role of the Nomination Committee may be found on page 47.

With regard to the re-election of Directors, the Company is governed by its Articles of Association ("Articles"). Under the Articles, the Board has the power to appoint a Director during the year but any person so appointed must stand for re-election at the next AGM. One-third of the Directors or, if their number exceeds but is not a multiple of three, the number nearest to (but not exceeding) one-third, must retire and stand for re-election at each AGM. However, in accordance with best practice, all of the Directors will stand at the forthcoming AGM.

### Split between Executive and Non-Executive Directors



- Non-Executive Chairman
- Executive Director
- Independent Non-Executive Directors
- Non-independent Non-Executive Directors

### Chairman and Chief Executive Officer

There is a clear segregation of responsibilities between the Chairman and Chief Executive Officer. The Chairman has overall responsibility for the running of the Board, for ensuring that the highest standards of integrity and governance are upheld throughout the Group, and that Directors receive appropriate training. The Chairman is also responsible for ensuring that there is effective communication with shareholders. The Chief Executive Officer's main responsibilities are the development of objectives and business plans and their implementation following approval by the Board, managing the Group's risk profile, ensuring appropriate risk management and internal control systems are in place and leading the executive team.

### Senior Independent Director

The Company does not have a Senior Independent Director. The Board does not believe that the appointment of a Senior Independent Director would currently add value to the operation of the Board. In addition, the Chairman and other Non-Executive Directors are available to shareholders as communication channels if required. The need for a Senior Independent Director will however be kept under review.

### Non-Executive Directors

Non-Executive Directors receive a letter on appointment setting out the time commitment expected of them and their duties. Currently, Non-Executive Directors are expected to dedicate at least ten days per annum to the Company. Non-Executive Directors are specifically tasked with bringing independent judgement to bear on issues put to the Board and to apply their knowledge and experience in considering matters such as strategy, Company performance, use of resources and standards of conduct.

## Conflicts of interest

A process has been developed to identify any of the Directors' potential or actual conflicts of interest. This includes declaring any new conflicts before the start of each Board meeting.

## Development, information and support

The Directors are actively encouraged to visit the operations in Lesotho and several site visits have been made by individual Directors during the year. The Chairman is supported in governance matters by Prism Cossec, which also provides company secretarial services to the Company. Regular updates are given to the Board on developments in governance and regulations.

## Performance evaluation

The Chairman conducted a series of one-to-one interviews with all of the Directors. One of the outcomes of those meetings was a decision to hold at least two Board meetings a year in London to enable the Directors to meet face to face. The Directors also felt that it was important that they each had the opportunity for a site visit to Lesotho. We are working to ensure that both of those requests are met whilst bearing in mind the Company's cost-conscious culture.

## Operation of the Board and its Committees

The Board is supported by Board Committees which are responsible for a variety of tasks delegated by the Board. Each Board Committee has approved Terms of Reference setting out its responsibilities. These are available on the Company's website at [www.firestonediamonds.com](http://www.firestonediamonds.com).

Details of the operation of the Audit, Nomination, Remuneration, and Safety, Health, Environmental and Corporate Social Responsibility Committees are set out in their respective reports below. All of the Board Committees are authorised to obtain, at the Company's expense, professional advice on any matter within their Terms of Reference and to have access to sufficient resources in order to carry out their duties.

The Board and its Committees meet regularly throughout the year. The Directors are expected to attend all meetings of the Board and the Committees on which they serve, and the Non-Executive Directors are expected to devote sufficient time to the Company to enable them to fulfil their duties as Directors. The Board is satisfied that the Chairman and each of the Non-Executive Directors are able to devote sufficient time to the business, and they each maintain open communication with the Executive Directors and senior management between the formal Board meetings.

Directors also have ongoing contact with senior management on a variety of issues between formal meetings. Directors are encouraged to question and voice any concerns they may have on any topic put to the Board for debate.

Attendance of Directors at Board and Committee meetings during the financial year is shown below.

	Board (8 meetings)	Audit Committee (4 meetings)	Remuneration Committee (4 meetings)	Nomination Committee (1 meeting)	SHEC Committee (4 meetings)
Lucio Gonvoco	8/8	—	—	1/1	—
Paul Bosma	8/8	—	—	—	4/4
Eileen Carr	1/1 <sup>1</sup>	—	1/1 <sup>1</sup>	—	—
Keith Johnson	7/8 <sup>2</sup>	4/4	4/4	—	—
Ken Owen	8/8	—	—	—	4/4
Michael Stirzaker <sup>3</sup>	—	—	—	—	—
Niall Young	8/8	—	—	—	—
Patrick Meier	8/8	4/4	4/4	1/1	—
Paul Sobie	7/8 <sup>4</sup>	4/4	3/3	—	—

<sup>1</sup> Eileen Carr has attended all required Board and Committee meetings since her appointment.

<sup>2</sup> Keith Johnson was unable to attend the February 2019 Board meeting due to a rescheduling of the meeting date which resulted in a conflict with a prior commitment.

<sup>3</sup> Michael Stirzaker joined the Board on 22 July 2019, and has attended all Board meetings held since his appointment.

<sup>4</sup> Paul Sobie was unable to attend the August 2018 Board meeting due to other commitments.

## CORPORATE GOVERNANCE STATEMENT CONTINUED

### Board activities during the year

During the year the Board reviewed reports on all aspects of the Liqhobong Mine. The following specific areas were also addressed by the Board:

- reviewing the Company's risk register;
- reviewing the life of mine plan;
- discussing and overseeing environmental, community and political issues arising from the Group's activities;
- considering the performance of the Company in the context of the market as a whole;
- reviewing the Group's insurance arrangements;
- monitoring the operation of the treasury policy;
- approving the Group's budget for the 2020 financial year;
- continuing to ensure that the Group complies with UK governance and legislator regulations;
- reviewing covenant compliance in respect of the ABSA debt facility and overseeing the covenant waiver request;
- approving various procedural arrangements connected with the Group's Eurobonds which were put in place in April 2015; and
- obtaining an undertaking from the Company's bondholders to waive the requirement for the Company to pay cash interest on the Series A Eurobonds for the twelve-month period from 1 July 2019 to 30 June 2020.

There are also a number of standing and routine items included for review on each Board agenda. These include the safety, health and environment report, the CEO's operations report and project updates, and the CFO's financial report. Reports from the Board Committees were also considered, as well as investor relations updates.

### Risk management and internal control

The Group operates a system of internal financial controls commensurate with its current size and activities, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. There is a system in place for financial reporting and the Board receives a number of reports to enable it to carry out these functions in the most efficient manner. Financial reports include management accounts, budget and forecast variance analysis, cash flow forecasts and other ad hoc reports. There are clearly defined authority limits throughout the Group, including those matters which are reserved specifically for the Board.

Whilst the Board is responsible for the effectiveness of the internal financial control framework, such a system can only provide reasonable and not absolute assurance that material misstatement will not occur. The Group does not currently have an internal audit function as this is not deemed necessary at present; however, this decision is reviewed regularly by the Audit Committee.

Risks throughout the Group are considered and reviewed on a regular basis. Risks are identified and a risk register, detailing the major risks, is prepared. The risk register is used to monitor risks and to ensure that appropriate mitigating actions are taken as required. Principal risks identified are set out in the Strategic Report on pages 13 to 17.

### Relations with shareholders

The Directors are keen to build a mutual understanding of objectives with its institutional shareholders and a regular dialogue has been maintained throughout the year. During the year, the Company engaged with its bondholders, Resource Capital Funds and Pacific Road Capital Management, which are also substantial shareholders of the Company, to find a long-term solution to the high level of indebtedness which the Company has at present. During these discussions, it became apparent that Liqhobong forecast a covenant breach on its senior debt facility with ABSA Bank at the end of June 2019. One of ABSA's conditions to granting the covenant waiver was an undertaking from the Company not to pay cash interest on the Series A Eurobonds for a twelve-month period from 1 July 2019 to 30 June 2020. The bondholders agreed to this condition and ABSA Bank granted the waiver. The discussions have continued and are once again focused on finding a longer-term solution to the Group's high debt levels.

The Directors encourage communications with private shareholders and their participation in the Company's Annual General Meeting.

The Annual Report and Accounts is a key communication document and is available on the Company's website ([www.firestonediamonds.com](http://www.firestonediamonds.com)) together with the annual and half-year results, trading statements, press releases, regulatory announcements and other information on the Group's operations.

This year's Annual General Meeting of the Company will be held on 17 January 2020. The Notice of this year's Annual General Meeting is included with this Annual Report and Accounts and is available on the Company's website at [www.firestonediamonds.com](http://www.firestonediamonds.com).

## AUDIT COMMITTEE REPORT

### Dear shareholder

I am pleased to present our report of the activities undertaken by the Audit Committee during the year ending 30 June 2019. As mentioned in the Market Context section of the report, the market for smaller diamonds has continued to be challenging and this has impacted the work of the Committee, with more focus required on indicators for impairment and going concern which I describe in more detail below.

### Composition and skill set

The composition of the Committee is in accordance with the Quoted Companies Alliance Audit Committee guidelines. This recommends that the Audit Committee should comprise a minimum of two independent Non-Executive Directors with at least one of the members having recent relevant financial experience. I refer you to pages 36 and 37 for each of the Committee members' experience. Mr Paul Bosma, the Chief Executive Officer ("CEO") and Mr Grant Ferriman, the Chief Financial Officer ("CFO") are invited to attend meetings and assist the Committee where appropriate.

The Committee currently consists of myself, Mr Patrick Meier, as Chair, Mr Keith Johnson, a non-independent Director who joined the Committee in 2016, and Ms Eileen Carr, an independent Director, who took the place of Mr Paul Sobie who resigned on 30 April 2019.

### Terms of Reference

The Audit Committee's Terms of Reference are reviewed periodically to ensure that they are appropriate and relevant, and any proposed changes are subsequently considered and approved by the Board to ensure that they are in accordance with best practice and governance principles. The Terms of Reference are available on the Company's website at [www.firestonediamonds.com](http://www.firestonediamonds.com).

### Meetings

The Audit Committee met four times during the year and all members attended all of the meetings. The CEO and CFO were also invited to attend all of the meetings, as well as the external auditor who attended all four of the meetings. The full Committee also met with the audit partner during the year without the Executive Director or CFO being present. Following each meeting of the Committee, I, as Chair, report the findings and recommendations of the Committee to the Board.

During the year, I travelled to the Group's mining operation, the Lihobong Mine in Lesotho, and met, together with the CEO and CFO, representatives of ABSA Bank, Lihobong's senior lender. During the year, I also met with representatives of the bondholders.

### Roles and activities

The main roles of the Audit Committee as set out in its Terms of Reference are listed below, together with the activities that were undertaken during 2019, which include:

Roles	Activities in 2019
To monitor the integrity of the financial statements of the Company, including its annual and half-year reports and preliminary results announcements.	<ul style="list-style-type: none"> <li>The Committee formally reviewed the Group's annual and half-year report before recommending these to the Board for approval.</li> <li>In its review, the Committee focused on the presentation of the reports to ensure that these represented a fair and balanced assessment of the Group's financial and operational activities and performance for the period.</li> <li>The Committee reviewed and considered how best to improve upon the information disclosed in the 2017 Annual Report. This led to a number of enhancements within the 2018 report which brought it into line with market best practice. Enhancements included a Market Context section and Business Model within the Strategic Report and an improved and updated Key Performance Indicator section and Risk Review.</li> <li>The Committee reviewed key accounting issues and significant audit risks as presented to them by management and the external auditor respectively to ensure that issues and significant audit risks were adequately addressed in the reports.</li> </ul>
Review and challenge where necessary any changes to, and consistency of, accounting policies, whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor, the going concern assumption and all material information presented with the financial statements.	<ul style="list-style-type: none"> <li>The Audit Committee reviewed and considered the accounting standards that were applied, and challenged the underlying key assumptions adopted, and the estimates and judgements made. The Committee considered the significant audit risks, and concluded that these were adequately addressed. Once satisfied, the Committee provided advice to the Board and responded to questions raised regarding the appropriateness of the reports.</li> </ul>

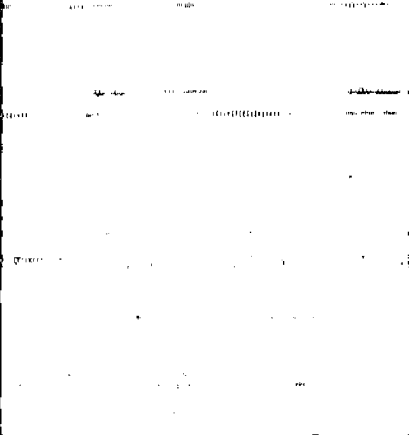


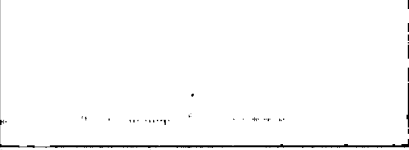
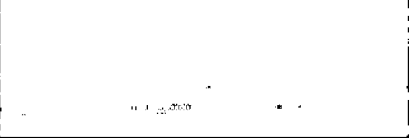

# AUDIT COMMITTEE REPORT CONTINUED

## Roles and activities continued

Roles	Activities in 2019
Review the effectiveness of the Company's internal controls and risk management systems and review and approve the statements to be included in the Annual Report concerning internal controls and risk management.	<ul style="list-style-type: none"> <li>The Committee was provided with updates on the effectiveness of internal controls by the CFO on a regular basis, and was satisfied that these were sufficient for the Group's purposes.</li> <li>The Committee reviewed and considered the Group's risk register to ensure that all significant risks were identified and that adequate mitigating actions were in place to reduce risk, where possible, to an acceptable level.</li> <li>The Committee reported all significant risks to the Board.</li> </ul>
Consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor.	<ul style="list-style-type: none"> <li>The Committee considered the performance of BDO LLP ("BDO") and concluded that it was best suited to meet the Group's external audit requirements, with sufficient knowledge and understanding of the Group's business.</li> </ul>
Oversee the relationship with the external auditor including approval of their remuneration, approval of their terms of engagement, assessment annually of their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services.	<ul style="list-style-type: none"> <li>The Committee considered the level of non-audit work undertaken, and both its and senior management's relationship with the external auditor in order to assess any significant threat to its independence. BDO performs non-audit work in relation to the Group's tax affairs. The Committee concluded that independence was maintained as services were rendered through an entirely separate department within BDO and by different staff to those providing audit-related services. Consideration was also given to the level of remuneration associated with this work, which was significantly lower than the audit fee for the year, refer to note 8. The Committee concluded that it was satisfied that independence was maintained.</li> <li>The Committee considered the change of audit partner during the year, when the audit partner's five-year term came to an end following the approval of the June 2018 financial statements as a result of the external auditor's mandatory audit partner rotation.</li> </ul>

During the year, the following main items were discussed and debated:

Significant matters	Audit Committee considerations
Impairment testing of the Group's assets	<ul style="list-style-type: none"> <li>The Committee considered the judgements made by management in assessment of impairment indicators of the Group's two cash-generating units ("CGUs"). An assessment was made of external indicators which include the weaker diamond market and forecast supply and demand information and internal indicators, which include the Mine Call Factor, factors which could potentially indicate the existence of an impairment.</li> <li>The Committee considered the appropriateness of the disclosure in the annual and half year report, and of the impairment charge of US\$41.6 million to ensure that these were adequate.</li> <li>Disclosures regarding impairment are included in note 10 to these financial statements.</li> </ul>

Significant matters	Audit Committee considerations
<p>Going concern of the Group</p> 	<ul style="list-style-type: none"> <li>• The Committee reviewed the assumptions and judgements included in the financial model of the Group to ensure that these were balanced and appropriate. The key assumptions include the forecast average diamond value, Mine Call Factor, further information on which is included in note 10 – Impairment, and the ZAR:US\$ exchange rate.</li> <li>• Apart from these major assumptions, a key risk to going concern remained the satisfaction of the ABSA covenants.</li> <li>• The Committee considered the non-binding term sheet received from ABSA Bank to defer capital repayments for a 15-month period and to amend certain of the covenant requirements, and the non-binding term sheet received from the bondholders to provide a US\$6.0 million working capital facility to fund forecast short-term cash flow shortfalls.</li> <li>• The Committee, having considered the appropriateness of the assumptions made, and acknowledging the minimal headroom available, concluded that the going concern principle was appropriate.</li> <li>• The going concern statement is disclosed in note 1 to these financial statements.</li> </ul>
<p>ABSA covenant waiver</p> 	<ul style="list-style-type: none"> <li>• The Committee considered the assumptions and judgements included in the financial model used to calculate the maintenance covenants as per the restructured ABSA debt facility. Certain of these covenants are forward looking and, considering the current diamond pricing climate, lower average Dollar-per-carat values were used in these covenant calculations, which adversely affected the covenant measurement and gave rise to the requirement for waivers in respect of two of the six covenants as at 30 June 2019. The Committee closely monitored progress with regard to obtaining the covenant waivers ahead of the year end.</li> </ul>
<p>Application of new standards and interpretations that will become effective in future financial years</p> 	<ul style="list-style-type: none"> <li>• The Committee reviewed and approved management's assessment of the potential impact of the application of new standards and interpretations issued by the International Accounting Standards Board. These assessments are disclosed in note 1 to these financial statements.</li> </ul>
<p>Hedging strategy</p> 	<ul style="list-style-type: none"> <li>• The Committee considered the Group's hedging strategy which is in place to mitigate against the risk of stronger than expected ZAR:US\$ exchange rates, the currency in which a majority of the Group's operating cost are denominated, and the risk of rising interest rates. The Committee concluded that the strategy was appropriate in mitigating this risk.</li> <li>• The Committee considered the disclosure in relation to the hedging instruments, further details of which can be found in note 30 of these financial statements.</li> </ul>
<p>Review of tax compliance</p> 	<ul style="list-style-type: none"> <li>• The Committee reviewed the tax compliance of each of the Group's 16 entities to ensure that each of their tax affairs were in order, including both direct and indirect taxes.</li> <li>• Consideration was given to the tax residency of entities within the Group's structure to identify if there was any change regarding any of these. The Committee concluded that the existing tax residency for each entity within the Group was appropriate.</li> </ul>
<p>Risk</p> 	<ul style="list-style-type: none"> <li>• The Committee reviewed the Group's risk register, which included health and safety, operational, and financial risks, to ensure that it was complete. The risks and mitigating actions, where applicable, were debated to ensure that they were adequately addressed. Risks were, in addition, discussed at meetings of the full Board.</li> </ul>

## AUDIT COMMITTEE REPORT CONTINUED

### External auditor

#### Engagement, effectiveness and quality

The Committee is responsible for agreeing the terms of the auditor's engagement letter. Prior to the audit, the Committee received formal planning documentation regarding the proposed audit strategy. The Committee assessed the extent to which the audit strategy was appropriate for the Group's activities and whether it addressed the risks specific to the Group. In addition, the following items were discussed:

- independence and scope;
- level of involvement, review and participation in audits of the subsidiary companies;
- materiality;
- risks;
- planned audit procedures to mitigate risks; and
- new standards and those which became effective during the year.

BDO LLP has conducted the audit of the Company and Group since 2013. It works closely with BDO South Africa and New Dawn Chartered Accountants, the local Lesotho auditing firm, in conducting the audit of Lihobong Mining Development Company (Pty) Limited, which owns the Lihobong Mine. Staff from BDO LLP, BDO South Africa and New Dawn visited the site during the year to conduct specific audit procedures and BDO LLP performed a detailed review of the audit work performed by BDO South Africa and New Dawn in respect of Lihobong's annual financial statements.

#### Independence, objectivity and fees

The Committee seeks to ensure the objectivity and independence of the auditor through:

- rotation of key personnel;
- appropriate skill and experience of audit staff on the assignment; and
- policies in relation to non-audit work.

