

**Firestone Diamonds plc**

Annual Report and Accounts 2020



## 2020 SUMMARY

Operating results for the current year represent three quarters of the financial year due to the Mine being placed on care and maintenance on 26 March 2020. The Mine was placed on care and maintenance as a result of the anticipated impact of the COVID-19 pandemic on the diamond market and to preserve the Group's cash resources for as long as possible.

### LIQHOBONG DIAMOND MINE

**Tonnes treated**  
2.6m (2019: 3.7m)

**Waste tonnes mined**  
3.3m (2019: 4.4m)

**Lost Time Injuries**  
Zero (2019: 2)

**Carats recovered**  
516 341 (2019: 829 458)

**Carats sold**  
500 593 (2019: 774 830)

**Cash operating costs (US\$) per tonne treated**  
US\$11.20 (2019: US\$11.48)

**Life of Mine**  
10 years (2019: 8 years)

**Liqhobong Diamond Resource (carats)**  
16.5m at 23 carats per hundred tonnes ("cpht") (2019: 20.2 at 28 cpht)

### FINANCIAL

**Revenue (US\$)**  
US\$34.2m (2019: US\$57.2m)

**Adjusted EBITDA<sup>1</sup> (US\$)**  
Negative US\$4.7m (2019: US\$11.7m)

**Loss after tax (US\$)**  
US\$(22.1)m (including an impairment charge of US\$2.7 million) (2019: US\$56.9m (including an impairment charge of US\$41.6 million))

**Cash balance (US\$)**  
US\$9.8m (2019: US\$26.3m)

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

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# INTRODUCTION TO THE STRATEGIC REPORT

## CHAIRMAN'S LETTER

Dear shareholder

This has been another extremely challenging year for the diamond sector. Depressed diamond prices continued through to the end of 2019, particularly at the smaller end of the market which is of relevance to Firestone. Furthermore, the onset of the COVID-19 pandemic led to the suspension of operations at the Liqhobong Mine at the end of March 2020. The subsequent disruption of the market for diamonds, with the closure of Antwerp as a diamond market trading centre and a collapse in global demand, led the Company to make the difficult decision in April to extend the suspension of mining operations for the foreseeable future. The Mine is on extended care and maintenance and will remain so until such time as we have visibility which indicates that we can sell diamonds at prices which will support sustainable operations.

We believe it is in the best interest of all stakeholders to preserve the remaining mine life at Liqhobong and the limited cash resources of the Group for as long as possible to ensure the Mine can start up again when the market recovers. The Company has the continued support of its two major shareholders and bondholders, Resource Capital Fund VI L.P and Pacific Road Resources Fund (comprising Pacific Road Resources Fund II L.P. and Pacific Road Resources Fund II). Discussions with its senior secured lender, ABSA Bank, remain ongoing in relation to restructuring the balance of its debt of US\$63.9 million under the US\$82.4 million senior secured term facility.

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 devastating impact of the COVID-19 pandemic and maintain our ability to enjoy the benefits of the anticipated market recovery, when it comes.

### Performance in FY2020

We are extremely proud of our safety record which has been exemplary all through construction and during production. The 2020 financial year was worked incident free which is a testament to the positive health and safety culture that is entrenched at the Mine. We aim to continue to maintain this excellent record while the operation is on care and maintenance, a phase that presents different health and safety challenges.

Firestone realised an average diamond value for the period up until the suspension of operations that was weaker than a year earlier, mainly due to the impact of the final sale in March 2020 which included very few special diamonds and where all categories of diamonds realised lower prices due to the onset of the COVID-19 lockdowns.

Management did an excellent job at managing costs during the period up until suspension of operations, 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.

Further, the response by the whole team to the unprecedented interruption earlier in the year caused by the unexpected suspension of power supply was swift and effective, and saw the rapid deployment of diesel generators to enable production to resume. Whilst this interlude alone was costly and disruptive, it would have been far worse were it not for the effort and determination displayed by management.

Our CEO, Paul Bosma, and his team have done a tremendous job of focusing on those metrics that are within our control, namely: safety, costs, and production. Since the decision to extend care and maintenance operations, a huge effort has been invested to achieve a smooth and rapid wind down of operations. Sadly this has involved the need to lay off a large number of employees who have shown dedication and loyalty to the business over the years. We look forward to the opportunity to reemploy many of them in the future as and when the Mine restarts.

### Update and outlook for FY2021

Since the year-end, the rough diamond market has remained all but closed and expectations are that it will take at several months for prices to recover to the required level for operations to resume. We hope that the worst of the COVID-19 pandemic may soon be over, and that the global economy will continue its recovery from recent lows. We expect the market for luxury goods, and in particular diamonds, to follow albeit with some time lag.

We continue our constructive dialogue with ABSA Bank and our bondholders who fully support our decision to place the Mine on care and maintenance. We are negotiating a short term restructuring of our debt facilities to enable us to conserve cash resources for the next twelve months, in order to ensure we are able to continue operations when markets recover thus delivering value to all stakeholders. We anticipate fuller restructuring negotiations regarding the Company's balance sheet, as and when we have visibility on the awaited market recovery. As disclosed in Note 1 - Going Concern, signed non-binding term sheets have been received from ABSA Bank in respect of the short-term restructuring 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 30 September 2021, and the bondholders have agreed to capitalise quarterly interest which is due on the Series A Eurobonds during the same period. Additionally, the bondholders have provided non-binding letters of support in respect of providing a restart facility to facilitate a restart of mining operations under appropriate circumstances.

### Board, Corporate Culture and Governance

The Company has seen a dramatic change in its short term priorities, and the preservation of cash resources is paramount. As a result, a number of changes were made to the Board. The size of the Board has been reduced to four and as such we have seen the departure of Ken Owen and Eileen Carr. Further, Lucio Genovese stepped down as Chairman in May 2020 and as a Director at the end of June 2020. I was appointed as Chairman on 15 May 2020 at which time Keith Johnson assumed the role of Chair of the Remuneration

## INTRODUCTION TO THE STRATEGIC REPORT

Committee, Mike Stirzaker the role of Chair of the Audit Committee and Paul Bosma the role of Chair of the Health, Safety, Environment and Technical Committee.

The board wishes to thank Lucio for his enormous commitment and contribution to the business over his 8 years as chairman, a period during which the Company successfully financed, constructed, and brought the Liqhobong Mine into production. His leadership inspired the whole team, in particular through the difficult period the Company has been navigating through. We all wish him well for the future. We also wish to thank Ken Owen and Eileen Carr for their hard work and valuable contributions. Ken joined the Board in 2014 after a distinguished career in the diamond sector. He was Chair of the Health, Safety and Environment Committee and brought his extensive expertise to bear. Eileen joined the Board more recently in 2019 before the decline in the market changed the Company's requirements and immediate outlook. We thank Eileen for her valuable contribution.

A further step taken to reduce costs was the cancellation of the Company's AIM listing. The Company entered into a relationship agreement with the bondholders pursuant to which the bondholders, for so long as each bondholder respectively continues to hold 20 per cent or more of the voting capital of the Company, have given certain undertakings to the Company to the effect that the Company can, amongst other things, continue to operate on an independent basis.

The Board continues to be fully committed to be transparent towards all its shareholders and as such continues to adhere to all the reporting requirements as stipulated in the Companies Act.

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 Liqhobong'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.

Each month, as part of maintaining open and transparent communication with our neighbouring 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, 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 2021 financial year and my concluding remarks.

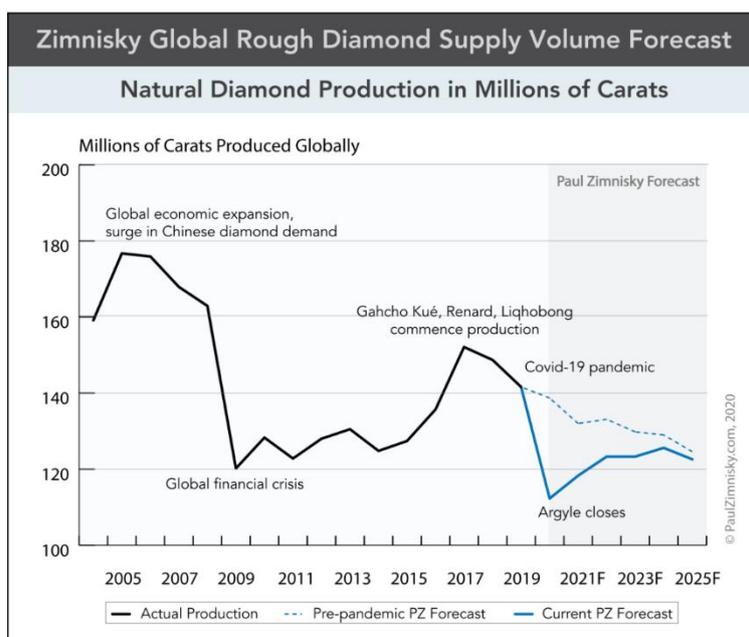
## MARKET CONTEXT

The outbreak of the COVID-19 global pandemic during 2020 had a devastating impact on the diamond industry affecting both supply and demand. The situation remains uncertain which makes it a challenge to forecast accurately.

### Supply

Global natural rough diamond production peaked in 2017 at around 152 million carats (“Mcts”) when three mines, Gahcho Kue, Renard and Lihobong commenced production at around the same time. Since then there was a decline in rough production volumes with an estimated 147 Mcts produced in 2018 and 142 Mcts in 2019. The general expectation is that there will be a sharp decline (up to 20%) in diamond production during 2020 as already evidenced by a number of other mines that have ceased production due to the COVID-19 induced lockdowns for example Ekati, Williamson, Mothae, Renard and a number of Russian mines owned by Alrosa. Rio Tinto has also confirmed that its Argyle mine in Australia, which produced 13 Mcts in 2019, will close at the end of 2020.

### Global diamond supply volume forecast



Source: Paul Zimnisky.

In addition, the majors, Alrosa and De Beers, have maintained their “price over volume” strategy and allowed their sight holders to defer purchases during the first half of 2020. This strategy favours reducing sales volume whilst maintaining prices versus maintaining sales volume and reducing prices in order to restore a global diamond supply/demand balance. The only highly potential new mine on the horizon is the Luaxe Mine in Angola that is being developed by Alrosa and may contribute around 4 Mcts in the next few years if it is developed.

In summary, the global diamond production decline will be accelerated by the impact of the COVID-19 pandemic. The two major producers are currently stockpiling diamonds, in order to maintain price levels and allow the pipeline to recover.

### Midstream demand

Following the onset of the pandemic, Indian diamond manufacturing trade organizations called for a voluntary import ban on rough diamonds to sustain manageable levels of inventory held by the manufacturing industry. This is ultimately aimed at supporting polished prices and maintaining the creditworthiness of the industry. As a result, rough diamond inventory has shifted from manufacturers back to the major producers and therefore allowing the manufacturing industry to improve their balance sheets as their cutting and polishing factories slowly return to full capacity.

## MARKET CONTEXT

### Demand

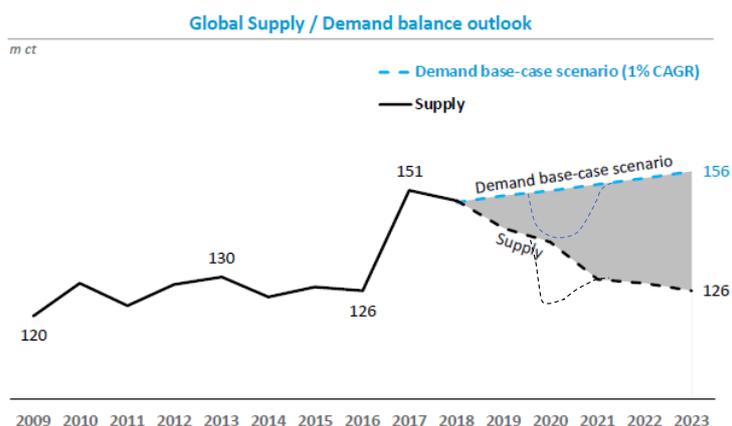
A recent Bain study on luxury goods concluded that the COVID-19 impact on the sector could lead to an estimated contraction of between 20 to 35 percent for the 2020 year. They also noted that China has begun to lead the way toward a recovery and Chinese consumers are set to cement their status as crucial drivers of the industry, accounting for nearly 50 percent of the market by 2025. Luxury purchases made online have increased throughout the crisis and the online channel could represent up to 30 percent of the market by 2025. The Bain study further anticipates that a recovery to 2019 levels will not occur until 2022 or 2023. Market growth will resume gradually from then on, reaching an estimated US\$380-400 billion by 2025.

De Beers expects “significant challenges” in the short term, with ongoing travel restrictions in southern Africa and sustained risk of further spread of COVID-19 in India’s cutting centres. However, De Beers is expecting some improvement in the rough market in the second half of the year, largely because consumers are returning. Chinese demand is leading the recovery, but there are also encouraging signs among US independents, particularly around bridal and other higher-value goods.

### Looking Forward

In anticipation of a slump in demand for rough diamonds as a result of the COVID-19 outbreak and an expectation that it would take at least 12 months for prices to recover to pre-COVID levels, Firestone decided to leave the diamonds in the ground and maximise cost preservation by placing its Liphobong Mine on an extended period of care and maintenance. The Board’s view is that it is realistic to believe that production will resume during the financial year that starts on 1 July 2021 and that by that time given the anticipated slump in supply and improved demand, the market would have recovered sufficiently to assume an average price for the year that in real terms is equivalent to our overall average price achieved since sales commenced early 2017.

In addition, although temporarily disrupted by the COVID-19 impact, the longer term supply-demand fundamentals remain positive with a significant potential deficit forecast by 2023 (see below).



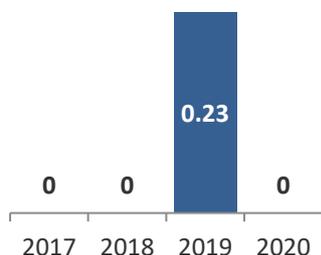
Source: Adapted from Alrosa Corporate presentation

## KEY PERFORMANCE INDICATORS

Liqhobong began the year with continued strong operational performance. The second quarter was impacted by the power interruption issue during October and November 2019 which resulted in one month's lost production. The Mine was placed onto care and maintenance at the end of the third quarter on 26 March 2020 due to the COVID-19 pandemic.

### Safety

**LTIFR zero** (2019: 0.23)



#### Definition:

Calculated as the total number of Lost Time Injuries per million labour hours worked.

#### Performance:

The Group's safety result was exemplary for the year without a single Lost Time Injury occurring.

#### Risk management:

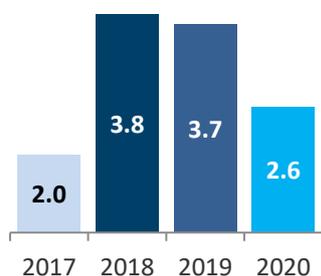
Policies, procedures and monitoring systems are assessed and updated regularly in order to reduce the possibility of accidents occurring which could result in injury.

#### Outlook:

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

### Ore tonnes

**2.6mt ↓ 30%** (2019: 3.7mt)



#### 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 ore stockpiles.

#### Performance:

The plant treated 2.6 million tonnes for the year, which was 30% less than the previous year, due to the power interruption during the second quarter and the Mine being placed on care and maintenance at the end of the third quarter.

#### Risk management:

During the year, Liqhobong was staffed with appropriately skilled people who ensured that operation ran smoothly. An ore stockpile provided security of supply of material to the plant for treating for a period of up to three days in the event that the main pit became inaccessible for any reason.

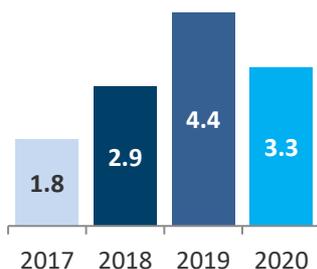
#### Outlook:

The Mine is expected to resume operations once there is evidence of a sustained market improvement.

## KEY PERFORMANCE INDICATORS

### Waste tonnes

3.3mt ↓ 26% (2019: 4.4mt)



#### 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.

#### Performance:

During the year, 3.3 million tonnes of waste was stripped, which was 1.1 million tonnes less than the previous year. Fewer waste tonnes were mined than planned for, and the shortfall is expected to be recovered over time once mining resumes.

#### Risk management:

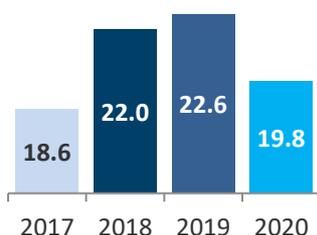
During the year, waste was mined according to a plan to ensure that adequate quantities of ore were accessible to meet the throughput requirements of the treatment plant for a sustained period.

#### Outlook:

Not applicable while on care and maintenance.

### Grade

19.8 cpht ↓ 13% (2019: 22.6 cpht)



#### Definition:

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

#### Performance:

The grade for the year was lower than the previous year due to lower grade ore blocks being mined as well as a lower Mine Call Factor ("MCF"). The MCF, 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 88% compared to 91% in the previous year.

#### Risk management:

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

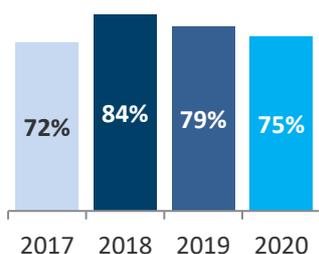
#### Outlook:

Not applicable while on care and maintenance.

## KEY PERFORMANCE INDICATORS

### Plant utilisation

75% ↓ 5% (2019: 79%)



#### Definition:

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

#### Performance:

Plant utilisation for the year was lower, mainly as a result of the unexpected power interruption which disrupted operations during October and November 2019.

