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

QUARTERLY UPDATE – Q4 FY2020

Firestone Diamonds plc, provides its quarterly update on operations at its 75% owned Liqhobong Diamond Mine (“Liqhobong”) for the quarter ended 30 June 2020 (Q4 of the Company's 2020 financial year).

As announced on 9 April 2020, a decision was taken to place the operation onto care and maintenance due to the COVID-19 pandemic which resulted in nationwide lockdowns in South Africa from 26 March 2020 and the Kingdom of Lesotho from 29 March 2020. The decision was taken in order to preserve the Group’s cash resources for as long as possible, in light of the uncertainty regarding the ability to sell and likely prices to be realised at future diamond sales.

Summary:
- Liqhobong remained on care and maintenance during the quarter at a cost of US$3.2 million (including contractor and employee termination costs of US$1.9 million);
- Cost saving initiatives introduced;
- Planned salary cuts of up to 25% for staff, 40% for executives, and 50% for non-executive directors; and
- Closing cash balance of US$9.6 million (Q3: US$17.3 million).

Paul Bosma, Chief Executive Officer, commented:

“The Company has gone through a painful process to implement the care and maintenance phase which we believe is in the best interest of its shareholders and lenders. We are determined to make our cash last as long as possible so that operations can resume once the market recovers for the categories of diamonds predominantly recovered from Liqhobong.

With Liqhobong now firmly on care and maintenance, our focus will be on concluding financing arrangements with ABSA bank for a capital deferral and we will continue to work closely with our cornerstone shareholders and bondholders to chart the way forward.”

Care and Maintenance

The fourth quarter was focussed on implementing the extended care and maintenance phase and included the following:
- Notification to the Government of Lesotho (“GoL”)

On 8 April, we notified the GoL, which is a 25% shareholder of Liqhobong Mining Development Company (Pty) Ltd (“LMDC”) which owns the Liqhobong mine, in accordance with the provisions of the Mines and Minerals Act in Lesotho, that the mine would be placed onto extended care and maintenance for a period of at least 12 months while we wait for the market to recover.
• Liqhobong employees

LMDC commenced consultation with its employees as soon as the decision was taken to place the operation onto care and maintenance. A consultative process was followed to select employees required for a care and maintenance team. Once this process was completed, the unsuccessful employees were subject to a retrenchment process which was concluded. Preference of employment will be given to all previous employees as well as those employed as part of the care and maintenance team, when the mine restarts.

• Contractors

Due to the nationwide lockdowns from 26 March 2020 as a result of the COVID-19 pandemic, force majeure notices were issued to all contractors to suspend services. Once the decision was made to extend the period of care and maintenance, engagement was initiated with each contractor resulting in termination of the majority of service provider and supplier contracts not required during the care and maintenance phase and the modification of others considered essential.

• Community

The Company considers the local communities as key stakeholders. The local communities were briefed through the established community committee. The Company confirmed that LMDC will continue to honour its land use compensation commitments during the initial care and maintenance phase.

• Cost saving

Prior to the COVID-19 event, the Company embarked on cost saving initiatives, many of which had already started to result in savings. During the period, the Company delisted from the AIM market of the London Stock Exchange, reduced certain of its corporate overheads and continued to consider every possible opportunity to reduce operating costs going forward. Staff salaries were reviewed, which comprise a reasonable proportion of the overall cost under care and maintenance and salary reductions were introduced of up to 25% at the Liqhobong level. Firestone corporate salary reductions will be implemented from 1 October 2020 of 15% for corporate office staff and 40% for senior executives.

• Board changes and fee reductions

The Firestone Board was reduced to 4 members from 1 July 2020 and remuneration for non-executive directors will be reduced by 50% from 1 October 2020.

Patrick Meier, an independent non-executive director, succeeded the outgoing board chairman, Lucio Genovese on 15 May 2020. 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.
Safety, Health & Environment

No lost time injuries or environmental incidents were recorded during the quarter. The mine has implemented a number of COVID-19 protocols to identify and isolate any employee or visitor who presents symptoms of the disease.

Financial

Once the decision was made to embark on an extended phase of care and maintenance, the Company acted swiftly to curtail costs to ensure it can continue for as long as possible with its existing cash reserves and proceeds from the sale of diamond inventory.

During the quarter, the Group spent US$3.2 million on care and maintenance at Liqhobong which included US$1.9 of contractor and staff settlement payments and US$0.6 million on corporate overhead, and settled ABSA interest of US$0.8 million. Net working capital outflows for the quarter were US$3.1 million and comprised mainly payments to creditors which resulted in a reduction in creditors' balances from US$3.4 million at the end of March 2020, to US$1.0 million at the end of June 2020. At the end of June, the Group had a total cash balance of US$9.6 million (Q3: US$17.3 million), comprising:

<table>
<thead>
<tr>
<th>Unrestricted cash (free cash)</th>
<th>4.5</th>
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<tbody>
<tr>
<td>Restricted cash:</td>
<td></td>
</tr>
<tr>
<td>Environmental rehabilitation funding</td>
<td>0.9</td>
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<tr>
<td>ABSA debt service reserve account</td>
<td>4.2</td>
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In addition to the unrestricted cash balance, the Group has diamond inventory of 64 700 carats which it plans to sell in the future in separate parcels to test the market.

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

The Company remains in discussions with its bondholders and ABSA bank regarding a deferral of capital repayments under the ABSA debt facility for a period. The discussions have remained constructive, with ABSA bank and the bondholders continuing to be supportive.

Diamond Sales, Inventory and Market Outlook

No sales of diamonds took place during the quarter. The Group has 64 700 carats of diamond inventory which it intends to split into separate parcels to be sold in the future to test the market in order to determine if prices have recovered sufficiently to justify restarting the mine. The Group forecasts to dispose of the first parcel of diamonds during the fourth of the 2020 calendar year in order to generate cash to fund operational requirements.
Lesotho politics

On 19 May, Dr. Moeketsi Majoro was sworn in as Lesotho’s new prime minister following the resignation of his predecessor, Thomas Thabane. Dr. Majoro is an economist and Lesotho’s former finance minister. He will serve out Thomas Thabane’s remaining term, with a newly appointed cabinet, until elections which are due to take place in 2022.

Outlook

The global market outlook remains uncertain as many countries still have to reach their COVID-19 infection peak and face the possibility of a second wave of infections. De Beers and Alrosa continue to defer sales which contribute to a build-up of inventory which will delay the timing of a meaningful recovery in prices. Smaller producers that manage to sell on tender will likely continue to experience substantial discounts until such time as demand returns and excess inventory has reduced.

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Background information on Firestone

Firestone is an international diamond mining company with operations in Lesotho. Liqhobong is owned 75% by Firestone and 25% by the Government of Lesotho. Lesotho is one of Africa’s significant new diamond producers, hosting Gem Diamonds’ Letšeng Mine, Firestone’s Liqhobong Mine, Namakwa Diamonds’ Kao Mine and Lucapa’s Mothae Mine.

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