FIRESTONE
DIAMONDS

FOCUSED ON
PRODUCTION

Firestone Diamonds plc
Annual Report and Accounts 2017

FIRESTONE DIAMONDS PLC

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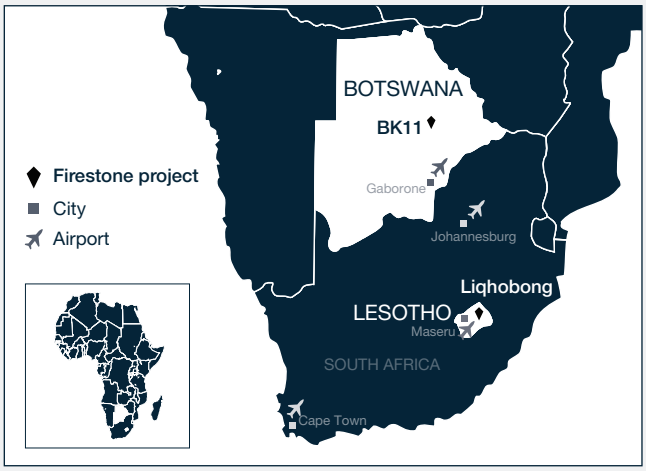
A NEW DIAMOND PRODUCER WITH OPERATIONS FOCUSED IN LESOTHO

On 30 June 2017, Firestone achieved commercial production at the Liqhobong Mine, which is expected to achieve production in excess of 800 000 (previously one million) carats per annum



Key Highlights

PHYSICAL COMPLETION OF THE LIQHOBONG MINE DEVELOPMENT PROJECT IN LESOTHO

PRODUCTION COMMENCED IN OCTOBER 2016

2017 SUMMARY

Liqhobong Diamond Mine

("Liqhobong", the "Project" or the "Mine")

- Successful construction completion achieved in December 2016
- Operational ramp-up commenced in October 2016
- First sale conducted in Antwerp in February 2017
- First-plus 100 carat diamond recovered in April 2017
- Commercial production achieved on 30 June 2017
- 2 646 640 Lost Time Injury ("LTI") free hours recorded with zero-LTI record maintained
- 365 891 carats recovered
- 310 376 carats sold at an average price of US$90 per carat generating revenue of US$27.8 million[1]
- Cash operating costs well managed at US$12.26 per tonne treated

Financial

- Mine Development Project completed within US$185.4 million budget
- Revenue of US$27.8 million[1]
- EBITDA of US$4.6 million
- Loss before tax of US$130.0 million (2016: US$9.0 million) which includes an impairment charge of US$122.6 million
- Cash balance at year end of US$17.3 million
- Standby facility of US$10.0 million available
- Commencement of repayment of ABSA debt facility

1 Common convention during commissioning and test production phases of operation is such that all revenues and operating costs are capitalised to the cost of the asset in the Statement of Financial Position until commercial production is achieved.

Post year end

- Revised nine year life of mine with the option to revert to the 14 year mine plan should the quality of the recovered assortment and rough diamond market improve
- Restructuring of the Group's ABSA debt facility, extending its maturity to December 2023 and obtaining an 18 month standstill on capital repayments from January 2018 to June 2019
- Potential capital raise of US$25.0 million to provide additional working capital and to sustain the Group at the current lower than expected average diamond values

Key statistics

- Liqhobong Diamond Resource: 22.5 million carats (2015: 23.1 million carats)
- In-situ value of US$1.7 billion at US$75/ct (base case un-escalated) (2015: US$3.0 billion at US$132/ct)
- Life of mine nine years (2015: 15 years)

109 carat gem-quality light yellow diamond

INTRODUCTION TO THE STRATEGIC REVIEW

Summary

- Construction of the Mine Development Project completed
- Over four million man-hours worked without any LTIs
- Production commenced October 2016
- First diamond sales in third quarter of FY2016
- Commercial production achieved on 30 June 2017

FIRESTONE'S OBJECTIVE HAS ALWAYS BEEN TO BECOME A MID-TIER DIAMOND PRODUCER AND THE PREFERRED AND TRUSTED PARTNER OF CHOICE FOR ITS STAKEHOLDERS AND LOCAL COMMUNITIES ALIKE

Firestone's objective has always been to become a mid-tier diamond producer and the preferred and trusted partner of choice for its stakeholders and local communities alike. The Company seeks to achieve this goal initially through the financing and development of, and commercial production from, the Liqhobong Diamond Mine in Lesotho, Southern Africa. Liqhobong is 75% owned by Firestone and 25% owned by the Government of Lesotho.

With financial closure secured, the two and a half year construction phase commenced in mid-2014 and was completed successfully, on time and on budget, in the first half of the financial year under review. Production of diamonds began in October 2016 and ramped up to full scale commercial production levels in June of this year. A detailed description of both finalising construction and the ramp-up of production is contained in the Operational Review.

The achievements of the past year represent the successful execution of Firestone's strategy by the management team and all of the Company's employees. Bringing Liqhobong into production creates an asset that benefits shareholders, staff and local communities. Firestone takes very seriously its responsibility to minimise the impact of its operations on the environment and to provide an economic uplift to the surrounding local communities. The Company also places great emphasis on its responsibilities to its employees to provide safe working conditions. In the 2017 financial year, Liqhobong maintained its zero Lost Time Injury record with a further 2.65 million man hours LTI free, resulting in a total, since Project commencement, of over four million man hours LTI free.