During the year, Scott Knight's tenure as audit partner ended in accordance with the five-year rotation policy of BDO LLP. He was replaced by Jack Draycott as audit director. Jack Draycott has a number of years of experience in the mining sector.

Other than in exceptional circumstances, management and the Committee do not expect non-audit fees to exceed the fees in respect of audit services. During the year, the fees for non-audit services, which related to tax work, represented only 8% of fees in respect of audit services, further details of which can be found in note 8 of these financial statements.

The Committee reviewed the work performed by BDO throughout the Group and is satisfied that the advice it has received has been objective and independent.

#### Conclusion

As a result of its work during the year, the Audit Committee concluded that it has acted in accordance with its Terms of Reference and has ensured the independence and objectivity of the external auditor.

I would like to thank other Committee members, management and the external auditor for their support over the year.



**Patrick Meier**

Non-Executive Chairman of the Audit Committee

19 December 2019



## NOMINATION COMMITTEE REPORT

### Members of the Nomination Committee

The Committee consists of the following Non-Executive Directors:

- Lucio Genovese (Chairman); and
- Patrick Meier, who replaced Mike Wittet and Deborah Thomas who both resigned on 5 July 2018.

Composition of the Nomination Committee ("the Committee") is in accordance with its Terms of Reference which prescribes that the Committee should comprise a minimum of two Directors, the majority of whom should be Non-Executive Directors, and that the Chairman of the Committee should be either the Chairman of the Board or a Non-Executive Director.

### Roles

The main roles of the Nomination Committee as set out in its Terms of Reference are listed below, together with the activities that were undertaken during 2019, which include:

Roles	Activities in 2019
Regular review of the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board, compared to its current position and to make recommendations to the Board with regard to any changes.	<ul style="list-style-type: none"> <li>• The Chairman continued to review the composition of the Board during the year, which highlighted the necessity to refresh the Board with the appropriate skills required to guide the Company during a period of depressed diamond prices, occasioning the need for increased focus on finance and strategic issues.</li> <li>• Directors were required to dedicate sufficient time, often over and above the time needed for the review of Board papers and attendance at Board meetings.</li> </ul>
To give full consideration to succession planning and formulate succession plans for Directors and other senior executives and in particular for the key roles of Chairman and Chief Executive Officer in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future.	<ul style="list-style-type: none"> <li>• The Committee gave consideration to succession planning for the Board, and for senior executives, and plans will continue to be developed in the context of the size of the Company. The Committee also has a process in place in relation to future appointments, the Board's approach to succession planning and how best to develop potential candidates. The Committee will also focus on diversity, inclusion and gender balance on the Board and in the senior management team.</li> </ul>
Be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.	<ul style="list-style-type: none"> <li>• The Nomination Committee was pleased to note a successful transition as Paul Bosma assumed the role of CEO at the beginning of the year.</li> <li>• Furthermore, the Committee sought a replacement for Paul Sobie, who decided to step down from the Board.</li> <li>• The Chairman liaised with a firm of headhunters, Savannah Group, to establish a shortlist of candidates; these were considered by the Committee and other Non-Executive Directors. Eileen Carr, who has extensive experience in the mining industry in finance roles, was felt to be the most appropriate candidate and joined the Board on 30 April 2019. Eileen also joined the Audit and Remuneration Committees.</li> </ul>
Assess the re-appointment of any Non-Executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required.	<ul style="list-style-type: none"> <li>• During the year, the Chairman of the Committee conducted a thorough review of the ability of Non-Executive Directors to spend sufficient time to contribute meaningfully to the Board.</li> </ul>
Assess the re-election by shareholders of any Director, having due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.	<ul style="list-style-type: none"> <li>• In accordance with best practice, all of the Directors will stand for re-election at the forthcoming AGM. The Chairman has conducted a Board evaluation during the year and is of the view that all Directors standing for election or re-election will contribute to the Board in light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.</li> </ul>



**Lucio Genovese**

Non-Executive Chairman of the Nomination Committee

19 December 2019

# SAFETY, HEALTH, ENVIRONMENT AND CORPORATE SOCIAL RESPONSIBILITY (“SHEC”) COMMITTEE REPORT

## Members of the SHEC Committee

The Committee consists of the following Directors:

- Ken Owen (Non-Executive Chairman), who replaced Mike Wittet who resigned on 5 July 2018; and
- Paul Bosma (Chief Executive Officer).

Composition of the SHEC Committee is in accordance with its Terms of Reference which prescribes that the Committee should comprise a minimum of two members including at least one Director.

However, it is the commitment of managers in all disciplines on site who instil a pervasive safety culture in the operation and they are the drivers of the successful safety management, environmental and community engagement programmes.

## Roles

The main roles of the SHEC Committee as set out in its Terms of Reference are listed below, together with the activities that were undertaken during 2019, which include:

Roles	Activities in 2019
Evaluate the effectiveness of the Group's policies and systems for identifying and managing health, safety, social and environmental risks within the Group's operations.	<ul style="list-style-type: none"> <li>• At quarterly meetings the Committee was presented with the SHEC statistics reports compiled by the SHEC department. These statistics are used to monitor and evaluate the effectiveness of the policies and systems in place. Where necessary, initiatives are campaigned to re-energise and focus on any deficiencies.</li> <li>• The policies and systems in place were found to be effective in addressing the safety risks on the Mine.</li> </ul>
Assess the policies and systems within the Group for ensuring compliance with health, safety, social and environmental regulatory requirements.	<ul style="list-style-type: none"> <li>• Mine management maintains a comprehensive list of legislative requirements and ensures that these are implemented in the operation. Where required, reports are submitted to the relevant government departments.</li> <li>• It was found that policies and systems are well communicated and understood by the workforce and contractors and that they complied with the relevant legislative and other requirements.</li> </ul>
Assess the performance of the Group with regard to the impact of health, safety, social and environmental decisions and actions upon employees, communities and other third parties and also to assess the impact of such decisions upon the reputation of the Group.	<ul style="list-style-type: none"> <li>• The Committee monitored the implementation of a number of initiatives, further details of which are contained in the Health, Safety, Environment and Community Report on pages 28 to 35, and gave quarterly feedback to the Board. The results to date are to be commended.</li> <li>• The safety, environmental and community engagement programmes enhance the reputation of the Group.</li> </ul>
Review the results of independent audits of the Group's performance in regard to health, safety, social or environmental matters and review any strategies and action plans developed by management in response to issues raised and, where appropriate, make recommendations to the Board concerning these.	<ul style="list-style-type: none"> <li>• Internal and third-party audits were completed by various independent firms, for instance NOSA, where a 4-star rating out of a possible 5-stars was achieved. Suggestions for improvement were noted and are being implemented.</li> </ul>
Review reports from management concerning serious accidents and incidents within the Group and actions taken by management with regard to investigation and implementation of mitigation measures.	<ul style="list-style-type: none"> <li>• Incident reporting is encouraged and, where considered serious, are fully investigated and corrective measures implemented.</li> <li>• During the year two LTIs were recorded, which were fully investigated and corrective and preventive actions were implemented.</li> </ul>

## Conclusion

The Committee can confirm that Mine management and staff place the highest priority on safety at work, the maintenance of health and environmental standards consistent with industry standards and continued positive relationship building with the local communities.



**Ken Owen**

Non-Executive Chairman of the SHEC Committee

19 December 2019

## DIRECTORS' REMUNERATION REPORT



**Patrick Meier**  
Non-Executive Director

“

THE COMPANY HAS A HIGHLY EXPERIENCED MANAGEMENT TEAM WITH A PROVEN TRACK RECORD OF SUCCESSFUL PERFORMANCE”

### Summary

**Highly experienced management team met or exceeded all 2019 production guidance measures for the Liqhobong Mine**

**Remuneration packages were reviewed, ensuring competitive benchmarking in both Southern Africa and the United Kingdom**

**Continued efforts to ensure Firestone offers motivating performance-related remuneration to attract and retain key staff**

**The Committee consists entirely of Non-Executive Directors**

### Dear shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 30 June 2019. The Company faced challenging market conditions as diamond prices were depressed, and management have risen to the task of dealing with lower revenues than planned. This is despite the continuing successful operations at the Liqhobong Mine which completed its second full year of production.

The Remuneration Committee continued to work closely with the Chief Executive Officer and Chairman on the remuneration packages, including reviewing the Long-Term Incentive Plan and determining incentives for the executive and operational teams in terms of the Short-Term Incentive Plan, in respect of the achievement of key performance indicators ("KPIs") for the year ended 30 June 2019.

As detailed previously in this report, we are extremely proud of our team's 2019 performance, which included:

- recoveries for the full year of 829 458 carats, within guidance of between 820 000 and 870 000 carats;
- grade of 22.6 cph;
- 3.7 million tonnes ("mt") treated, ahead of guidance of 3.6mt; and
- cash operating costs of US\$11.48 per tonne treated for the year, much better than guidance of US\$15 to US\$16 per tonne treated.

The Committee's work in 2019 included reviewing the effectiveness of the Restricted Share Plan (Long-Term Incentive Plan), determining and reviewing awards under the Short-Term Incentive Plan and updating the KPI measures in use for performance assessment.

### The Remuneration Committee

The Board has delegated certain responsibilities for executive remuneration to the Remuneration Committee. The Remuneration Committee has approved Terms of Reference, a copy of which is available on the Company's website at [www.firestonediamonds.com](http://www.firestonediamonds.com).

## DIRECTORS' REMUNERATION REPORT CONTINUED

### Remuneration Committee membership and attendance at meetings

Three Non-Executive Directors served on the Remuneration Committee during the year:

- Patrick Meier (Chairman), independent Non-Executive Director who replaced Mike Wittet and Deborah Thomas who both resigned on 5 July 2018;
- Keith Johnson, Non-Executive Director appointed on 21 May 2015; and
- Eileen Carr, independent Non-Executive Director who replaced Paul Sobie who resigned on 30 April 2019.

The Committee consists of three Non-Executive Directors, two of whom are independent. Keith Johnson, as Resource Capital Fund VI L.P.'s nominated Non-Executive Director, is not deemed to be independent; however, the Board feels that this does not impede his work on the Committee.

The Committee met four times during the year, with all members in attendance.

### The Remuneration Committee's main responsibilities

A summary of the Remuneration Committee's main responsibilities as set out in its Terms of Reference are:

- to determine and agree with the Board the broad policy for the remuneration of the Company's Chairman, Chief Executive Officer, the Executive Directors and such other members of the executive management as it is designated to consider, comprising the CEO's direct reports;
- to determine the total individual remuneration package of each Executive Director and other senior executives, including bonuses and long-term incentive awards;
- to approve the design of, and determine targets for, any performance-related pay schemes operated by the Company and approve the total annual payments made under such schemes;
- to review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, to determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to Executive Directors and other senior executives, and the performance targets to be used; and
- to ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

### What the Remuneration Committee did during the year

The main items of business considered by the Remuneration Committee during the year were:

- worked closely with the Chief Executive Officer and Chairman to ensure that Firestone's remuneration packages were competitive for all executives and managers;
- reviewed and determined that both the Non-Executive Directors', and Non-Executive Chairman's remuneration should remain unchanged at present;
- determined executive and management fixed-salary levels for 2019 based on benchmarking and cost-of-living indexing;
- determined executive and management Short-Term Incentive Plan ("STIP") levels and KPIs for these performance-based awards;
- reviewed the effectiveness of the Restricted Share Plan (Long-Term Incentive Plan), and options for replacing it with a cash-based scheme in the future; and
- agreed Additional Services Compensation for certain Non-Executive Directors.

### Priorities for the Remuneration Committee over the next year

The main priorities for the Remuneration Committee in the next year are the continued review and benchmarking of the Company's executive and non-executive remuneration policies, to ensure competitive compensation packages are in place to recruit, retain and motivate highly qualified executives and managers who will contribute towards the successful performance of the Company, in the context of the Company's financial performance.

### Restricted Share Plan (Long-Term Incentive Plan)

One of the major risks identified by the Company is the attraction and long-term retention of key managers and other employees who perform well within the Company. The Company's RSU plan is designed to directly address this with a discretionary benefit offered to its senior employees and key managers. Its main purpose is to increase the interest of the employees in the Company's long-term business goals and performance through share ownership. The plan is intended to act as a retention and reward mechanism for key individuals within the Group. Share awards will be capped at a maximum of 4% of the issued share capital of the Company and will vest in equal tranches over a three-year period ending January 2020. The recipients of the awards will be required to maintain above-average performance, meeting all of their individual targets to ensure that awards vest during the three-year period.

During the year, 3 083 742 RSUs were exercised in January 2019.

Given the development of the Company's share price it is acknowledged that the incentive is severely diluted and consideration has been given to potential alternatives which would be cash based.

### Short-Term Incentive Plan

The Committee, in consultation with the Chief Executive Officer, determined that a bonus pool of one month's salary for the entire workforce was appropriate for the year. STIP bonuses were awarded based on individual KPIs, and were self-funded out of operational cost savings.

### Advisers to the Remuneration Committee

FIT Remuneration Consultants in London and Remchannel PwC Research Services (Pty) Limited in South Africa were the main advisers to the Remuneration Committee during the course of the year. The Chief Executive Officer reported to the Remuneration Committee on remuneration matters relating to senior management and employees.

### Components of remuneration

Component	Purpose and link to strategy	Operation	Performance metrics
Base salary	To attract and retain talent.	Reflects individual's role, experience and performance. Base salaries are reviewed annually.	Business and individual performance are considered when setting base salary.
Short-Term Incentive Plan – annual performance bonus	Rewards the achievement of short-term financial and strategic project milestones.	Determined by the Remuneration Committee annually. Maximum level of award is 150% of base salary.	Award quanta are based on exceeding both operational performance and budget thresholds.
Long-Term Incentive Plan – restricted share unit awards	To incentivise and reward performance which is linked to strategic objectives and align the interests of management with those of the shareholders.	Award of restricted share units to senior staff and employees who are key to contribute to the success of the business. The Board may periodically make further awards upon approval by the Remuneration Committee.	One-third will vest on the first anniversary of the date of grant, one-third on the second anniversary and the final third upon the third anniversary of the grant.

### Fees

The Board-approved base fees for Non-Executive Directors and the Chairman are as follows:

	2019 US\$	2018 US\$
Chairman	120 000	120 000
Non-Executive Director	60 000	60 000

### Share awards and additional payments to Non-Executive Directors

No share awards were made to the Non-Executive Directors during the year. Additional Services Compensation was paid to the Chairman and Patrick Meier as highlighted in the Directors' remuneration table over the page.

# DIRECTORS' REMUNERATION REPORT CONTINUED

## Directors' remuneration table

	Base salary US\$	Additional fee US\$	Annual bonus US\$	Share-based payments US\$	Total 2019 US\$	Total 2018 US\$
<b>Executive Directors</b>						
Paul Bosma <sup>1</sup>	410 000	—	21 204	10 290 <sup>4</sup>	441 494	—
Stuart Brown <sup>1</sup>	—	—	—	—	—	886 518
<b>Non-Executive Directors</b>						
Lucio Genovese	120 000	18 000	—	—	138 000	120 000
Deborah Thomas <sup>2</sup>	—	—	—	—	—	60 000
Eileen Carr <sup>3</sup>	10 000	—	—	—	10 000	—
Keith Johnson	60 000	—	—	—	60 000	60 000
Ken Owen	60 000	—	—	—	60 000	60 000
Mike Wittet <sup>5</sup>	—	—	—	—	—	60 000
Niall Young	60 000	—	—	—	60 000	60 000
Patrick Meier <sup>2</sup>	60 000	36 000	—	—	96 000	—
Paul Sobie <sup>3</sup>	50 000	—	—	—	50 000	60 000
	420 000	54 000	—	—	474 000	480 000
<b>Total</b>	<b>830 000</b>	<b>54 000</b>	<b>21 204</b>	<b>10 290</b>	<b>915 494</b>	<b>1 366 518</b>

<sup>1</sup> Paul Bosma was appointed on 1 July 2018 as Chief Executive Officer. He replaced Stuart Brown, who resigned on 30 June 2018.

<sup>2</sup> Patrick Meier was appointed on 5 July 2018 as Non-Executive Director and Chair of the Audit Committee and member of the Remuneration and Nomination Committees. He replaced Deborah Thomas, who resigned on 5 July 2018.

<sup>3</sup> Eileen Carr was appointed on 30 April 2019 as Non-Executive Director and member of the Audit and Remuneration Committees. She replaced Paul Sobie, who resigned on 30 April 2019.

<sup>4</sup> During the year a share-based payment expense of US\$228 899 was recognised in relation to restricted share units issued to Paul Bosma in January 2017, May 2018 and July 2018. The restricted share units vest in three tranches over a three-year period and the expense is recognised over the vesting period. Paul exercised 285 793 RSUs with a strike price of 1.00 pence, at 3.38 pence in January 2019, resulting in a gain of US\$10 290.

<sup>5</sup> Mike Wittet, Non-Executive Director and Chairman of the Safety, Health, Environment and Corporate Social Responsibility Committee and member of the Audit and Remuneration Committees, resigned on 5 July 2018.

## Operation of share option awards

There are two share option plans operated by the Company which have been approved by shareholders. These are the Executive Share Option Plan, for executives and employees, and the Share Option Plan for non-executives. Performance conditions are attached to the exercise of awards under the Executive Share Option Plan. These relate to safety, operational, project and financial targets as appropriate to the individual.

## Share option awards

	Date option granted	Exercise price	1 July 2018	Movements during the year			30 June 2019	Earliest exercise date	Latest exercise date
				Granted	Exercised	Lapsed			
<b>Executive Directors</b>									
Paul Bosma	30/06/2014	39p	363 342	—	—	—	363 342	15/01/2018	14/01/2027
	01/10/2015	27p	196 707	—	—	—	196 707	15/01/2019	14/01/2027
	15/01/2017	1p	285 793	—	285 793 <sup>1</sup>	—	—	15/01/2019	14/01/2027
	15/01/2017	1p	285 794	—	—	—	285 794	15/01/2020	14/01/2027
	01/07/2018	1p	—	4 585 189 <sup>2</sup>	—	—	4 585 189	01/07/2021	30/06/2028
Stuart Brown	27/05/2014	30p	3 033 760	—	—	—	3 033 760	27/05/2016	26/05/2024
	27/05/2014	30p	3 033 760	—	—	—	3 033 760	27/05/2017	26/05/2024
	27/05/2014	30p	3 033 760	—	—	—	3 033 760	01/07/2017	26/05/2024
	15/01/2017	1p	855 750	—	778 380 <sup>3</sup>	77 370	—	15/01/2019	14/01/2027
<b>Non-Executive Director</b>									
Lucio Genovese	23/11/2012	85p	900 000	—	—	—	900 000	23/11/2012	22/11/2022

<sup>1</sup> Paul Bosma exercised 285 793 RSUs with a strike price of 1.00 pence, at 3.38 pence in January 2019.

<sup>2</sup> Paul Bosma was granted 4 585 189 RSUs with a strike price of 1.00 pence under the Long-Term Incentive Plan.

<sup>3</sup> Stuart Brown exercised 778 380 RSUs with a strike price of 1.00 pence, at 3.38 pence in January 2019.

## Dates of appointment


	Date appointed	Date resigned
<b>Executive Directors</b>		
Paul Bosma	01/07/2018 <sup>1</sup>	
Stuart Brown	01/12/2013	30/06/2018
<b>Non-Executive Directors</b>		
Lucio Genovese	17/01/2012	
Deborah Thomas	01/11/2016	05/07/2018
Eileen Carr	30/04/2019	
Keith Johnson	01/05/2015	
Ken Owen	18/06/2014	
Michael Stirzaker	22/07/2019	
Mike Wittet	24/07/2012	05/07/2018
Niall Young	18/06/2014	22/07/2019
Patrick Meier	05/07/2010	
Paul Sobie	20/06/2011	30/04/2019

<sup>1</sup> Paul Bosma commenced work with the Company on 1 July 2014, initially as a member of the owners team which was responsible for the construction project, and subsequently as General Manager of Liqhobong. Paul was appointed as Chief Executive Officer from 1 July 2018, taking over from Stuart Brown.