#### Risk management:

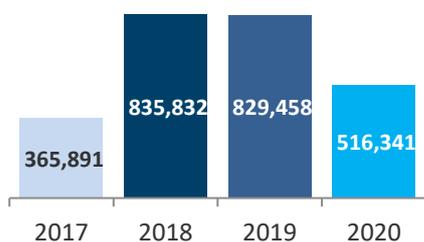
During the year, the Mine's engineering department adhered to a strict preventative maintenance system aimed at reducing unexpected equipment failures and delays.

#### Outlook:

Not applicable while on care and maintenance.

### Carats recovered

516 341 ↓ 38% (2019: 829 458)



#### Definition:

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

#### Performance:

Recoveries for the year of 516 341 carats was lower than the previous year mainly due to fewer tonnes treated of 2.6 million tonnes compared to the previous year of 3.7 million tonnes.

#### Risk management:

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

#### Outlook:

Not applicable while on care and maintenance.

## KEY PERFORMANCE INDICATORS

### US\$ per carat

**US\$68** ↓ 8% (2019: US\$73)



#### 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.

#### 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.

#### Risk management:

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

#### Outlook:

Not applicable while on care and maintenance.

### Revenue

**US\$34.2m** ↓ 40% (2019: US\$57.2m)



#### Definition:

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

#### Performance:

Revenue was 40% lower than the previous year, due to 38% fewer carats sold and a lower average value realised of US\$68 per carat compared to US\$73 per carat in the previous year.

#### Risk management:

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

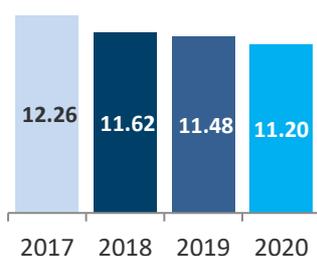
#### Outlook:

Not applicable while on care and maintenance.

## KEY PERFORMANCE INDICATORS

### US\$ per tonne treated

US\$11.20 ↓ 2% (2019: US\$11.48)



#### 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.

#### Performance:

As a result of continued strong cost management and a weak local currency, the cash operating cost for the year of US\$11.20 per tonne treated was lower than the previous year of US\$11.48 per tonne 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.

#### Outlook:

Not applicable while on care and maintenance.

### Adjusted EBITDA

Negative US\$4.7m ↓ 140% (2019: US\$11.7m)



#### Definition:

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

#### Performance:

Adjusted EBITDA for the year was significantly lower than the previous year due to significantly lower revenue, which was impacted by the months' lost production due to the unexpected power interruption that occurred during October and November 2019, and the placing of the Mine on care and maintenance from 26 March 2020.

#### Risk management:

Average diamond value realised 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.

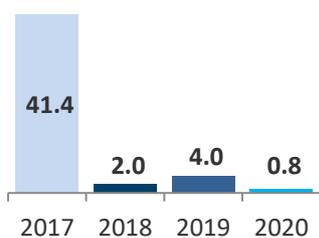
#### Outlook:

Not applicable while on care and maintenance.

## KEY PERFORMANCE INDICATORS

### Capex

**US\$0.8m** ↓ 79% (2019: US\$4.0m)



#### *Definition:*

Amount spent on capital items.

#### *Performance:*

Capex expenditure decreased during the year and includes US\$0.6 million of capitalised waste stripping costs (2019: US\$3.0 million of capitalised waste stripping costs).

#### *Risk management:*

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

#### *Outlook:*

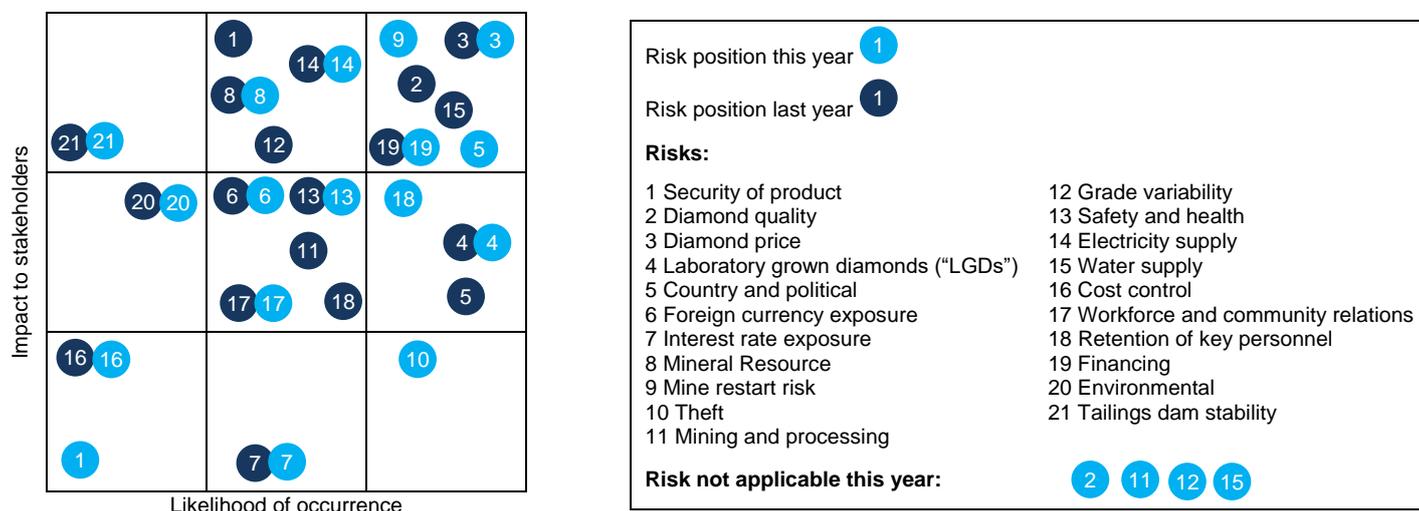
Not applicable while on care and maintenance.

## RISK REVIEW

The Lihobong Diamond Mine was placed onto care and maintenance from 26 March 2020, from which date, mining operations were suspended. The focus from that point was to ensure that the Mine's assets were safeguarded and maintained to facilitate the quickest and most cost effective possible restart at the appropriate 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 nature of the risks while operating are different to those while the Mine is on care and maintenance, as indicated in this risk review where we have provided details of the changes in each significant risk.

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



### Commodity risks

Impact	Mitigation	Reason for change
<p><b>1 Security of product</b></p> <p>Diamonds are valuable and easily transportable. Product security is a key risk area that is constantly reviewed. Crime and theft syndicates are very sophisticated and operate globally.</p>	<p>Lihobong 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 full body search and selective X-ray scanning.</p>	<p>↓</p> <p>There is a minimal quantity of diamond inventory in Antwerp and no diamonds are kept on site during the care and maintenance phase.</p>
<p><b>2 Diamond quality</b></p> <p>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, that 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.</p>	<p>Reasonable average diamond values are used when modelling plans and forecasts which will be used to inform the timing of a possible restart of operations.</p>	<p>↓</p> <p>This risk is not applicable while the Mine is on care and maintenance.</p>
<p><b>3 Diamond price</b></p> <p>The Group's financial performance is primarily determined by the volume and quality 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:</p> <ul style="list-style-type: none"> <li>• over/undersupply of rough diamonds;</li> <li>• economic factors globally affecting consumer demand e.g. COVID-19 pandemic;</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>	<p>The Group monitors the market continuously to ensure that it is up to date on current diamond market information and trends.</p> <p>Reasonable average diamond values are used when modelling plans and forecasts which will be used to inform the timing of a possible restart of operations.</p>	<p>↔</p> <p>No change</p>

## RISK REVIEW

### External risks

Impact	Mitigation	Reason for change
<p><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.</p>	<p>Since the introduction of Lightbox, the prices of LGD’s 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.</p>	<p>↔ No change</p>
<p><b>5 Country and political</b> Liqhobong is situated in Lesotho, which has experienced several changes of government in recent years. On 20 May 2020, a new Prime Minister was appointed following the formation of a new coalition government. This also resulted in the appointment of a new Mining Minister. Lesotho is an emerging market economy which is generally subject to greater political volatility and risk.</p>	<p>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.</p>	<p>↑The risk has increased as Government support is potentially required for Liqhobong’s extended care and maintenance program and restart of operations.</p>
<p><b>6 Foreign currency exposure</b> The Group earns revenue from the sale of its rough diamonds in US Dollars 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, particularly the ZAR:US\$, may have a significant impact on the Group’s financial performance.</p>	<p>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.</p>	<p>↔ No change</p>
<p><b>7 Interest rate exposure</b> The Group is exposed to the 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 being unable to meet its operational and debt covenant cash requirements.</p>	<p>By applying the Group’s hedging policy, the Group has entered into floating-to-fixed interest swaps for up to 50% of the ABSA Bank debt until 30 June 2021, which will ensure that a portion of the total interest charge remains fixed for a time.</p>	<p>↔ No change</p>

## RISK REVIEW

### Operational risks

Impact	Mitigation	Reason for change
<p><b>8 Mineral Resource</b> (closely associated with the risk 12 – Grade variability)</p> <p>The Group's financial performance is impacted by the quantity of carats recovered at Liqhobong, 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.</p>	<p>Liqhobong'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 was updated during the year to reflect the latest geological model.</p>	<p>↔ No change</p>
<p><b>9 Mine restart risk</b></p> <ul style="list-style-type: none"> <li>The Group will require distinct funding in order to restart its operations at Liqhobong. Availability of funding will depend upon prevailing market conditions and outlook at that time.</li> <li>The restart is dependent upon signs of a sustained recovery in the diamond market which may take a longer than anticipated time period to manifest.</li> <li>Restarting the Mine will entail many aspects including employing and training of staff, appointing contractors, re-establishing processes and procedures, among others.</li> <li>Delays in running or operating the plant could lead to additional working capital requirements.</li> </ul>	<p>The Group is in discussions with its lenders and bondholders regarding a restructuring of its debt and these discussions will extend to a restart. The Group has previously enjoyed the support of its lenders and bondholders in previous restructurings.</p> <p>The Group has retained staff with the necessary skills and competencies to assist in managing a restart program.</p> <p>A suitably staffed maintenance team continue to maintain key items of plant and equipment at the Liqhobong Mine, ensuring that they are in an operationally ready state, in order to facilitate an efficient restart.</p>	<p>* New risk</p>
<p><b>10 Theft</b></p> <p>Theft, particularly of mine plant or equipment on site, would result in financial loss to the company.</p>	<p>Liqhobong has established an appropriate security department on site during the care and maintenance phase.</p>	<p>* New risk</p>
<p><b>11 Mining and processing</b></p> <p>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.</p>	<p>Liqhobong had established teams with core competencies in each discipline: mining, plant operations, health and safety, engineering and support services. Each team was staffed by those with the key skills and specialist knowledge required of each distinct discipline. A structured planned maintenance programme was followed ensuring maximum operational uptime and reducing the number of unscheduled plant stoppages.</p> <p>Ore and waste tonnages, recovery results and other performance metrics were monitored daily to ensure early identification of any adverse trends.</p> <p>An ore stockpile was maintained which was sufficient to keep the plant in operation for up to three days should mining from the pit be interrupted.</p>	<p>↓ This risk is not applicable while the Mine is on care</p>
<p><b>12 Grade variability</b> (closely associated with the risk 8 – Mineral resource)</p> <p>The Group's financial performance is impacted by the quantity of carats recovered by the Liqhobong 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.</p>	<p>Liqhobong's grade estimate was based on large diameter drilling and bulk sampling, and was independently compiled and signed off. At an operational level, Liqhobong's MRM department focused on grade control on an ongoing basis. Grades recovered were reconciled to the resource grades of particular areas mined to ensure that discrepancies were identified. The Mine operated an audit plant which reprocesses red area recovery tailings to ensure that all diamonds were recovered.</p>	<p>↓ This risk is not applicable while the Mine is on care and maintenance.</p>

## RISK REVIEW

<p><b>13 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.</p>	<p>Liqhobong is focused on maintaining its safety record through continued adherence to strict safety policies. This applies while the Mine is on care and maintenance. 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.</p>	<p>↔ No change</p>
<p><b>14 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.</p>	<p>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 2020, 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.</p>	<p>↔ No change</p>
<p><b>15 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 for water storage facilities in the Liqhobong valley poses a risk to normal operation of the treatment plant.</p>	<p>The Mine 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.</p> <p>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 a further water storage dam should the need arise, however this represents a substantial capital item that would need to be separately funded.</p>	<p>↓ Not applicable while the operation is on care and maintenance.</p>
<p><b>16 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.</p>	<p>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 approved budgets and regularly updated forecasts to ensure that costs are in line with expectations and discrepancies are investigated.</p>	<p>↔ No change</p>
<p><b>17 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.</p>	<p>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 representative who 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 in past years including provision of 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. Various smaller projects will be continued while on care and maintenance.</p>	<p>↔ No change</p>

## RISK REVIEW

### Strategic risks

Impact	Mitigation	Reason for change
<p><b>18 Retention of key personnel</b></p> <p>The Group is heavily reliant on a small group of key staff to achieve its objectives.</p>	<p>Firestone offers remuneration that is commensurate with the reduced requirements while the operation is on care and maintenance. Salaries will be reviewed when the Mine returns to full production.</p>	<p>↑</p> <p>Firestone has had to reduce costs across all aspects of the business, including implementing substantial pay-cuts to provide for the longest possible care and maintenance period.</p>
<p><b>19 Financing</b></p> <p>The Group owes ABSA Bank US\$63 million in respect of its project debt facility and the US\$38 million in terms of the Eurobond facilities. The Group is reliant upon ABSA Bank to grant waivers in respect of covenant breaches which persist currently, and both ABSA Bank and the Bondholders in respect of a restructure of the facilities over the medium and longer term.</p>	<p>Management is in discussion with ABSA Bank and the bondholders. The Company has enjoyed covenant waivers previously and there are positive signs regarding a solution.</p>	<p>↔</p> <p>No change</p>
<p><b>20 Environmental</b></p> <p>Liqhobong operates in an environmentally sensitive area, high up in a valley, which is a catchment area for the Motete and Malibamatsu rivers which ultimately flow into the Katse Dam. The Katse Dam supplements the water supply to South Africa.</p> <p>There is a risk that the mining operations could impact the immediate environment or cause contamination to the downstream aquatic system.</p>	<p>Environmental management forms an integral part of Firestone's strategy. Regular tests are conducted 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.</p>	<p>↔</p> <p>No change</p>
<p><b>21 Tailings dam stability</b></p> <p>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.</p>	<p>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, suitably qualified engineer who has Lesotho specific design experience. It is constructed to withstand a one in 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.</p>	<p>↔</p> <p>No change</p>

## Section 172 Statement

The Directors are well aware of their duty under Section 172(1) of the Company Act 2006, to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- a. the likely consequences of any decision in the long term;
- b. the interests of the company's employees;
- c. the need to foster the company's business relationships with suppliers, customers and others;
- d. the impact of the company's operations on the community and the environment;
- e. the desirability of the company maintaining a reputation for high standards of business conduct; and
- f. the need to act fairly as between members of the company.

The following disclosure describes how the Directors have had regard to the matters set out in Section 172(1)(a) to (f) and forms the Directors' statement under section 414CZA of The Companies Act 2006.

### Our key stakeholders and how we engage with them

The Board considers its key stakeholders to be its employees, suppliers, contractors, the communities situated in close proximity to the Liqhobong Mine, the Government of Lesotho (its partner and 25% shareholder in Liqhobong), its bondholders, the senior debt provider, ABSA Bank and its shareholders.

Stakeholders	Stakeholder key interests	How we engage
<b>Our People</b> Having the right people with appropriate qualifications, skills and experience and work ethic is crucial to our longer-term success.	<ul style="list-style-type: none"> <li>• Career development</li> <li>• Reward</li> <li>• Engagement</li> <li>• Morale and motivation</li> <li>• Reputation</li> <li>• Training and development</li> <li>• Health and safety</li> </ul>	<ul style="list-style-type: none"> <li>• Direct engagement through the Group's flat organisational structure</li> <li>• Board meetings held at the Firestone Group and Liqhobong Mining Development Company (Pty) Ltd level</li> <li>• On site quarterly operational review meetings</li> </ul>
<b>Suppliers and contractors</b> We need to maintain trusting relationships with our suppliers and contractors for mutual benefit and to ensure that they are meeting our standards.	<ul style="list-style-type: none"> <li>• Mine procurement from local sources where possible</li> <li>• Quality management</li> <li>• Cost-efficiency</li> <li>• Long-term relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Meetings with key suppliers and contractors</li> <li>• Ongoing communication and feedback</li> <li>• Contract negotiation and contract renewals</li> </ul>
<b>Local communities</b> We need to maintain trusting relationships with our local communities in order to better understand the impact that our operation has on its immediate surrounds and the benefits that it can offer.	<ul style="list-style-type: none"> <li>• Long-term relationships</li> <li>• Community support</li> <li>• Developing sustainable community enhancement projects</li> </ul>	<ul style="list-style-type: none"> <li>• Regular meetings with the community forum</li> <li>• Open lines of communication, with active response where appropriate</li> </ul>
<b>Government of Lesotho</b> We need to maintain a trusting relationship with our partner and 25% shareholder in the Liqhobong operation for mutual benefit and in order to ensure that the Mine operates for the benefit of all stakeholders.	<ul style="list-style-type: none"> <li>• Long-term relationship</li> <li>• Sustainable benefits for the Kingdom of Lesotho</li> </ul>	<ul style="list-style-type: none"> <li>• Through Government appointed Directors on the board of Liqhobong Mining Development Company (Pty) Ltd</li> <li>• Meetings with various government departments, particularly the Mining Ministry</li> <li>• Letters, presentations and electronic communication</li> <li>• Open lines of communication</li> </ul>
<b>Debt Providers</b> We need to maintain a trusting relationship with our bondholders and with ABSA Bank (including the ECIC) who have supported the Project since it commenced in 2014.	<ul style="list-style-type: none"> <li>• Success of the Project</li> <li>• Repayment of debt</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly reports including financial forecasts</li> <li>• Regular interaction with open lines of communication</li> </ul>
<b>Shareholders</b> We ensure that we provide fair, balanced and comprehensive information to Shareholders to ensure that they have a strong understanding of our strategy and performance.	<ul style="list-style-type: none"> <li>• Financial performance</li> <li>• Appropriate corporate governance and transparency</li> <li>• Operating and financial information</li> <li>• Confidence and trust in the Group's leadership team</li> </ul>	<ul style="list-style-type: none"> <li>• One-on-one meetings</li> <li>• Shareholder consultations</li> <li>• Annual report and accounts</li> <li>• Annual General Meeting</li> </ul>

## Section 172 Statement

### Key Board decisions during the year

The Board considers the following to be the key decisions and considerations it has made during the year to 30 June 2020. In addition to these decisions, the Board assessed and reviewed the liquidity position of the Group on a monthly basis and continued to closely manage the debt restructuring process, which continues, with the Bondholders and ABSA Bank.