FY2017 saw the beginning of cash flow from operations at Liqhobong with US$13.7 million received from the Company's first two sales of diamonds in Antwerp in the third quarter and US$14.1 million in the fourth quarter of the financial year. Further sales took place in the current quarter of the new financial year generating proceeds of US$13.5 million. The Company has made a good start to mining at Liqhobong where all operational targets within managements control have either been met or exceeded. A particular highlight of the year under review was the recovery of Liqhobong's first plus 100 carat stone in April – a 109 carat gem-quality light yellow diamond.

The weakness in the diamond market which is discussed in the Market Context section and the lower than expected occurrence of larger, better quality diamonds have resulted in lower prices being achieved at the Company's sales. This has prompted a review of the mine plan which resulted in the Company adopting a shorter nine year revised mine plan (previously 14 years) which it believes will deliver the best returns in the medium term at low risk whilst at the same time offering optionality of taking advantage of the longer life of mine should the average diamond values received increase or should there be an improvement in market conditions. Taken together, this has required the Company to recognise an impairment charge (non-cash) on the carrying value of Liqhobong. A more detailed explanation of the impairment charge is contained in the Financial Review section. The lower average diamond prices achieved at sale to date have been disappointing but an improvement in average value per carat recovered is expected as mining progresses into all areas of the pit.

In the sections of this report, shareholders will find discussion on the diamond market, Firestone's strategy and values, the risks facing the Company and the steps taken to mitigate those, key performance indicators, a financial review and the detailed operational review. At the end of the Strategic Report, there is a report on health, safety, the environment and community engagement. This is followed by a brief look forward into the current financial year.

TIMELINE

FROM ACQUISITION TO PRODUCTION

2017

June 2017
Commercial production achieved

April 2017
109 carat diamond recovered

February 2017
First diamond sale. 75 936 carats sold for US$8.14 million (US$107/ct)

October 2016
Production ramp-up commenced

July 2014
Construction commenced at Liqhobong

May 2014
Financing of US$225.2 million in place

February 2011–October 2013
Pilot plant production

2010
Reverse take-over of Kopane Diamonds

2010

MARKET CONTEXT

FIRESTONE EXPECTS TO SEE A MODEST RECOVERY IN THE LOWER PRICED CATEGORY GOODS IN THE SHORT TO MEDIUM TERM

The rough diamond market has been mixed during the financial year: prices for higher value, better quality goods have been robust with modest growth during the year, while prices for the smaller "Indian market" run of mine production have been more difficult. The market for the smaller goods has been influenced by two factors: firstly, the Indian demonetisation impact from November 2016 and secondly, the subsequent oversupply of these goods early in 2017. The demonetisation effect had an immediate short-term negative impact on prices. Early in 2017, as demand for these goods returned, there was a sustained level of supply from all producers that is keeping prices under pressure for the remainder of 2017.

We believe that the reported increase in advertising spend by the leading diamond producers, and marketing initiatives by the Diamond Producers Association will result in a stronger 2017/2018 retail season. We expect that demand for all categories of diamond jewellery will assist in rebalancing the current oversupply of rough and polished diamonds. This has the potential to translate into a modest recovery in the lower priced category goods in the short to medium term.

Supply of these category goods will remain robust in the short term but in the medium term, Firestone believes supply will diminish and demand will continue to grow, notwithstanding the threat of laboratory-grown diamonds.

18 carat vivid fancy yellow diamond

Selection of stones

STRATEGY

FIRESTONE IS AIMING TO BECOME A MID-TIER DIAMOND PRODUCER AND THE PREFERRED AND TRUSTED PARTNER OF CHOICE FOR ITS STAKEHOLDERS AND LOCAL COMMUNITIES ALIKE

Strategy

Our strategy is to operate our diamond mine responsibly, to maximise results and to minimise the impact of our operations on the environment and to continue to uplift local communities and leave the area in better economic condition at the end of the life of mine.

Strategic objectives and how we achieve them

Safety first
Firestone established very high safety standards when it commenced construction of the Mine in 2014. The same safety culture has been transferred to the operational team who treat safety as a priority.

Quality management
We employ suitably experienced people, with appropriate qualifications and experience to ensure that the Company's operations are managed successfully.

Community relations
Employment opportunities are offered to local communities first. We have open dialogue with our local communities and we work closely with them to identify and develop sustainable projects which will improve living standards.

Skills development
On-the-job training is provided to upskill people who have been identified for certain positions.

Performance
We manage the Group's performance by benchmarking achievement against set KPIs.

Environmental monitoring
We operate very strict environmental practices.

KEY PERFORMANCE INDICATORS

Safety
LTIFR: zero

Performance
The Group managed to maintain its exemplary zero LTIFR since July 2014 due to adherence with standard operating procedures and an embedded safety culture.

Risk management
The Group has adequate policies and procedures and monitoring systems in place to ensure a safe working environment.

Ore tonnes
1.97mt

Performance
The Mine performed well to process the tonnage which was in line with guidance of between 1.8 and 2.0 million tonnes.

Risk management
The mining department is staffed with appropriately skilled people who ensure that operations run smoothly. An ore stockpile provides security of supply of material to the plant for processing for a period of up to five days should the main pit become inaccessible.

Waste tonnes
1.78mt

Performance
Waste stripping activities during the year were sufficient to meet the objectives of the Mine's development plan.