## Directors' interests in the share capital of the Company as at the date of this report

Director	Number of shares <sup>1</sup>	
	2019	2018
Paul Bosma	—	—
Lucio Genovese	3 586 316	3 586 316
Eileen Carr	—	—
Keith Johnson	393 903	393 903
Ken Owen	—	—
Michael Stirzaker	—	—
Patrick Meier	—	—

<sup>1</sup> Excluding share option awards.



**Patrick Meier**

Non-Executive Chairman of the Remuneration Committee

19 December 2019

## DIRECTORS' REPORT

The Directors present their Annual Report and Accounts for the year ended 30 June 2019. The Strategic Report, the Corporate Governance Statement and the Directors' Remuneration Report should be read in conjunction with this report.

### Results and dividends

The Group made a loss after taxation of US\$56.9 million (2018: loss after tax of US\$14.2 million). Further details are shown in the Consolidated Statement of Comprehensive Income on page 61.

The Directors do not recommend a dividend (2018: nil).

### Capital structure

The Company's share capital consists of one class of ordinary shares and two classes of deferred shares. At the date of this report the ordinary share capital of the Company was 645 072 236 ordinary shares of 1 pence each (2018: 523 937 848 ordinary shares of 1 pence each).

Other than the general provision of the Articles (and prevailing legislation) there are no specific restrictions on the size of a holding or on the transfer of ordinary shares.

The Directors are not aware of any agreement between holders of the Company's shares that may result in the restriction on the transfer of securities or on voting rights. No shareholder holds any securities carrying any special rights or control over the Company's share capital.

At the date of this report the Company had been notified of the following interests in the issued ordinary share capital:

	Shares	% holding
Resource Capital Fund VII P	201 821 604	31.29%
Pacific Road Resources Fund II L.P.	176 515 708	27.37%
Edwards Family Holdings Limited	63 472 355	9.84%
Sustainable Capital Limited	59 128 295	9.17%
Pacific Road Resources Fund II	24 710 584	3.83%

### Directors

Biographies of the current Directors as at the date of this report are set out on pages 36 and 37.

The Directors who served during the year and up to the date of this report were as follows:

	Position	Date of change
Lucio Genovese	Non-Executive Chairman	
Paul Bosma	Chief Executive Officer	Appointed 1 July 2018
Eileen Carr	Non-Executive Director	Appointed 30 April 2019
Keith Johnson	Non-Executive Director	
Patrick Meier	Non-Executive Director	Appointed 5 July 2018
Ken Owen	Non-Executive Director	
Michael Stirzaker	Non-Executive Director	Appointed 22 July 2019
Deborah Thomas	Non-Executive Director	Resigned 5 July 2018
Mike Wittet	Non-Executive Director	Resigned 5 July 2018
Paul Sobie	Non-Executive Director	Resigned 30 April 2019
Niall Young	Non-Executive Director	Resigned 22 July 2019

Details of Directors' emoluments and fees are shown in note 7 to the financial statements and further details of their remuneration and share interests are shown in the Directors' Remuneration Report on pages 49 to 53.

The Company maintains Directors' and Officers' Liability Insurance which, in the view of the Directors, should provide appropriate cover for any potential legal action brought against its Directors. The Company has also provided in its Articles of Association an indemnity for its Directors, which is a qualifying third-party indemnity provision for the purposes of section 234 of the Companies Act 2006. This was in place throughout the financial year under review and up to the date of the approval of the financial statements.



## Employees

The Group had 224 full-time employees at the year end.

## Employee involvement

The Company's policy is to actively involve its employees in the business and to ensure that matters of concern to them, including the Group's aims and objectives and the financial and economic factors which impact thereon, are communicated in an open and regular manner. This is achieved through regular management briefs.

## Financial risk management and exposure to risks from the use of financial instruments

Financial risk disclosures and details of the Group's exposure to risk arising from the use of financial instruments are provided within the Strategic Report and in note 30 to the financial statements.

## Going concern

The Directors, after making enquiries and considering uncertainties associated with the Group's operations, believe that on the basis of the forecast assumptions adopted, the Group and Company have access to the necessary financial resources to continue in operational existence for the foreseeable future.

Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts, which do not include any adjustments that would result from the going concern basis of preparation being inappropriate. Further information is included within note 1 going concern on page 68.

We do, however, draw your attention to the fact that at 30 June 2019, the Group's total liabilities exceed its total assets by US\$24.7 million and that the Company's total liabilities exceed its total assets by US\$28.9 million.

## Post-balance sheet events

Post-balance sheet events are detailed in note 33 to the financial statements.

## Political donations

The Company made no political donations during the year.

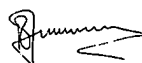
## Disclosure of information to the auditor

In the case of each person who was a Director at the time this report was approved:

- so far as that Director is aware, there is no relevant available information of which the Company's auditor is unaware; and
- that Director has taken all steps that the Director ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor was aware of that information.

A resolution to re-appoint BDO LLP as auditor to the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board



## Lucio Genovese

Non-Executive Chairman

19 December 2019

## DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Strategic Report, Directors' Report and Annual Report and Accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the AIM Rules for Companies as published by the London Stock Exchange from time to time.

In preparing these financial statements, the Directors are required to:

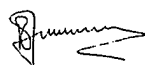
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Website publication

The Directors are responsible for ensuring the Annual Report and Accounts are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

On behalf of the Board



**Lucio Genovese**

Non-Executive Chairman

19 December 2019

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FIRESTONE DIAMONDS PLC

## Opinion

We have audited the financial statements of Firestone Diamonds plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 30 June 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Financial Position, the Company Statement of Changes in Equity, the Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company's financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISA (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material uncertainty related to going concern

We draw attention to note 1 in the financial statements which states that the Group lacks sufficient liquidity headroom to meet its debt repayments and other obligations for a period of at least twelve months.

The Directors have received a signed non-binding term sheet from ABSA where ABSA have conditionally agreed to restructure the debt in line with the disclosures made in note 1. However as disclosed in note 1, the debt restructure is subject to the satisfaction of a number of conditions precedent.

Furthermore, as disclosed in note 1 the bondholders have conditionally agreed to restructure the Series A Eurobonds and to provide the Group with a short-term working capital facility ("working capital facility"). The availability of the working capital facility is subject to the satisfaction of a number of conditions precedent as disclosed in note 1.

These events or conditions, along with the other matters as set forth in note 1, indicate that material uncertainties exist that may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Given the conditions and uncertainties noted above we considered going concern to be a key audit matter. We have performed the following work as part of our audit:

- we challenged the Directors' forecasts to assess the Group and Company's ability to meet its financial obligations as they fall due for a period of at least twelve months from the date of approval of the financial statements:
  - we reviewed diamond price forecasts to prices achieved in the year, pricing trends and market forecasts and considered the appropriateness of growth assumptions based on empirical data and industry peers trend growth;
  - we compared foreign exchange rate assumptions to market forecasts; and
  - we reviewed the consistency of committed cash flows against contractual arrangements, and compared forecast operating levels, production costs and overheads in the life of mine model to current run rates.
- we reviewed the terms of the non-binding term sheets with ABSA and the bondholders to understand the conditions attached to the ABSA debt restructure, Series A Eurobonds restructure and the working capital facility;
- we reviewed the covenant terms in the ABSA non-binding term sheet and considered whether these could be met based upon the cash flow forecasts and life of mine model. We reviewed the adequacy of the working capital facility in funding the Group's operational requirements for a period of at least twelve months from the date of approval of the financial statements on the basis that the ABSA debt and Series A Eurobond restructures are secured; and
- we reviewed the adequacy of disclosures in the financial statements in respect of the Group's and Parent Company's funding position and requirement for additional funding to meet its working capital requirements and liabilities as they fall due, which the Directors have concluded represents a material uncertainty regarding their ability to continue as a going concern.

**INDEPENDENT AUDITOR'S REPORT** CONTINUED

TO THE MEMBERS OF FIRESTONE DIAMONDS PLC

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matter described below to be a key audit matter.

Key audit matter	How we addressed the key audit matter in our audit
<b>Carrying value of Liqhobong Diamond Mine</b>	
<p>As detailed in note 10 and also explained in note 2, the assessment of impairment to the carrying value of mining assets require significant judgement and estimate by management. As at 30 June 2019, there was a significant risk for our audit that the Liqhobong Diamond Mine is carried at an amount greater than its recoverable amount.</p> <p>In total, impairments amounting to US\$38.3 million were recognised in the year ended 30 June 2019.</p>	<p>Our procedures in relation to management's assessment of the carrying value of Liqhobong Diamond Mine included:</p> <ul style="list-style-type: none"> <li>evaluating management's impairment models against approved life of mine plans and our understanding of the operations, and critically reviewing the consistency of the mine plan against resource and reserve reports and mine optimisation review undertaken by an independent third-party expert;</li> <li>testing whether the methodology applied in the value-in-use calculation is compliant with the requirements of International Accounting Standards ("IAS") 36 Impairment of Assets, and the mathematical accuracy of management's model;</li> <li>challenging the significant inputs and assumptions used in the impairment model and whether these were indicative of potential bias. Our testing included: <ul style="list-style-type: none"> <li>challenged the short-term pricing assumptions by evaluating management's diamond price forecasts against prices achieved in the year and post year end and challenging management on their assumptions regarding the impact that the current market downturn will have on pricing using public source information including market analyst and other diamond producer commentary on the short-term outlook, together with the effect of product mix on pricing;</li> <li>challenged the long-term pricing where we considered the appropriateness of the long-term diamond price escalator of 1.5% and assessed whether management's estimate is within an acceptable range by comparing the price escalator to market guidance and historical market pricing trends. We searched for alternative views on the long-term outlook and challenged management's forecast using a variety of information sources, including market analyst commentary, other diamond producer pricing outlooks and demand and supply side factors that would be expected to impact market pricing;</li> <li>critically analysing the inputs in management's calculated discount rate. We engaged BDO valuation specialists to assess the reasonableness of the methodology used in determining the discount rate and challenged management's discount rate assumptions by benchmarking against industry peers;</li> <li>comparison of foreign exchange rate assumptions to year-end spot rates; and</li> <li>critical review of the forecast costs against the expected production profiles in the mine plan and historical performance.</li> </ul> </li> <li>reviewed management's sensitivity analysis and performed our own sensitivity analysis over individual key inputs, together with a combination of sensitivities over such inputs;</li> <li>we held discussions with the Audit Committee to consider the recoverable amount under the forecasts and discussed downside risks and sensitivities; and</li> <li>assessed the adequacy of impairment related disclosures contained within note 10 of the financial statements.</li> </ul>

**Key observation**

Based on our work, we found management's key judgements in respect of the carrying value of Liqhobong Diamond Mine to be reasonable.

## Our application of materiality

Group materiality – 2019	Group materiality – 2018	Basis for materiality
US\$1.2 million	US\$2.2 million	Approximately 1.5% of total assets (2018: approximately 1.5% of total assets)

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

Our basis for the determination of materiality has remained unchanged. The benchmark percentage for calculating materiality has remained unchanged at 1.5% in 2018 to 2019 which reflect the public interest in the project as it had two full years of commercial production. We consider total assets to be the most significant determinant of the Group's financial performance used by shareholders.

Whilst materiality for the financial statements as a whole was US\$1.2 million, each significant component of the Group was audited to a lower level of materiality. The Parent Company materiality was US\$0.4 million (2018: US\$0.8 million) with the other components being US\$0.9 million. These materiality levels were used to determine the financial statement areas that are included within the scope of our audit and the extent of sample sizes during the audit.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. Performance materiality was set at 75% (2018: 75%) of the above materiality levels for both the Group and Parent Company.

We agreed with the Audit Committee that we would report to the Committee all individual audit differences identified during the course of our audit in excess of \$0.06 million (2018: \$0.1 million). We also agreed to report differences below these thresholds that, in our view warranted reporting on qualitative grounds.

## An overview of the scope of our audit

Our Group audit scope focused on the Group's principal operating company, Lihobong Mining Development Company (Pty) Limited ("LMDC") which holds the Lihobong mine in Lesotho. LMDC was subject to a full scope audit as were the Parent Company and its Group consolidation as these represent the other significant components of the Group.

The remaining components of the Group were considered non-significant and were principally subject to analytical review procedures, together with additional substantive testing over material balances where necessary in that component. We set out below the extent to which the Group's revenue and total assets were subject to audit versus review procedures.

Components subject to full scope audits account for 90% of the total assets.

The audits of each of the components were principally performed in South Africa and the United Kingdom. All of the audits were conducted by BDO LLP and a BDO member firm.

As part of our audit strategy, as Group auditor:

- detailed Group reporting instructions were sent to the component auditors, which included the significant areas to be covered by the audits (including areas where there was considered to be a significant risk of material misstatement), and set out the information required to be reported to the Group audit team;
- were actively involved in the direction of the audits performed by the component auditors for Group reporting purposes, along with the consideration of findings and determination of conclusions drawn; and
- provided for a senior member of the Group audit team to attend the local audit clearance meeting.

## Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## INDEPENDENT AUDITOR'S REPORT CONTINUED

TO THE MEMBERS OF FIRESTONE DIAMONDS PLC

### Opinions on other matters prescribed by the Companies Act 2006

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

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

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



### Jack Draycott (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor  
London

19 December 2019

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 US\$'000	2018 US\$'000
<b>Revenue</b>	4	<b>57 239</b>	62 246
Cost of sales		<b>46 924</b>	57 116
<b>Gross profit</b>		<b>10 315</b>	5 130
Other income		<b>1 405</b>	1 267
<b>Selling, administrative and other expenses</b>		<b>52 957</b>	13 707
Other administrative expenses		<b>2 123</b>	1 784
Diamond royalty and selling expenses		<b>3 753</b>	4 318
Impairment charge	10	<b>41 565</b>	—
Amortisation and depreciation	5	<b>1 422</b>	2 408
Share-based payments	24	<b>552</b>	1 345
Care and maintenance		<b>327</b>	485
Corporate expenses		<b>3 215</b>	3 367
<b>Loss before finance charges and income tax</b>	5	<b>(41 237)</b>	(7 310)
Finance income	9	<b>1 491</b>	794
Finance costs	9	<b>10 764</b>	11 021
<b>Loss before tax</b>		<b>(50 510)</b>	(17 537)
Taxation (charge)/credit	11	<b>(6 349)</b>	3 304
<b>Loss after tax for the year</b>		<b>(56 859)</b>	(14 233)
<b>Loss after tax for the year attributable to:</b>			
Owners of the parent		<b>(44 065)</b>	(11 635)
Non-controlling interests		<b>(12 794)</b>	(2 598)
<b>Loss after tax for the year</b>		<b>(56 859)</b>	(14 233)
<b>Other comprehensive loss:</b>			
<b>Items that may be reclassified subsequently to profit and loss</b>			
Exchange differences on translating foreign operations net of tax		<b>(2 254)</b>	(7 426)
Movement on cash flow hedges		<b>104</b>	791
<b>Other comprehensive loss</b>		<b>(2 150)</b>	(6 635)
<b>Total comprehensive loss for the year</b>		<b>(59 009)</b>	(20 868)
<b>Total comprehensive loss for the year attributable to:</b>			
Owners of the parent		<b>(45 479)</b>	(16 432)
Non-controlling interests		<b>(13 530)</b>	(4 436)
<b>Total comprehensive loss for the year</b>		<b>(59 009)</b>	(20 868)
<b>Basic and diluted loss per share</b>			
Basic and diluted loss per share from continuing operations (US cents)	12	<b>(8.2)</b>	(2.8)

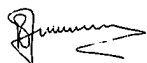
The notes on pages 68 to 100 form part of these financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AS AT 30 JUNE 2019

	Note	2019 US\$'000	2018 US\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	51 757	101 220
Deferred tax	14	—	6 501
Loan receivable	18	—	487
<b>Total non-current assets</b>		<b>51 757</b>	<b>108 208</b>
<b>Current assets</b>			
Inventory	19	7 453	5 881
Other financial assets	20	553	265
Trade and other receivables	21	1 699	13 288
Cash and cash equivalents	22	26 325	18 421
<b>Total current assets</b>		<b>36 030</b>	<b>37 855</b>
<b>Total assets</b>		<b>87 787</b>	<b>146 063</b>
<b>EQUITY</b>			
Share capital	23	166 888	166 239
Share premium		192 986	191 201
Reserves		(27 427)	(24 201)
Accumulated losses		(296 997)	(255 607)
<b>Total equity attributable to equity holders of the parent</b>		<b>35 450</b>	<b>77 632</b>
Non-controlling interests		(60 160)	(46 630)
<b>Total equity</b>		<b>(24 710)</b>	<b>31 002</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	26	87 076	94 225
Rehabilitation provisions	27	4 510	4 313
<b>Total non-current liabilities</b>		<b>91 586</b>	<b>98 538</b>
<b>Current liabilities</b>			
Borrowings	26	10 492	2 143
Other financial liabilities	20	34	—
Trade and other payables	28	9 889	14 055
Provisions	29	496	325
<b>Total current liabilities</b>		<b>20 911</b>	<b>16 523</b>
<b>Total liabilities</b>		<b>112 497</b>	<b>115 061</b>
<b>Total equity and liabilities</b>		<b>87 787</b>	<b>146 063</b>

The financial statements were approved by the Board of Directors and authorised for issue on 19 December 2019.