<b>Board Decision</b>	<b>Considerations</b>
<b>Slimes dam stability</b> The Board considered whether appropriate steps had been taken and procedures adopted to ensure the stability of the slimes dam situated at the Liqhobong Mine.	To ensure that an appropriate construction methodology was adopted, that control measures and risk monitoring was adequate and was functioning, and that risks had been sufficiently dealt with.
<b>Delisting from AIM</b> The Board considered the cost versus benefits of the Company's AIM listing and decided to propose a delisting to shareholders, which was subsequently approved at the meeting of shareholders.	The need to save costs at the corporate level, and to reduce the administrative burden associated with the listing.
<b>Liqhobong Care and Maintenance</b> The Board considered the possible implications of continuing to operate in the extremely uncertain environment brought about by the COVID-19 pandemic and decided to temporarily place the Liqhobong Diamond Mine onto care and maintenance.	The need to conserve the Group's limited cash resources during the period of extreme uncertainty.
<b>Board and management structure</b> The Board considered its own structure and that of the corporate management and operational teams and approved a restructuring which resulted in a smaller board consisting of one executive Director and three non-executive Directors including the non-executive chairman, and reduced staff compliments at both the corporate and operational levels. Additionally, Directors' fees were reduced by 50%, senior management pay was reduced by up to 40%, and operational staff pay was reduced by up to 15%.	The need to balance cost savings with ensuring continued good governance and adequate staffing, appropriate for the reduced operational activity which resulted from the placing of Liqhobong onto care and maintenance.

## CEO's REVIEW

The company's performance was severely impacted by production interruptions at the Liqhobong Mine caused by a power disruption during October and November 2019, and the outbreak of the COVID-19 pandemic and subsequent country wide lockdowns in South Africa and Lesotho commencing at the end of March 2020 that caused production to be suspended. The Board believes that it will take some time for the diamond market to recover and, as a result, placed the Mine on an extended period of care and maintenance to preserve cash for as long as possible.

### Summary

**2.6m** ore tonnes treated

**516 341** carats recovered

**3.3m** waste tonnes mined

**US\$11.18** cash operating cost per tonne treated

### Introduction

I am pleased to report that no lost time injuries occurred during the financial year and there were also no major environmental incidents. We continue to maintain a good working relationship with the communities surrounding the Mine and a number of community related projects were completed during the year including the building of foot bridges to allow school children to safely cross streams during the rainy season as well as the construction of 70 toilets in the Liqhobong village. We also continued to purchase fresh produce from local suppliers as part of our "small business" development program.

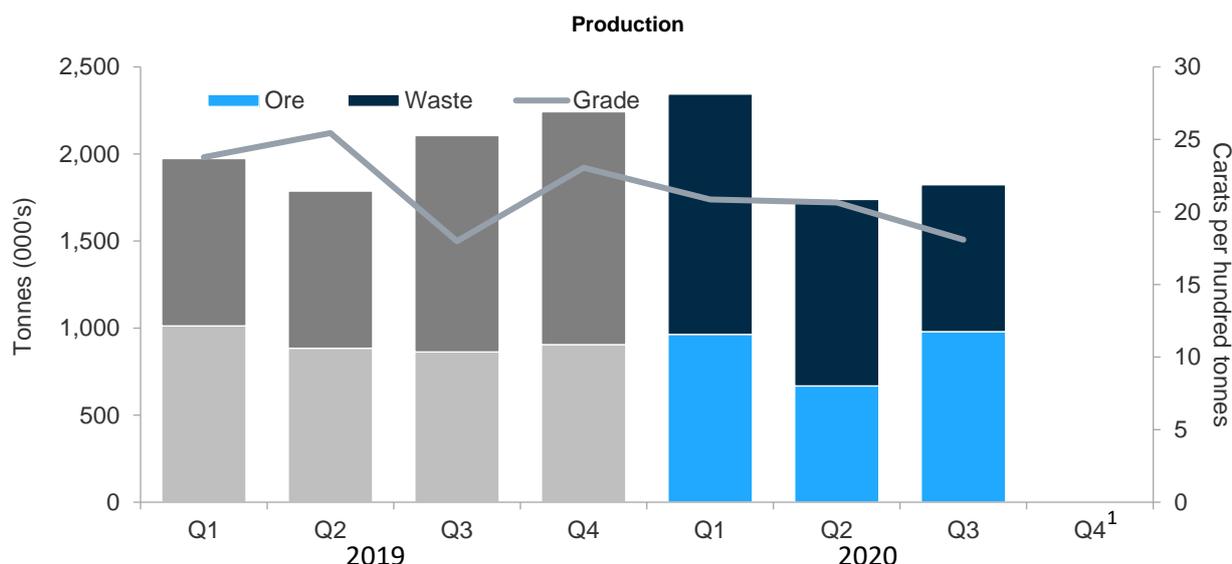
It was an extremely challenging production year with the first half being adversely impacted by the power interruption during October and November followed by the COVID-19 outbreak that resulted in production being halted and preventing all diamond selling activities from the end of March.

From April to June in preparation for the extended care and maintenance period, consultations were conducted with employees, the Government of Lesotho, the community and contractors. This resulted in large scale retrenchments, salary reductions for remaining employees and termination settlements with virtually all but essential contractors.

Our focus remains to ensure that the Company survives the current downturn in the diamond industry. Our strategy is to leave the diamonds in the ground to preserve cash and work with our debt holders and major shareholders to find a longer-term solution for the high levels of debt in the business in order that the Mine can restart once there is evidence of a sustained recovery in the market.

### Production

	Q1	Q2	Q3	Q4 <sup>1</sup>	2020	2019
<b>Production</b>						
Ore (tonnes)	963 986	668 120	979 792	—	<b>2 611 898</b>	3 664 315
Waste (tonnes)	1 379 758	1 070 854	842 916	—	<b>3 293 528</b>	4 442 926
<b>Total (tonnes)</b>	<b>2 343 744</b>	<b>1 738 974</b>	<b>1 822 708</b>	<b>—</b>	<b>5 905 426</b>	<b>8 107 241</b>
Carats recovered (carats)	201 091	138 000	177 250	—	<b>516 341</b>	829 458
Grade (carats per hundred tonnes)	20.9	20.7	18.1	—	<b>19.8</b>	22.6

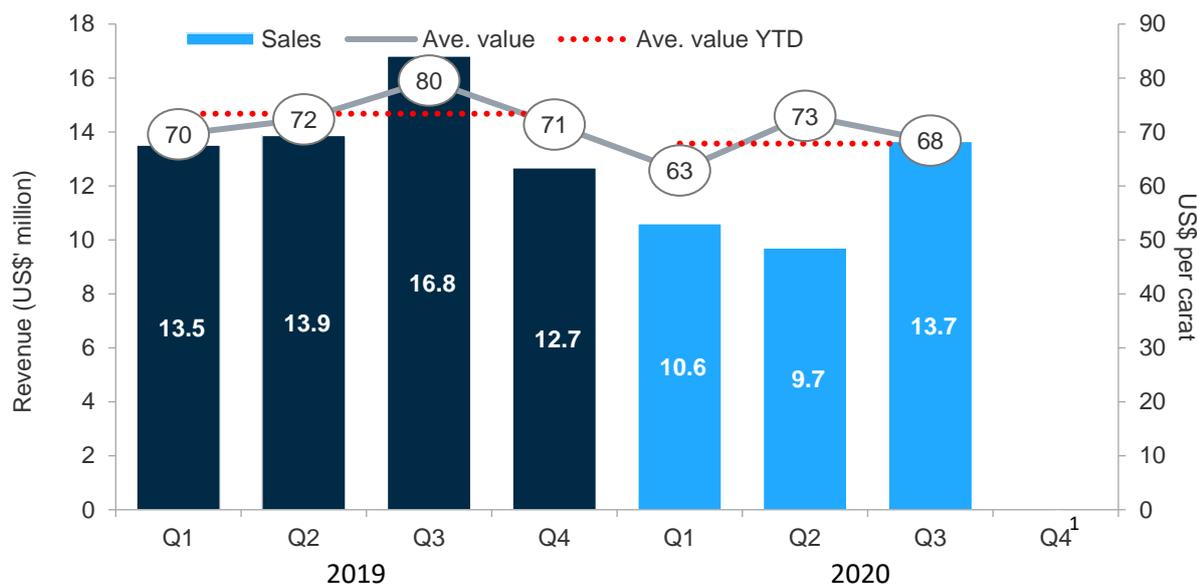


<sup>1</sup> The Liqhobong Mine was placed on care and maintenance on 26 March 2020 at which point mining operations were suspended.

During the year, both the tonnes mined and carats recovered decreased significantly compared to the previous year mainly due to the cessation of production at the end of March when the Mine was placed on care and maintenance. Other contributing factors included the power interruption during October and November which resulted in the loss of an entire month of production, and to a lesser extent the lower mine call factor of 88% (2019: 91%).

## CEO's REVIEW

### Diamond Sales



<sup>1</sup> The Liqhobong Mine was placed on care and maintenance on 26 March 2020 at which point mining operations were suspended.

	Q1	Q2	Q3	Q4	Total FY2019	Q1	Q2	Q3	Q4	Total FY2020
<b>Revenue</b>										
Diamonds sold (carats)	194 206	191 735	211 368	177 521	774 830	168 612	132 885	199 096	—	<b>500 593</b>
Revenue (US\$m)	13.5	13.9	16.8	12.7	56.9	10.6	9.7	13.7	—	<b>34.0</b>
Average value (US\$/ct)	70	72	80	71	73	63	73	68	—	<b>68</b>
Number of sales	1	2	2	2	7	1	2	2	—	<b>5</b>
<b>Diamonds which sold for over US\$500 000 each</b>										
Number					<b>5</b>					<b>4</b>
Value (US\$m)					<b>4.9</b>					<b>3.7</b>

Only five sales took place during the year (2019: 7 sales) which realised revenue of US\$34.0 million (2019: US\$56.9 million) from the sale of 500 593 gem carats (2019: 774 830 gem carats) at an average value of US\$68 per carat (2019: US\$73 per carat). The lower average value realised for the year was impacted by the result of the final sale which took place at the end of March at the start of the COVID-19 lockdown and achieved very low prices due to buyer uncertainty at that time. The Group currently has a diamond inventory of 64 700 gem carats held in Antwerp. This inventory will be split into smaller parcels to be used to generate cash flow and to test the market later in the year to determine when it may be appropriate to restart the Mine.

### Life of Mine extension

The cut 3 open pit extension design work based on revised, steeper slope angles was completed during the year. It shows that a Cut 3 north extension could extend the Mine life by approximately 2 years should the average diamond value improve sufficiently over time to make it economically viable. The latest mine plan assumes the recovery of 7.8 Mcts (previously: 6.8 Mcts) from the treatment of 35.2Mt of ore (previously: 28.8 Mt of ore) over a 10-year period (previously: 8 year period).

## RESOURCE AND RESERVE STATEMENT

### Diamond Resource and Reserve update for Liqhobong Mine

The Liqhobong Diamond Resource was updated by Zstar Mineral Resource Consultants during the year. This was the first update since 2015 and was based on the latest geological model and includes a number of modifications and improvements including the following:

- inclusion of production samples derived from focused mining;
- additional density samples collected by mine geologists;
- alignment of estimation block height to bench height of 14m; and
- change in bottom cut-off to 1.25mm slotted panels.

The latest Diamond Resource was updated at the end of the financial year to account for the mining which took place during the period. At 30 June 2020, the total Indicated Resource at the bottom cut-off of 1.25mm slotted panels was 22.898 million tonnes at a grade of 22 cpht containing 5.082 million carats which is a 24% reduction compared to the 2019 Indicated Diamond Resource statement mainly due to depletions and the fact that the new mineral resource is stated at a 1.25mm slotted bottom cut-off.

### Diamond Resource statement for Liqhobong Main Pipe as at 30 June 2020 (including Reserves)

Diamond Resource Category	Depth from and to	Diamond Resource				Grade (cpht)	Carats (millions)
		Volume in m3 (millions)	Density (tonnes/m <sup>3</sup> )	Metric tonnes (millions)			
Indicated	2 603 masl to 2 467 masl	8.807	2.60	22.898	22	5.082	
Inferred	2 467 masl to 2 127 masl	18.184	2.66	48.399	24	11.423	
<b>Total Diamond Resource</b>		<b>26.991</b>	<b>2.64</b>	<b>71.297</b>	<b>23</b>	<b>16.505</b>	

- Diamond Resources as at 30 June 2020, reported inclusive of reserves.
- Tonnes are metric tonnes and totals are rounded.
- Stated at a bottom cut-off of 1.25mm slotted apertures.

### Diamond Reserve

As there is no certainty at this stage if and when the Mine will restart and which forward looking economic parameters to assume, it is not possible to declare a Diamond Reserve. This will change once a firm decision is made to restart the Mine based on an economically feasible mine plan.

## FINANCIAL REVIEW

### Highlights

**US\$34.2m** revenue

**500 593** carats sold

**US\$2.8m** gross profit

**US\$68** average value per carat

**US\$22.1m** loss after tax (including an impairment charge of US\$2.7 million)

**US\$(4.7)m** Adjusted EBITDA

**US\$9.8m** in cash

### Summary

The Group had a challenging year from a financial perspective.

Revenue for the year was US\$23.0 million lower than the prior year mainly due to fewer carats recovered as a result of the power interruption which impacted production during October and November 2019, and the COVID-19 pandemic which resulted in the Mine being placed onto care and maintenance on 26 March 2020. On the other hand, cost of sales for the period which was US\$15.5 million lower than the prior year offset only a portion of the shortfall which resulted from lower revenue. Cost of sales includes the increased costs to operate the Mine during November using alternative power, and the costs associated with placing the Mine onto care and maintenance which included contractor demobilisation costs and staff retrenchment costs. The cash loss for the year at an operating level as measured by adjusted EBITDA of US\$4.7 million is almost entirely attributable to the power interruption during October and November 2019, an event for which the Company considers it was adequately insured. The Company has initiated legal proceedings against the Lesotho-based insurer which has repudiated our claim. The proceedings are at an early stage and therefore no amounts relating to the potential insurance proceeds are recognised in the accounts.

The Group's cash balance decreased by US\$15.5 million during the year from an opening balance which is adjusted for foreign exchange movements of US\$25.3 million to a closing balance of US\$9.8 million. The movement comprised US\$4.7 million used in operations, US\$2.4 million in working capital movement associated with reduced creditor balances due to the operation being placed on care and maintenance, additions to property, plant and equipment of US\$0.8 million and US\$8.0 million in payments on borrowings and leases, which was offset by interest income of US\$0.4 million.

The Group forecasts the cash to be sufficient to fund its expenses for the next 12 months while the Mine remains on care & maintenance, and acknowledges that distinct start-up capital will be required prior to recommencing operations. Further information is included within note 1 going concern on page 43.

Noted in last years' report, was that subsequent to the year-end, the Group had received a non-binding term sheet 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 cash flow shortfalls which result from the irregular timing of diamond sales proceeds during the same period. These discussions continued into the second half of the financial year. However, during March 2020, when it became clear that COVID-19 would have a significant impact on the operation and on the diamond market more broadly, the focus of the discussions changed towards safeguarding the asset and the resource so that their true value could be realised once the market normalised.

As at the year-end, and mainly due to prevailing circumstances brought about by the COVID-19 pandemic which resulted in the Lihobong Mine being placed onto care and maintenance, the Company was in default of certain of the terms of its Eurobonds and the Group's significant subsidiary, Lihobong Mining Development Company (Pty) Ltd, was in default of certain terms of its debt facility with ABSA Bank. However, no default arose from non-payment to ABSA Bank or the Bondholders as a result of various capital repayment deferrals received from ABSA Bank and interest share payments made to the Bondholders, respectively. The impact of a default of either of these agreements is the ability of either lender being able to demand immediate payment of all outstanding amounts. ABSA Bank, which has first ranking security, has taken no such action. At the year-end, discussions with ABSA Bank and the Bondholders were ongoing regarding a short-term restructuring which anticipated a 15-month capital repayment deferral of the ABSA Bank debt to 30 September 2021. However, the restructuring was not completed as at the year-end, and therefore, in accordance with relevant accounting standards, it is necessary to present the outstanding balances of the ABSA debt facility and Eurobond facility as current liabilities as at 30 June 2020.