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

Grade
18.61 cpht

Performance
The grade for the year was lower than the average resource grade, mainly as a result of lower quality, highly weathered ore processed and plant start-up issues during the initial production ramp-up period.

Risk management
Liqhobong's Mineral Resource Management ("MRM") department reconciles grade recovery daily to address any anomalies.

Plant utilisation
72%

Performance
Plant utilisation was higher than expected during the commissioning phase of the plant as a result of limiting unplanned maintenance and downtime through adhering to the preventative maintenance planning schedule.

Risk management
Liqhobong's engineering department adheres to a strict preventative maintenance system.

Carats recovered
365 891 cts

Performance
Carats recovered for the year were slightly below the guidance of 380 000 to 450 000 mainly due to the lower initial recoveries and grade achieved as a result of processing highly weathered, mixed ore stockpiles during the commissioning phase.

Risk management
Liqhobong's MRM department reconciles grade recovery daily to address any anomalies.

Revenue
US$27.8m

Performance
Revenue for the year was lower than expected as a result of lower average diamond values achieved.

Risk management
Revenue is mainly impacted by the average diamond value achieved, which is outside the Group's control.

US$ per carat
US$90/ct

Performance
US$107/ct was achieved for the first two sales. An increase in the recovery of mainly small and less valuable diamonds in Q3 and Q4 FY2017 resulted in a lower average value of US$77 for the quarter and an overall value achieved of US$90/ct for the year.

Risk management
Revenue is mainly impacted by the average diamond value achieved which is largely outside the Group's control.

US$ per tonne treated
US$12.26/t

Performance
As a result of strong cost management cash operating costs for the year were at the lower end of guidance of US$12 to US$14 per tonne treated.

Risk management
Operating costs are closely managed and are measured against forecasts which are regularly updated.

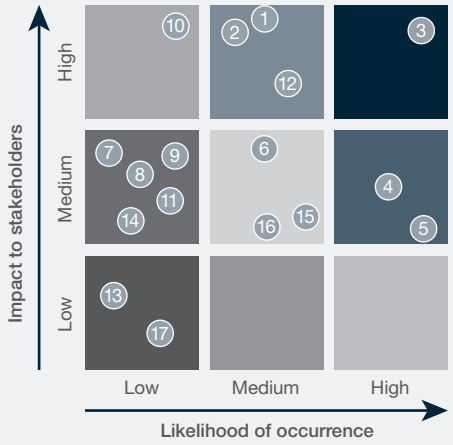
RISK REVIEW

FIRESTONE'S FOCUS IS THE SUCCESSFUL OPERATION OF THE LIQHOBONG MINE IN LESOTHO

The new main treatment plant was commissioned during the year and is capable of processing ore at a rate of 500 tonnes per hour. The focus is now on ensuring that the Mine operates successfully over its planned life and at the designed specification to deliver the anticipated returns.

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

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



1. Security of product
2. Diamond quality
3. Diamond price
4. Laboratory grown or synthetic diamonds
5. Country and political
6. Foreign currency exposure
7. Resource
8. Mining and processing
9. Grade variability
10. Health and safety
11. Electricity supply
12. Water supply
13. Cost control
14. Workforce and community relations
15. Retention of key personnel
16. Financing
17. Interest rate exposure

COMMODITY RISK

Impact	Mitigation
Security of product Diamonds are highly valued and easily transportable. Product security is a key risk area that is constantly reviewed. Crime and theft syndicates are very sophisticated and operate globally.	Liqhobong operates a completely enclosed, hands-off diamond recovery system which ensures that no physical access is available to diamonds. Over and above a permanently monitored camera surveillance system, security protocols are constantly reviewed and updated on a regular basis. Personnel who exit the red area, or recovery area, are subject to full body search and X-ray scanning.
Diamond quality Natural diamonds, by their very nature, are distinct. No two stones are alike and value differs from stone to stone. 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. Control over frequency of recovery is not currently possible to manage or predict with a high level of confidence, this will come over time as we better understand the ore body through continuous mining.	Liqhobong uses reference from diamonds sold recently together with information from its diamond broker to determine expected values on site. These are monitored daily to assess performance against the business plan. Where possible, volumes are increased to offset any lower values indicated.
Diamond price The Group's financial performance is primarily determined by the volume of diamonds recovered and the average value realised from the sale of its rough diamonds. Rough diamond prices are influenced by many factors beyond the Group's control, including: • over/undersupply of rough diamonds in the general market; • the strength/weakness of rough and polished diamond prices; • the impact of synthetic diamonds; • economic factors globally; • consumer trends; and • secondary market financing.	The Group monitors the market continuously to ensure that it is up to date on current diamond market information and trends. Conservative prices are used when modelling cash requirements of the Group to ensure that it is funded with sufficient headroom to withstand potential lower pricing outcomes.