**Lucio Genovese**

Director

The notes on pages 68 to 100 form part of these financial statements.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

	Share capital US\$'000	Share premium US\$'000	Warrant reserve <sup>1</sup> US\$'000	Merger reserve US\$'000	Hedging reserve US\$'000	Share-based payment reserve US\$'000	Translation reserve US\$'000	Accumulated losses US\$'000	Equity attributable to holders of the parent US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
Balance as at 30 June 2017	163 557	167 349	7 609	(1 614)	(23)	6 516	(32 577)	(245 452)	65 365	(42 194)	23 171
<b>Comprehensive loss</b>											
Loss for the year	—	—	—	—	—	—	—	(11 635)	(11 635)	(2 598)	(14 233)
<b>Other comprehensive income for the year</b>											
Exchange losses on translating foreign operations	—	—	—	—	—	—	(5 429)	—	(5 429)	(1 997)	(7 426)
Profit on cash flow hedges	—	—	—	—	632	—	—	—	632	159	791
<b>Total comprehensive loss for the year</b>	—	—	—	—	632	—	(5 429)	(11 635)	(16 432)	(4 436)	(20 868)
<b>Contributions by and distributions to owners</b>											
Shares issued in the year	2 682	24 752	—	—	—	—	—	—	27 434	—	27 434
Share issue expenses	—	(900)	—	—	—	—	—	—	(900)	—	(900)
Share-based payment transactions	—	—	—	—	—	2 165	—	—	2 165	—	2 165
Share-based payments lapsed/expired	—	—	—	—	—	(1 480)	—	1 480	—	—	—
<b>Total contributions by and distributions to owners</b>	2 682	23 852	—	—	—	685	—	1 480	28 699	—	28 699
Balance as at 30 June 2018	166 239	191 201	7 609	(1 614)	609	7 201	(38 006)	(255 607)	77 632	(46 630)	31 002
<b>Comprehensive loss</b>											
Loss for the year	—	—	—	—	—	—	—	(44 065)	(44 065)	(12 794)	(56 859)
<b>Other comprehensive income for the year</b>											
Exchange losses on translating foreign operations	—	—	—	—	—	—	(1 452)	—	(1 452)	(802)	(2 254)
Profit on cash flow hedges	—	—	—	—	38	—	—	—	38	66	104
<b>Total comprehensive loss for the year</b>	—	—	—	—	38	—	(1 452)	(44 065)	(45 479)	(13 530)	(59 009)
<b>Contributions by and distributions to owners</b>											
Shares issued in the year	649	1 785	—	—	—	—	—	—	2 434	—	2 434
Share-based payment transactions	—	—	—	—	—	863	—	—	863	—	863
Share-based payments lapsed/expired	—	—	—	—	—	(2 675)	—	2 675	—	—	—
<b>Total contributions by and distributions to owners</b>	649	1 785	—	—	—	(1 812)	—	2 675	3 297	—	3 297
Balance as at 30 June 2019	166 888	192 986	7 609	(1 614)	647	5 389	(39 458)	(296 997)	35 450	(60 160)	(24 710)

1 Warrants issued relate to the Eurobond transaction, the details of which are disclosed in note 25.

The notes on pages 68 to 100 form part of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 US\$'000	2018 US\$'000
<b>Cash flows from/(used in) operating activities</b>			
Loss before taxation		(50 510)	(17 537)
Adjustments for:			
Impairment charge	10	41 565	—
Depreciation and amortisation	13	10 343	13 158
Equity-settled share-based payments		806	1 888
Changes in provisions		171	(65)
Finance income	9	(1 491)	(794)
Finance cost	9	10 764	11 021
<b>Net cash flows from operating activities before working capital changes</b>		<b>11 648</b>	<b>7 671</b>
Increase in inventories		(2 089)	(34)
Decrease/(increase) in trade and other receivables		11 775	(10 421)
Decrease in trade and other payables		(4 287)	(3 822)
<b>Net cash flows from/(used in) operating activities</b>		<b>17 047</b>	<b>(6 606)</b>
<b>Cash flows used in investing activities</b>			
Additions to property, plant and equipment		(3 973)	(1 977)
<b>Net cash used in investing activities</b>		<b>(3 973)</b>	<b>(1 977)</b>
<b>Cash flows (used in)/from financing activities</b>			
Proceeds from the issue of ordinary shares		—	25 000
Share issue expense		—	(900)
Increase in borrowings		—	2 000
Repayment of borrowings		(1 935)	(13 476)
Finance income		995	307
Finance cost		(4 879)	(3 421)
<b>Net cash (used in)/from financing activities</b>		<b>(5 819)</b>	<b>9 510</b>
<b>Net increase in cash and cash equivalents</b>		<b>7 255</b>	<b>927</b>
Cash and cash equivalents at beginning of the year		18 421	17 053
Exchange rate movement on cash and cash equivalents at beginning of the year		649	441
<b>Cash and cash equivalents at end of the year</b>	22	<b>26 325</b>	<b>18 421</b>

The notes on pages 68 to 100 form part of these financial statements.

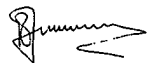
# COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	2019 US\$'000	2018 US\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		—	1
Investments in subsidiaries	15	789	27 430
Loans to subsidiaries	17	692	19 509
<b>Total non-current assets</b>		<b>1 481</b>	<b>46 940</b>
<b>Current assets</b>			
Trade and other receivables	21	444	462
Cash and cash equivalents	22	5 456	5 401
<b>Total current assets</b>		<b>5 900</b>	<b>5 863</b>
<b>Total assets</b>		<b>7 381</b>	<b>52 803</b>
<b>EQUITY</b>			
Share capital	23	166 888	166 239
Share premium		192 986	191 201
Reserves		13 895	15 707
Accumulated losses		(402 646)	(354 274)
<b>Total equity attributable to equity holders of the Company</b>		<b>(28 877)</b>	<b>18 873</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	26	33 983	32 031
<b>Total non-current liabilities</b>		<b>33 983</b>	<b>32 031</b>
<b>Current liabilities</b>			
Trade and other payables	28	2 275	1 899
<b>Total current liabilities</b>		<b>2 275</b>	<b>1 899</b>
<b>Total liabilities</b>		<b>36 258</b>	<b>33 930</b>
<b>Total equity and liabilities</b>		<b>7 381</b>	<b>52 803</b>

## Companies Act section 408 exemption

The Company has taken advantage of the exemptions allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements. The Company incurred a loss on ordinary activities after tax of US\$49.3 million (2018: US\$31.8 million) which included an impairment charge of US\$42.7 million (2018: US\$25.2 million) (refer to note 10). The Company had no other items of comprehensive income in the year (2018: US\$nil). The financial statements were approved by the Board of Directors and authorised for issue on 19 December 2019.



**Lucio Genovese**

Director

The notes on pages 68 to 100 form part of these financial statements.

**COMPANY STATEMENT OF CHANGES IN EQUITY**

FOR THE YEAR ENDED 30 JUNE 2019

	Share capital US\$'000	Share premium US\$'000	Warrant reserve US\$'000	Translation reserve US\$'000	Share-based payment reserve US\$'000	Retained earnings US\$'000	Total equity US\$'000
Balance as at 30 June 2017	163 557	167 349	7 609	897	6 516	(323 608)	22 320
<b>Comprehensive loss</b>							
Loss for the year	—	—	—	—	—	(31 803)	(31 803)
<b>Total comprehensive loss for the year</b>	—	—	—	—	—	(31 803)	(31 803)
<b>Contributions by and distributions to owners</b>							
Shares issued in the year	2 682	24 752	—	—	—	—	27 434
Share issue expenses	—	(900)	—	—	—	—	(900)
Share-based payment transactions	—	—	—	—	2 165	—	2 165
Share-based payments lapsed/expired	—	—	—	—	(1 480)	1 137	(343)
<b>Total contributions by and distributions to owners</b>	2 682	23 852	—	—	685	1 137	28 356
Balance as at 30 June 2018	166 239	191 201	7 609	897	7 201	(354 274)	18 873
<b>Comprehensive loss</b>							
Loss for the year	—	—	—	—	—	(49 259)	(49 259)
<b>Total comprehensive loss for the year</b>	—	—	—	—	—	(49 259)	(49 259)
<b>Contributions by and distributions to owners</b>							
Shares issued in the year	649	1 785	—	—	—	—	2 434
Share-based payment transactions	—	—	—	—	863	—	863
Share-based payments lapsed/expired	—	—	—	—	(2 675)	887	(1 788)
<b>Total contributions by and distributions to owners</b>	649	1 785	—	—	(1 812)	887	1 509
Balance as at 30 June 2019	166 888	192 986	7 609	897	5 389	(402 646)	(28 877)

The Company had no other comprehensive income in the year.

The notes on pages 68 to 100 form part of these financial statements.

# COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 US\$'000	2018 US\$'000
<b>Cash flows used in operating activities</b>			
Loss before taxation		(49 259)	(31 803)
Adjustments for:			
Impairment charge		42 661	25 166
Depreciation and amortisation		—	1
Equity-settled share-based payments		441	923
Finance income		(484)	(456)
Finance cost		4 385	4 339
<b>Net cash flows used in operating activities before working capital changes</b>		<b>(2 256)</b>	<b>(1 830)</b>
Decrease/(increase) in trade and other receivables		18	(35)
Increase in trade and other payables		369	413
<b>Net cash used in operating activities</b>		<b>(1 869)</b>	<b>(1 452)</b>
<b>Cash flows from/(used in) investing activities</b>			
Loans repaid by subsidiaries		11 564	1 702
Loans advanced to subsidiaries		(10 131)	(21 105)
<b>Net cash from/(used in) investing activities</b>		<b>1 433</b>	<b>(19 403)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of ordinary shares		—	25 000
Share issue expense		—	(900)
Proceeds from Eurobond issues		—	2 000
Finance income		491	43
<b>Net cash flows from financing activities</b>		<b>491</b>	<b>26 143</b>
<b>Net increase in cash and cash equivalents</b>		<b>55</b>	<b>5 288</b>
Cash and cash equivalents at beginning of the year		5 401	113
<b>Cash and cash equivalents at end of the year</b>	22	<b>5 456</b>	<b>5 401</b>

The notes on pages 68 to 100 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

## 1 Accounting policies

### Basis of preparation

Firestone Diamonds plc (the "Company") is a company domiciled in the United Kingdom and is quoted on the AIM market of the London Stock Exchange. The consolidated financial statements of the Company for the year ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in diamond mining and exploration in Southern Africa.

### Going concern

The Directors have reviewed the Group's and Company's cash flow forecast and the forecast covenant compliance in relation to the ABSA debt facility for a period of twelve months from signing these annual financial statements.

The cash generated is not forecast to be sufficient to fund capital and interest repayments to ABSA Bank as currently scheduled. Therefore, additional funding and a restructuring of the existing debt is required within the going concern period. The cash flow forecast shows that without the proposed restructuring, the Group would have sufficient cash to operate until June 2020. However, it would be unable to fund the ABSA debt service reserve account to the required level of six months' debt service during this period, which in itself would be an event of default and which could occur as soon as January 2020. The Group also forecasts a breach of one of its covenants, the project life cover ratio in June 2020.

The Directors engaged with ABSA Bank and the bondholders to restructure the existing debt in order to defer capital repayments in the short term. During these discussions, it was acknowledged that two key aspects: namely future diamond prices, over which the Group has no control; and the possible extension of the mine plan, which requires further work, including an updated resource model and third-party review, will become clearer in the months to come. As a result, ABSA Bank has signed a non-binding term sheet to defer capital repayments and to waive breaches under the forecast and historic debt service cover ratios and the loan life cover ratio covenants for a 15-month period until 31 March 2021, and the bondholders have signed a non-binding term sheet to provide a US\$6.0 million working capital facility to cater for short-term funding requirements during this period. Additionally, the bondholders have signed a non-binding term sheet to capitalise interest due on the Series A Eurobonds for the twelve-month period from 1 July 2020, after expiry of a whitewash which permits the Company to issue interest shares in place of paying cash interest. It is anticipated that a further restructuring will be required in the future, during the ABSA deferred capital period, at which stage there is expected to be greater certainty regarding the longer-term diamond market outlook and confirmation of whether or not there is potential for a life of mine extension.

The Directors recognise that the forecast is based on certain forward-looking assumptions, including future diamond prices, exchange rates – particularly between the South African Rand and the United States Dollar, and operating cost per tonne treated, and that the financing arrangements are not legally binding and are subject to certain conditions precedent which are beyond the control of the Directors or management.

The Directors, having reviewed the cash flow forecast and having considered the advanced stage of negotiations with ABSA Bank and the bondholders and the non-binding term sheets in place at this time, consider that there is a reasonable expectation that the Group's existing cash resources, its forecast cash generation and the working capital facility mentioned above, will be sufficient to enable the Group to fund its operational requirements and service the ABSA debt, on a restructured basis, for a period of at least twelve months from the date of approval of this Annual Report. The Directors have considered the single forecast covenant breach and concluded that in light of the efforts being made by all parties to ensure the financial stability of the business over the next 15-month period and the intentions to further restructure the debt over the longer term, it is unlikely that it would lead to a default being called by ABSA which would result in immediate repayment of the facility.

The Directors have therefore concluded that it is appropriate to prepare the financial statements on a going concern basis. Notwithstanding this, the Directors conclude that there is material uncertainty as to whether either the financing arrangements will be concluded or that future covenant waivers will be forthcoming or that covenants will be met and that failure regarding either of these may cast significant doubt upon the Group and Company's ability to continue as a going concern and may therefore be unable to realise their assets and discharge their liabilities in the ordinary course of business. These financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

### Statement of compliance

These consolidated financial statements of Firestone Diamonds plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and as adopted for use in the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

### Standards and interpretations issued that became effective and changes in accounting policies

The Group adopted IFRS 9 and IFRS 15 on 1 July 2018. The result of the adoption of IFRS 15 and the changes in the revenue accounting policy did not have any effect on the recognition of the Group's revenue. The result of the adoption of IFRS 9 and the changes in the financial instrument accounting policy did not have any impact on the recognition and measurement of the Group's financial instruments, as previously disclosed. Further details of the application of these standards are disclosed below:

#### IFRS 9, Financial Instruments

##### Classification and measurement of financial instruments

The Group applied IFRS 9 on 1 July 2018. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss, but remains largely the same for financial liabilities. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Based on the Group's assessment, the new classification requirements, applied on 1 July 2018, did not have a material impact on its accounting for trade receivables, trade payables and loans receivable of the Group or Company.

IFRS 9 replaces the 'incurred loss' model with a forward-looking expected credit loss ("ECL") model. The expected credit loss model applies to financial assets measured at amortised cost or fair value through other comprehensive income, except for investments in equity instruments, and to contract assets. Other than the receivable from the Government of Lesotho which was impaired to nil, the Group does not hold any financial assets that have extended terms of payment and which are subject to significant credit risk. Other than the credit loss recognised on the receivable from the Government of Lesotho the change to the expected credit loss model did not materially impact the Group's remaining financial statements.

The Company holds significant financial assets classified under amortised cost in the form of loans to subsidiaries. The Company has applied the requirements of IFRS 9 to these loans to subsidiaries. As required by the standard, no transitional adjustment was processed at the date of initial application, on 1 July 2018, as the Directors concluded that the loss provision calculated under an ECL approach to be materially consistent with the carried forward loss provision in the 30 June 2018 financial statements.

#### Hedge accounting

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. On 1 July 2018 the Group applied the requirements of IFRS 9, which had no impact on the recognition and measurement of current hedging instruments when transitioning from IAS 39.

#### IFRS 15, Revenue from Contracts with Customers

The Group applied IFRS 15 on 1 July 2018. Management assessed the core principles of IFRS 15, which are to recognise revenue to depict the transfer of diamond sales to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for the diamonds sold.

This core principle is delivered in a five-step model framework:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognise revenue when (or as) the entity satisfies a performance obligation.

Diamond sales are realised through a competitive tender process. Each individual customer enters into a sale agreement with the Group once the customer is awarded the winning bid.

The transaction price is determined as the winning bid price per parcel sold. The performance obligation to transfer the risks and rewards associated with the ownership of the goods is satisfied when the purchaser has won the bid on the parcel. The Group retains no further rights to the diamonds at that stage as it is legally bound by the sale agreement to deliver the goods to the purchaser.

Following assessment of the new requirements of IFRS 15 and the terms and conditions of the current sale contract entered into with each of our customers, we are satisfied that, based on the terms of the current agreements, there is no change to the timing of revenue recognition on tender sales under IFRS 15.

#### Standards and interpretations issued but not yet effective

The following standards and interpretations that have been issued but are not yet effective have not been applied by the Group in these financial statements:

Standard, amendment or interpretation		Effective date
IFRS 16	Leases	Financial years beginning on or after 1 January 2019

#### IFRS 16, Leases

The Group is required to apply IFRS 16, which replaces IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease, for financial years beginning on or after 1 January 2019. IFRS 16 is required to be applied to all contracts where that contract meets the definition of a lease. A lease is defined in IFRS 16 as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

IFRS 16 will require lessees to account for leases through the recognition of a right of use asset, representing the right to use the leased item and a corresponding liability for future lease payments. The lease cost, i.e. rental charge or contractor fee, will be recognised against the lease liability and replaced by the recognition of a depreciation charge of the right of use asset over the expected lease term and finance charges representing the unwinding of discount on the lease liability. This will affect the classification of cash flow in the Statement of Cash Flows, with operating lease rental payments and contractors' fees re-classified under financing activities rather than operating activities.

The Group has assessed the impact that IFRS 16 will have on the financial statements, through applying the lease definition to service level agreements and current leases that the Group has entered into to determine whether these contracts meet the definition of a lease to be recognised in accordance with IFRS 16. Depending on the practical expedients used and judgements relating to the treatment of non-lease payments, the Group expects the recognition of material right of use assets and corresponding lease liabilities for its larger service level agreements, such as the mining contractor agreement and the tailings management agreement.

The Group expects to apply the modified retrospective approach on transition. The Group will not recognise low-value assets or short-term leases with twelve or fewer months remaining in accordance with the exemptions provided in IFRS 16.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

### 1 Accounting policies continued

#### Basis of consolidation

##### Subsidiaries and acquisitions

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) up to 30 June each year. Control is recognised where an investor is exposed to, or has rights to, variable returns from its investment with the investee, and has the ability to affect these returns through its power over the investee. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition. Any excess of the cost of the acquisition above the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of the acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies in line with those used by the Group.

##### Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

#### Business combinations and goodwill

The consolidated financial statements incorporate the results of business combinations using the purchase method. The cost of an acquisition is measured as an aggregate of the fair value of the consideration transferred, measured at the acquisition date and the fair value of any previously held equity interests. For each business combination, the Group measures the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Subsequent changes in the proportion of the non-controlling interests, which do not result in derecognition of the subsidiary, are accounted for in equity. Acquisition costs are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss. The value of any non-controlling interest acquired is measured at the proportional share of the acquired net identifiable assets.

Any contingent consideration to be transferred by the Group is recognised at fair value on the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or a liability, is recognised in accordance with IFRS 9 either in profit or loss or as a change in other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured.

The results of acquired operations are included in the Consolidated Statement of Comprehensive Income from the date on which control is obtained.

#### Exploration and evaluation expenditure

Exploration and evaluation expenditure is written off as incurred, except for amounts arising on the accounting for business combinations. Identifiable exploration and evaluation acquired as part of a business combination are recognised as assets at their fair value, as determined by the requirements of IFRS 3, Business Combinations. Exploration and evaluation expenditure incurred subsequent to the acquisition is expensed as incurred.

Once a development decision has been taken, the carrying amount of any exploration and evaluation expenditure in respect of the area of interest recognised as an asset in accordance with the above policy is aggregated with subsequent development expenditure (see below).

No amortisation is recognised in respect of exploration and evaluation expenditure until it is reclassified as a development property and commercial production commences.

Exploration and evaluation expenditure is tested for impairment annually if facts and circumstances indicate that impairment may exist. Exploration and evaluation expenditure is also tested for impairment once commercial reserves are found, before the assets are transferred to development expenditure.

#### Development costs

Development costs incurred by or on behalf of the Group or acquired from a third party are classified as a tangible asset included within property, plant and equipment and are accumulated separately for each area of interest in which economically recoverable resources have been identified.

Such expenditure comprises acquisition costs and other incurred costs which are directly attributable to the construction of a mine and the related infrastructure. This expenditure is carried at cost less accumulated amortisation and impairment.



### Stripping costs incurred during production

To the extent that the benefit of the stripping activity results in improved access to ore, the directly attributable costs are treated as a non-current stripping activity asset where the following criteria are met:

- it is probable that the future economic benefit of improved access to the ore body, associated with the stripping activity, will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity to improve access to the ore body can be measured reliably.

The stripping activity asset is recognised initially at cost, treated as an enhancement of an existing asset and not as an independent asset. Subsequently, the stripping activity asset is accounted for in the same manner as that adopted for the asset it has enhanced, and is depreciated on a unit of production method, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity.

### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life.

Mining and development expenditure in respect of mining properties in production is depreciated on a unit of production method reflecting the production activity in the period as a proportion of the total mining resource for the relevant mining property. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset was already of the age and in the condition expected at the end of its useful life. The applicable rates are:

Mining property, development, expenditure and plant and equipment	Unit of production method (ore tonnes)
Motor vehicles	3 to 5 years
Office equipment and other assets	3 to 10 years
Other equipment	3 to 10 years

The carrying value of tangible fixed assets is assessed annually and any impairment is charged to profit and loss. The expected useful economic life and residual values of property, plant and equipment are reviewed annually.

### Investments in subsidiaries

Investments in subsidiary undertakings are shown at cost less provisions for impairment in value. The cost of acquisition includes directly attributable professional fees and other expenses incurred in connection with the acquisition. Investments in subsidiaries are all classified as non-current assets.

### Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

### Inventories

Inventories comprise rough diamonds recovered, ore stockpiles, and consumables and spares. Inventories are valued at the lower of cost and net realisable value. Rough diamond inventories and ore stockpile cost is calculated on the weighted average cost basis and includes all costs directly incurred up to the relevant point in the process such as mining and processing cost, but excludes other operating costs such as general mine or administration costs. The net realisable value is determined by reference to market prices at year end. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to conclude the sale.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

### 1 Accounting policies continued

#### Financial assets

Financial assets within the scope of IFRS 9 are classified as financial assets at amortised cost, fair value through other comprehensive income and fair value through profit or loss, as appropriate, depending on the purpose for which the asset was acquired or entered into.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. Other than financial assets in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

#### Trade and other receivables

Trade and other receivables arise from the sale of diamonds and are held to collect contractual cash flows solely comprising of diamond sale proceeds. Trade and other receivables are held at amortised cost. They are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest rate method, less a loss allowance for expected credit losses.

Provisions for expected credit losses for trade receivables are recognised based on the simplified approach within IFRS 9 by applying a probable default matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account, with the loss being recognised within profit and loss in the Consolidated Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

#### Loans and receivables

Loans and receivables are held to collect cash flows solely comprising of principle and interest. After initial measurement, loans and receivables are carried at amortised cost using the effective interest method, less a loss allowance for expected credit loss. The amount of expected credit losses are updated at each reporting date to reflect changes in credit risk for each financial asset.

Provisions for expected credit losses for loans and other receivables, including loans to subsidiaries, are recognised based on management's assessment and understanding of the credit risk attaching to each financial asset. The expected credit loss will be calculated as the net present value of the difference between the contractual and expected cash flows and the ECL will represent the weighted average of those credit losses based on the respective risks of each scenario.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the Consolidated Statement of Financial Position and in respect of the Company includes loans to subsidiaries.

Cash and cash equivalents includes cash on hand and deposits held on call with banks.

#### Hedging instruments

The Group's activities expose it to the financial risks of changes in foreign exchange rates and variable interest rates. The Group uses derivatives (forward exchange contracts and interest rate swaps) to offset changes in cash flow of highly probable forecast transactions. These derivatives are designated as cash flow hedges by the Group.

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge; and
- the hedge relationship meets all of the hedge effectiveness requirements including that an economic relationship exists between the hedged item and the hedging instrument, the credit risk effect does not dominate the value changes, and the hedge ratio is designated based on actual quantities of the hedged item and hedging instrument.

#### Cash flow hedges

The effective part of forward contracts designated as a hedge of the variability in cash flows of foreign currency risk arising from firm commitments, and highly probable forecast transactions, are measured at fair value with changes in fair value recognised in other comprehensive income and accumulated in the hedge reserve.

If a highly probable forecast transaction results in the recognition of a non-monetary asset, the cumulative loss/(gain) is added to/(subtracted from) the cost of the asset acquired ("basis adjustment"). The same approach is followed where a cash flow hedge of a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment to which fair value hedge accounting is applied. Otherwise the cumulative gain or loss recognised in other comprehensive income is reclassified from the hedge reserve to profit or loss at the same time as the hedged transaction affects profit or loss. The Group formally assesses on an ongoing basis whether the changes in cash flow of the derivatives are effective in offsetting changes in the cash flow of the hedged item.

The effective portion of gains and losses on hedges used to manage cash flow interest rate risk (such as floating-to-fixed interest rate swaps) are also recognised in other comprehensive income and accumulated in the hedge reserve. However, if the Group closes out its position early, the cumulative gains and losses recognised in other comprehensive income are frozen and reclassified from the hedge reserve to profit or loss using the effective interest method. The ineffective portion of gains and losses on derivatives used to manage cash flow interest rate risk are recognised in profit or loss within finance expense or finance income.

## Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Group classifies its financial liabilities as:

### Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Any modifications to the original terms of the loans are assessed against the rules on modification accounting under IFRS 9. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process. Amortised interest arising in respect of loans and borrowings specifically allocated to the development of mining assets and production plant is capitalised on a pro-rata basis into the cost of the related asset using a weighted average interest rate applicable to the amount of the loans allocated.

### Trade and other payables

These are initially recognised at invoiced value. These arise principally from the receipt of goods and services. There is no material difference between the invoiced value and the value calculated on an amortised cost basis.

### Provisions

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic resources will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

### Decommissioning and site rehabilitation

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by exploration, evaluation, development or ongoing production. Costs are estimated on the basis of a formal closure plan and local regulatory requirements. These provisions are subject to regular review.

Decommissioning and site rehabilitation costs arising from a development activity or from the installation of plant and other site preparation work are provided for when the obligation to incur such costs arises and are capitalised as a component of the related assets. These costs are charged against profits through amortisation or impairment of the asset. Amortisation and impairment are included in cost of sales.

Changes in the discounted amount of estimated restoration costs are charged to profit or loss during the period in which such changes occur. Estimated restoration costs are reviewed annually and discounted using a rate which reflects the Company's weighted average cost of capital, which reflects the Company's assessments of the time value of money. The increase in restoration provisions, owing to the passage of time, is charged to finance cost.

All other changes in the carrying amount of the provision subsequent to initial recognition are recognised against the carrying value of the decommissioning asset in the Consolidated Statement of Financial Position.

## Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duties. Diamond sales are conducted through a competitive tender process where bids for specific parcels of diamonds are offered. The performance obligation to transfer control associated with the ownership of the goods is satisfied when the customer's bid on a parcel has been accepted when the tender closes. The Group retains no further rights to the diamonds at that stage as it is legally bound by the sale agreement to deliver the goods to the customer. Revenue is recognised when the tender closes and the winning bids are accepted.

## Other income

Other income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the other income can be reliably measured. Other income is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duties.

## Borrowing cost

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing cost eligible for capitalisation is determined as follows:

- actual borrowing cost on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings; and
- weighted average of the borrowing cost applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing cost capitalised does not exceed the total borrowing cost incurred.

The capitalisation of borrowing cost commences when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

### 1 Accounting policies continued

#### Share capital and reserves

##### Share capital

Share capital is the amount subscribed for share capital at the nominal value.

##### Share premium

Share premium is the amount subscribed for share capital in excess of the nominal value.

##### Warrant reserve

Warrant reserve is the value of warrants issued by the Company for subscription by warrant holders.

##### Merger reserve

The merger reserve represents amounts arising from the merger accounting for subsidiary investments under UK GAAP on formation of the Group.

##### Hedge reserve

The hedge reserve represents gains/(losses) arising on the effective portion of hedging instruments carried at fair value in a qualifying cash flow hedge, that was accounted for through other comprehensive income.

##### Share-based payment reserve

The share-based payment reserve represents amounts where the entity recognises the increases and decreases in equity for equity-settled share-based payment transactions.

##### Translation reserve

These are the gains and losses arising on retranslating the net assets of overseas operations into the US Dollar, the Group's presentation currency.

##### Accumulated losses

All other net gains and losses and transactions with owners not recognised elsewhere.

#### Share-based payment transactions

Certain employees (including Directors and senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using an appropriate pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

#### Leases

Lease rentals are charged to income in equal annual amounts over the lease term.

#### Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in US Dollars, which is the presentation currency for the Group and Company financial statements. The functional currency of the Company is the US Dollar.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in the Consolidated Statement of Comprehensive Income for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in US Dollars using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the rate of exchange prevailing on the dates of transactions. Exchange differences arising, if any, are classified as other comprehensive income and are transferred to the Group's translation reserve.

Foreign currency movements arising from the Group's net investment, which comprises equity and long-term debt, in subsidiary companies whose functional currency is not the US Dollar are recognised in the translation reserve, included within equity until such time as the relevant subsidiary company is sold, whereupon the net cumulative foreign exchange difference relating to the disposal is transferred to profit and loss.

## Taxation

Income tax expense or taxation recoverable represents the sum of the tax currently payable or recoverable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised.

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either the same taxable Group company or different Group entities which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

## 2 Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

### Share-based payments

In order to calculate the charge for share-based compensation as required by IFRS 2, the Group makes estimates principally relating to the assumptions used in its option-pricing model as set out in note 24.

### Rehabilitation provisions

The Group makes estimates of future site restoration costs (rehabilitation provisions) based upon current legislation in Botswana and Lesotho and technical reports and estimates provided by the Group's senior employees and advisers. These estimates will be affected by actual legislation in place, actual mining activity to be performed and actual conditions of the relevant sites when the restoration activity is to be performed in future periods.

### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair value less costs to sell. In determining the future cash flows of each cash-generating unit, management makes a number of significant estimates and judgements, including the following (refer to note 10):

- estimated resources and reserves;
- estimated life of mine;
- estimated diamond price per carat;
- recovery and productivity rates;
- inflation rates;
- discount rate; and
- exchange rates.

It is reasonably possible that assumptions may change, which may impact our estimates and may then require a material adjustment to the carrying value of tangible and intangible assets.

The Group reviews and tests the carrying value of tangible and intangible assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets and of the likely disposal proceeds and related costs.

Expected future cash flows used to determine the value in use of tangible and intangible assets are inherently uncertain and could change materially over time.

The Group currently has two main cash-generating units:

#### Liqhobong Mine

The Liqhobong Mine, which completed its second year of commercial production and is the Group's main focus.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

## 2 Critical accounting estimates and judgements continued

### Impairment testing continued

#### BK11 Mine

The BK11 Mine, which was placed on care and maintenance when the conditional option agreement for the potential disposal to Amulet Diamond Corporation expired on 18 December 2018.

### Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy. The fair value hierarchy prioritises the inputs to valuation techniques used to measure fair value. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments and other assets and liabilities for which the fair value was used:

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

### Cash flow forecasts

As part of determining whether the going concern assumption is appropriate, management assesses the cash flow forecasts prepared. The cash flow forecast includes a number of critical estimates and judgements. These estimates and judgements include:

- estimated diamond price per carat;
- estimated production and other operating costs;
- inflation rates; and
- exchange rates.

It is management's policy to obtain sufficient supporting evidence from external sources such as analyst predictions, global supply and demand curves for diamond price estimates as well as internal sources such as the Group's diamond sales history and size distribution to ensure that the cash flow forecast is as accurate as possible.

### Waste stripping cost capitalised

Judgement is required in determining a suitable production measure to allocate waste stripping cost incurred between waste stripping that provided access to ore mined in the current year and waste stripping that provides access to ore that is expected to be mined in future years. The Group capitalises waste stripping costs based on waste mined in excess of the Mine's global stripping ratio based on its life of mine.

### Deferred tax assets

The recognition of deferred tax assets is based upon whether sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. Recognition of deferred tax assets therefore involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised.

Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

The amounts recognised in the consolidated financial statements are derived from the Group's best estimation and judgement as set out in note 14.

### Valuation of inventories

Judgement is applied in making assumptions about the value of inventories and inventory stockpiles, including diamond prices and expenditure, to determine the extent to which the Group values inventory and inventory stockpiles. The Group uses on-site valuations to determine the net realisable value of diamond inventory on hand at year end. Inventory stock piles are measured using actual mining costs.

### Depreciation

Judgement is applied in making assumptions about the depreciation charge for mining assets when using the unit-of-production method in estimating the ore tonnes held in resources and reserves. The relevant resources and reserves are those included in the current approved LOM plan. Judgement is also applied when assessing the estimated useful life of individual assets and residual values. The assumptions are reviewed at least annually by management and the judgement is based on consideration of the LOM plan, as well as the nature of the assets. The resource and reserve assumptions included in the LOM plan are evaluated by the Mineral Resource Manager and reviewed by the General Manager.

### Functional currency

A key issue for mining companies reporting under IFRS is correctly determining their functional currency. This is defined by IAS 21 as "the currency of the primary economic environment in which the entity operates".

Whilst an entity's functional currency should be a matter of fact, there are several factors that need to be considered in determining the most appropriate currency against which judgement is required to consider which of these has the strongest weighting. The primary indicator of the appropriate currency is that which most influences sales prices, often that in which revenue is denominated, and is usually the most significant driver of functional currency. Other considerations include the currency in which labour and material expenses are incurred, the currency in which borrowings are denominated, and the currency in which cash is held.

The relative importance of these factors changes during the life cycle of the Company and may present mixed indicators. Management is therefore required to make a judgement on which is the most appropriate currency that faithfully represents the economic effects of the underlying transactions, events and conditions based on the relative weight of each of the indicators.

The functional currency of the Group's operating subsidiary, Lihobong Mining Development Company (Pty) Limited, is the Lesotho Maloti, which is pegged to the South African Rand, on the basis that the Mine operates in Lesotho and the majority of costs are denominated in Lesotho Maloti and internal reporting to the LMDC Board is in Lesotho Maloti.

### 3 Segmental analysis

The Group operates in the diamond mining and development sector and has three principal operating segments – Liqhobong Mine, BK11 Mine and corporate. The management information is used as a basis for decision-making by the Chief Executive Officer and the Board is prepared on this basis.

The Group has two mines: Liqhobong, which completed its second year of commercial production and is the Group's main focus, and the BK11 Mine, which was placed on care and maintenance when the conditional option agreement for the potential disposal to Amulet Diamond Corporation expired on 18 December 2018. The results from these two operating segments are disclosed separately below.

The Group also conducts business within the United Kingdom and South Africa. There are commercial and operational activities performed on behalf of the Group companies inclusive of fund raising that are subsequently passed on to subsidiaries. The segmental results for these activities are included in the corporate segment.

The following table presents revenue, profit, asset and liability information regarding the Group's operating segments:

	Liqhobong Mine		BK11 Mine		Corporate		Total	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Revenue	57 239	62 246	—	—	—	—	57 239	62 246
Cost of sales	46 924	57 116	—	—	—	—	46 924	57 116
Other income	1 251	895	141	356	13	16	1 405	1 267
Segmental operating result	(33 740)	(1 149)	(2 827)	(1 399)	(4 670)	(4 762)	(41 237)	(7 310)
Finance income	1 007	158	—	—	484	636	1 491	794
Finance costs	6 307	6 793	72	79	4 385	4 149	10 764	11 021
Taxation	(6 349)	3 304	—	—	—	—	(6 349)	3 304
Segmental result	(45 389)	(4 480)	(2 899)	(1 478)	(8 571)	(8 275)	(56 859)	(14 233)
Segmental assets	80 467	134 896	1 607	4 473	5 713	6 694	87 787	146 063
Segmental liabilities	75 344	79 181	1 607	1 624	35 546	34 256	112 497	115 061
<b>Other segmental information</b>								
<b>Capital expenditure:</b>								
Property, plant and equipment	3 963	1 953	—	—	10	24	3 973	1 977
<b>Impairment charge:</b>								
Property, plant and equipment	38 297	—	2 239	—	—	—	40 536	—
Loans receivable	—	—	—	—	1 029	—	1 029	—
<b>Depreciation and amortisation:</b>								
Property, plant and equipment	9 715	11 739	500	1 270	128	149	10 343	13 158
<b>Receipts:</b>								
Long-term loans	—	—	—	—	—	2 000	—	2 000
<b>Repayments:</b>								
Long-term loans	1 870	13 217	—	—	—	—	1 870	13 217

Analysis of non-current assets by location is as follows:

	Group	
	2019 US\$'000	2018 US\$'000
Lesotho	50 212	96 810
Botswana	1 473	4 215
United Kingdom and South Africa	72	195
	51 757	101 220

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

**4 Revenue**

	Group	
	2019 US\$'000	2018 US\$'000
Sale of gem diamonds	56 864	62 246
Sale of non-gem diamonds	375	—
	57 239	62 246

All diamonds are sold in Antwerp, Belgium through a competitive tender process. Below is an analysis of major customers which account for more than 10% of the Group's revenue from the sale of gem diamonds:

	Group			
	2019		2018	
	US\$'000	%	US\$'000	%
Customer – Europe	5 718	10	6 674	11
Other customers	51 146	90	55 572	89
	56 864	100	62 246	100

**5 Operating loss**

	Group	
	2019 US\$'000	2018 US\$'000
<b>Operating loss for the year is stated after charging:</b>		
Impairment charge (note 10)	41 565	—
Cost of inventories recognised as an expense excluding amortisation and depreciation	38 003	46 366
Amortisation and depreciation (note 13)	10 343	13 158
Included in cost of sales	8 921	10 750
Other	1 422	2 408
Employee costs (note 6)	9 846	11 691
Operating lease rentals	429	203

**6 Employee numbers and costs**

The average number of persons employed in the Group during the year, including the Executive Director, was:

	Group	
	2019 number	2018 number
Operations	207	195
Administration	18	19
	225	214

The employment benefits were as follows:

	Group	
	2019 US\$'000	2018 US\$'000
Salaries and wages	8 948	9 472
Social security cost	35	25
Share-based payments	863	2 194
	9 846	11 691



## 7 Directors' emoluments

Directors' emoluments for the period that each individual served as a Director were as follows:

	Group	
	2019 US\$'000	2018 US\$'000
Short-term benefits	905	1 230
Share-based payments	10	137
<b>Total</b>	<b>915</b>	<b>1 367</b>

US\$'000 Director	Salaries and fees	Bonus	Share-based payments	Total
<b>2019</b>				
Paul Bosma <sup>1</sup>	410	21	10 <sup>4</sup>	441
Lucio Genovese	138	—	—	138
Eileen Carr <sup>2</sup>	10	—	—	10
Keith Johnson	60	—	—	60
Ken Owen	60	—	—	60
Niall Young	60	—	—	60
Patrick Meier <sup>3</sup>	96	—	—	96
Paul Sobie <sup>2</sup>	50	—	—	50
	<b>884</b>	<b>21</b>	<b>10</b>	<b>915</b>

US\$'000 Director	Salaries and fees	Accrued leave pay	Bonus	Share-based payments	Total
<b>2018</b>					
Stuart Brown <sup>1</sup>	550	154	46	137 <sup>5</sup>	887
Lucio Genovese	120	—	—	—	120
Deborah Thomas <sup>3</sup>	60	—	—	—	60
Keith Johnson	60	—	—	—	60
Ken Owen	60	—	—	—	60
Mike Wittet <sup>6</sup>	60	—	—	—	60
Niall Young	60	—	—	—	60
Paul Sobie <sup>2</sup>	60	—	—	—	60
	<b>1 030</b>	<b>154</b>	<b>46</b>	<b>137</b>	<b>1 367</b>

1 Paul Bosma was appointed on 1 July 2018 as Chief Executive Officer. He replaced Stuart Brown, who resigned on 30 June 2018.

2 Eileen Carr was appointed on 30 April 2019 as Non-Executive Director and member of the Audit and Remuneration Committees. She replaced Paul Sobie, who resigned on 30 April 2019.

3 Patrick Meier was appointed on 5 July 2018 as Non-Executive Director and Chair of the Audit Committee and member of the Remuneration and Nomination Committees. He replaced Deborah Thomas, who resigned on 5 July 2018.

4 During the year a share-based payment expense of US\$228 899 was recognised in relation to restricted share units issued to Paul Bosma in January 2017, May 2018 and July 2018. The restricted share units vest in three tranches over a three-year period and the expense is recognised over the vesting period. Paul exercised 285 793 RSUs with a strike price of 1.00 pence, at 3.38 pence in January 2019, resulting in a gain of US\$10 290.

5 The share-based payment expense relates to share options issued to Stuart Brown in May 2014 and restricted share units issued in January 2017.

The share options vest over a three-year period and the expense is recognised over the vesting period. The restricted share units vest in three tranches over a three-year period and the expense is recognised over the vesting period.

6 Mike Wittet, Non-Executive Director and Chairman of the Safety, Health, Environment and Corporate Social Responsibility Committee and member of the Audit and Remuneration Committees, resigned on 5 July 2018.