## FINANCIAL REVIEW

### Statement of Profit and Loss

US\$'million	2020	2019
<b>Revenue</b>	<b>34.2</b>	57.2
Less:		
Cost of sales	31.4	46.9
<b>Gross profit</b>	<b>2.8</b>	10.3
Other income	0.8	1.5
Selling and administrative costs	3.6	5.9
Care and maintenance – continued	1.5	0.3
Care and maintenance – once-off	2.1	—
Corporate costs	3.1	3.2
Amortisation and depreciation	1.2	1.4
Share-based payments	0.2	0.6
Impairment	2.7	41.6
Net finance cost	11.3	9.3
<b>Loss before tax</b>	<b>22.1</b>	50.5
Income tax credit/(charge)	—	(6.4)
<b>Net loss after tax</b>	<b>22.1</b>	56.9

### Revenue

Revenue for the year of US\$34.2 million was US\$23.0 million or 40% lower than the prior year's US\$57.2 million due to fewer carat recoveries as a result of the one month's lost production from the power interruption during October 2019, and from placing the operation onto care and maintenance from 26 March 2020.

### 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	2020 <sup>1</sup>	2019
On-mine cash costs excluding waste stripping	21.2	32.0
IFRS 16 adjustment	0.5	—
Waste stripping cost	7.6	10.0
On-mine cash costs	29.3	42.0
Less: Waste stripping cost capitalised	(0.6)	(3.0)
Less: IFRS 16 adjustment	(0.5)	—
Waste stripping amortised	0.3	0.3
Depreciation	1.9	8.6
Diamond inventory movement	0.9	(1.3)
Share-based payments	0.1	0.3
<b>Cost of sales</b>	<b>31.4</b>	46.9
<b>Production</b>		
Ore (million tonnes)	2.61	3.66
Waste (million tonnes)	3.29	4.44
<b>KPIs:</b>		
Cash operating cost (US\$):		
- per tonne treated	11.20	11.48
- per tonne mined	4.95	5.19
Cash operating cost (LSL <sup>2</sup> ):		
- per tonne treated	170.42	162.23
- per tonne mined	75.37	73.32
Accounting cost per tonne treated (US\$)	11.65	13.09

#### Notes:

1 It is important to note that cost of sales for the current year represents only three quarters of the financial year due to the Mine being placed on care and maintenance at the end of the third quarter.

2 LSL refers to the Lesotho Maloti which is the functional currency of The Kingdom of Lesotho, and which is pegged 1:1 with the South African Rand.

Cost of sales for the period of US\$31.4 million which were in respect of the three quarters during which the Mine was operational, was US\$15.5 million or 33% lower than the previous year's US\$46.9 million, mainly due to US\$12.7 million lower on-mine cash costs and US\$6.7 million lower depreciation, offset by US\$2.4 million lower waste stripping cost capitalised. US\$6.7 million lower depreciation resulted from fewer ore tonnes treated for the year, the unit of production on which depreciation is based, and a lower carrying value on which depreciation is based as a result of the previous years' impairment of US\$40.5 million.

## FINANCIAL REVIEW

On-mine cash costs of US\$29.3 were US\$12.7 million or 30% lower than the prior year's US\$42.0 million mainly as a result of 27% fewer tonnes moved for the year of 5.9 million tonnes (2019: 8.1 million tonnes). Cost per tonne mined for the year, in the local currency, the Lesotho Maloti of LSL75.37 (2019: LSL73.32) increased by 2.8% mainly as a result of the additional costs associated with renting and operating the diesel generators during the power interruption during October and November 2019. The cash operating cost per tonne treated of US\$11.20 was marginally lower than the previous year's US\$11.48.

### Gross profit

Gross profit for the year was US\$7.5 million lower than the previous year at US\$2.8 million (2019: US\$10.3 million) due to US\$23.0 million lower revenue being offset by US\$15.5 million lower cost of sales. The lower margin of 8% (2019: 18%) was due almost entirely to the power interruption issue during the year.

### Care and maintenance costs

Care and maintenance costs for the year related mainly to the final quarter of the financial year as the Mine was placed on care and maintenance on 26 March 2020. The costs comprise US\$2.1 million in respect of placing the operation onto care and maintenance which included staff retrenchment costs and contractor demobilisation costs, and the monthly care and maintenance cost of US\$0.5 million per month (US\$1.5 million for the quarter). The care and maintenance cost is forecast to stabilise at US\$0.4 million per month subsequent to the year-end.

### 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\$3.6 million were US\$2.3 million lower than the previous year's US\$5.9 million mainly due to lower revenue for the year.

### Corporate overhead

Corporate costs for the year of US\$3.1 million were marginally lower than the previous year's US\$3.2 million.

### 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)	2020					2019				
	Cash cost	Settled in shares	Capitalised	Amortised cost	Total cost	Cash cost	Settled in shares	Capitalised	Amortised cost	Total cost
ABSA debt facility	3.4	—	—	2.0	5.4	3.5	—	—	2.4	5.9
Series A Eurobonds	—	2.4	—	1.3	3.7	—	2.4	—	1.3	3.7
Series B Eurobonds	—	—	0.6	0.1	0.7	—	—	0.6	0.1	0.7
Lease liability	—	—	—	0.3	0.3	—	—	—	—	—
Other finance cost	1.3	—	0.3	—	1.6	0.1	—	0.1	0.3	0.5
	<b>4.7<sup>1</sup></b>	<b>2.4</b>	<b>0.9</b>	<b>3.7</b>	<b>11.7</b>	<b>3.6<sup>2</sup></b>	<b>2.4</b>	<b>0.7</b>	<b>4.1</b>	<b>10.8</b>
Less: Finance income	0.4	—	—	—	0.4	1.0	—	0.5	—	1.5
<b>Net finance cost</b>	<b>4.3</b>	<b>2.4</b>	<b>0.9</b>	<b>3.7</b>	<b>11.3</b>	<b>2.6</b>	<b>2.4</b>	<b>0.2</b>	<b>4.1</b>	<b>9.3</b>

Notes:

- In addition, US\$0.4 million in cash finance cost was paid during the year in respect of an ECIC premium adjustment. Total cash finance cost per the cash flow is therefore US\$5.1 million.
- In addition, US\$1.3 million in cash finance cost was paid during the prior year, US\$0.9 million which was accrued in 2018, 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 3-month LIBOR rate was 1.94%, which was lower than the average rate of 2.53% in the previous year.

### Net loss for the year

The Group recorded a net loss for the year of US\$22.1 million, which was US\$34.8 million lower than the prior year's loss of US\$56.9 million, due mainly to the impairment charge being US\$38.9 million lower, and lower deferred tax asset charge of US\$6.3 million, the impact of which was offset by US\$7.5 million lower gross profit for the year.

## FINANCIAL REVIEW

### Statement of Financial Position

US\$'million	2020	2019
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>42.9</b>	51.8
Inventory	3.3	7.5
Trade and other receivables	1.2	2.2
Cash and cash equivalents	9.8	26.3
<b>Total current assets</b>	<b>14.3</b>	36.0
<b>TOTAL ASSETS</b>	<b>57.2</b>	87.8
<b>EQUITY AND RESERVES</b>	<b>(53.2)</b>	(24.7)
<b>LIABILITIES</b>		
ABSA debt facility	—	53.1
Eurobonds	—	34.0
Rehabilitation provision, other loans and lease liabilities	6.1	4.5
<b>Total non-current liabilities</b>	<b>6.1</b>	91.6
ABSA debt facility and other loans	62.0	10.5
Eurobonds	35.9	—
Trade and other payables	6.4	10.4
<b>Total current liabilities</b>	<b>104.3</b>	20.9
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>57.2</b>	87.8

### Debt

During the year, Lihobong Mining Development Company (Pty) Ltd paid the first of four quarterly capital repayments that were scheduled to be paid to ABSA Bank in respect of the ABSA debt facility when US\$2.0 million was paid at the end of September 2019. The quarterly capital repayments due for the following three quarters being December 2019, March 2020 and June 2020 were deferred as part of a medium-term capital deferral which is currently in progress and which contemplates deferring scheduled capital repayments until the end of September 2021. In respect of interest, no such deferral was agreed, nor was one contemplated, and accordingly all interest amounts were paid in cash as scheduled. As at the year-end, the Company and Lihobong Mining Development Company (Pty) Ltd were in breach of the terms of the Eurobonds and ABSA debt facility respectively. Importantly, however, no enforcement action was initiated by either of the parties and the Group remains in discussions with ABSA Bank and the bondholders to find a longer-term solution to the high levels of debt in the business. However, due to the covenant breaches at year end having been waived for a period of less than 12 months, the relevant accounting standards require that the total facility amounts be disclosed as current liabilities in the statement of financial position.

### ABSA Bank debt and Eurobonds

	Interest rate	Original facility amount	2020 US\$'000	2019 US\$'000
ABSA debt facility	US\$ three-month LIBOR plus margin	82.4	63.9	65.9
Eurobond (Series A)	8% p.a.	30.0	30.0	30.0
Eurobond (Series B)	8% p.a.	15.0	8.7 <sup>a</sup>	8.1 <sup>a</sup>
		127.4	102.6	104.0

Notes:

a – Balance increases each year due to capitalised interest.

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

Year	Loan balance			Interest – US\$ three-month LIBOR plus:			
				A Loan		B Loan	
	A Loan US\$'m	B Loan US\$'m	Total US\$'m	Tranche A 85% %	Tranche B 15% %	Tranche A 85% %	Tranche B 15% %
2020	32.6	31.3	63.9	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 85% in respect of commercial risk.
- The effective interest rate is in aggregate 7.19% (2019: 9.56%), 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.

## FINANCIAL REVIEW

### Covenants

In terms of the medium-term capital deferral which is currently in progress with ABSA Bank, covenants will continue to be measured, however, any breaches under the Forecast and Historic Debt Service Cover Ratio's and Loan Life Cover Ratio's will be waived during the capital repayment grace period. At the year-end the Group calculated that it was in breach of three of its six financial covenants, namely the Forecast and Historic Debt Service Cover Ratios, and the Loan Life Cover Ratio.

### Cash Flow

US\$'million	2020	2019
<b>Operating cash flows</b>		
Loss before taxation	(22.1)	(50.5)
Adjustments:		
Impairment charge	2.7	41.6
Depreciation and amortisation	3.4	10.3
Equity-settled share-based payments	0.2	0.8
Changes in provisions	(0.2)	0.2
Net finance cost	11.3	9.3
<b>Adjusted EBITDA</b>	<b>(4.7)</b>	11.7
Working capital changes	(2.4)	5.4
Stay-in-business capital	(0.8)	(4.0)
<b>Operating cash result</b>	<b>(7.9)</b>	13.1
<b>Cash (repaid)/raised</b>		
Repayment of borrowings	(2.3)	(1.9)
Repayment of lease liabilities	(0.6)	—
Finance income	0.4	1.0
Finance cost	(5.1)	(4.9)
<b>Net cash (repaid)/raised</b>	<b>(7.6)</b>	(5.8)
<b>Net (decrease)/increase in cash</b>	<b>(15.5)</b>	7.3
Opening cash	25.3 <sup>1</sup>	19.0 <sup>1</sup>
<b>Closing cash</b>	<b>9.8</b>	26.3

Notes:

1 Opening cash balance is adjusted for movement in foreign exchange rates.

During the year, the Group's cash balance decreased by US\$15.5 million from an opening balance, which is adjusted for foreign exchange movements of US\$25.3 million, to a closing balance of US\$9.8 million. Cash outflow from operations (adjusted EBITDA) was US\$4.7 million, virtually all of which was attributed to the power interruption issue that occurred during October and November 2019. The company has instituted action against the Lesotho-based insurer in respect of the claim which was repudiated. Further outflows at an operating level included US\$2.4 million in working capital as a result of reduced creditor balances due to the operation being placed on care and maintenance and US\$0.8 million stay-in-business capital.

Net cash repaid during the year of US\$7.6 million included the September 2019 quarterly repayment on the ABSA debt facility of US\$2.0 million, finance cost of US\$5.1 million, and lease and other payments of US\$0.9 million, which were offset by interest income on cash balances of US\$0.4 million. Finance cost of US\$5.1 million comprised US\$3.4 million in interest paid to ABSA Bank, a US\$0.4 million ECIC premium, and US\$1.3 million mainly due to foreign exchange losses.

## HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY

With the onset of the COVID-19 pandemic and the Liphobong Mine being placed on care and maintenance our key focus shifted from keeping our employees safe and healthy while operating the Mine to keeping our employees safe and healthy during the pandemic.

### Health and safety

**Zero** Lost Time Injuries (LTI's) for the year

**1,812,732** LTI-free man hours worked

**Health Campaigns** conducted:

- **Covid-19 Preparedness Plans rollout and implementation**
- **HIV AIDS awareness**
- **Gender Based violence campaign**
- **Chronic illnesses management**

Pleasingly, during the year, there were no LTI's recorded and a total of 1,812,732 LTI-free man hours worked since the last LTI.

Covid-19 preparedness plans and associated protocols were developed from the onset to respond to the pandemic and to cater for operational requirements. These plans incorporated both local regulations and international guidelines. Strategic sanitising stations were installed, and appropriate PPE was procured for the Mine's health care workers and employees. Screenings and monitoring continued throughout the period and no COVID-19 cases were reported on the Mine to date.

During the year, extensive effort was put into improving safety systems at the Mine, with an emphasis on leading by example and embedding a safety conscious culture. Efforts in this regard have continued into the care and maintenance phase which presents its own unique safety risks. As part of road safety risk awareness, employees were re-trained and re-licensed to drive on the Mine site and awareness sessions were conducted jointly with the Local Police, Roads Safety Department and the neighbouring mines.

Emergency rescue preparedness drills were conducted to assess the Mines readiness in an emergency situation, which included a review of the emergency air evacuation arrangements. The Mine participates in an emergency collaboration forum with other operating mines in Lesotho where quarterly feedback sessions are held in an attempt to improve the existing protocols.

### Environment

**Zero** major environmental incidents

Review of Environmental Management Plan ("EMP") by external independent consultant

Internal auditing to ensure compliance with all environmental requirements

All externally required permits valid and in place

All external reporting requirements completed

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.

We always strive to comply with all requirements of our approved EMP through adhering to strict protocols contained in our ESMS.

### 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 risks.

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.

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.

During the year specific focus was placed on management of water contaminants such as nitrates within the Mine site to reduce the risk of downstream pollution of streams and rivers. In addition to the onsite management of contaminants, reeds were planted downstream of the seepage dam as part of trials to further reduce contaminants from the Mine's water sources.

# HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY

## Waste and Pollution Management

Liqhobong continues to focus on waste management, water monitoring, and incident reporting. 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, when the Mine was still operating, 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's waste segregation at source policy allows for the separation and collection of recyclable and hazardous materials which 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. A variety of energy saving initiatives are already in place at Liqhobong 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 placing less strain on the electricity grid.

During the year, the Muela Hydro-Power Station was shut down for a two month period for routine maintenance, during which time alternative electricity was to be supplied by South Africa's electricity utility, Eskom. Unfortunately the power-supply was insufficient for the Mines requirements and rented diesel generators had to be brought to site and used, resulting in increased carbon emissions for the month that they were in operation.

## Community

96% (2019: 95%) employed from Lesotho during operations

Successful relocation of 3 graves from the Mine site to the local graveyard

Firestone is committed to the highest standard of Corporate Social Responsibility ("CSR") programme to support the Company's responsible business conduct, with support and development of the local community considered integral. We are fully committed towards creating a legacy in the local communities as well as sharing the economic benefits of our operation. The Company continues to deliver on its commitment to make positive contributions through investment in areas that have an impact on the basic needs of the local communities. Amongst others, the Company has focused on education, local economic empowerment, development and improvement of infrastructure. Throughout its initiatives, the company has continued to maintain relationships with not just the local communities, but also the various government departments, NGOs and other stakeholders, with collaborative efforts in place.

## Community Engagement

Firestone is committed to developing the citizens of Lesotho through its operations. The Company employed 96% Basotho nationals during operations. This commitment was extended to contractors who were also required to give priority to the local residents in employment opportunities. The contractors were also encouraged to play an active role in corporate social responsibilities programmes.

The Company understands that it is crucial to create an environment for effective stakeholder dialogue, inclusive of local communities. Therefore, the Company continues to engage with community representatives and community leaders in monthly meetings. These meetings are essential to address issues emanating from the company's activities, to plan developments for the community as well as receive constant feedback from the community.

# HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY

## Community Relations

Firestone recognises that the opportunities emerging from the Company's operations are impact multipliers, and that these opportunities bear potential for realisation of not just economic improvement aspirations, but the general development of communities surrounding the Mine. The Company has thus embarked on a journey to play an active role in the development of communities surrounding the Mine.