EXTERNAL RISK

Impact	Mitigation
Laboratory grown or synthetic diamonds Synthetics have been available for many years. Technological advancements have resulted in gem-quality synthetics being more widely available. There is a risk that the demand for natural diamonds could be impacted.	As technology advances it is likely that a larger market for the use of synthetics in jewellery will develop. However, the Company expects this to be a secondary market segment, with natural diamonds remaining the premium product. Synthetics are also 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.
Country and political Liqhobong is situated in Lesotho and BK11 in Botswana, both southern African countries. Whilst Botswana has been politically stable over its history the same is not true for Lesotho where a snap election was held as recently as June this year. Emerging markets economies are generally subject to greater volatility and political risk.	The Firestone team has extensive experience of operating in southern Africa. The Company keeps in close contact with representatives of the Government of Lesotho to ensure it keeps abreast of all political and regulatory developments. The political changes and developments in Lesotho during 2017 have not materially disrupted the Company's operations but they do cause uncertainty with international investors and other interested and affected parties.
Foreign currency exposure The Group earns revenue in US Dollars from the sale of its rough diamonds and incurs operating costs in mainly the Lesotho Maloti (which is pegged to the South African Rand) and to a lesser extent Pound Sterling and the Botswana Pula. Fluctuations in these currencies may have a significant impact on the Group's performance.	The Company monitors the movement of the Rand against the US Dollar very closely. The Company has a policy to lock in 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 Company requires funding for short-term purposes.

OPERATIONAL RISK

Impact	Mitigation
Resource The Group's financial performance is impacted by the number 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, especially early in a mine's life, that the recovered grade of diamonds may differ from the theoretical quantity calculated in the resource.	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.
Mining and processing The successful operation of a diamond mine is dependent upon its ability to extract ore at a sufficient rate to meet the required treatment capacity of the processing plant. A number of factors affect ore availability from the pit. These include inclement weather conditions, mining equipment reliability and availability and achieving waste rock mining targets. Risks facing ore treatment include unscheduled shutdowns, technical failures, higher than expected wear rates and power outages.	Liqhobong has established teams with core competencies in each discipline: mining, plant operations, health and safety, engineering and support services. Each team is staffed with the key skills and specialist knowledge required of each distinct discipline. A structured planned maintenance programme is followed ensuring maximum operational uptime and reducing the number of unscheduled plant stoppages. Ore and waste tonnages, recovery results and other performance metrics are monitored daily to ensure early identification of any adverse trends. An ore stockpile is maintained which is sufficient to keep the plant in operation for up to five days should mining from the pit cease.
Grade variability The Group's financial performance is impacted by the number of carats recovered from Liqhobong. The production plant is specified to process ore at a rate of 500 tonnes per hour or 3.6 million tonnes per annum. Grade variability results in greater or fewer carats recovered and consequently impacts revenue.	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 focuses on grade control on an ongoing basis. Grades recovered are reconciled to the resource grades of particular areas mined to ensure that discrepancies are identified. The Mine operates an audit plant which reprocesses red area recovery tailings to ensure that all diamonds are recovered.

RISK REVIEW CONTINUED

OPERATIONAL RISK

Impact	Mitigation
Health and safety Mining operations involve a range of day to day activities which could result in accidents, and in the worst case, the loss of life should safety standards not be adhered to.	Liqhobong is focused on maintaining its safety record through continued adherence to strict safety criteria. 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 practiced by all employees.
Electricity supply Liqhobong is connected to the Lesotho National Power Grid through a 132kW power line constructed as part of the Mine's development. The power line stretches 28km from the Ha Lejone substation over mountainous terrain and is susceptible to lightning strikes. These can and do lead to power supply interruptions to the Mine, disrupting operations.	A power factor correction unit was 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.
Water supply Southern Africa, including Lesotho, is still experiencing 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 production plant.	The Mine currently has sufficient storage capacity for its water needs under normal annual rainfall conditions and carefully manages its various water storage facilities, ensuring that as much as possible is harvested and stored on site. The Mine also prioritises effective water use. It operates a closed circuit, encourages reducing water use and recycles all water for further use. The Mine has the necessary approvals in place to build another water storage dam should the need arise.
Cost control The total operating costs of mining activities comprise both fixed and variable components. There is a risk that fixed costs may increase ahead of expectations or that variable costs escalate, resulting in lower profitability.	Firestone has a culture of cost consciousness which ensures that all costs are carefully considered on a continuous basis. The Group also measures its performance on a monthly basis against the approved budget and latest forecast to ensure that costs are in line with expectations and to investigate further where necessary.
Workforce and community relations The Group's performance is impacted by relations with its workforce and local communities. There is a risk that increased workforce and community expectations can lead to labour or community unrest and strikes.	Our workforce and surrounding communities form an integral part of Firestone's strategy. The Company operates strict safety protocols which aim at ensuring employees' safety, and adequate long and short-term remuneration structures assist in maintaining a committed and motivated workforce. There is a Community Relations Department which attends regular meetings with the local communities to ensure that mutually beneficial relations are maintained.

STRATEGIC RISK

Impact	Mitigation
Retention of key personnel The Company is heavily reliant on a small group of key staff to achieve its objectives.	Firestone ensures that appropriate remuneration structures are in place to attract and to retain staff with the required skills and experience to ensure that operational requirements are met. Remuneration structures include a balance of fixed and variable remuneration based on the key performance indicators for the individual and for the Group as a whole.
Financing Mining activities are subject to a number of inherent risks. The most significant risk would be lower than expected diamond revenues as this could lead to a shortfall in the amount of cash required to fund ongoing operational costs and debt repayments.	Management prepares detailed annual budgets and monthly forecasts based on recent performance and results to ensure that it is adequately financed. Action is taken at the appropriate time if and when it appears that a funding shortfall may occur.
Interest rate exposure risk The Group is exposed to risk posed by floating interest rates charged on the Project's debt facilities. Rising interest rates pose a risk to the Group's cash flow, which could lead to the Group not being able to meet its operational and debt covenant cash requirements.	By applying the Group's hedging policy the Group has entered into floating to fixed interest swaps for 50% of the ABSA debt, which will ensure that a portion of the total interest charge remains fixed for the duration of the debt facility.