During the year, the total remuneration for Directors was US\$915 494 (2018: US\$1 351 024) and consisted of remuneration for qualifying services of US\$905 204 (2018: US\$1 230 000) and gains on exercise of options of US\$10 290 (2018: US\$121 024). The related aggregate remuneration for the highest paid Director was US\$441 494 (2018: US\$871 024).

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

**8 Auditor's remuneration**

	Group	
	2019 US\$'000	2018 US\$'000
<b>Fees payable to the Group's auditor for the audit of the Group's annual financial statements</b>		
Audit of the Group's financial statements	94	76
<b>Fees payable to the Group's auditor and its associates for other services</b>		
Audit of accounts of subsidiaries of the Company	40	54
Taxation compliance services	7	11
Other taxation services	4	59
	<b>145</b>	<b>200</b>

**9 Finance income and costs**

	Group	
	2019 US\$'000	2018 US\$'000
Interest income on bank deposits	714	202
Interest income on loans receivable	542	487
Foreign exchange adjustments on cash balances	235	105
<b>Finance income</b>	<b>1 491</b>	<b>794</b>
Interest on borrowings (note 26)	10 474	10 737
Unwinding of discount on rehabilitation liability (note 27)	290	284
<b>Finance costs</b>	<b>10 764</b>	<b>11 021</b>

No borrowing costs were capitalised during the year.

**10 Impairment**

At the end of each reporting period the Group assesses whether there is an indication that an asset or cash-generating unit ("CGU") may be impaired. If an indication exists, the Group estimates the recoverable amount of the asset in order to determine if an impairment charge is required.

**Liqhobong Mine**

At year end, the Group assessed both external and internal indicators of impairment. The average diamond values achieved at sale during the year decreased from US\$75 per carat in the prior year to US\$73 per carat in the current year mainly as a result of the oversupply situation affecting the midstream manufacturers that led to continued low prices being offered to the producers of predominantly smaller rough diamonds like Liqhobong.

### Value in use of Liqhobong Mine

At year end, the recoverable amount of the Liqhobong CGU was determined using its value in use based on a discounted cash flow model over the remaining seven-year mine life (2018: eight-year mine life). The model was stress tested through applying a range of sensitivities which provided a range of possible values for the Liqhobong Mine. Based on the range of possible values the Board concluded that the carrying value of the Liqhobong CGU was US\$64.3 million, which is lower than the recoverable amount and as a result a further impairment of the Liqhobong CGU was recognised. The key assumptions include:

Key assumptions	2019	2018	Basis for assumption
Average diamond value per carat over life of mine (REAL)	<b>US\$81</b>	US\$75	The forecast average diamond value for the next two years is US\$71 per carat, the same value as that recorded for the final quarter of the current financial year. Thereafter, it is adjusted for a forecast recovery of ROM diamond prices, which is in line with forecast supply/demand dynamics in the diamond industry as falling supply occurs due to the closure of certain mines as they reach the end of their lives. ROM prices are forecast to remain flat over the next two years, recovering thereafter to 2017 price levels (over a two-year period), and finally recovering to 2013 price levels by July 2023, in four years' time. In the previous year the average diamond value was based on the average historic sales data of Liqhobong's assortment.
Real diamond price growth	<b>1.5% from FY2024</b>	3%	The diamond price growth is based on long-term diamond price projections.
Mine Call Factor ("MCF")	<b>95%</b>	100%	The MCF is based on lower than expected recovered grades from a small portion of ore situated in the southern part of the pit and is considered to be a conservative assumption. Further work is being undertaken to understand the impact over the life of mine.
Discount rate	<b>11.9%</b>	11.2% (REAL: 8.9%)	The discount rate used to account for the time value of money represents the pre-tax weighted average cost of capital ("WACC") that would be expected by market participants based on risks specific to the Liqhobong Mine. The rate included adjustments for market risk, volatility and risks specific to the asset.
Exchange rate (ZAR:US\$)	<b>R14.09</b>	R13.73	The exchange rate is the spot exchange rate as at 30 June.

The value in use of the Liqhobong Mine is impacted mostly by changes in the average diamond value followed by changes in, particularly, the ZAR:US\$ exchange rate, sensitivities for which are not presented as the exchange rate is prescribed. The impact of applying sensitivities to the average diamond value is shown below:

	Potential additional (impairment)/reversal	% increase/ (decrease) in carrying value
US\$ per carat		
10% increase	29.1	45%
5% increase	14.6	23%
5% decrease	(14.6)	(23%)
10% decrease	(29.1)	(45%)

### BK11 Mine

The expected sale of the BK11 Mine, as reported in the prior period, was subject to a conditional option agreement which expired on 18 December 2018. The expiration of the agreement was considered to be an external indicator of impairment. The Group has previously determined the recoverable amount of the BK11 Mine based on its fair value less cost to sell. In the absence of a pending sale and considering the non-core nature of the asset to the Group, it has been fully impaired.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

FOR THE YEAR ENDED 30 JUNE 2019

**10 Impairment continued****Impairment summary**

The following table presents current and previous impairments recorded against the Group's two CGUs:

Cash-generating unit	Liqhobong US\$'000	BK11 US\$'000	Total US\$'000
Carrying value pre-impairment	225 154	5 245	230 399
Accumulated impairment	(160 899)	(5 245)	(166 144)
<b>Carrying value after impairment</b>	<b>64 255</b>	<b>—</b>	<b>64 255</b>

	Group		Company	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Impairment charge				
Property, plant and equipment – BK11 Mine (note 13)	2 239	—	—	—
Property, plant and equipment – Liqhobong Mine (note 13)	38 297	—	—	—
Investments in subsidiaries (note 15)	—	—	25 277	5 337
Loans to subsidiaries (note 17)	—	—	17 384	19 827
Loans receivable (note 18)	1 029	—	—	—
	<b>41 565</b>	<b>—</b>	<b>42 661</b>	<b>25 164</b>

**11 Taxation**

	Group	
	2019 US\$'000	2018 US\$'000
Current tax	(84)	(102)
Deferred tax (charge)/credit (note 14)	(6 265)	3 406
<b>Total tax (charge)/credit for the year</b>	<b>(6 349)</b>	<b>3 304</b>

**Factors affecting the tax charge for the year**

The reasons for the difference between the actual tax (charge)/credit and the tax (charge)/credit based on the Company's standard corporation tax rate of 19% (2018: 19%) are as follows:

	Group	
	2019 US\$'000	2018 US\$'000
Loss before tax	(50 510)	(17 537)
Tax credit on loss at standard rate of 19% (2018: 19%)	9 596	3 332
Adjustments to deferred tax not recognised	(21 874)	(2 432)
Effect of tax in foreign jurisdictions	6 196	2 840
Foreign exchange adjustment on effective interest rate on borrowings	(167)	(238)
Withholding tax credits relinquished	(84)	(102)
Expenses not deductible for tax purposes	(16)	(96)
	<b>(6 349)</b>	<b>3 304</b>

**Other comprehensive income**

There is no tax movement arising in respect of the Group's other comprehensive income.

**12 Loss per share**

The calculation of the basic loss per share of 8.2 US cents (2018: 2.8 US cents) is based upon the net loss after tax attributable to ordinary shareholders of US\$44.1 million (2018: US\$11.6 million) and a weighted average number of shares in issue for the year of 539 644 459 (2018: 419 672 178).

**Diluted loss per share**

The diluted loss per share in 2019 is equal to (2018: equal to) the basic loss per share as the potential ordinary shares to be issued have no dilutive effect.

The Company has a further 21 591 354 (2018: 21 299 898) potentially issuable shares in respect of share options issued to employees (note 24) that do not have a dilutive effect as at 30 June 2019 and 65 101 758 (2018: 65 101 758) potentially issuable shares in respect of warrants issued to strategic investors that do not have a dilutive effect as at 30 June 2019. All of the potentially issuable shares could be dilutive in the future.

### 13 Property, plant and equipment – Group

US\$'000	Mining property	Plant and equipment	Motor vehicles and other assets	Total
<b>Cost</b>				
At 30 June 2017	241 667	16 806	3 712	<b>262 185</b>
Additions	1 852	35	90	<b>1 977</b>
Disposals	—	(2)	(241)	<b>(243)</b>
Exchange difference	(16 611)	(1 142)	(239)	<b>(17 992)</b>
At 30 June 2018	226 908	15 697	3 322	<b>245 927</b>
Additions	3 910	52	11	<b>3 973</b>
Disposals	(656)	(180)	(276)	<b>(1 112)</b>
Exchange difference	(6 645)	(450)	(86)	<b>(7 181)</b>
<b>At 30 June 2019</b>	<b>223 517</b>	<b>15 119</b>	<b>2 971</b>	<b>241 607</b>
<b>Accumulated depreciation and impairments</b>				
At 30 June 2017	130 769	10 935	1 891	<b>143 595</b>
Amortisation and depreciation charge for the year	11 315	1 270	573	<b>13 158</b>
Disposals	—	(2)	(216)	<b>(218)</b>
Exchange difference	(10 867)	(839)	(122)	<b>(11 828)</b>
At 30 June 2018	131 217	11 364	2 126	<b>144 707</b>
Amortisation and depreciation charge for the year	9 343	500	500	<b>10 343</b>
Impairment charge (note 10)	38 297	2 239	—	<b>40 536</b>
Disposals	(656)	(180)	(276)	<b>(1 112)</b>
Exchange difference	(4 498)	(64)	(62)	<b>(4 624)</b>
<b>At 30 June 2019</b>	<b>173 703</b>	<b>13 859</b>	<b>2 288</b>	<b>189 850</b>
Net book value at 30 June 2017	110 898	5 871	1 821	<b>118 590</b>
Net book value at 30 June 2018	95 691	4 333	1 196	<b>101 220</b>
<b>Net book value at 30 June 2019</b>	<b>49 814</b>	<b>1 260</b>	<b>683</b>	<b>51 757</b>

### 14 Deferred tax

The deferred tax included in the balance sheet is as follows:

Deferred tax (liability)/asset	Group	
	2019 US\$'000	2018 US\$'000
Opening balance	<b>6 501</b>	3 761
Movement in temporary differences recognised in income	<b>(6 265)</b>	3 406
Exchange difference	<b>(236)</b>	(666)
At 30 June	<b>—</b>	6 501

The deferred tax (liability)/asset comprises:

	Group	
	2019 US\$'000	2018 US\$'000
Accelerated capital allowances	<b>(10 123)</b>	(21 585)
Provisions	<b>745</b>	708
Borrowings	<b>(887)</b>	(1 375)
Losses available for offsetting against future taxable income	<b>10 265</b>	31 645
Temporary difference arising on acquisition of subsidiary	<b>—</b>	(2 892)
	<b>—</b>	6 501

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

FOR THE YEAR ENDED 30 JUNE 2019

**14 Deferred tax continued.**

In the previous financial year, a deferred tax asset of US\$9.4 million was recognised in respect of the tax loss at Lihobong as there was compelling evidence at that time to suggest that the value would be realised over the forecast three-year term. However, since then, changes to certain key forecast assumptions have been made in light of continued operations and the continued weaker diamond market, as disclosed in note 10. The Directors, having considered these key assumptions amongst others, and the forecast financial performance of Lihobong, have determined that there is no longer compelling evidence to suggest that tax losses will be utilised over the forecast three-year period. As a result, the deferred tax asset is derecognised. The position is reassessed at least annually, and there is a possibility that losses, which do not expire, may be used in the future.

Deferred tax assets and deferred tax liabilities relating to the same tax authorities have been disclosed on a net basis.

The Group has unrecognised tax losses of approximately US\$259.7 million (2018: US\$191.8 million), of which US\$245.5 million relates to the Lihobong Mine (2018: US\$164.7 million), US\$nil to the BK11 Mine (2018: US\$18.3 million) and US\$14.2 million to the Group's corporate entities in the UK and South Africa (2018: US\$8.8 million).

**15 Investments in subsidiaries – Company**

	2019 US\$'000	2018 US\$'000
Opening balance	27 430	31 869
Share-based payments to employees of subsidiaries (note 24)	377	1 090
Share-based payments to employees of subsidiaries lapsed or expired	(1 741)	(192)
Impairment charge BK11 CGU (note 10) <sup>1</sup>	(5 000)	—
Impairment charge Lihobong CGU (note 10) <sup>2</sup>	(20 277)	(5 337)
At 30 June	789	27 430

1 The impairment charge relates to the BK11 CGU. The investment was fully impaired during the year.

2 The impairment charge relates to the Lihobong CGU. An assessment of the net present value of future cash flows from Lihobong, after repayment of the ABSA debt facility, attributable to the Company, decreased during the year as discussed in note 10.

As at 30 June 2019, the Company had direct and indirect holdings in the following subsidiary undertakings.

Subsidiary	Country	Effective percentage of shares held by Company
<b>Diamond mining, exploration and associated companies</b>		
Firestone Diamonds (Botswana) (Pty) Limited	Botswana	100%
Infrastructure Projects (Pty) Limited	Lesotho	49%
Lihobong Mining Development Company (Pty) Limited	Lesotho	75%
Ilmari Exploration OY	Finland	100%
Monak Ventures (Pty) Limited	Botswana	90%
<b>Investment holding companies</b>		
Becksham Corporation	Barbados	100%
Becksham Limited	British Virgin Islands	100%
European Diamonds Limited	British Virgin Islands	100%
Firestone Diamonds Limited <sup>1</sup>	British Virgin Islands	100%
Kopane Diamond Developments Limited <sup>1</sup>	United Kingdom	100%
Minegem Inc.	Canada	100%
<b>Management company</b>		
Firestone Diamonds (Pty) Limited	South Africa	100%
<b>Dormant companies</b>		
Kuboes Diamante (Pty) Limited	South Africa	87.5%
Maskam Resources (Pty) Limited	South Africa	100%
Oena Mine (Pty) Limited	South Africa	87.5%

1 Company in which Firestone Diamonds plc has a direct holding.

All subsidiaries are included in the consolidated financial statements.

## 16 Non-controlling interest

The Group currently has two subsidiaries with significant non-controlling interests. The Group owns 75% of Liqhobong Mining Development Company (Pty) Limited and 49% of Infrastructure Projects (Pty) Limited. The non-controlling interest of all other subsidiaries that are not 100% owned by the Group is considered to be immaterial. Summarised financial information in relation to these two subsidiaries, before intra-group eliminations, is presented below together with amounts attributable to non-controlling interests:

Items included in the Consolidated Statement of Comprehensive Income	Group	
	2019 US\$'000	2018 US\$'000
Revenue	57 239	62 246
Cost of sales	47 389	57 884
Gross profit	9 850	4 362
Other income	2 516	2 302
Impairment	38 297	—
Administrative expenses	7 980	8 545
<b>Loss before finance charges and income tax</b>	<b>(33 911)</b>	<b>(1 881)</b>
Finance income	618	264
Finance cost	11 736	12 439
<b>Loss before income tax</b>	<b>(45 029)</b>	<b>(14 056)</b>
Taxation (charge)/credit	(9 135)	3 406
<b>Loss after tax for the year</b>	<b>(54 164)</b>	<b>(10 650)</b>
Loss after tax allocated to non-controlling interest	(13 490)	(2 567)
Other comprehensive loss allocated to non-controlling interest	(736)	(1 839)
<b>Total comprehensive loss allocated to non-controlling interest</b>	<b>(14 226)</b>	<b>(4 406)</b>

Items included in the Consolidated Statement of Financial Position	Group	
	2019 US\$'000	2018 US\$'000
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	30 447	75 949
Deferred taxation	—	7 064
<b>Current assets</b>		
Inventories	8 249	5 874
Other financial assets	702	—
Trade and other debtors	2 589	16 529
Cash and cash equivalents	20 636	13 294
<b>Total assets</b>	<b>62 623</b>	<b>118 710</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	63 448	64 199
Rehabilitation provisions	2 933	2 715
Deferred taxation	2 073	—
Loans from Group companies	221 864	223 118
<b>Current liabilities</b>		
Trade and other payables	10 623	17 111
Provisions	299	182
<b>Total liabilities</b>	<b>301 240</b>	<b>307 325</b>
<b>Translation reserve</b>	<b>(8 123)</b>	<b>(5 167)</b>
<b>Accumulated non-controlling interests</b>	<b>(61 434)</b>	<b>(48 183)</b>

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

FOR THE YEAR ENDED 30 JUNE 2019

**17 Loans to subsidiaries**

	Company	
	2019 US\$'000	2018 US\$'000
Loan A to Kopane Diamond Developments Limited <sup>1</sup>	69 572	69 572
Loan B to Kopane Diamond Developments Limited <sup>2</sup>	4 671	4 360
Firestone Diamonds (Pty) Limited <sup>3</sup>	5 622	5 504
Firestone Diamonds Limited <sup>4</sup>	6 340	6 206
Liqhobong Mining Development Company (Pty) Limited <sup>4</sup>	34 433	36 458
Other <sup>4</sup>	70	41
	<b>120 708</b>	122 141
Lifetime expected credit loss provision	<b>(120 016)</b>	(102 632)
	<b>692</b>	19 509
Non-current assets	<b>692</b>	19 509
Current assets	—	—
<b>Total assets</b>	<b>692</b>	19 509

<sup>1</sup> Loan A to Kopane Diamond Developments Limited is in respect of the mine development project. The loan bears interest of 0% (2018: 0%), is unsecured and is repayable in equal instalments over a 60-month period from the time that the ABSA debt facility, which is provided directly to Lqhobong Mining Development Company (Pty) Limited, has been repaid. The loan is considered non-current on the basis of the expected recovery profile.

<sup>2</sup> Loan B to Kopane Diamond Developments Limited is in respect to grid electricity funding. The loan bears interest at 12.25% (2018: 12.25%), is unsecured and is repayable in quarterly instalments ending March 2024.

<sup>3</sup> The loan to Firestone Diamonds (Pty) Limited bears interest at 2.75% (2018: 2.5%), is unsecured and has no fixed terms of repayment.

<sup>4</sup> Other loans to related parties bear no interest, are unsecured and have no fixed terms of repayment.

The Group applies the general approach to measuring the expected credit loss provision for loans to subsidiaries. In the year the Lqhobong Mine asset was impaired as per note 10. This is considered as a possible default event and consequently the loans were assessed as being credit impaired. Accordingly, the Company measured the expected credit losses using a lifetime expected credit loss provision, which is based on the underlying value of the Lqhobong Mine attributable to the Company and are calculated as the net present values of the differences between the contractual and expected cash flows. There is no significant difference between the fair value of the loans to subsidiaries and the values stated above.

**18 Loan receivable**

	Group	
	2019 US\$'000	2018 US\$'000
Government of Lesotho	4 722	4 180
Accumulated impairment	<b>(4 722)</b>	(3 693)
	—	487
Non-current assets	—	487
Current assets	—	—
<b>Total assets</b>	—	487

The loan to the Government of Lesotho currently bears interest at 12.50% (2018: 12.25%), is unsecured and is repayable out of dividends declared by Lqhobong Mining Development Company (Pty) Limited.

The Group applies the general approach to measuring expected credit losses using a lifetime expected credit loss provision for loans receivables. In the year the Lqhobong Mine asset was impaired as per note 10. This is considered as a possible default event and consequently the loan was assessed as being credit impaired. Accordingly, an expected credit loss provision was recognised for the full loan value.

**19 Inventory**

	Group	
	2019 US\$'000	2018 US\$'000
Diamond inventory	4 237	2 898
Spares and consumables	3 216	2 983
	<b>7 453</b>	5 881



## 20 Other financial assets/(liabilities)

The Group has the following derivative financial instruments:

	Group	
	2019 US\$'000	2018 US\$'000
Cash flow hedges		
<b>Current assets</b>		
Forward exchange contracts	553	—
Interest rate swap	—	265
	<b>553</b>	<b>265</b>
<b>Current liability</b>		
Interest rate swap	(34)	—

The Group has designated forward foreign currency exchange contracts as cash flow hedges. The risk being hedged is the volatility in the exchange rate of the Maloti, which is pegged to the Rand, against the US Dollar, the currency in which the Group's diamond revenue is denominated.