This year, the Company engaged in the following initiatives:

- improving the local economic conditions and the livelihoods of neighbouring communities, through the "Lema u Phele" (translated "Plant and Live") project which was developed further. This project is involved in sourcing fresh agricultural products from the local community. During the year, capacity building initiatives for local farmers were put into effect, with farmers receiving training, and financial support in order to assist them to expand the variety of their produce offering, and to enhance their capacity to meet the Mine's fresh produce demands.
- contribution towards education through various initiatives including its "Back-to-School" initiative which saw employees and contractors contributing towards collection of education materials which were donated to the local high school.
- a writing contest for high school learners on Climate Change to expand community thinking of adaptation and mitigation measures.
- awareness campaigns for the community of Liqhobong during the 16-Days of Activism Against Gender-based Violence. This was accompanied by voluntary testing and counselling for HIV/AIDS.
- contributing towards sustainable livelihoods through planting trees for households which were relocated.
- construction of three additional footbridges for school children. These footbridges address the challenge of flooded footpaths during summer when heavy rains are experienced.
- a ceremony was conducted for relocation of 3 graves from the Mine site to the local graveyard.
- first aid training for members of north region Lesotho Mounted Police Service

During the year, the annual compensation payment for loss of communal grazing land and loss of arable fields due to the construction of the Mine access road was made.

## Looking forward to the 2021 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 Company 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, we would like to extend our 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. All employees have endured an extremely difficult period with high levels of uncertainty. We have been impressed by their professionalism and focus on doing the best they can in challenging circumstances.

We also acknowledge our role in Lesotho which is to deal with the Liqhobong resource in the most efficient, beneficial and timely manner and in accordance with mining and environmental best practice. In doing so we seek to deliver, in time, an optimal outcome for all of our stakeholders, and in particular the Government of Lesotho, and to further build on the significant cumulative contribution to the Lesotho fiscus to date. Importantly, we continue to contribute to the agreed annual compensation to the local community at the Mine and will continue to support the local community as much as we can during this period through certain ongoing Corporate Social Investment initiatives.

We look forward to updating our shareholders and stakeholders in the coming months.

## Strategic Report

This Strategic Report was approved by the Board on 27 October 2020 and is signed on its behalf by:



**Patrick Meier**  
Non-Executive Chairman



**Paul Bosma**  
Chief Executive Officer

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

### **Patrick Meier**, Non-Executive Chairman NC AC RC

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.

### **Paul Bosma**, Chief Executive Officer SHEC

Mr Bosma is a qualified geologist with more than 27 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.

### **Keith Johnson**, Non-Executive Director RC AC NC

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 and the Chairman of the Remuneration Committee.

### **Michael Stirzaker**, Non-Executive Director AC NC RC

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 before moving into investment banking with 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. From 2010 until 2019 Mr Stirzaker was a partner with the private equity mining fund manager, Pacific Road Capital Management. He holds a Bachelor of Commerce degree from the University of Cape Town and is a qualified Chartered Accountant in Australia. Mr Stirzaker is Pacific Road Capital Management's nominated Non-Executive Director of the Company and the Chairman of Audit Committee.

### **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 20 years of experience, including 13 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 Resources 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.

### **Key**

AC Audit Committee

NC Nomination Committee

RC Remuneration Committee

SHECC Safety, Health, Environment and Community Committee

## DIRECTORS' REPORT

The Directors present their Annual Report and Accounts for the year ended 30 June 2020, which should be read in conjunction with the Strategic Report.

### Results and dividends

The Group made a loss after taxation of US\$22.1 million (2019: loss after tax of US\$56.9 million). Further details are shown in the Consolidated Statement of Comprehensive Income on page 36.

The Directors do not recommend a dividend (2019: 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 789 481 276 ordinary shares of 1 pence each (2019: 645 072 236 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 VI L.P.	274 026 124	34.71%
Pacific Road Resources Fund II L.P.	239 853 512	30.38%
Edwards Family Holdings Limited	63 472 355	8.04%
Sustainable Capital Limited	58 748 294	7.44%
Pacific Road Resources Fund II	33 577 300	4.25%

### Directors

Biographies of the current Directors as at the date of this report are set out on page 30.

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

	Position	Date of change
Patrick Meier	Non-Executive Chairman	
Lucio Genovese	Non-Executive Chairman	Resigned 29 June 2020
Paul Bosma	Chief Executive Officer	
Eileen Carr	Non-Executive Director	Resigned 31 March 2020
Keith Johnson	Non-Executive Director	
Ken Owen	Non-Executive Director	Resigned 31 March 2020
Michael Storzaker	Non-Executive Director	Appointed 22 July 2019
Niall Young	Non-Executive Director	Resigned 22 July 2019

Details of Directors' emoluments and fees are shown in note 6 to the financial statements.

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 91 full-time employees at the year end (2019: 224 full-time employees at 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.

## DIRECTORS' REPORT

### 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 31 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, there is a reasonable expectation that the Group and Company will 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. Notwithstanding this, the Directors conclude that there is material uncertainty regarding the diamond market, the Group's financing arrangements including the impact of covenant breaches and that these may cast significant doubt upon the Group and Company's ability to continue as a going concern. Further information is included within note 1 going concern on page 43.

We do, however, draw your attention to the fact that at 30 June 2020, the Group's total liabilities exceed its total assets by US\$53.2 million and that the Company's total liabilities exceed its total assets by US\$37.1 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 was aware, there was 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



**Patrick Meier**

Non-Executive Chairman

27 October 2020

## 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 ("IFRSs") 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.

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



**Patrick Meier**

Non-Executive Chairman

27 October 2020

# 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 2020 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 , and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law International Financial Reporting Standards (IFRSs) 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 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs 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) (ISAs (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, 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 mentions the Directors' consideration as to whether diamond market indicators will support a decision to restart operations, or that financing arrangements will be concluded and that forthcoming covenants will be met or waived. As indicated in note 1, there is a risk that the failure regarding any 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 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 Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, 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

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 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 and 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

27 October 2020

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 2020

	Note	2020 US\$'000	2019 US\$'000
<b>Revenue</b>	3	<b>34 183</b>	57 239
Cost of sales		<b>31 430</b>	46 924
<b>Gross profit</b>		<b>2 753</b>	10 315
Other income		<b>845</b>	1 405
<b>Selling, administrative and other expenses</b>		<b>14 428</b>	52 957
Other administrative expenses		<b>1 409</b>	2 123
Diamond royalty and selling expenses		<b>2 234</b>	3 753
Impairment charge	9	<b>2 718</b>	41 565
Amortisation and depreciation	4	<b>1 158</b>	1 422
Share-based payments	24	<b>154</b>	552
Care and maintenance		<b>3 629</b>	327
Corporate expenses		<b>3 126</b>	3 215
<b>Loss before finance charges and income tax</b>	4	<b>(10 830)</b>	(41 237)
Finance income	8	<b>382</b>	1 491
Finance costs	8	<b>11 670</b>	10 764
<b>Loss before tax</b>		<b>(22 118)</b>	(50 510)
Taxation credit/(charge)	10	<b>57</b>	(6 349)
<b>Loss after tax for the year</b>		<b>(22 061)</b>	(56 859)
<b>Loss after tax for the year attributable to:</b>			
Owners of the parent		<b>(17 155)</b>	(44 065)
Non-controlling interests		<b>(4 906)</b>	(12 794)
<b>Loss after tax for the year</b>		<b>(22 061)</b>	(56 859)
<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>(8 592)</b>	(2 254)
Movement on cash flow hedges		<b>(494)</b>	104
<b>Other comprehensive loss</b>		<b>(9 086)</b>	(2 150)
<b>Total comprehensive loss for the year</b>		<b>(31 147)</b>	(59 009)
<b>Total comprehensive loss for the year attributable to:</b>			
Owners of the parent		<b>(23 548)</b>	(45 479)
Non-controlling interests		<b>(7 599)</b>	(13 530)
<b>Total comprehensive loss for the year</b>		<b>(31 147)</b>	(59 009)
<b>Basic and diluted loss per share</b>			
Basic and diluted loss per share from continuing operations (US cents)	11	<b>(2.7)</b>	(8.2)

The notes on pages 43 to 76 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	2020 US\$'000	2019 US\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	40 661	51 757
Right of use assets	13	2 185	—
<b>Total non-current assets</b>		<b>42 846</b>	<b>51 757</b>
<b>Current assets</b>			
Inventory	19	3 306	7 453
Other financial assets	20	65	553
Trade and other receivables	21	1 141	1 699
Cash and cash equivalents	22	9 833	26 325
<b>Total current assets</b>		<b>14 345</b>	<b>36 030</b>
<b>Total assets</b>		<b>57 191</b>	<b>87 787</b>
<b>EQUITY</b>			
Share capital	23	169 102	166 888
Share premium		193 212	192 986
Reserves		(33 865)	(27 427)
Accumulated losses		(313 891)	(296 997)
<b>Total equity attributable to equity holders of the parent</b>		<b>14 558</b>	<b>35 450</b>
Non-controlling interests		(67 759)	(60 160)
<b>Total equity</b>		<b>(53 201)</b>	<b>(24 710)</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	26	322	87 076
Lease liabilities	27	1 706	—
Rehabilitation provisions	28	4 058	4 510
<b>Total non-current liabilities</b>		<b>6 086</b>	<b>91 586</b>
<b>Current liabilities</b>			
Borrowings	26	98 350	10 492
Lease liabilities	27	597	—
Other financial liabilities	20	85	34
Trade and other payables	29	4 984	9 889
Provisions	30	290	496
<b>Total current liabilities</b>		<b>104 306</b>	<b>20 911</b>
<b>Total liabilities</b>		<b>110 392</b>	<b>112 497</b>
<b>Total equity and liabilities</b>		<b>57 191</b>	<b>87 787</b>

The financial statements were approved by the Board of Directors and authorised for issue on 27 October 2020.



**Patrick Meier**  
Director

The notes on pages 43 to 76 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

	Share capital	Share premium	Warrant reserve <sup>1</sup>	Merger reserve	Hedging reserve	Share-based payment reserve	Translation reserve	Accumulated losses	Equity attributable to holders of the parent	Non-controlling interests	Total equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Balance as at</b>											
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
<b>Balance as at</b>											
30 June 2019	166 888	192 986	7 609	(1 614)	647	5 389	(39 458)	(296 997)	35 450	(60 160)	(24 710)
<b>Comprehensive loss</b>											
Loss for the year	—	—	—	—	—	—	—	(17 155)	(17 155)	(4 906)	(22 061)
<b>Other comprehensive income for the year</b>											
Exchange losses on translating foreign operations	—	—	—	—	—	—	(6 023)	—	(6 023)	(2 569)	(8 592)
Loss on cash flow hedges	—	—	—	—	(370)	—	—	—	(370)	(124)	(494)
<b>Total comprehensive loss for the year</b>	—	—	—	—	(370)	—	(6 023)	(17 155)	(23 548)	(7 599)	(31 147)
<b>Contributions by and distributions to owners</b>											
Shares issued in the year	2 214	226	—	—	—	—	—	—	2 440	—	2 440
Share-based payment transactions	—	—	—	—	—	216	—	—	216	—	216
Share-based payments lapsed/expired	—	—	—	—	—	(261)	—	261	—	—	—
<b>Total contributions by and distributions to owners</b>	2 214	226	—	—	—	(45)	—	261	2 656	—	2 656
<b>Balance as at</b>											
30 June 2020	169 102	193 212	7 609	(1 614)	277	5 344	(45 481)	(313 891)	14 558	(67 759)	(53 201)

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

2 During the year, the Company issued a further 175 611 676 new ordinary shares of 1 pence each in respect of interest of US\$2.4 million due on the Series A Eurobonds.

The notes on pages 43 to 76 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 US\$'000	2019 US\$'000
<b>Cash flows (used in)/from operating activities</b>			
Loss before taxation		(22 118)	(50 510)
Adjustments for:			
Impairment charge	4	2 718	41 565
Depreciation and amortisation	12	3 419	10 343
Equity-settled share-based payments		216	806
Changes in provisions		(206)	171
Finance income	8	(382)	(1 491)
Finance cost	8	11 670	10 764
<b>Net cash flows (used in)/from operating activities before working capital changes</b>		<b>(4 683)</b>	<b>11 648</b>
Decrease/(increase) in inventories		808	(2 089)
Decrease in trade and other receivables		224	11 775
Decrease in trade and other payables		(3 411)	(4 287)
<b>Net cash flows (used in)/from operating activities</b>		<b>(7 062)</b>	<b>17 047</b>
<b>Cash flows used in investing activities</b>			
Additions to property, plant and equipment		(833)	(3 973)
<b>Net cash used in investing activities</b>		<b>(833)</b>	<b>(3 973)</b>
<b>Cash flows used in financing activities</b>			
Repayment of borrowings	26	(2 280)	(1 935)
Repayment of lease liabilities	27	(591)	—
Finance income		382	995
Finance cost	8	(5 089)	(4 879)
<b>Net cash used in financing activities</b>		<b>(7 578)</b>	<b>(5 819)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(15 473)</b>	<b>7 255</b>
Cash and cash equivalents at beginning of the year		26 325	18 421
Exchange rate movement on cash and cash equivalents at beginning of year		(1 019)	649
<b>Cash and cash equivalents at end of the year</b>	22	<b>9 833</b>	<b>26 325</b>

The notes on pages 43 to 76 form part of these financial statements.

# COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	2020 US\$'000	2019 US\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	15	—	789
Loans to subsidiaries	17	—	692
<b>Total non-current assets</b>		—	1 481
<b>Current assets</b>			
Trade and other receivables	21	396	444
Cash and cash equivalents	22	699	5 456
<b>Total current assets</b>		1 095	5 900
<b>Total assets</b>		1 095	7 381
<b>EQUITY</b>			
Share capital	23	169 102	166 888
Share premium		193 212	192 986
Reserves		13 850	13 895
Accumulated losses		(413 290)	(402 646)
<b>Total equity attributable to equity holders of the Company</b>		(37 126)	(28 877)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	26	—	33 983
<b>Total non-current liabilities</b>		—	33 983
<b>Current liabilities</b>			
Borrowings	26	35 938	—
Trade and other payables	29	2 283	2 275
<b>Total current liabilities</b>		38 221	2 275
<b>Total liabilities</b>		38 221	36 258
<b>Total equity and liabilities</b>		1 095	7 381

## 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\$10.6 million which included an impairment charge of US\$4.1 million (2019: US\$49.3 million which included an impairment charge of US\$42.7 million) (refer to note 9). The Company had no other items of comprehensive income in the year (2019: US\$nil).

The financial statements were approved by the Board of Directors and authorised for issue on 27 October 2020.



**Patrick Meier**  
Director

The notes on pages 43 to 76 form part of these financial statements.

# COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

	Share capital US\$'000	Share premium US\$'000	Warrant reserve US\$'000	Translation reserve US\$'000	Share-based payment reserve US\$'000	Accumulated losses US\$'000	Total equity US\$'000
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)
<b>Comprehensive loss</b>							
Loss for the year	—	—	—	—	—	(10 644)	(10 644)
<b>Total comprehensive loss for the year</b>	—	—	—	—	—	(10 644)	(10 644)
<b>Contributions by and distributions to owners</b>							
Shares issued in the year	2 214	226	—	—	—	—	2 440
Share-based payment transactions	—	—	—	—	216	—	216
Share-based payments lapsed/expired	—	—	—	—	(261)	—	(261)
<b>Total contributions by and distributions to owners</b>	2 214	226	—	—	(45)	—	2 395
<b>Balance as at 30 June 2020</b>	<b>169 102</b>	<b>193 212</b>	<b>7 609</b>	<b>897</b>	<b>5 344</b>	<b>(413 290)</b>	<b>(37 126)</b>

The Company had no other comprehensive income in the year.

The notes on pages 43 to 76 form part of these financial statements.

# COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 US\$'000	2019 US\$'000
<b>Cash flows used in operating activities</b>			
Loss before taxation		(10 644)	(49 259)
Adjustments for:			
Impairment charge	9	4 070	42 661
Equity-settled share-based payments		120	441
Finance income		(303)	(484)
Finance cost		4 395	4 385
<b>Net cash flows used in operating activities before working capital changes</b>		<b>(2 362)</b>	<b>(2 256)</b>
Decrease in trade and other receivables		48	18
Increase in trade and other payables		9	369
<b>Net cash used in operating activities</b>		<b>(2 305)</b>	<b>(1 869)</b>
<b>Cash flows (used in)/from investing activities</b>			
Loans repaid by subsidiaries		4 770	11 564
Loans advanced to subsidiaries		(7 525)	(10 131)
<b>Net cash (used in)/from investing activities</b>		<b>(2 755)</b>	<b>1 433</b>
<b>Cash flows from financing activities</b>			
Finance income		303	491
<b>Net cash flows from financing activities</b>		<b>303</b>	<b>491</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(4 757)</b>	<b>55</b>
Cash and cash equivalents at beginning of the year		5 456	5 401
<b>Cash and cash equivalents at end of the year</b>	22	<b>699</b>	<b>5 456</b>

The notes on pages 43 to 76 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 1 Accounting policies

### **Basis of preparation**

Firestone Diamonds plc (the "Company") is a company domiciled in the United Kingdom which was quoted on the AIM market of the London Stock Exchange until it delisted on 26 March 2020. The consolidated financial statements of the Company for the year ended 30 June 2020 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**

#### *Background*

The Group holds a 75% stake in the Lihobong Diamond Mine. With effect from 26 March 2020, aligned to the lockdown announcement in South Africa, a decision was taken to suspend operations at the Mine, save for essential care and maintenance services and security, for at least a 3 week period to safeguard its workforce and surrounding community from the COVID-19 pandemic. Subsequently, the Government of Lesotho declared a state of emergency and accompanying country wide lock-down between 29 March and 21 April 2020 in an effort to combat the spread of the coronavirus. However, due to the extreme ensuing uncertainties regarding the ability to sell and likely prices to be realised for diamonds as a result of the impact of the COVID-19 pandemic on the diamond market, a further decision was taken to extend the period of care and maintenance at the Mine in order to conserve the Group's limited cash resources for as long as possible while the diamond market recovers. The mine has not yet been reopened at the time of approval of the annual report, but the Directors are continuously monitoring the diamond industry to determine when to restart operations. The Group has engaged actively with its two major shareholders and bondholders, Resource Capital Funds and Pacific Road Capital ("the Bondholders") and its bankers, ABSA Bank, in order to restructure the senior ABSA debt facility in the short-term and the Eurobonds so that cash that would be paid as scheduled debt service is conserved and applied towards the care and maintenance program. The care and maintenance program provides for, among others, security over the physical mine assets and ongoing maintenance to ensure that the plant can be restarted within a short period of time.