OPERATIONAL REVIEW

LIQHOBONG

LIQHOBONG COMMENCED PRODUCTION IN OCTOBER 2016 AND ESTABLISHED COMMERCIAL PRODUCTION AT THE END OF THE FINANCIAL YEAR

Highlights:

- 2.0 million ore tonnes treated
- 365 891 carats recovered
- Average value per carat of US$90 achieved
- Cash operating cost per tonne treated (including waste) of US$12.26

37 carat type 2a internally flawless white diamond

Introduction

During the 2017 financial year, the Group completed construction of the Liqhobong Diamond Mine, thereby marking the Group's transition from development to diamond production. The transition was well managed and nameplate capacity of the plant was achieved early in the ramp-up phase. Steady state production targets for ore treated and waste mined were achieved from April 2017 onwards, only seven months after commencing operations.

The ramp-up was not without its challenges, with recovered grade being an initial issue. This, together with other commissioning issues which are normal in the ramp-up phase of a new plant, were resolved as far as possible by the end of March 2017 which enabled the plant to run at full production levels for a sustained three-month period, achieving commercial production by the end of the financial year.

It was particularly pleasing that we achieved all of our performance targets without a single Lost Time Injury, which is an exceptional achievement.

OPERATIONAL REVIEW CONTINUED

Construction activities

The Company began the year with the Project 85% complete, having spent US$142.0 million against the budget of US$185.4 million and having achieved zero Lost Time Injuries for 2.7 million man-hours worked. The momentum and safety record achieved was maintained in the current year as evidenced by the cumulative total of 4.4 million LTI-free hours worked at the end of the year. All major construction activities were completed in October 2016, and by the end of December construction had reached 100% completion at a total cost of US$183.3 million, having achieved 3.6 million LTI-free hours.

	Q1	Q2	Q3	Q4	FY2017
Production					
Ore (tonnes)	—	343 618	697 106	925 769	1 966 493
Waste (tonnes)	392 339	421 839	415 910	554 806	1 784 894
Total (tonnes)	**392 339**	**765 457**	**1 113 016**	**1 480 575**	**3 751 387**
Carats recovered (carats)	—	51 898	109 369	204 624	365 891
Grade (carats per hundred tonnes)	—	15.15	15.69	22.10	18.61
Revenue					
Diamonds sold (carats)	—	—	127 590	182 786	310 376
Revenue (US$'m)	—	—	13.7	14.1	27.8
Price achieved (US$/ct)	—	—	107	77	90

Production

The Mine commenced initial production late in October 2016, when the initial wet commissioning phase took place. Before this, each item of major equipment was tested individually and commissioned without any material. The wet commissioning phase was therefore very important as it tested the plant's performance under load for the very first time. Since issues are expected to occur during the commissioning phase, the plant was initially fed with material from highly weathered low grade stock piles. At the end of December, 51 898 carats were recovered from 343 618 tonnes of lower grade ore resulting in a recovered grade of 15.15 carats per hundred tonnes ("cpht"). An under recovery of the lower value finer diamonds during the commissioning phase led to plant modifications and changes to operating parameters, which once implemented contributed to an improvement in grade from 15.69 cpht in Q3 to 22.10 cpht in Q4, and in an overall average recovered grade of 18.61 cpht for the year. In addition access to more areas of the pit, in particular the higher grade K5 ore, increased as mining operations advanced during Q4, also contributing to the increase in grade.

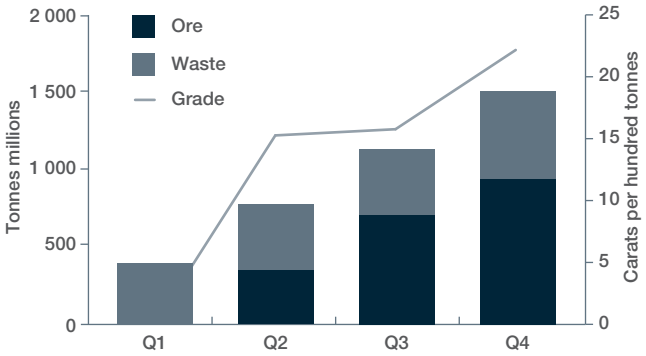
During the year, the Mine treated a total of 1 966 493 tonnes of ore, 80% from the lower grade K2 material in the pit which included some dilution, 8% from K5, 7% from K4 and the remaining 5% from historic low grade stockpiles.

Mine development

Mine development and the waste stripping programme for the year focused on de-risking operations by increasing access to more ore areas, whilst ensuring that sufficient waste rock was available to meet the material requirements for construction of the Residue Storage Facility ("RSF") wall. The height of the RSF wall needs to increase in line with the rate of tailings being generated by the plant and a combination of waste rock and course tailings are being used for its ongoing construction.

During the year, 1 784 894 tonnes of waste was mined and placed on the RSF wall.

2017 production



Costs

The cash cost for the year of US$12.26 per tonne treated was at the lower end of guidance of US$12.0 to US$14.0 per tonne, which was a particularly pleasing result as the Company had to work with a significantly stronger ZAR:US$ exchange rate of ZAR12.89 compared to the budgeted ZAR14.77. The cash cost per tonne treated is competitive considering the relatively low tonnage processed during the year.