The Group has also designated interest rate swaps as cash flow hedges. The interest rate swap contract was entered into to mitigate the risk that variable interest rates pose to the Group's cash flow.

Further details on the Group's risk management policy are provided in note 30.

### Financial instruments measured at fair value

The following table sets out the Group's financial assets/(liabilities) measured at fair value by level within the fair value hierarchy:

	Level 1		Level 2		Level 3	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Other financial assets	—	—	553	265	—	—
Other financial liabilities	—	—	34	—	—	—

There were no transfers between levels during the period.

The valuation techniques used in determining the fair value measurement of Level 2 financial instruments are set out in the table below:

Item	Valuation approach and inputs used
Derivative through fair value through other comprehensive income	The fair value of forward exchange contracts is determined based on the forward exchange rates as at the reporting date. The fair value of floating-to-fixed interest rate swaps value is provided by ABSA Bank Limited, the counterparty to the instrument. Their valuation is determined through discounting future cash flows using discount rates obtained from the ZAR-swap curve.

## 21 Trade and other receivables

	Group		Company	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Trade receivables	798	10 696	249	279
Other receivables	739	2 302	126	103
Prepayments	162	290	69	80
	<b>1 699</b>	<b>13 288</b>	<b>444</b>	<b>462</b>

Trade receivables of US\$798 941 (2018: US\$10 392 192) relate to the diamond sale that completed on 21 June 2019 (2018: 29 June 2018) and which were received shortly after the year end. Other receivables relate to value added taxation due mainly from the Lesotho Revenue Authority.

The Group applies the simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade and other receivables. None of the trade and other receivables are past due date and no expected credit loss provision was recognised on these receivables. There is no significant difference between the fair value of the trade and other receivables and the values stated above. Please refer to note 30 for a discussion on credit risk.

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

**22 Cash and cash equivalents**

	Group		Company	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Cash and cash equivalents	26 325	18 421	5 456	5 401

Net cash and cash equivalents are represented by the following major currencies:

	Group		Company	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
US Dollars	16 046	8 188	5 352	1 603
Pounds Sterling	104	3 798	104	3 798
Lesotho Maloti	10 108	6 226	—	—
Botswana Pula	27	162	—	—
South African Rand	40	47	—	—
<b>Cash and cash equivalents</b>	<b>26 325</b>	<b>18 421</b>	<b>5 456</b>	<b>5 401</b>

As at 30 June 2019, the Group had restricted cash deposits of US\$8.8 million (2018: US\$8.7 million) which comprised US\$6.3 million (2018: US\$6.5 million) in the ABSA debt service reserve account, US\$1.8 million (2018: US\$1.8 million) in favour of several key contractors as payment guarantees and US\$0.7 million (2018: US\$0.4 million) in the rehabilitation reserve account.

The Company does not hold any restricted cash.

There is no significant difference between the fair value of the cash and cash equivalents and the values stated above.

**23 Share capital**

The Company's share capital consists of one class of ordinary shares and two classes of deferred shares. As at 30 June 2019, the ordinary share capital of the Company was 565 471 782 ordinary shares of 1 pence each (2018: 515 677 580).

During the year, the Company issued a further 49 794 202 new ordinary shares of 1 pence each in respect of the quarterly interest due on the Series A Eurobonds for the June 2018, September 2018, December 2018 and March 2019 quarters. A further 32 783 046 (2018: 8 260 268) shares in respect of interest due on the Series A Eurobonds at 30 June 2019 were issued after the year end and are not reflected in the table below.

	Number of shares		Nominal value of shares	
	2019	2018	2019 US\$'000	2018 US\$'000
<b>Allotted, called up and fully paid</b>				
Opening balance	515 677 580	317 471 892	6 272	3 590
Issued during the year	49 794 202	198 205 688	649	2 682
<b>Closing balance</b>	<b>565 471 782</b>	<b>515 677 580</b>	<b>6 921</b>	<b>6 272</b>
<b>Deferred type A shares</b>				
<b>Closing balance</b>	<b>7 079 649 109</b>	<b>7 079 649 109</b>	<b>113 345</b>	<b>113 345</b>
<b>Deferred type B shares</b>				
<b>Closing balance</b>	<b>308 992 814</b>	<b>308 992 814</b>	<b>46 622</b>	<b>46 622</b>
<b>Total</b>	<b>7 954 113 705</b>	<b>7 904 319 503</b>	<b>166 888</b>	<b>166 239</b>

Firestone Diamonds Limited, a subsidiary company, has advanced funds to the Group's Employee Share Trust of US\$181 329. The Employee Share Trust holds 30 853 ordinary shares in Firestone Diamonds plc. These shares have not been allocated to any employees.

## 24 Equity-settled share option schemes

The Group and Company issue equity-settled share-based payments to employees and Directors. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) as determined at the date of grant, using the Black-Scholes model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's and Company's estimate of shares that will eventually vest, adjusted for the effect of non-market-based vesting conditions.

The inputs into the Black-Scholes model for the share options issued during the year are as follows:

	2019	2018
Weighted average share price	3.3p	20.8p
Weighted average option exercise price	1.0p	1.0p
Expected volatility	53%	53%
Expected option life	5 years	1.7 years
Risk-free interest rate	1.04%	1.04%
Expected dividend yield	0%	0%
Fair value of option granted in the year (US cents)	5.6	7.5

The calculation of the volatility of the share price was based on the Company's daily closing share price over the historic period of the expected option life as at the date of grant.

Details of the total share options outstanding in respect of the Group's four share-based payment schemes during the year are as follows:

	Number of share options		Weighted average fair value (US cents)	
	2019	2018	2019	2018
Outstanding at beginning of the year	21 299 898	23 313 589	49.4	47.5
Granted during the year	4 585 189	2 360 624	5.6	7.5
Exercised in the year	(3 083 742)	(2 591 000)	1.3	1.2
Lapsed or expired in the year	(1 209 991)	(1 783 315)	21.9	31.0
Outstanding at the end of the year	21 591 354	21 299 898	45.5	49.4
Exercisable at the end of the year	14 800 775	15 332 274	65.7	68.1

The options outstanding as at 30 June 2019 have a weighted average contractual life of five years (2018: five years).

These options have an exercise price ranging from 1.0 pence to 275.0 pence (2018: a range of 1.0 pence to 275.0 pence).

The options exercisable at 30 June 2019 have an exercise price ranging from 26.5 pence to 275.0 pence (2018: a range of 26.5 pence to 275.0 pence). 3 083 742 restricted share units with a weighted average exercise price 1.0 pence (1.3 US cents) were exercised during the year (2018: 2 591 000 with a weighted average exercise price 1.0 pence (1.2 US cents)).

	Group		Company	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Charge for the year allocated to the Company	486	1 075	486	1 075
Charge for the year allocated to subsidiary companies	377	1 090	377	1 090
Included in selling, administrative and other expenses	66	270	—	—
Included in cost of sales	311	820	—	—
Total charge for the year	863	2 165	863	2 165
Amount capitalised to investments	—	—	(377)	(1 090)
Charge for the year in profit and loss	863	2 165	486	1 075

## Basic Share Option Scheme

Date of grant	Exercise period		Share options held at		Exercise price	
	From	To	2019 number	2018 number	2019 pence	2018 pence
15/01/2008	15/01/2009	14/01/2019	—	20 000	—	200.0
17/05/2011	17/05/2012	16/05/2022	16 666	16 666	275.0	275.0
17/05/2011	17/05/2014	16/05/2022	16 667	16 667	275.0	275.0
17/05/2011	17/05/2015	16/05/2022	16 667	16 667	275.0	275.0
			50 000	70 000		

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

FOR THE YEAR ENDED 30 JUNE 2019

**24 Equity-settled share option schemes continued****Unapproved Executive Share Option Scheme**

Date of grant	Exercise period		Share options held at		Exercise price	
	From	To	2019 number	2018 number	2019 pence	2018 pence
23/11/2014	23/11/2014	23/11/2022	200 000	200 000	85.0	85.0
23/11/2014	23/11/2015	23/11/2022	300 000	300 000	85.0	85.0
23/11/2014	23/11/2015	23/11/2022	300 000	300 000	85.0	85.0
23/11/2014	23/11/2015	23/11/2022	100 000	100 000	85.0	85.0
27/05/2015	27/05/2015	26/05/2024	829 345	829 345	38.8	38.8
15/01/2015	15/01/2015	14/01/2024	9 101 281	9 101 281	30.0	30.0
30/06/2015	30/06/2015	29/06/2024	703 975	703 975	38.8	38.8
01/09/2014	01/09/2014	31/08/2024	—	339 380	—	37.3
01/10/2014	01/10/2014	30/09/2024	203 074	203 074	36.5	36.5
01/11/2014	01/11/2014	31/10/2024	222 292	222 292	33.8	33.8
01/05/2015	01/05/2015	30/04/2025	430 213	430 213	26.5	26.5
06/10/2015	30/04/2015	29/04/2025	565 534	737 653	26.5	26.5
06/10/2015	30/04/2015	29/04/2025	295 061	295 061	26.5	26.5
			<b>13 250 775</b>	<b>13 762 274</b>		

**Unapproved Share Option Scheme**

Date of grant	Exercise period		Share options held at		Exercise price	
	From	To	2019 number	2018 number	2019 pence	2018 pence
23/11/2012	23/11/2012	22/11/2022	1 500 000	1 500 000	85.0	85.0

**Restricted Share Plan**

Date of grant	Exercise period		Share options held at		Exercise price	
	From	To	2019 number	2018 number	2019 pence	2018 pence
15/01/2017	15/01/2017	14/01/2027	1 262 667	3 607 000	1.0	1.0
01/05/2018	01/05/2018	14/01/2027	942 723	2 360 624	1.0	1.0
01/07/2018	01/07/2018	30/06/2028	4 585 189	—	1.0	—
			<b>6 790 579</b>	<b>5 967 624</b>		

**Share option settlement scheme**

To minimise the share capital dilution that would arise on the exercise of options, the Company has implemented a share option settlement scheme. Under this scheme the Company will, at the time of exercise of any options, agree to issue shares to the option holder with a value equal to the difference between the market value of the shares and the option exercise price on the date of exercise. On the basis of this scheme, the effective dilution resulting from all outstanding basic and performance-related options as at 30 June 2019 at the average share price for the year of 3.3 pence per share would have been 7 085 640 shares as a result of it trading above the exercisable price limit (2018: 5 967 624 shares at an average price of 20.8 pence, which were anti-dilutive). However, these shares are anti-dilutive as at 30 June 2019 and are thus not taken into account in calculating the diluted loss per share.

## 25 Warrant reserve

As part of the funding package, the Group issued warrants to its strategic investors Resource Capital Fund VI L.P., Pacific Road Resources Fund II L.P. and Pacific Road Resources Fund II. In terms of the Series A Eurobonds, the obligation to pay the subscription amount of the warrants can be offset against any monies outstanding at the time of exercise under the Eurobonds. The terms of the warrants are as follows:

### Series A warrants

- total number of warrants issued: 48 786 436;
- exercise price: 61.4925 US cents;
- exercise period: 26 May 2014 to the later of 28 May 2018 or six calendar months after the repayment of the ABSA debt facility; and
- mandatory exercise if the Company's share price trades above the closing mid-market share price of 75 pence for 60 consecutive trading days.

The warrants were measured at fair value at the date of grant as determined through the use of the Black-Scholes model. The fair value determined at the grant date of the warrants is recognised in the Group's warrant reserve and is amortised as a finance cost over the life of the Series A Eurobonds.

	Group		Company	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
<b>Warrant reserve</b>	<b>7 609</b>	<b>7 609</b>	<b>7 609</b>	<b>7 609</b>

## 26 Borrowings

	2019					
	Series A Eurobonds US\$'000	Series B Eurobonds US\$'000	Company total US\$'000	ABSA debt facility US\$'000	Other loans US\$'000	Group total US\$'000
<b>Borrowings</b>						
<b>Capital amount</b>						
Opening balance	30 000	7 528	37 528	67 790	1 216	106 534
Finance cost capitalised	—	568	568	—	87	655
Foreign exchange adjustment	—	—	—	—	(27)	(27)
Capital repayments	—	—	—	(1 870)	(65)	(1 935)
<b>At 30 June</b>	<b>30 000</b>	<b>8 096</b>	<b>38 096</b>	<b>65 920</b>	<b>1 211</b>	<b>105 227</b>
<b>Finance cost to be amortised over the life of the facility</b>						
Opening balance	(5 299)	(198)	(5 497)	(4 669)	—	(10 166)
Finance cost capitalised	—	—	—	(855)	—	(855)
Additions	—	—	—	(447)	—	(447)
Finance cost	1 284	100	1 384	2 425	—	3 809
<b>At 30 June</b>	<b>(4 015)</b>	<b>(98)</b>	<b>(4 113)</b>	<b>(3 546)</b>	<b>—</b>	<b>(7 659)</b>
Total at amortised cost						
Non-current liabilities	25 985	7 998	33 983	52 181	912	87 076
Current liabilities	—	—	—	10 193	299	10 492
<b>Total</b>	<b>25 985</b>	<b>7 998</b>	<b>33 983</b>	<b>62 374</b>	<b>1 211</b>	<b>97 568</b>

	2019					
	Series A Eurobonds US\$'000	Series B Eurobonds US\$'000	Company total US\$'000	ABSA debt facility US\$'000	Other loans US\$'000	Group total US\$'000
<b>Finance cost</b>						
Finance charges – paid	—	—	—	3 534	43	3 577
Amortised finance charges	1 284	100	1 384	2 425	—	3 809
Interest settled in shares	1 827	—	1 827	—	—	1 827
Accrued interest	606	—	606	—	—	606
Interest capitalised	—	568	568	—	87	655
<b>Total</b>	<b>3 717</b>	<b>668</b>	<b>4 385</b>	<b>5 959</b>	<b>130</b>	<b>10 474</b>

Refer to note 9, Finance income and costs, for the total finance cost for the year recognised in profit and loss.

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

**26 Borrowings** continued

Borrowings	2018					
	Series A Eurobonds US\$'000	Series B Eurobonds US\$'000	Company total US\$'000	ABSA debt facility US\$'000	Other loans US\$'000	Group total US\$'000
<b>Capital amount</b>						
Opening balance	30 000	5 000	35 000	81 007	1 551	117 558
Additions	—	2 000	2 000	—	—	2 000
Finance cost capitalised	—	528	528	—	—	528
Foreign exchange adjustment	—	—	—	—	(76)	(76)
Capital repayments	—	—	—	(13 217)	(259)	(13 476)
<b>At 30 June</b>	<b>30 000</b>	<b>7 528</b>	<b>37 528</b>	<b>67 790</b>	<b>1 216</b>	<b>106 534</b>
<b>Finance cost to be amortised over the life of the facility</b>						
Opening balance	(6 583)	(300)	(6 883)	(7 884)	—	(14 767)
Finance cost capitalised	—	—	—	855	—	855
Additions	—	—	—	(617)	—	(617)
Finance cost	1 284	102	1 386	2 977	—	4 363
<b>At 30 June</b>	<b>(5 299)</b>	<b>(198)</b>	<b>(5 497)</b>	<b>(4 669)</b>	<b>—</b>	<b>(10 166)</b>
<b>Total at amortised cost</b>						
Non-current liabilities	24 701	7 330	32 031	61 251	943	94 225
Current liabilities	—	—	—	1 870	273	2 143
<b>Total</b>	<b>24 701</b>	<b>7 330</b>	<b>32 031</b>	<b>63 121</b>	<b>1 216</b>	<b>96 368</b>

Finance cost	2018					
	Series A Eurobonds US\$'000	Series B Eurobonds US\$'000	Company total US\$'000	ABSA debt facility US\$'000	Other loans US\$'000	Group total US\$'000
Finance charges – paid	—	—	—	3 235	186	3 421
Amortised finance charges	1 284	102	1 386	2 977	—	4 363
Interest settled in shares	2 425	—	2 425	—	—	2 425
Interest capitalised	—	528	528	—	—	528
<b>Total</b>	<b>3 709</b>	<b>630</b>	<b>4 339</b>	<b>6 212</b>	<b>186</b>	<b>10 737</b>

Refer to note 9, Finance income and costs, for the total finance cost for the year recognised in profit and loss.

The borrowing instruments have the following terms:

**ABSA debt facility**

Interest on the ABSA facility is calculated at three-month US\$ LIBOR plus the following margin:

**Original loan**

- Tranche A (85% of the loan balance) – 1.8%; and
- Tranche B (15% of the loan balance) – 7.5% post-financial completion.

**Deferred loan**

- Tranche A (85% of the loan balance) – 1.8% plus staggered margin increase disclosed below; and
- Tranche B (15% of the loan balance) – 7.5% post-financial completion.

Staggered increase in the margin rates payable on the deferred loan	Effective from	Percentage
Deferred loan margin increase	1 January 2019	1.25
	1 January 2020	1.75
	1 January 2021	2.25
	1 January 2022	2.25
	1 January 2023	2.75

The effective interest rate is, in aggregate, 9.56% (2018: 9.29%). Under revised terms, the facility is repayable in 19 quarterly instalments which commenced on 30 June 2019.

The ABSA debt facility is secured by a first-ranking general notarial bond over all movable assets for a total capital amount of US\$165.0 million.

#### ABSA debt facility covenants

In accordance with the revised ABSA debt facility agreement, the first maintenance covenant measurement date occurred on 30 June 2019. Certain of these covenants are forward looking and require forecast assumptions to be made. In light of the current diamond pricing climate, lower average diamond values were used in these covenant calculations, which adversely affected the covenant measurement and gave rise to the need for waivers in respect of two of the six covenants. The Group received a waiver from ABSA Bank Limited on 28 June 2019 for the covenant breaches as measured at 30 June 2019.

The following table provides further details of the performance covenants which need to be met in respect of the ABSA debt facility:

Covenant	Calculation	Maintenance criteria
Forecast debt service cover ratio	Forecast operational cash flow divided by debt service costs for a twelve-month period.	$\geq 1.2$ times
Historic debt service cover ratio	Historic operational cash flow divided by debt service costs for a twelve-month period.	$\geq 1.2$ times
Loan life cover ratio	Operational cash flow during the loan period discounted by the average interest rate, divided by the capital loan balance outstanding.	$\geq 1.4$ times
Project life cover ratio	Operational cash flow over the life of the Project discounted by the average interest rate, divided by the capital loan balance outstanding.	$\geq 1.7$ times
Debt/equity ratio	The ratio of the capital loan balance outstanding to total equity and loans provided to Lihobong by the Group.	$\leq 60:40$
Reserve tail ratio	Remaining diamond reserves as a ratio of the total original diamond reserve of 36.4 million tonnes.	$\geq 25\%$

#### Series A Eurobonds

The Series A Eurobonds have a coupon rate of 8.00% per annum payable quarterly. The effective interest rate is, in aggregate, 12.02% (2018: 12.02%). The interest can be settled in cash or through the issue of ordinary shares at market value based on the volume-weighted average share price ("VWAP") and average £:US\$ exchange rate for the 20 days preceding the interest calculation date.

The Series A Eurobonds are repayable in two tranches, the first tranche of US\$20 million on 4 August 2022 and the second tranche of US\$10 million on 3 January 2023.

#### Series B Eurobonds

The Series B Eurobonds have a coupon rate of 8.00% per annum which is capitalised quarterly and is payable at maturity, and an effective interest rate, in aggregate, of 10.18% (2018: 10.18%).

