

Firestone Diamonds plc
(“Firestone”, “Company” or the “Group”)

QUARTERLY UPDATE – Q1 FY2021

Firestone Diamonds plc, provides its quarterly update on operations at its 75% owned Lihobong Diamond Mine ("Lihobong") for the quarter ended 30 September 2020 (Q1 of the Company's 2021 financial year).

Lihobong remained on care and maintenance during the quarter. On-site activities were focused on the continued servicing and maintenance of the production plant to ensure that it can be restarted in the shortest possible time and managing the water storage reservoirs to ensure that adequate levels are maintained and that the water level in the main pit is managed to allow for mining to resume within a reasonable time frame.

Summary:

- COVID-19 protocols in place at Lihobong to ensure early detection of the disease;
- Care and maintenance cost during the quarter of US\$1.2 million – in line with expectation (Q4-FY20: US\$3.2 million including contractor and employee termination costs of US\$1.9 million); and
- Closing cash balance of US\$7.3 million (Q4-FY20: US\$9.6 million).

Paul Bosma, Chief Executive Officer, commented:

“Care and maintenance activities continued during the quarter aligned to our strategy to preserve cash and to retain our ability to recommence operations when the market for Lihobong production has recovered sufficiently. Significant progress has also recently been made in confirming a debt standstill arrangement with ABSA until September 2021, with ABSA’s approval, in principle, received during October 2020.

We plan to sell a portion of our diamond inventory during November to assess the level of recovery for the Lihobong assortment.”

Safety, Health & Environment

No lost time injuries or environmental incidents occurred during the quarter. The Mine continued to adhere to COVID-19 protocols to identify and isolate any employee or visitor who presented symptoms of the disease. COVID-19 awareness sessions were held with employees and with members of the community to provide more information on the disease, its symptoms and mode of transmission, and preventive measures which can be taken which included demonstrating the proper use of face masks and shields.

Care and Maintenance activities

Care and maintenance activities during the quarter focused on asset maintenance and water management. Engineering teams continued to maintain the processing plant to ensure that it remains in a state of operational readiness to facilitate a restart of mining activities. Water management required excess water being discharged safely and in accordance with the relevant authorisations in order to allow for inflow of rain water. The water level in the main pit is kept below a specified level to allow for access in the shortest possible timeframe upon a mine restart.

Financial

Cash flow for the quarter:

US\$'million	Q1-FY21	Q4-FY20
Opening cash	9.6	17.3
Care and maintenance cost	1.2	1.3
Employee and contractor settlements	-	1.9
Corporate	0.5	0.6
ABSA interest	0.6	0.8
Net working capital outflows	-	3.1
Closing cash	7.3	9.6
Unrestricted cash (free cash)	2.8	4.5
Restricted cash:		
- Environmental rehabilitation	0.9	0.9
- ABSA debt service reserve account	3.6	4.2

Total cost for the quarter of US\$1.7 million was in line with expectation. In addition to the unrestricted cash balance at the end of the quarter of US\$2.8 million, the Group has diamond inventory of 64 700 carats. Forecast care and maintenance costs (excluding debt service costs) and corporate overhead are expected to average US\$0.4 million and US\$0.1 million per month respectively.

Debt and financing

Post the quarter-end, during October, the Company received confirmation from ABSA that the term sheet outlining a capital repayment standstill until September 2021 was approved, subject to approval by the Export Credit Insurance Company of South Africa. Discussions continued with the Company's bondholders, Pacific Road Resources Fund II L.P. and Pacific Road Resources Fund II, and Resource Capital Fund VI L.P. to find a long-term solution to the Group's high levels of debt.

Diamond Sales and Inventory

The Group had 64 700 carats of diamond inventory at the end of the quarter and no sales of diamonds took place during the quarter. The Group still plans to split the diamond inventory into at least two parcels which will be placed for sale on tender as and when cash is required by the Group and in order to test the market to determine the extent to which diamond prices have recovered, specifically for the Liqhobong diamond assortment, which will in turn inform the strategy of restarting the Mine.

Market Outlook

Towards the end of the quarter there was a gradual improvement in market conditions particularly for larger, more valuable diamonds. Both De Beers and Alrosa recorded steep increases from the previous quarter when minimal quantities of diamonds were sold with the increase being attributed to the traditional period of restocking by retailers in preparation of the end of year peak selling period for diamond jewelry. However, the major producers' diamond inventory levels have also increased over recent months and it is expected to take some time for market prices to normalise. Much uncertainty still remains as a result of second waves of infections in the northern hemisphere as they enter the winter season.