Diamond Resource and Reserve update for Liqhobong

Diamond Resource

The 2015 SAMREC compliant Diamond Resource was updated at the end of the financial year to account for the mining that took place from October 2016 to June 2017. A total of 1.9 million tonnes and 0.472 million carats was depleted as a result of mining. A further 0.394 million tonnes and 0.114 million carats was reclassified as waste as a result of overburden and other dilution encountered during the initial stages of mining which rendered the ore uneconomic to treat. At the end of the financial year, a total of 0.062 million tonnes of ore and 0.011 million carats resided on the ROM and low grade stockpiles. Therefore, as at 30 June 2017, the total Indicated Resource was 33 million tonnes at a grade of 27 cpht and 8.935 million carats which is a 6.7% reduction compared to the 2015 Indicated Diamond Resource statement. There were no changes to the Inferred Resource.

SAMREC compliant Diamond Resource statement for Liqhobong Main Pipe as at 30 June 2017 (including Reserves)

		Diamond Resource				
Diamond Resource category	Depth from and to	Volume in m³ (millions)	Specific gravity (tonnes/m³)	Metric tonnes (millions)	Grade (cpht)	Carats (millions)
Indicated	Surface (2 631 masl) to 2 467 masl	12.624	2.61	33.002	27	8.935
Inferred	2 467 masl to 2 127 masl	18.135	2.65	48.064	28	13.553
Total Diamond Resource		**30.759**	**2.64**	**81.066**	**28**	**22.488**

- Diamond Resources as at 30 June 2017, reported inclusive of reserves.
- Tonnes are metric tonnes and totals are rounded.
- Stated at a bottom cut-off of 1.25mm square apertures.

Diamond Reserve

As a result of lower than expected sales prices achieved from March to August 2017, a new mine plan was derived at an assumed US$/ct of US$75. This resulted in a shorter overall life-of-mine ("LOM") and a reduction in the Probable Reserve compared to the 2015 plan. The reduction in the Probable Reserve is also a result of the mining depletions and reclassification mentioned above in the Diamond Resource section as well as the application of a resource to reserve modifying factor of 0.84 to compensate for the use of 1.25mm slotted bottom cut-off screens. Therefore, as at 30 June 2017, the total Probable Reserve was 26.7 million tonnes at a grade of 23 cpht and 6.233 million carats, which is a 34.5% reduction compared to the 2015 Probable Diamond Reserve statement.

In addition to the Probable Diamond Reserve, the 2017 split shell mine plan also assumes the mining of a portion of the Inferred Diamond Resource totalling some 5.5 million tonnes and 1.33 million carats. The latest 2017 mine plan contemplates the mining of a cut 1 and cut 2 and has the optionality to revert to a longer LOM which includes the original cut 3 within a three year period should there be a general improvement in the quality of diamonds recovered or a substantial increase in rough diamond prices.

SAMREC compliant Diamond Reserve statement for the Liqhobong Main Pipe as at 30 June 2017

		Diamond Reserve		
Diamond Reserve category	Depth from and to	Metric tonnes (millions)	Grade (cpht)	Carats (millions)
Probable	Surface (2 631 masl) to 2 467 masl	26.704	23	6.233
Total Diamond Reserve		**26.704**	**23**	**6.233**

- The above Diamond Reserve is stated at a 1.25mm slotted bottom cut-off.
- The average diamond price per carat is estimated at US$75/ct.
- The plant is currently using a BCO configuration of 1.25mm slotted screens which necessitates the application of a resource to reserve modifying factor of 0.84 for mine planning purposes.
- Tonnes are metric tonnes and totals are rounded.

Further detailed information on the Diamond Resource and Diamond Reserve, which have been prepared in accordance with SAMREC guidelines (2009), can be found within the Company's internal Technical Report. This Technical Report does not constitute a Competent Person's Report as defined in the AIM Rules.

FINANCIAL REVIEW

WE SUCCESSFULLY COMPLETED THE LIQHOBONG CONSTRUCTION PROJECT WITHIN BUDGET AND RAMPED UP TO FULL PRODUCTION DURING THE YEAR

Summary

- Mine Development Project completed within US$185.4 million budget
- Revenue of US$27.84 million
- 310 376 carats sold
- Average value per carat of US$90 achieved
- Cash operating cost per tonne treated (including waste) of US$12.26
- Loss before tax of US$130.0 million (US$9.0 million) which includes an impairment charge of US$122.6 million
- Standby facility of US$10.0 million available
- First repayment of ABSA debt facility in March 2017

Financial statement presentation

Common convention during commissioning and test production phases of operation is such that all revenues and operating costs are capitalised to the cost of the asset in the Statement of Financial Position until commercial production is achieved. Once achieved, revenues and operating costs are recognised in the Statement of Comprehensive Income.

Accounting for change

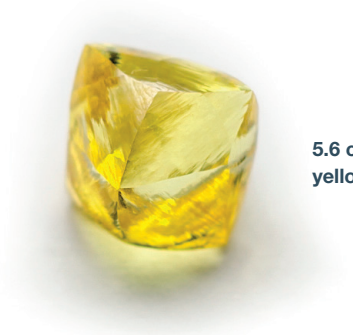
Commercial production was established at the end of June when commissioning activities, which included certain modifications to the plant, were complete and full nameplate production targets had been reached consistently over a three month period. Since commercial production was established at the end of the financial year, all revenues and operating costs for the year were capitalised to the cost of the asset. This financial review presents the financial performance prior to capitalisation.