The Directors acknowledge that whilst the Group forecasts that it will have sufficient cash available to fund care and maintenance activities and remain a going concern over the next twelve-month period, they acknowledge the significant uncertainties which persist at this time, and have been highlighted particularly as a result of the COVID-19 pandemic.

#### *Statement*

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 Group's current cash balance together with the cash it expects to generate from the sale of the 64,700 carats of diamonds that are currently on hand is not forecast to be sufficient to fund operating costs, including those associated with an anticipated restart of operations, and capital and interest repayments to ABSA Bank as currently scheduled. Therefore, a restructuring of the existing debt and provision of restart funding is required within the going concern period. The Group also forecasts breaches of its debt service and loan life cover covenants under the ABSA debt facility in June 2021.

The Directors have engaged with ABSA Bank to restructure the existing ABSA debt in order to defer capital repayments and with the Bondholders to capitalise interest on the Eurobonds and to provide restart funding. During these discussions, it was acknowledged that an immediate short-term restructuring of the ABSA debt was necessary to defer capital repayments over the next 12 months, ahead of an anticipated longer-term restructuring, which would be informed by the decision to restart operations. It was noted that mining operations could reasonably be expected to resume once there were market indicators of movement toward a sustained recovery, which, the Board has a reasonable expectation will occur within the forecast going concern period.

As a result, ABSA Bank has signed a non-binding term sheet in respect of the short-term restructuring 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 12-month period until 30 September 2021, and the Bondholders have agreed to capitalise quarterly interest which is due on the Series A Eurobonds during the same period. Additionally, the Bondholders have provided non-binding letters of support for providing a restart facility to enable a restart of mining operations under appropriate circumstances.

The Directors recognise that the forecast is based on certain forward-looking assumptions, including future diamond prices, market indicators which will inform the decision to restart mining operations, exchange rates – particularly between the South African Rand and the United States Dollar - 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 have reviewed the cash flow forecast which shows that the Group's existing cash, in conjunction with the proposed short-term restructuring of the ABSA debt, capitalised interest on the Eurobonds, and an anticipated restart facility would be sufficient to fund operations for a period of at least twelve months from the date of approval of this Annual Report.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

The Directors, having reviewed the cash flow forecast, having considered the anticipated forecast market conditions, the advanced stage of negotiations with ABSA Bank and the Bondholders, and the non-binding ABSA term sheet regarding the short-term capital deferral, the Bondholders' letters of support and the Bondholder undertaking to capitalise interest on the Eurobonds up to and including 30 September 2021, respectively in place at this time, the discussions regarding the longer-term restructuring which is required within 12 months and the provision of a restart facility, consider that there is a reasonable expectation that together with the Group's existing cash resources and its forecast cash generation, will be sufficient to enable the Group to fund its operational requirements and service the ABSA debt, on a restructured basis which comprises both the initial short-term and longer-term restructurings, for a period of at least twelve months from the date of approval of this Annual Report.

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 diamond market indicators will support a decision to restart operations, or that financing arrangements will be concluded or that future covenant waivers will be forthcoming or that covenants will be met and that failure regarding any 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:**

### *IFRS 16, Leases*

The Group adopted IFRS 16 Leases, which replaced IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease, on 1 July 2019.

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with the option to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value.

The Group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application without restatement of comparative figures.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. At the time of adoption the Group did not have any leases classified as finance leases in terms of IAS 17. The Group elected to apply the practical expedient not to reassess whether a contract is, or contains a lease at the date of initial application.

Under IFRS 16, the Group recognises right of use assets and lease liabilities for leases that meet the requirements as set out in IFRS 16. Right of use assets were recognised based on the amount equal to the lease liabilities on the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application and where practical the rate implicit in the lease.

In applying the modified retrospective approach, The Group has taken advantage of the following practical expedients:

- (a) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- (b) Applied the exemption not to recognise right of use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application; and
- (c) Applied the materiality exemption to lease contracts for which the underlying asset is of low value.

The Group has chosen not to apply the practical expedient upon transition, which allows the Group to account for a contract with both lease and non-lease components as a single contract.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

The following table presents the lease liability value as at 1 July 2019:

	Group
	US\$'000
Contractor agreements not previously disclosed as operating leases as at 1 July 2019	153 325
Weighted average discount rate 1 July 2019	8.3%
Discounted operating lease commitments	121 936
Less:	
Non-lease component payments	(23 100)
Variable lease payments	(95 604)
<b>Lease liability as at 1 July 2019</b>	<b>3 232</b>

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at 1 July 2019 and the amounts recognised in the statement of financial position and profit or loss during the period:

	Group
	US\$'000
<b>Right of use asset</b>	<b>3 232</b>
As at 1 July 2019	3 232
Depreciation charge for the period	(436)
Exchange difference	(611)
<b>At 30 June 2020</b>	<b>2 185</b>
Refer to note 13	
<b>Lease liabilities</b>	<b>3 232</b>
As at 1 July 2019	3 232
Finance cost	273
Repayment of lease liabilities	(591)
Exchange difference	(611)
<b>At 30 June 2020</b>	<b>2 303</b>
Refer to note 27	

On initial recognition of the right of use asset and lease liability, a related US\$0.8 million deferred tax asset and liability was recorded in respect of the temporary differences. However, as the Group is not in a position to recognise its deferred tax asset, neither of these amounts have been recognised in the Group's Consolidated Statement of Financial Position. Refer to note 14.

### **Standards, interpretations and amendments 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
Amendments to IFRS 3	Financial years beginning on or after 1 January 2020
Amendments to IAS 1 and IAS 8	Financial years beginning on or after 1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Financial years beginning on or after 1 January 2020
Amendments to IAS 1	Financial years beginning on or after 1 January 2020
Definition of a business	Financial years beginning on or after 1 January 2020
Definition of Material	Financial years beginning on or after 1 January 2020
Interest Rate Benchmark Reform	Financial years beginning on or after 1 January 2020
Classification of Liabilities as Current or Non-Current	Financial years beginning on or after 1 January 2020

### **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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## *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.

## **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 for 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## ***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 and consumables and spares. Inventories are valued at the lower of cost and net realisable value. Rough diamond inventories 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.

## ***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 expected credit loss will represent the weighted average of those credit losses based on the respective risks of each scenario.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

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.

## **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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## *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**

IFRS 16 was adopted on 1 July 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 July 2019, see "Standards and interpretations issued that became effective and changes in accounting policies". The following policies apply subsequent to the date of initial application.

All leases are accounted for by recognising a right of use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

At inception, the Group assesses whether a contract contains a lease. This assessment requires judgement on whether the contract contains an identifiable asset, whether the Group obtains substantially all of the economic benefits in relation to that asset as well as whether the Group has the ability to direct the use of the identifiable asset. The Group accounts separately for both lease component and non-lease component contained in contracts that both convey a right to the Group to use an identifiable asset (lease component) and require services to be provided to the Group (non-lease component).

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to exercise that option; and
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of the termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right of use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic useful life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except for the discount rate which remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right of use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right of use asset is adjusted to zero, any further reduction is recognised in profit or loss.

## **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 is 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

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 9):

- 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 one cash-generating unit, the Lihobong Mine, which was placed on care and maintenance on 26 March 2020.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## ***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, including diamond prices and expenditure, to determine the extent to which the Group values inventory. The Group uses on-site valuations to determine the net realisable value of diamond inventory on hand at year end.

## ***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 life of mine ("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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 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, Liqhobong 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 Revenue

	Group	
	2020	2019
	US\$'000	US\$'000
Sale of gem diamonds	33 963	56 864
Sale of non-gem diamonds	220	375
	<b>34 183</b>	<b>57 239</b>

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			
	2020		2019	
	US\$'000	%	US\$'000	%
Customer – Europe	1 928	6	5 718	10
Customer – India	4 876	14	—	—
Other customers	27 159	80	51 146	90
	<b>33 963</b>	<b>100</b>	<b>56 864</b>	<b>100</b>

## 4 Operating loss

	Group	
	2020	2019
	US\$'000	US\$'000
<b>Operating loss for the year is stated after charging:</b>		
Impairment charge (note 9)	—	41 565
Impairment of spares and consumables (note 9 and 19)	2 718	—
Cost of inventories recognised as an expense excluding amortisation and depreciation	25 978	38 003
Amortisation and depreciation	3 419	10 343
Property, plant and equipment (included in cost of sales) (note 12)	1 825	8 921
Right of use asset (included in cost of sales) (note 13)	436	—
Property, plant and equipment (other) (note 12)	1 158	1 422
Employee costs (note 5)	7 186	9 846
Operating lease rentals	188	429

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 5 Employee numbers and costs

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

	Group	
	2020 Number	2019 Number
Operations	144	207
Administration	14	18
	<b>158</b>	<b>225</b>

The employment benefits were as follows:

	Group	
	2020 US\$'000	2019 US\$'000
Salaries and wages	6 933	8 948
Social security cost	37	35
Share-based payments	216	863
	<b>7 186</b>	<b>9 846</b>

## 6 Directors' emoluments

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

	Group	
	2020 US\$'000	2019 US\$'000
Short-term benefits	991	905
Share-based payments	—	10
<b>Total</b>	<b>991</b>	<b>915</b>

During the year, the total remuneration for Directors was US\$990 975 (2019: US\$915 494) and consisted of remuneration for qualifying services of US\$990 975 (2019: US\$905 204) and gains on exercise of options of US\$nil (2019: US\$10 290). The related aggregate remuneration for the highest paid Director was US\$478 333 (2019: US\$441 494).

## 7 Auditor's remuneration

	Group	
	2020 US\$'000	2019 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	117	94
<b>Fees payable to the Group's auditor and its associates for other services</b>		
Audit of accounts of subsidiaries of the Company	51	40
Taxation compliance services	7	7
Other taxation services	4	4
	<b>179</b>	<b>145</b>

## 8 Finance income and costs

	Group	
	2020 US\$'000	2019 US\$'000
Interest income on bank deposits	382	714
Foreign exchange adjustments on cash balances	—	235
<b>Finance income – Cash</b>	<b>382</b>	<b>949</b>
Interest income on loans receivable	—	542
<b>Finance income - Total</b>	<b>382</b>	<b>1 491</b>
Interest on borrowings (note 26)	3 493	3 577
Foreign exchange adjustments on cash balances	1 174	—
<b>Finance cost - cash</b>	<b>4 667</b>	<b>3 577</b>
Interest on borrowings (note 26)	6 445	6 897
Unwinding of discount on rehabilitation liability (note 28)	285	290
Interest on lease liabilities (note 27)	273	—
<b>Finance costs - Total</b>	<b>11 670</b>	<b>10 764</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

No borrowing costs were capitalised during the year.

In addition to the US\$4.7 million interest above, US\$0.4 million in cash finance cost was paid during the year in respect of an ECIC premium adjustment. Total cash finance cost per the cash flow is therefore US\$5.1 million. In the prior year in addition to the US\$3.6 million interest above, US\$0.9 million interest which was accrued in 2018, and US\$0.4 million in respect of an ECIC premium adjustment was paid. Total cash finance cost per the cash flow is therefore US\$4.9 million.

## 9 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 outbreak of the COVID-19 pandemic was identified as the single most significant external indicator of impairment due to its impact on the diamond market as a whole, and as a result of which, the Group placed the Liqhobong Mine on an extended period of care and maintenance.

### 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 revised life of mine plan with a 10-year mine life (2019: seven-year mine life). Using the revised life of mine plan and other key assumptions including those listed below, Liqhobong's value-in-use was determined to be US\$71.0 million, which is greater than its carrying value of US\$42.5 million, indicating a possible reversal of impairment. Further analysis of the drivers for the higher value-in-use revealed that the increase in value was mainly due to the weaker ZAR:US\$ exchange rate of R17:36 (2019: R14.09), which is prescribed as being the rate as at the year-end, i.e. 30 June 2020. After careful consideration, and having given regard to the significant impact of the weaker foreign exchange rate, the as yet unknown impact of the COVID-19 pandemic, and the uncertainties regarding the timing of a restart of operations, the Board has concluded that, in the circumstances, it is appropriate for the carrying value of US\$42.5 million to remain unadjusted despite the significant reversal of impairment as calculated.

Key assumptions	2020	2019	Basis for assumption
Average diamond value per carat over life of mine - (REAL)	<b>US\$75</b>	US\$81	The average diamond value was based on the return to 2018, pre-COVID 19, average diamond values achieved for Liqhobong's assortment by the 2023 financial year, at which time the diamond market's supply/demand is expected to be in balance. Previously, the average diamond value was based on the forecast average diamond values, adjusted for a forecast recovery of ROM diamond prices, which was in line with forecast supply/demand dynamics in the diamond industry at that time. ROM prices were forecast to remain flat for the 2020 and 2021 financial years, recovering thereafter to 2017 price levels (over a two-year period), and finally recovering to 2013 price levels by July 2023.
Real diamond price growth	<b>2.2% from FY2022</b>	1.5% from FY2024	The diamond price growth is based on long-term projections, taking into account the current diamond market stock levels, and anticipated supply and demand in the future. The forecast increase in real diamond price growth is marginally higher than the prior year as it accounts for a component of the change in prices which was previously included in the underlying average diamond value per carat stated above.
Mine Call Factor ("MCF")	<b>95%</b>	95%	The MCF is based on lower than expected recovered grades and is considered to be a conservative assumption.
Discount rate	<b>11.7%</b>	11.9%	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 includes adjustments for market risk, volatility and risks specific to the asset.
Exchange rate (ZAR:US\$)	<b>R17.36</b>	R14.09	The exchange rate is the spot exchange rate as at 30 June.

The value-in-use of the Liqhobong Mine of US\$71.0 million, is impacted mostly by changes in the average diamond value followed by changes in, particularly, the ZAR:US\$ exchange rate. The impact of applying sensitivities to both of these assumptions is show below:

US\$ per carat	Potential reversal/ (additional impairment) <sup>1</sup>
10% increase – US\$82.50	57.6
5% increase – US\$78.75	43.1
5% decrease – US\$71.25	13.9
10% decrease – US\$67.50	(0.6)

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

ZAR:US\$ exchange rate	Potential reversal/ (additional impairment) <sup>1</sup>
R17.50:US\$1.00	30.2
R16.50:US\$1.00	17.2
R16.00:US\$1.00	10.1
R15.00:US\$1.00	(5.6)
R14.50:US\$1.00	(14.3)

1 The potential reversal or additional impairment is based on the result compared with the carrying value of the CGU as at year end.

## BK11 Mine

The BK11 Mine, has remained on care and maintenance throughout the current financial year. 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, the Mine's value has remained fully impaired.

## Impairment summary

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

	Liqhobong US\$'000	BK11 US\$'000	Total US\$'000
Cash-generating unit			
Carrying value pre-impairment	161 794	4 952	166 746
Accumulated impairment	(119 307)	(4 952)	(124 259)
<b>Carrying value after impairment</b>	<b>42 487</b>	<b>—</b>	<b>42 487</b>

	Group		Company	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
Impairment charge				
Property, plant and equipment – BK11 Mine (note 12)	—	2 239	—	—
Property, plant and equipment – Liqhobong Mine (note 12)	—	38 297	—	—
Investments in subsidiaries (note 15)	—	—	623	25 277
Loans to subsidiaries (note 17)	—	—	3 447	17 384
Loans receivable (note 18)	—	1 029	—	—
Spares and consumables (note 19)	2 718	—	—	—
	<b>2 718</b>	<b>41 565</b>	<b>4 070</b>	<b>42 661</b>

## Company

During the year, the value of the Company's investments in subsidiaries and loans to subsidiaries were impaired by US\$4.1 million. The impairment is due to the carrying value of the Liqhobong mine being less than the value of the outstanding ABSA debt and therefore resulting in no residual value.

## 10 Taxation

	Group	
	2020 US\$'000	2019 US\$'000
Current tax	57	(84)
Deferred tax charge (note 14)	—	(6 265)
<b>Total tax credit/(charge) for the year</b>	<b>57</b>	<b>(6 349)</b>

## Factors affecting the tax charge for the year

The reasons for the difference between the actual tax credit/(charge) and the tax credit/(charge) based on the Company's standard corporation tax rate of 19% (2019: 19%) are as follows:

	Group	
	2020 US\$'000	2019 US\$'000
Loss before tax	(22 118)	(50 510)
Tax credit on loss at standard rate of 19% (2019: 19%)	4 203	9 596
Adjustments to deferred tax not recognised	(17 628)	(21 874)
Effect of tax in foreign jurisdictions	14 129	6 196
Foreign exchange adjustment on effective interest rate on borrowings	(699)	(167)
Movement in withholding tax credits	57	(84)
Expenses not deductible for tax purposes	(5)	(16)
	<b>57</b>	<b>(6 349)</b>

## Other comprehensive income

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 11 Loss per share

The calculation of the basic loss per share of 2.7 US cents (2019: 8.2 US cents) is based upon the net loss after tax attributable to ordinary shareholders of US\$17.2 million (2019: US\$44.1 million) and a weighted average number of shares in issue for the year of 644 940 972 (2019: 539 644 459).