Warrants were issued upon exercise of the Series B Eurobonds which entitled the bondholder to receive shares in lieu of cash in respect of the outstanding balance of the bonds. The exercise price was calculated based on the lower of a) an amount equal to a 10% premium to the VWAP of an ordinary share over a 30-day period immediately prior to the issue of the bonds and b) 37.5 pence, using an average £:US\$ exchange rate over a 20-day period immediately prior to the issue.

The Group did not exercise any further Series B Eurobonds (2018: US\$2.0 million). The Series B bonds are repayable in two tranches, the first tranche of US\$5 million plus capitalised interest on 22 June 2022 and the second tranche of US\$2 million plus capitalised interest on 10 November 2022.

The Directors are of the opinion that the carrying value of borrowings approximates their fair value based on similar loan terms in the market.

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

**27 Rehabilitation provisions**

	Group	
	2019 US\$'000	2018 US\$'000
Opening balance	4 313	4 233
Exchange difference	(93)	(204)
Opening balance restated for effect of foreign exchange	4 220	4 029
Unwinding of discount on rehabilitation liability	290	284
At 30 June	4 510	4 313

**Allocation by Mine**

	Group	
	2019 US\$'000	2018 US\$'000
Liqhobong Mine	2 990	2 840
BK11 Mine	1 520	1 473
At 30 June	4 510	4 313

The Group recognises a provision for the rehabilitation of the environmental disturbances caused by continued mining at the Liqhobong Mine, which completed its second year of commercial production. The original liability value was capitalised to the cost of the asset and the liability increases yearly through the unwinding of discount through profit and loss. The Group assesses the estimated closure cost annually and any increase or decrease in the liability value is capitalised to the cost of the asset.

The environmental rehabilitation provision is based on current best practice and the most recent Environmental Management Plan which was updated in June 2016.

Significant estimates and assumptions are made in determining the amount attributable to this rehabilitation provision. These include uncertainties such as the legal and regulatory framework, and timing and value of future costs. Management estimates the cost of rehabilitation with reference to the rehabilitation activities contained in the Environmental Management Plan.

Key assumptions include the following:

	Group	
	2019	2018
Discount rate	8.0%	8.0%
Lesotho inflation rate	4.7%	4.7%
Remaining open pit life of mine	7 years	8 years

**28 Trade and other payables**

	Group		Company	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Trade payables	3 727	4 486	110	82
Inter-company payables	—	—	1 214	773
Tax and social security	521	454	40	51
Accruals and other payables	5 641	9 115	911	993
	9 889	14 055	2 275	1 899

The Directors consider there to be no material difference between the book values and fair values of trade and other payables.

**29 Provisions**

	Group	
	2019 US\$'000	2018 US\$'000
Opening balance	325	390
Raised/(released) in the year through profit or loss	171	(65)
At 30 June	496	325

Provisions relate to leave pay due to staff.



### 30 Financial instruments

The Company and its subsidiaries (collectively the "Group") is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and procedures for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in note 1 and the critical accounting estimates and judgements are set out in note 2.

#### Principal financial instruments

The principal financial instruments used by the Group and Company are as follows:

- cash flow hedging instruments;
- loans receivable;
- trade and other receivables;
- loans to subsidiaries;
- cash and cash equivalents;
- interest-bearing loans and borrowings; and
- trade and other payables.

The above financial instruments are classified in the following categories:

	Group		Company	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
<b>Hedging instruments</b>				
Forward exchange contracts	553	—	—	—
Interest rate swaps	—	265	—	—
<b>Financial assets at amortised cost</b>				
Loans receivable	—	487	—	—
Trade and other receivables	798	11 203	429	453
Loans to subsidiaries	—	—	692	19 509
Cash and cash equivalents	26 325	18 421	5 456	5 401
	<b>27 676</b>	<b>30 376</b>	<b>6 577</b>	<b>25 363</b>
<b>Hedging instruments</b>				
Interest rate swaps	34	—	—	—
<b>Financial liabilities at amortised cost</b>				
Borrowings	97 568	96 368	33 983	32 031
Trade and other payables	9 889	14 055	2 275	1 899
	<b>107 491</b>	<b>110 423</b>	<b>36 258</b>	<b>33 930</b>

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables and trade and other payables approximates their fair value.

#### General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated part of the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives reports from financial personnel through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The risks to which the Group are exposed and the policies adopted by the Board have not changed significantly in the year.

The overall objective of the Board is to set policies that seek to reduce ongoing risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

#### Credit risk

Credit risk arises principally from the Group's and Company's trade and other receivables, cash and cash equivalents, and loans to subsidiaries (Company). It is the risk that the counterparty fails to discharge its obligation in respect of the instrument.

The Group's trade receivables are derived from diamond sales to customers. The Group mitigates the risk of non-payment from trade debtors by only selling to customers following an assessment of the credit quality of the customer, taking into account its financial position and historic track record. Certain customers may be asked to prove availability of funds before attending a sale. The Group further mitigates the risk of non-payment from trade debtors by releasing parcels of diamonds sold only once the proceeds are received. All of the receivables outstanding at year end were received shortly after year end.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

FOR THE YEAR ENDED 30 JUNE 2019

**30 Financial instruments continued****Credit risk continued**

The Group did not recognise any impairment and believes that credit risk is limited due to the short-term nature of trade and other receivables.

The Group has assessed the carrying value of trade receivables, classified at amortised cost, as approximating their fair value.

The Company's other receivables primarily relate to loans to subsidiaries and the Company expects to recoup the value of these loans once the Mine generates higher levels of positive cash flow.

Credit risk with cash and cash equivalents is reduced by placing funds with banks that have acceptable credit ratings and indicated government support where applicable.

The maximum exposure to credit risk is the same as the carrying value of these items in the financial statements.

**Liquidity risk**

Liquidity risk arises from the Group's and Company's management of working capital, finance charges and capital repayments of its debt instruments. It is the risk that the Group will encounter difficulties in meeting its financial obligations as they fall due. The Board manages this risk through monthly cash flow projections containing information regarding what the expected commitments will be per month as well as what the available funding is, before and after settlement of the monthly commitments. The monthly cash flow projections include projected adherence to the covenants as prescribed in the terms of the restructured ABSA debt facility and will act as an early warning mechanism. Based on the latest cash forecast, the Group has sufficient funds to continue operating for the foreseeable future.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The principal liabilities of the Group and Company arise in respect of the ongoing operating costs, capital expenditure and trade and other payables. Trade and other payables are all payable within six months.

**Effective interest rates and maturity analysis**

The following table indicates the effective interest rates of interest-earning/bearing financial assets and liabilities at 30 June 2019 and the periods in which they mature:

Group	Variable/fixed interest rate	Effective interest rate	Total US\$'000	Current US\$'000	1-2 years US\$'000	2-5 years US\$'000
<b>2019</b>						
Cash and cash equivalents	Variable	0.25%	26 325	26 325	—	—
ABSA debt facility	Variable	9.56%	65 920	10 193	13 975	41 752
Series A Eurobonds	Fixed	12.02%	30 000	—	—	30 000
Series B Eurobonds	Fixed	10.18%	7 000	—	—	7 000
Other loans	Variable	12.25%	1 211	299	299	613
<b>2018</b>						
Cash and cash equivalents	Variable	0.25%	18 421	18 421	—	—
ABSA debt facility	Variable	9.29%	67 790	1 870	10 193	55 727
Series A Eurobonds	Fixed	12.02%	30 000	—	—	30 000
Series B Eurobonds	Fixed	10.18%	7 000	—	7 000	—
Other loans	Variable	12.25%	1 216	273	273	670
Company	Variable/fixed interest rate	Effective interest rate	Total US\$'000	Current US\$'000	1-2 years US\$'000	2-5 years US\$'000
<b>2019</b>						
Cash and cash equivalents	Variable	0.25%	5 456	5 456	—	—
Loans to subsidiaries	Variable	7.00%	10 293	—	—	10 293
Series A Eurobonds	Fixed	12.02%	30 000	—	—	30 000
Series B Eurobonds	Fixed	10.18%	7 000	—	—	7 000
<b>2018</b>						
Cash and cash equivalents	Variable	0.25%	5 401	5 401	—	—
Loans to subsidiaries	Variable	6.84%	4 360	—	—	4 360
Series A Eurobonds	Fixed	12.02%	30 000	—	—	30 000
Series B Eurobonds	Fixed	10.18%	7 000	—	7 000	—

## Market risk

The Group is exposed to variable interest rate risk on long-term borrowings and foreign currency exchange risk as a result of the Group's expenses in Lesotho and South Africa which are incurred in Maloti, which is pegged to the Rand, and Rand respectively, being denominated in a different currency than the Group's revenue which is denominated in US Dollars. The Group uses derivative financial instruments in accordance with the Group's hedging strategy to mitigate against these market risks, as presented below.

## Interest rate risk

The Group is exposed to interest rate risk in respect of long-term borrowings entered into for the financing of the Project with variable interest rates and surplus funds held on deposit. The Company is also exposed to interest rate risk on loans to subsidiaries.

An analysis of the Group's and Company's exposure to variable interest loans and the expected maturity of these loans are provided in the table on page 96.

### Instruments used by the Group

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. The Group raises long-term borrowings at floating rates and swaps a portion of floating rate for fixed rates. At 30 June 2019, the floating rate was LIBOR. The effective portion of the realised interest rate swap losses was included in profit and loss (2018: included in profit and loss). The effective portion of the unrealised interest swaps that are still to mature was recognised in other comprehensive income. The swap contracts require settlement of net interest receivable or payable every 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

The effects of the interest rate swap on the Group's financial position and performance are as follows:

	Group	
	2019 US\$'000	2018 US\$'000
Interest rate swap		
Carrying value (liability)/asset	(34)	265
Notional amount	18 062	29 095
Maturity date	30 June 2021	30 June 2021
Hedge ratio	1:1	1:1
Changes in fair value of outstanding hedge instruments	(448)	791
Changes in value of hedge item used to determine hedge effectiveness	448	(791)
Weighted average hedge rate for the year	2.09%	2.09%

### Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, to the Group's and Company's profit or loss before tax and cash flows.

There is no impact on the Group's or Company's equity.

Group	2019		2018	
	Change in rate	US\$'000	Change in rate	US\$'000
US\$ equivalent	-0.5%	356	-0.5%	390
	-1.0%	712	-1.0%	779
	-1.5%	1 069	-1.5%	1 169
US\$ equivalent	+0.5%	(356)	+0.5%	(390)
	+1.0%	(712)	+1.0%	(779)
	+1.5%	(1 069)	+1.5%	(1 169)

Company	2019		2018	
	Change in rate	US\$'000	Change in rate	US\$'000
US\$ equivalent	-0.5%	115	-0.5%	111
	-1.0%	229	-1.0%	223
	-1.5%	344	-1.5%	334
US\$ equivalent	+0.5%	(115)	+0.5%	(111)
	+1.0%	(229)	+1.0%	(223)
	+1.5%	(344)	+1.5%	(334)

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

FOR THE YEAR ENDED 30 JUNE 2019

**30 Financial instruments continued****Currency risk**

The Company is exposed to currency risks mainly between the Maloti, which is pegged to the Rand, the Rand and the US Dollar.

The Group's exposure of net monetary assets and liabilities by functional currency is as follows:

	2019 US\$'000	2018 US\$'000
Net foreign currency financial (liabilities)/assets		
US Dollar	(1 315)	8 462
Lesotho Maloti	(6 693)	(9 294)
Other	(30)	2 152
<b>Total</b>	<b>(8 038)</b>	<b>1 320</b>

As at 30 June 2019, the Group held no significant monetary assets or liabilities in currencies other than the functional currency of the operating units involved (2018: nil), other than a cash balance held in Pound Sterling equivalent to US\$0.1 million (2018: US\$3.8 million). If the Pound Sterling were to appreciate against the US Dollar by 1%, the cash balance would increase by US\$1 037 (2018: US\$37 982). Similarly, if the Pound Sterling were to depreciate against the US Dollar by 1%, the cash balance would decrease by US\$1 037 (2018: US\$37 982).

The following significant exchange rates applied against the US Dollar during the year:

	Average rate		Balance sheet rate	
	2019	2018	2019	2018
South African Rand	14.1352	12.8558	14.0870	13.7335
Lesotho Maloti	14.1352	12.8558	14.0870	13.7335
Botswana Pula	10.6305	10.0432	10.6461	10.4644
Pound Sterling	1.2952	1.3473	1.2699	1.3112

Loans between companies that form part of the Group are made in the operating currency of the lending company. In all other respects, the policy for all Group companies is that they only trade in their principal operating currency, except in exceptional circumstances from time to time. Long-term Group loans to South African and Botswana subsidiary companies are considered to be part of the net investment by the Group in those subsidiaries.

**Instruments used by the Group**

The Group's expenses in Lesotho and South Africa are incurred in Maloti, which is pegged to the Rand, and Rand respectively, so any weakening in these currencies would result in a reduction in expenses in US Dollar terms, which would be to the Group's advantage. There is an equivalent downside risk to the Group of strengthening in the Maloti or Rand.

The Group adopts a hedging strategy, approved by the Board, to mitigate this currency risk. In accordance with the hedging strategy, management has the discretion to hedge against the volatility in the Lesotho Maloti/South African Rand and US Dollar exchange rates up to a maximum of 100% of total funding available for capital projects and up to 70% of US Dollar revenue generated. The Group uses forward foreign currency exchange contracts as the hedging instrument and designates these contracts as cash flow hedges.

The Group formally assesses, at inception and on an ongoing basis, whether these hedging contracts are highly effective in offsetting changes in the cash flows of the hedged item. The effective portion of the realised foreign exchange losses on matured contracts was included in profit and loss. The effective portion of the unrealised foreign exchange losses on contracts that are still to mature was recognised in other comprehensive income.

The effects of the forward foreign currency exchange contracts on the Group's financial position and performance are as follows:

	Group	
	2019 US\$'000	2018 US\$'000
Forward foreign currency exchange contracts		
Carrying value asset	553	—
Notional amount	15 500	—
Maturity date	Jul 19-Nov 19	—
Hedge ratio	0.76:1	—
Changes in fair value of outstanding hedge instruments	553	—
Changes in value of hedge item used to determine hedge effectiveness	(553)	—
Weighted average hedged rate for the year	R14.74:US\$1.00	—
Weighted average hedged rate of open contracts at 30 June	R14.71:US\$1.00	—

**Foreign currency sensitivity**

The following table demonstrates the sensitivity to a reasonably possible change in the ZAR:US\$ foreign exchange rate, with all other variables held constant, to the Group's profit or loss before tax and cash flows.

The impact on the Group's equity is insignificant.

Group	2019		2018	
	Change in rate	US\$'000	Change in rate	US\$'000
US\$ equivalent of strengthening of Maloti or Rand	2.5%	(1 009)	2.5%	(1 155)
	5.0%	(2 071)	5.0%	(2 370)
	7.5%	(3 190)	7.5%	(3 651)
US\$ equivalent of weakening of Maloti or Rand	2.5%	960	2.5%	1 098
	5.0%	1 873	5.0%	2 144
	7.5%	2 745	7.5%	3 141

The Group's profit or loss and cash flows are impacted mostly by changes in the ZAR:US\$ exchange rate. As such, sensitivities for other foreign currency rates are not presented.

**Hedge reserve and amounts recognised in profit or loss**

The effects of changes in value of interest rate swaps and forward foreign currency exchange contracts on the Group's hedge reserve disclosed in the Statement of Changes in Equity are as follows:

Hedge reserve	Interest rate swaps US\$'000	Forward foreign currency exchange contracts US\$'000	Total US\$'000
Opening balance 1 July 2017	(23)	—	(23)
Changes in fair value recognised in other comprehensive income	791	—	791
Minority interest	(159)	—	(159)
At 30 June 2018	609	—	609
Changes in fair value recognised in other comprehensive income	(449)	553	104
Minority interest	(15)	(51)	(66)
At 30 June 2019	145	502	647

During the year, the following amounts were recognised in profit or loss in relation to foreign currency transactions and interest rate swaps:

	2019 US\$'000	2018 US\$'000
Net foreign exchange gain included in other gains	429	—
Net realised interest rate swap receipts/(payments) recognised in finance cost	105	(162)
<b>Total</b>	<b>534</b>	<b>(162)</b>

**Timing profile of the nominal amount of the hedging instruments****Cash flow hedges**

2019	Less than 6 months US\$'000	6-12 months US\$'000	1-2 years US\$'000	2-5 years US\$'000	5-10 years US\$'000
Forward exchange contracts	553	—	—	—	—
Interest rate swaps	(42)	(29)	(20)	—	—
2018	Less than 6 months US\$'000	6-12 months US\$'000	1-2 years US\$'000	2-5 years US\$'000	5-10 years US\$'000
Interest rate swaps	(29)	(23)	(30)	(9)	—

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 30 JUNE 2019

**30 Financial instruments** continued**Capital**

The Group considers its capital and reserves attributable to equity shareholders together with interest-bearing borrowings to be the Group's capital. In managing its capital, the Group's primary long-term objective is to provide a return for its equity shareholders through capital growth. Going forward, the Group will seek to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital needs.

Details of the Group's and Company's capital are disclosed in the Group and Company Statement of Changes in Equity and in note 23.

There have been no other significant changes to the Group's management objectives, policies and processes in the year, nor has there been any change in what the Group considers to be capital.

**31 Operating lease commitments**

	Group		Company	
	2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
Land and buildings				
Within one year	185	259	53	133
Between one and two years	133	269	16	133
Between two and five years	118	365	—	122
	436	893	69	388

**32 Capital commitments and contingencies**

At 30 June 2019 the Group had no capital commitments or contingent liabilities.

**33 Post-balance sheet events****ABSA Bank capital deferral**

The Group has received a non-binding term sheet from ABSA Bank in respect of a 15-month capital repayment deferral to 31 March 2021, which is conditional upon the provision of a working capital facility, as discussed below, and ECIC approval.

**Working capital facility**

The Group has received a non-binding term sheet from its bondholders, Pacific Road Resources Fund II and Resource Capital Fund VI L.P., in respect of providing a US\$6.0 million working capital facility which is expected to be in place until 31 March 2021.

**Power interruption at Liqhobong Mine**

Production at the Liqhobong Mine was disrupted from 1 October 2019 due to a power supply issue. Generator supply was established on 26 October 2019, when production recommenced at approximately 80% capacity. Generator power was used until grid power, which is generated from the 'Muela Hydro-Power Station, was restored on 1 December 2019. Operating costs for the period increased due to renting and operating the generators.

**34 Related party transactions**

The Company had the following related party transactions during the year:

	2019 US\$'000	2018 US\$'000
Finance income received – Kopane Diamond Development Limited	312	280
Finance income received – Firestone Diamonds (Pty) Limited	151	132
Management fee paid – Firestone Diamonds (Pty) Limited	654	532
Management fee income – Liqhobong Mining Development Company (Pty) Limited	248	279

The Group provided various subordinations in respect of intra-group debt to creditors of subsidiary companies.

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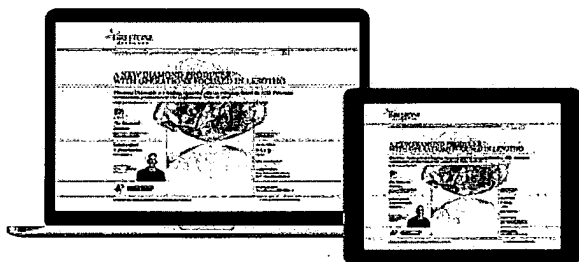
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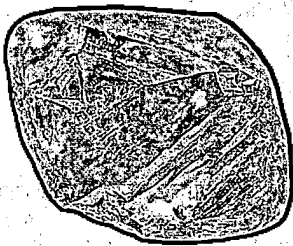
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