Diamond sales

	Q1	Q2	Q3	Q4	**FY2017**
Revenue					
Diamonds sold (carats)	—	—	127 590	182 786	**310 376**
Revenue (US$'m)	—	—	13.7	14.1	**27.8**
Price achieved (US$/ct)	—	—	107	77	**90**

The Group recognised total revenue for the year from four sales of US$27.8 million where 310 376 carats were sold at an average price of US$90 per carat.

Firestone's first diamond sale took place in February 2017, when all of the 75 936 carats offered for sale, which included a 37.7 carat flawless "D" colour diamond, were sold for US$8.14 million, realising an average price of US$107 per carat. The first sale was strongly supported, with over 90 different companies viewing the diamonds and more than 38 of them becoming successful bidders.



5.6 carat vivid yellow diamond

In April 2017, a 109 carat light yellow diamond was recovered, providing further evidence of the large stone potential of Liqhobong. Minor modifications to the plant together with changes to the plant's operating parameters during Q3 resulted in increased recoveries, particularly of the finer lower quality diamonds. This had a positive impact on grade which improved from 15.69 cpht in Q3 to 22.10 cpht in Q4, but impacted negatively on US$ per carat, which decreased from US$107 per carat in Q3 to US$77 per carat in Q4.

The resultant reduction in average value was a combination of the value recovered and the impact of the Indian demonetisation programme late in 2016 and early 2017.

Liqhobong operating costs

Mine operating costs for the year comprise on-mine cash costs, off-site administration and selling expenses incurred from the time that operations commenced in October 2016. Operating costs of US$12.26 per tonne treated were in line with expectation at the lower end of guidance of between US$12 and US$14 per tonne treated.

During the year, the local currency strengthened by 12.74% from LSL14.77:US$1 to LSL12.89:US$1 which resulted in higher than expected costs in US Dollar terms. However, careful cost management early on in the production cycle resulted in cost savings which offset the higher cost resulting from the stronger local currency.

US$'million	2017	2016
On-mine cash costs	**19.8**	—
Diamond royalties	**1.1**	—
Diamond inventory movement	**(3.9)**	—
Administration and selling expenses	**0.6**	—
Total cash operating cost	**17.6**	—
Depreciation	**1.0**	—
Waste stripping amortised	**2.3**	—
Share-based payment expense	**0.2**	—
Accounting mining cost	**21.1**	—
KPIs:		
Cash operating cost per tonne treated	**12.26**	—
Accounting cost per tonne treated	**11.69**	—

BK11 care and maintenance

The BK11 care and maintenance cost of US$0.5 million remained the same as the previous year. Amulet Diamond Corporation began contributing up to US$30 000 of the monthly cost from 1 June 2017 in terms of an Option Agreement which was entered into on 24 May 2017.

Corporate overhead

Corporate costs for the year of US$3.2 million compared favourably, once again, to the previous year's US$3.4 million, evidencing managements continued commitment to cost control and reduction where possible.

Depreciation

The depreciation charge for the year of US$2.3 million comprises US$1.2 million for the BK11 mine assets, US$1.0 million for the powerline which provides electricity to the Liqhobong Mine and US$0.1 million for other assets.

Impairment

Lower than expected average diamond prices achieved is an indicator of potential impairment resulting in an assessment of the carrying value of the Liqhobong Mine asset in the Statement of Financial Position. The result of the assessment, as described more fully in note 9 to the financial statements on page 58, has led to an impairment charge of US$122.6 million. It must be noted that a reversal of a portion or all of the impairment could take place in the future, should the Mine recover more higher quality diamonds resulting in a higher average value or general rough diamond market conditions improve.

Tax charge

The net tax charge for the year of US$21.7 million comprises a deferred tax charge of US$18.7 million and an income tax charge of US$3.0 million in Kopane Diamonds. The deferred tax charge is due to the reversal of a portion of the deferred tax asset recognised in 2016. This is due to the lower average diamond price environment. The tax charge resulted from taxable interest income earned on loan funding provided to the Liqhobong Mine. Withholding tax is levied by the Lesotho Revenue Authority on the interest paid by Liqhobong at a rate of 10% which was sufficient to offset the tax payable by Kopane.

Net loss for the year

In summary, the Group incurred a loss for the year of US$151.7 million, made up as follows:

	US$'millions
Income	29.1
Less:	
Operating costs	17.6
Reclassification of Liqhobong gross profit	10.3
Administration and other costs	7.8
Impairment	122.6
Finance cost	0.8
Loss before tax	**130.0**
Income tax charge	21.7
Net loss after tax	**151.7**

FINANCIAL REVIEW CONTINUED

Capex

During the year US$35.1 million was capitalised to the Liqhobong Mine asset and includes additions of US$25.7 million (net of revenue of US$27.8 million), capitalised borrowing costs of US$5.1 million and a capitalised effective interest charge of US$4.3 million.

The total cost of constructing the Liqhobong Mine of US$183.3 million was marginally less than the budget of US$185.4 million. The cost of removing additional overburden which was encountered early in the construction phase and the additional cost of risk mitigation items which included increased on site water storage capacity were fortunately offset by foreign currency exchange gains of US$28.0 million.