## Diluted loss per share

The diluted loss per share for both the current and prior years is equal to the basic loss per share as the potential ordinary shares to be issued have no dilutive effect.

The Company has a further 20 681 724 (2019: 21 591 354) potentially issuable shares in respect of share options issued to employees (note 24) that do not have a dilutive effect as at 30 June 2020 and 65 101 758 (2019: 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 2020. All of the potentially issuable shares could be dilutive in the future.

## 12 Property, plant and equipment – Group

US\$'000	Mining property	Plant and equipment	Motor vehicles and other assets	Total
<b>Cost</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>
At 30 June 2019	223 517	15 119	2 971	<b>241 607</b>
Additions	813	16	4	<b>833</b>
Disposals	(338)	—	(37)	<b>(375)</b>
Exchange difference	(40 342)	(2 711)	(483)	<b>(43 536)</b>
<b>At 30 June 2020</b>	<b>183 650</b>	<b>12 424</b>	<b>2 455</b>	<b>198 529</b>
<b>Accumulated depreciation and impairments</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 9)	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>
At 30 June 2019	173 703	13 859	2 288	<b>189 850</b>
Amortisation and depreciation charge for the year	2 355	6	622	<b>2 983</b>
Impairment charge (note 9)	—	—	—	<b>—</b>
Disposals	(338)	—	(37)	<b>(375)</b>
Exchange difference	(31 981)	(2 153)	(456)	<b>(34 590)</b>
<b>At 30 June 2020</b>	<b>143 739</b>	<b>11 712</b>	<b>2 417</b>	<b>157 868</b>
Net book value at 30 June 2018	95 691	4 333	1 196	<b>101 220</b>
Net book value at 30 June 2019	49 814	1 260	683	<b>51 757</b>
<b>Net book value at 30 June 2020</b>	<b>39 911</b>	<b>712</b>	<b>38</b>	<b>40 661</b>

## 13 Right of use assets

US\$'000	Mining property	Other assets	Total
At 1 July 2019	2 943	289	<b>3 232</b>
Depreciation charge for the year	(358)	(78)	<b>(436)</b>
Exchange difference	(556)	(55)	<b>(611)</b>
<b>At 30 June 2020</b>	<b>2 029</b>	<b>156</b>	<b>2 185</b>

Right of use assets are a new category of asset that was introduced on the adoption of IFRS 16 Leases on 1 July 2019. Refer to the section entitled "Standards and interpretations issued that became effective and changes in accounting policies".

Mining property leases relates to the lease of the tailings disposal conveyor system. Other assets relates to Liqhobong's office lease in Maseru, Lesotho.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 14 Deferred tax

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

	Group	
	2020 US\$'000	2019 US\$'000
Deferred tax (liability)/asset		
At 1 July	—	6 501
Movement in temporary differences recognised in income	—	(6 265)
Exchange difference	—	(236)
At 30 June	—	—

The deferred tax (liability)/asset comprises:

	Group	
	2020 US\$'000	2019 US\$'000
Accelerated capital allowances	(7 807)	(10 123)
Right of use asset	(546)	—
Inventories	680	—
Provisions	653	745
Borrowings	(479)	(887)
Lease liabilities	576	—
Losses available for offsetting against future taxable income	6 923	10 265
	—	—

The Directors, having considered the impact of the COVID-19 pandemic on the diamond market, and that the Liqhobong Mine was placed on care and maintenance for an extended period during the year, determined that compelling evidence does not exist to suggest that tax losses will be utilised over the forecast three year period. As a result, the deferred tax asset remains unrecognised. 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\$283.3 million (2019: US\$259.7 million), of which US\$262.4 million relates to the Liqhobong Mine (2019: US\$245.5 million) and US\$20.9 million to the Group's corporate entities in the UK and South Africa (2019: US\$14.2 million).

## 15 Investments in subsidiaries – Company

	2020 US\$'000	2019 US\$'000
At 1 July	789	27 430
Share-based payments to employees of subsidiaries (note 24)	95	377
Share-based payments to employees of subsidiaries lapsed or expired	(261)	(1 741)
Impairment charge BK11 CGU(note 9) <sup>1</sup>	—	(5 000)
Impairment charge Liqhobong CGU(note 9) <sup>2</sup>	(623)	(20 277)
At 30 June	—	789

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

2 The impairment charge relates to the Liqhobong CGU. During the year, the value of the Company's investments in subsidiaries by US\$0.6 million. The impairment is due to the carrying value of the Liqhobong mine being less than the value of the outstanding ABSA debt and therefore resulting in no residual value.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

As at 30 June 2020, 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%
Ilmari Exploration OY	Finland	100%
Infrastructure Projects (Pty) Limited	Lesotho	49%
Liqhobong Mining Development Company (Pty) Limited	Lesotho	75%
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%

<sup>1</sup> 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:

	Group	
	2020 US\$'000	2019 US\$'000
<b>Items included in the Consolidated Statement of Comprehensive Income:</b>		
Revenue	34 183	57 239
Cost of sales	31 222	47 389
Gross profit	2 961	9 850
Other income	1 609	2 516
Impairment	2 718	38 297
Care and maintenance	3 171	—
Administrative expenses	4 769	7 980
<b>Loss before finance charges and income tax</b>	<b>(6 088)</b>	<b>(33 911)</b>
Finance income	341	618
Finance cost	14 332	11 736
<b>Loss before income tax</b>	<b>(20 079)</b>	<b>(45 029)</b>
Taxation charge	—	(9 135)
<b>Loss after tax for the year</b>	<b>(20 079)</b>	<b>(54 164)</b>
Loss after tax allocated to non-controlling interest	(4 897)	(13 490)
Other comprehensive loss allocated to non-controlling interest	(2 696)	(736)
<b>Total comprehensive loss allocated to non-controlling interest</b>	<b>(7 593)</b>	<b>(14 226)</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Items included in the Consolidated Statement of Financial Position	Group	
	2020 US\$'000	2019 US\$'000
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	27 581	30 447
Right of use asset	2 797	—
<b>Current assets</b>		
Inventories	5 697	8 249
Other financial assets	3 564	702
Trade and other debtors	204	2 589
Cash and cash equivalents	9 924	20 636
<b>Total assets</b>	<b>49 767</b>	<b>62 623</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	322	63 448
Rehabilitation provisions	3 149	2 933
Lease Liabilities	2 915	—
Deferred taxation	2 088	2 073
Loans from Group companies	222 582	221 864
<b>Current liabilities</b>		
Borrowings	62 474	—
Trade and other payables	8 738	10 623
Provisions	99	299
<b>Total liabilities</b>	<b>302 367</b>	<b>301 240</b>
<b>Translation reserve</b>	<b>(17 136)</b>	<b>(8 123)</b>
<b>Accumulated non-controlling interests</b>	<b>(67 238)</b>	<b>(61 434)</b>

## 17 Loans to subsidiaries

	Company	
	2020 US\$'000	2019 US\$'000
Loan A to Kopane Diamond Developments Limited <sup>1</sup>	68 369	69 572
Loan B to Kopane Diamond Developments Limited <sup>2</sup>	4 671	4 671
Loan C to Kopane Diamond Developments Limited <sup>3</sup>	27 065	24 815
Firestone Diamonds (Pty) Limited <sup>4</sup>	7 102	5 622
Firestone Diamonds Limited <sup>5</sup>	6 534	6 340
Liqhobong Mining Development Company (Pty) Limited <sup>5</sup>	9 644	9 618
Other <sup>5</sup>	78	70
	<b>123 463</b>	<b>120 708</b>
Life time expected credit loss provision <sup>6</sup>	<b>(123 463)</b>	<b>(120 016)</b>
	<b>—</b>	<b>692</b>
Non-current assets	<b>—</b>	<b>692</b>
Current assets	<b>—</b>	<b>—</b>
<b>Total assets</b>	<b>—</b>	<b>692</b>

- Loan A to Kopane Diamond Developments Limited is in respect of the mine development project. The loan bears interest of 0% (2019: 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 Liqhobong Mining Development Company (Pty) Limited, is repaid. The loan is considered non-current on the basis of the expected recovery profile.
- Loan B to Kopane Diamond Developments Limited is in respect of grid electricity funding. The loan bears interest at 0% (2019: 12.25%), is unsecured and is repayable in quarterly instalments ending March 2024.
- Loan C to Kopane Diamond Developments Limited is in respect of additional working capital provided to Liqhobong Mining Development Company (Pty) Limited to fund its operations. The loan bears no interest, is unsecured and payable on demand.
- The loan to Firestone Diamonds (Pty) Limited bears interest at 2.1% (2019: 2.75%), is unsecured and has no fixed terms of repayment.
- Other loans to related parties bear no interest, are unsecured and have no fixed terms of repayment.
- During the year, the value of the Company's loans to subsidiaries were impaired by US\$3.5 million. The impairment is due to the carrying value of the Liqhobong mine being less than the value of the outstanding ABSA debt and therefore resulting in no residual value.

The Group applies the general approach to measuring the expected credit loss provision for loans to subsidiaries. Accordingly, the Company measured the expected credit losses using a lifetime expected credit loss provision, which is based on the underlying value of the Liqhobong 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 18 Loan receivable

	Group	
	2020	2019
	US\$'000	US\$'000
Government of Lesotho		
Government of Lesotho	5 295	4 722
Accumulated impairment	(5 295)	(4 722)
	—	—
Non-current assets	—	—
Current assets	—	—
<b>Total assets</b>	<b>—</b>	<b>—</b>

The loan to the Government of Lesotho bears interest at 9.5% (2019: 12.50%), is unsecured and is repayable out of dividends declared by Liqhobong Mining Development Company (Pty) Limited. As this loan is considered to be credit impaired no interest was charged during the year.

The Group applies the general approach to measuring expected credit losses using a lifetime expected credit loss provision for loans receivable. The loan receivable remains credit impaired and an expected credit loss provision was recognised for the full loan value.

## 19 Inventory

	Group	
	2020	2019
	US\$'000	US\$'000
Diamond inventory	3 306	4 237
Spares and consumables	2 718	3 216
	6 024	7 453
Provision for impairment of spares and consumables (note 9)	(2 718)	—
	3 306	7 453

Diamond inventory is valued at the lower of cost and net realisable value which is based on on-site valuations, and adjusted downwards to account for the expected impact, as at the year-end, of lower forecast average values being realised as a result of the COVID-19 pandemic.

Spares and consumables relating to the Liqhobong Mine was fully impaired as at 30 June 2020 as a result of the Mine being placed on extended care and maintenance and the uncertainty around the timing of the restart.

## 20 Other financial assets/(liabilities)

The Group has the following derivative financial instruments:

	Group	
	2020	2019
	US\$'000	US\$'000
Cash flow hedges		
<b>Current asset</b>		
Forward exchange contracts	65	553
<b>Current liability</b>		
Interest rate swap	(85)	(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 is provided in note 31.

### 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	
	2020	2019	2020	2019	2020	2019
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Other financial asset	—	—	65	553	—	—
Other financial liability	—	—	85	34	—	—

There were no transfers between levels during the period.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

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

Item	Valuation technique 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	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
Trade receivables	249	798	248	249
Other receivables	802	739	117	126
Prepayments	90	162	31	69
	<b>1 141</b>	<b>1 699</b>	<b>396</b>	<b>444</b>

Trade receivables of US\$248 635 (2019: US\$798 941) relate to the diamond sale that completed on 19 March 2020. The outstanding amount relates to two customers which are based in India, one of which have been unable to remit payment to the Group subsequent to the year end as a result of the lock down due to the COVID-19 pandemic. We expect to receive their funds in due course. No expected credit loss provision was recognised on these receivables. 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. Except for the trade receivables discussed above none of the other receivables is 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 31 for a discussion on credit risk.

## 22 Cash and cash equivalents

	Group		Company	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
Cash and cash equivalents	9 833	26 325	699	5 456

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

	Group		Company	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
US Dollars	6 605	16 046	638	5 352
British Pounds	61	104	61	104
Lesotho Maloti	3 121	10 108	—	—
Botswana Pula	5	27	—	—
South African Rand	41	40	—	—
<b>Cash and cash equivalents</b>	<b>9 833</b>	<b>26 325</b>	<b>699</b>	<b>5 456</b>

As at 30 June 2020, the Group had restricted cash deposits of US\$5.1 million (2019: US\$8.8 million) which comprises US\$4.2 million (2019: US\$6.3 million) in the ABSA debt service reserve account, US\$nil million (2019: US\$1.8 million) in favour of several key contractors as payment guarantees and US\$0.9 million (2019: US\$0.7 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 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 2020, the ordinary share capital of the Company was 741 083 458 ordinary shares of 1 pence each (2019: 565 471 782).

During the year, the Company issued a further 175 611 676 new ordinary shares of 1 pence each in respect of the quarterly interest due on the Series A Eurobonds for the June 2019, September 2019, December 2019 and March 2020 quarters. A further 48 397 818 (2019: 32 782 046) shares in respect of interest due on the Series A Eurobonds at 30 June 2020 were issued after the year end and are not reflected in the table below.

	Number of shares		Nominal value of shares	
	2020	2019	2020 US\$'000	2019 US\$'000
<b>Allotted called up and fully paid</b>				
At 1 July	565 471 782	515 677 580	6 921	6 272
Issued during the year	175 611 676	49 794 202	2 214	649
<b>At 30 June</b>	<b>741 083 458</b>	<b>565 471 782</b>	<b>9 135</b>	<b>6 921</b>
<b>Deferred type A shares</b>				
<b>At 30 June</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>At 30 June</b>	<b>308 992 814</b>	<b>308 992 814</b>	<b>46 622</b>	<b>46 622</b>
<b>Total</b>	<b>8 129 725 381</b>	<b>7 954 113 705</b>	<b>169 102</b>	<b>166 888</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.

No new share options were issued during the year. The inputs into the Black-Scholes model for the share options issued in the prior year are as follows:

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

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)	
	2020	2019	2020	2019
Outstanding at 1 July	21 591 354	21 299 898	45.5	49.4
Granted during the year	—	4 585 189	—	5.6
Exercised in the year	—	(3 083 742)	—	1.3
Lapsed or expired in the year	(909 630)	(1 209 991)	0.2	21.9
<b>Outstanding at 30 June</b>	<b>20 681 724</b>	<b>21 591 354</b>	<b>46.5</b>	<b>45.5</b>
<b>Exercisable at 30 June</b>	<b>16 096 534</b>	<b>14 800 775</b>	<b>59.4</b>	<b>65.7</b>

The options outstanding as at 30 June 2020 have a weighted average contractual life of five years (2019: five years). These options have an exercise price ranging from 1.0 pence to 275.0 pence (2019: a range of 1.0 pence to 275.0 pence). The options exercisable at 30 June have an exercise price ranging from 1.0 pence to 275.0 pence (2019: a range of 26.5 pence to 275.0 pence). No share options were exercised during the year (2019: 3 083 742 with a weighted average exercise price 1.0 pence (1.3 US cents) were exercised during the year).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

	Group		Company	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
Charge for the year allocated to the Company	121	486	121	486
Charge for the year allocated to subsidiary companies	95	377	95	377
Included in selling, administrative and other expenses	33	66	—	—
Included in cost of sales	62	311	—	—
Total charge for the year	216	863	216	863
Amount capitalised to investments	—	—	(95)	(377)
Charge for the year in profit and loss	216	863	121	486

## Basic Share Option Scheme

Date of grant	Exercise period		Share options held at		Exercise price	
	From	To	2020 number	2019 number	2020 pence	2019 pence
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	50 000		

All options under the Basic Share Options Scheme are fully vested.

## Unapproved Executive Share Option Scheme

Date of grant	Exercise period		Share options held at		Exercise price	
	From	To	2020 number	2019 number	2020 pence	2019 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
01/10/2014	01/10/2014	30/09/2024	—	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	381 121	565 534	26.5	26.5
06/10/2015	30/04/2015	29/04/2025	295 061	295 061	26.5	26.5
			12 863 288	13 250 775		

All options under the Unapproved Executive Share Option Scheme are fully vested.

## Unapproved Share Option Scheme

Date of grant	Exercise period		Share options held at		Exercise price	
	From	To	2020 number	2019 number	2020 pence	2019 pence
23/11/2012	23/11/2012	22/11/2022	1 500 000	1 500 000	85.0	85.0

All options under the Unapproved Share Option Scheme are fully vested.

## Restricted Share Plan

Date of grant	Exercise period		Share options held at		Exercise price	
	From	To	2020 number	2019 number	2020 pence	2019 pence
15/01/2017	15/01/2017	14/01/2027	942 333	1 262 667	1.0	1.0
01/05/2018	01/05/2018	14/01/2027	740 914	942 723	1.0	1.0
01/07/2018	01/07/2018	30/06/2028	4 585 189	4 585 189	1.0	1.0
			6 268 436	6 790 579		

The restricted share units vest in three tranches over a three-year period.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 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 2020 at the average share price for the year of 1.0 pence per share would have been nil shares as a result of it trading above the exercisable price limit (2019: 7 085 640 shares at an average price of 3.3 pence, which were anti-dilutive). However, these shares are anti-dilutive as at 30 June 2020 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	
	2020	2019	2020	2019
	US\$'000	US\$'000	US\$'000	US\$'000
<b>Warrant reserve</b>	<b>7 609</b>	7 609	<b>7 609</b>	7 609

## 26 Borrowings

	2020					
	Series A Eurobonds	Series B Eurobonds	Company Total	ABSA debt facility	Other loans	Group Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Borrowings</b>						
<b>Capital amount</b>						
At 1 July	30 000	8 096	38 096	65 920	1 211	105 227
Finance cost capitalised	—	569	569	—	—	569
Foreign exchange adjustment	—	—	—	—	(199)	(199)
Capital repayments	—	—	—	(2 011)	(269)	(2 280)
<b>At 30 June</b>	<b>30 000</b>	<b>8 665</b>	<b>38 665</b>	<b>63 909</b>	<b>743</b>	<b>103 317</b>
<b>Finance cost to be amortised over the life of the facility</b>						
At 1 July	(4 015)	(98)	(4 113)	(3 546)	—	(7 659)
Additions	—	—	—	(422)	—	(422)
Finance cost	1 288	98	1 386	2 050	—	3 436
<b>At 30 June</b>	<b>(2 727)</b>	<b>—</b>	<b>(2 727)</b>	<b>(1 918)</b>	<b>—</b>	<b>(4 645)</b>
<b>Total at amortised cost</b>						
Non-current liabilities	—	—	—	—	322	322
Current liabilities	27 273	8 665	35 938	61 991	421	98 350
<b>Total</b>	<b>27 273</b>	<b>8 665</b>	<b>35 938</b>	<b>61 991</b>	<b>743</b>	<b>98 672</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

	2020					
	Series A	Series B	Company	ABSA	Other	Group
	Eurobonds	Eurobonds	Total	debt facility	loans	Total
Finance cost	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Finance charges – paid	—	—	—	3 399	94	3 493
Amortised finance charges	1 288	98	1 386	2 050	—	3 436
Interest settled in shares	2 440	—	2 440	—	—	2 440
Interest capitalised	—	569	569	—	—	569
<b>Total</b>	<b>3 728</b>	<b>667</b>	<b>4 395</b>	<b>5 449</b>	<b>94</b>	<b>9 938</b>

Refer to note 8, Finance income and cost for the total finance cost for the year recognised in profit and loss.

As at the year-end, and mainly due to prevailing circumstances brought about by the COVID-19 pandemic which resulted in the Lihobong Mine being placed onto care and maintenance, the Company was in default of certain of the terms of its Eurobonds and the Group's significant subsidiary, Lihobong Mining Development Company (Pty) Ltd, was in default of certain terms of its debt facility with ABSA Bank. However, no default arose from non-payment to ABSA Bank or the Bondholders as a result of various capital repayment deferrals received from ABSA Bank and interest share payments made to the Bondholders, respectively. The impact of a default of either of these agreements is the ability of either lender being able to demand immediate payment of all outstanding amounts. ABSA Bank, which has first ranking security, has taken no such action. At the year-end, discussions with ABSA Bank and the Bondholders were ongoing regarding a short-term restructuring which anticipated a 15-month capital repayment deferral of the ABSA Bank debt to 30 September 2021. However, the restructuring was not completed as at the year-end, and therefore it is necessary to present the outstanding balances of the debt facility and Eurobond facility as current liabilities as at 30 June 2020. Refer to other sections of this Annual Report in this regard, particularly the Chairman's letter on page 2 and the going concern statement on page 43.

	2019					
	Series A	Series B	Company	ABSA	Other	Group
	Eurobonds	Eurobonds	Total	debt facility	loans	Total
Borrowings	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Capital amount</b>						
At 1 July	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>						
At 1 July	(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>
<b>Total at amortised cost</b>						
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	Series B	Company	ABSA	Other	Group
	Eurobonds	Eurobonds	Total	debt facility	loans	Total
Finance cost	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
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 8, Finance income and cost for the total finance cost for the year recognised in profit and loss.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

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	Incremental %	Cumulative %
Deferred loan margin increase	1 January 2018	0.75	0.75
	1 January 2019	0.50	1.25
	1 January 2020	0.50	1.75
	1 January 2021	0.50	2.25
	1 January 2022	-	2.25
	1 January 2023	0.50	2.75

The effective interest rate is, in aggregate 7.19% (2019: 9.56%). Under revised terms, the facility is repayable in 19 quarterly instalments which commenced on 30 June 2019, however the capital repayments for the December 2019, March 2020 and June 2020 quarters have been deferred to 30 September 2021, pending approval from the Export Credit Insurance Company of South Africa (ECIC) and the conclusion of definitive documentation.

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 ABSA debt facility agreement, maintenance covenants were required to be measured on 30 June 2020. The Group calculated that it was in breach of three of its six covenants, the Forecast and Historic Debt Service Cover Ratios, and the Loan Life Cover Ratio.

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 Liqhobong 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% (2019: 12.02%). The Group undertook to settle interest in shares subject to a minimum value per share of 1 pence each until 30 June 2020 in accordance with the whitewash as approved at the general meeting held 17 October 2019.

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 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% (2019: 10.18%).

Warrants were issued upon exercise of the Series B Eurobonds which entitled the bondholders 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 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.

## 27 Lease liabilities

US\$'000	Mining property	Other assets	Total
At 1 July	2 943	289	3 232
Finance cost	255	18	273
Lease payments	(508)	(83)	(591)
Exchange difference	(556)	(55)	(611)
<b>At 30 June 2020</b>	<b>2 134</b>	<b>169</b>	<b>2 303</b>

	Group	
	2020	2019
	US\$'000	US\$'000
Non-current liabilities	1 706	—
Current liabilities	597	—
	<b>2 303</b>	

Lease liabilities are a new category of liability that was introduced on the adoption of IFRS 16 Leases on 1 July 2019. Refer to the section entitled "Standards and interpretations issued that became effective and changes in accounting policies".

The Group does not recognise lease liabilities for short term and low value leases. The Group expensed US\$0.2 million operating lease payments relating to these leases during the year and has undiscounted short-term lease commitments of US\$22k relating to the lease of its Cape Town and London offices, both of which expire at the end of September 2020.

## Maturity analysis

Group	Total	Current	1-2 years	2-5 years
	US\$'000	US\$'000	US\$'000	US\$'000
<b>2020</b>				
Lease liabilities	2 303	597	767	939

## 28 Rehabilitation provisions

	Group	
	2020	2019
	US\$'000	US\$'000
At 1 July	4 510	4 313
Exchange difference	(736)	(93)
Restated for effect of foreign exchange	3 774	4 220
Unwinding of discount on rehabilitation liability	284	290
<b>At 30 June</b>	<b>4 058</b>	<b>4 510</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## Allocation by Mine

	Group	
	2020	2019
	US\$'000	US\$'000
Liqhobong Mine	2 622	2 990
BK11 Mine	1 436	1 520
At 30 June	4 058	4 510

The Group recognises a provision for the rehabilitation of the environmental disturbances caused by continued mining at the Liqhobong Mine. The original liability value was capitalised to the cost of the asset and the liability increases annually 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	
	2020	2019
Discount rate	7.5%	8.0%
Lesotho inflation rate	5.5%	4.7%
Remaining open pit Life of Mine	10 years	7 years

## 29 Trade and other payables

	Group		Company	
	2020	2019	2020	2019
	US\$'000	US\$'000	US\$'000	US\$'000
Trade payables	1 098	3 727	49	110
Inter-company payables	—	—	1 590	1 214
Tax and social security	554	521	24	40
Accruals and other payables	3 332	5 641	620	911
	4 984	9 889	2 283	2 275

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

## 30 Provisions

	Group	
	2020	2019
	US\$'000	US\$'000
At 1 July	496	325
(Released)/raised in the year through profit or loss	(206)	171
At 30 June	290	496

Provisions relate to leave pay due to staff.

## 31 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 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	
	2020 US\$'000	2019 US\$'000	2020 US\$'000	2019 US\$'000
<b>Hedging instruments</b>				
Forward exchange contracts	65	553	—	—
<b>Financial assets at amortised cost</b>				
Trade and other receivables	248	798	248	429
Loans to subsidiaries	—	—	7 102	692
Cash and cash equivalents	9 833	26 325	699	5 456
	<b>10 146</b>	<b>27 676</b>	<b>8 049</b>	<b>6 397</b>
<b>Hedging instruments</b>				
Interest rate swaps	85	34	—	—
<b>Financial liabilities at amortised cost</b>				
Borrowings	98 672	97 568	35 938	33 983
Trade and other payables	4 984	9 889	2 283	2 275
	<b>103 741</b>	<b>107 491</b>	<b>38 221</b>	<b>36 258</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 changed significantly during the year with the onset of the COVID-19 pandemic, which resulted in the Liqhobong Mine being placed onto care and maintenance. Details of these risks are more fully disclosed in the "Risk Review" section of the Strategic Report. The policies adopted by the Board have not changed significantly during 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 in the case of the 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. 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 Liqhobong Mine returns to production and generates higher levels of positive cash flow which is dependent on the recovery of the diamond market.

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 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.

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 interest and capital repayments to ABSA Bank and the Bondholders, 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 2020 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>2020</b>						
Cash and cash equivalents	<b>Variable</b>	<b>0.25%</b>	<b>9 833</b>	<b>—</b>	<b>—</b>	<b>—</b>
ABSA debt facility	<b>Variable</b>	<b>7.19%</b>	<b>63 909</b>	<b>63 909</b>	<b>—</b>	<b>—</b>
Series A Eurobonds	<b>Fixed</b>	<b>12.02%</b>	<b>30 000</b>	<b>30 000</b>	<b>—</b>	<b>—</b>
Series B Eurobonds	<b>Fixed</b>	<b>10.18%</b>	<b>8 665</b>	<b>8 665</b>	<b>—</b>	<b>—</b>
Other loans	<b>Variable</b>	<b>9.50%</b>	<b>743</b>	<b>421</b>	<b>322</b>	<b>—</b>
<b>2019</b>						
Cash and cash equivalents	Variable	0.25%	26 325	26 325	—	—
ABSA debt facility	Variable	9.29%	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

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>2020</b>						
Cash and cash equivalents	<b>Variable</b>	<b>0.25%</b>	<b>699</b>	<b>699</b>	<b>—</b>	<b>—</b>
Loans to subsidiaries	<b>Variable</b>	<b>2.10%</b>	<b>7 102</b>	<b>—</b>	<b>—</b>	<b>7 102</b>
Series A Eurobonds	<b>Fixed</b>	<b>12.02%</b>	<b>30 000</b>	<b>30 000</b>	<b>—</b>	<b>—</b>
Series B Eurobonds	<b>Fixed</b>	<b>10.18%</b>	<b>8 665</b>	<b>8 665</b>	<b>—</b>	<b>—</b>
<b>2019</b>						
Cash and cash equivalents	Variable	0.25%	5 456	5 456	—	—
Loans to subsidiaries	Variable	6.84%	10 293	—	—	10 293
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 is provided in the table above.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 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 2020, the floating rate was LIBOR. The effective portion of the realised interest rate swap losses was 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	
	2020 US\$'000	2019 US\$'000
Interest rate swap		
Carrying value liability	(85)	(34)
Notional amount	7 935	18 062
Maturity date	30 June 2021	30 June 2021
Hedge ratio	1:1	1:1
Changes in fair value of outstanding hedge instruments	(58)	(448)
Changes in value of hedge item used to determine hedge effectiveness	58	448
Weighted Average hedge rate for the year	2.09%	2.09%

## Interest rate sensitivity

The following table demonstrates the sensitivity of 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	2020		2019	
	Change in rate	US\$'000	Change in rate	US\$'000
US\$ equivalent	-0.5%	444	-0.5%	356
	-1.0%	888	-1.0%	712
	-1.5%	1 333	-1.5%	1 069
US\$ equivalent	+0.5%	(444)	+0.5%	(356)
	+1.0%	(888)	+1.0%	(712)
	+1.5%	(1 333)	+1.5%	(1 069)

Company	2020		2019	
	Change in rate	US\$'000	Change in rate	US\$'000
US\$ equivalent	-0.5%	141	-0.5%	115
	-1.0%	281	-1.0%	229
	-1.5%	422	-1.5%	344
US\$ equivalent	+0.5%	(141)	+0.5%	(115)
	+1.0%	(281)	+1.0%	(229)
	+1.5%	(422)	+1.5%	(344)

## Currency risk

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

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

	2020 US\$'000	2019 US\$'000
Net foreign currency financial (liabilities)/assets		
US Dollar	(1 185)	(1 315)
Lesotho Maloti	(2 632)	(6 693)
Other	35	(30)
<b>Total</b>	<b>(3 782)</b>	<b>(8 038)</b>

As at 30 June 2020, the Group held no significant monetary assets or liabilities in currencies other than the functional currency of the operating units involved (2019: nil), other than a cash balance held in Pound Sterling equivalent to US\$0.1 million (2019: US\$0.1 million).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

The following significant exchange rates applied against the US Dollar during the year:

	Average rate		Balance sheet rate	
	2020	2019	2020	2019
South African Rand	15.2182	14.1352	17.3603	14.0870
Lesotho Maloti	15.2182	14.1352	17.3603	14.0870
Botswana Pula	11.0109	10.6305	11.7961	10.6461
Pound Sterling	1.2536	1.2952	1.2369	1.2699

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	
	2020 US\$'000	2019 US\$'000
Forward foreign currency exchange contracts		
Carrying value asset	65	553
Notional amount	750	15 500
Maturity date	Jul 20	Jul 19–Nov 19
Hedge ratio	1.08:1	0.76:1
Changes in fair value of outstanding hedge instruments	(435)	553
Changes in value of hedge item used to determine hedge effectiveness	435	(553)
Weighted average hedged rate for the year	R14.83:US\$1.00	R14.74:US\$1.00
Weighted average hedged rate of open contracts at 30 June	R18.87:US\$1.00	R14.71:US\$1.00

### Foreign currency sensitivity

The following table demonstrates the sensitivity of 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	2020		2019	
	Change in rate	US\$'000	Change in rate	US\$'000
US\$ equivalent of strengthening of Maloti of Rand	2.5%	(820)	2.5%	(1 009)
	5.0%	(1 683)	5.0%	(2 071)
	7.5%	(2 592)	7.5%	(3 190)
US\$ equivalent of weakening of Maloti of Rand	2.5%	780	2.5%	960
	5.0%	1 523	5.0%	1 873
	7.5%	2 231	7.5%	2 745

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 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:

	Interest rate swaps US\$'000	Forward foreign currency exchange contracts US\$'000	Total US\$'000
Hedge reserve			
At 1 July 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
Changes in fair value recognised in Other Comprehensive Income	(59)	(435)	(494)
Minority interest	70	54	124
<b>At 30 June 2020</b>	<b>156</b>	<b>121</b>	<b>277</b>

During the year, the following amounts were recognised in profit or loss in relation to foreign currency transactions and interest rate swaps:

	2020 US\$'000	2019 US\$'000
Net foreign exchange (losses)/gains included in other gains	(805)	429
Net realised interest rate swap (payments)/receipts recognised in finance cost	(12)	105
<b>Total</b>	<b>(817)</b>	<b>534</b>

## Timing profile of the nominal amount of the hedging instruments

### Cash flow hedges

	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
<b>2020</b>					
Forward exchange contracts	65	—	—	—	—
Interest rate swaps	(52)	(19)	—	—	—
	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
<b>2019</b>					
Forward exchange contracts	553	—	—	—	—
Interest rate swaps	(42)	(29)	(20)	—	—

## 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 long-term objectives are to repay its debt, to redeem its Eurobonds and to distribute the remaining value to shareholders by way of dividends. 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.

## 32 Capital commitments and contingencies

At 30 June 2020 the Group had no capital commitments or contingent liabilities.

## 33 Post-balance sheet events

### ABSA Bank capital deferral

On 16 October 2020, the Group received a signed non-binding term sheet from ABSA Bank in respect of a 12-month deferral of capital repayments to 30 September 2021, subject to ECIC approval and the completion of definitive documentation.

Other than the matter above, the Directors are not aware of any significant matters or circumstances arising since the end of the financial year, not otherwise dealt with in this report or the annual financial statements, that significantly affects the financial position of the Group or Company or the results of operations until the date of this report.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## 34 Related party transactions

The Company had the following related party transactions during the year:

	2020	2019
	US\$'000	US\$'000
Finance income received – Kopane Diamond Development Limited	—	312
Finance income received – Firestone Diamonds (Pty) Limited	162	151
Management fee paid – Firestone Diamonds (Pty) Limited	729	654
Management fee income – Liqhobong Mining Development Company (Pty) Limited	—	248

The Group provided various subordinations in respect of intra-group debt to creditors of subsidiary companies.

## COMPANY INFORMATION

### UK office

#### ***Firestone Diamonds plc***

Elder House, St Georges Business Park  
207 Brooklands Road  
Weybridge, Surrey  
KT13 0TS  
Tel: +27 21 816 2940  
Email: info@firestonediamonds.com

### Lesotho office

#### ***Liqhobong Mining Development Company (Pty) Ltd***

5th Floor  
Pension House  
Constitution Road  
Maseru West  
Lesotho  
Tel: +266 223 14120

### South Africa office

#### ***Firestone Diamonds (Pty) Ltd***

Black River Park South  
Ground Floor, Old Warehouse Building  
2 Fir Street  
Observatory, 7925  
Cape Town  
Tel: +27 21 816 2940

### Registered address

#### ***Firestone Diamonds plc***

Elder House, St Georges Business Park  
207 Brooklands Road  
Weybridge, Surrey  
KT13 0TS

### Registered number

3589905

### Registrar

#### ***Link Asset Services***

The Registry  
34 Beckenham Road  
Beckenham  
Kent, BR3 4TU

### Auditor

#### ***BDO LLP***

55 Baker Street  
London, W1U 7EU

### Legal adviser

#### ***Gowling WLG***

4 More London Riverside  
London, SE1 2AU

### Company Secretary

#### ***Ian Crozier***

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