Debt

	Interest rate	Facility amount	**2017 US$'000**	2016 US$'000
ABSA debt facility	US$ 3 month LIBOR plus margin[1]	82.4	**81.0**	43.4
Eurobond (Series A)	8% p.a.	30.0	**30.0**	30.0
Eurobond (Series B)	8% p.a.	15.0	**5.0**	—
		127.4	**116.0**	73.4

1 Tranche A (85% of loan balance) – margin of 1.8%.
Tranche B (15% of loan balance) – margin of 10% pre-financial completion and 7.5% post-financial completion.

The Group drew the final amount available under the US$82.4 million ABSA debt facility in January 2017. Quarterly repayments commenced in March when US$1.4 million of capital was repaid. The June capital repayment of US$3.3 million cleared shortly after year end.

The Group ended the year with US$116.0 million of debt. At 30 June 2017, the Group had US$10.0 million available from the Series B Eurobond facility ("Standby Facility").

Covenant measurement

During the year, ABSA Bank agreed to extend the period for first covenant measurement from December 2017 to June 2018, by which time, unless agreed otherwise, Liqhobong must have achieved financial completion.

Covenants are measured as follows:

	Financial completion[5]	Maintenance following financial completion[6]
Forecast debt service cover ratio[1]	>=2 times	>=1.5 times
Historic debt service cover ratio[2]	>=2 times	>=1.5 times
Loan life cover ratio	>=2.2 times	>=1.7 times
Debt/equity ratio[3]	n/a	<=55:45
Reserve tail ratio[4]	>=40%	>=30%

1 The ratio of forecast operational cash flow for a three month period, to the next quarterly debt repayment which includes capital and interest.
2 The ratio of historic operational cash flow generated for a three month period, to the quarterly debt repayment due, which includes capital and interest.
3 The ratio of forecast operational cash flow over the life of the loan, to total debt under the facility.
4 The ratio of the remaining diamond reserve, to the total diamond reserve of 36.4 million tonnes.
5 Ratios to be met no later than 30 June 2018.
6 Ratios are measured on a quarterly basis commencing 30 September 2018.

Cash flow

The Group began the year with US$10.3 million in cash. Cash spend for the year of US$36.8 million included US$3.7 million on operations and US$30.9 million on the project, and foreign exchange adjustments resulted in a decrease of US$0.5 million. During the year, the Group drew a total of US$44.0 million from debt facilities, US$39.0 million from the ABSA project debt facility and US$5.0 million from the Standby Facility, and repaid US$1.5 million of the ABSA facility and other loans. The Group ended the year with a cash balance of US$17.1 million.

HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY

Health and safety

Achievements:

- successful transition of the Safety Management System from the Construction team to the Liqhobong Management team;
- total of 4 437 107 cumulative man-hours worked without any Lost Time Injuries; and
- zero Lost Time Injuries.

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

While the operations have been designed in such a way that they are as safe as possible, and policies and procedures are in place to help prevent accidents from occurring, accidents can still occur. In many instances, accidents are as a result of non-compliance with standard safety procedures, whereupon refresher training is conducted and safety standards are reinforced. The Company operates a Safety Management system which records all incidents as well as near misses. All incidents are investigated to identify the reasons for them occurring, and the corrective action required to prevent them from re-occurring. Firestone also recognises the importance of reporting all near misses, so that corrective action is taken to prevent these from resulting in incidents in the future.

The health of our people is also important as there are mutual benefits for the Company and for the individual. The Mine has a gym which is equipped to assist people to stay fit whilst on site, and there is a clinic which is adequately resourced to treat people for a range of medical issues and emergencies. Procedures are in place for medical evacuation to more suitable medical facilities should this be required. HIV/AIDS has a high prevalence in Lesotho and all employees are encouraged to determine their status. Counselling is offered and the clinic is available to assist people in managing the illness.

Firestone maintained its zero Lost Time Injury Frequency Rate ("LTIFR") and Fatal Injury Frequency Rate ("FIFR") safety record in FY2017. We thank all those involved in maintaining this exemplary record from construction of the Liqhobong Mine which commenced in July 2014, throughout commissioning and ramp-up of the operations during the year.

Environment

Achievements:

- 10% reduction in water consumption per tonne processed;
- reduced electricity consumption of 10kW per hour per tonne processed;
- successful implementation of a closed-circuit water management programme that ensures water quality meets South African National Standards ("SANS") for drinking water and livestock watering;
- successful implementation of an advanced dust suppression system throughout the operation that reduced the risk of dust pollution which can impact neighbouring communities and employees;
- zero major environmental incidents; and
- 100% compliance with all environmental regulations, licences and permits.

Firestone is committed to minimising its impact on the environment in which it operates. We conduct business in a sustainable, socially and environmentally responsible manner, since the long-term sustainability of our business is dependent upon good practices in both the protection of the environment and the efficient management of the mining and processing of our mineral resources.


Safety toolbox talk

Safety awards

HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY

The physical location of the Liqhobong Mine in the mountainous highlands of Lesotho required a significant transformation to create level areas where infrastructure such as the processing plant and access roads could be constructed. The construction activities which commenced in June 2014, and which were substantially completed at the end of 2016, were governed by our Environmental Management Plan ("EMP"). Our aim now is to ensure that we adhere to our EMP by putting in place pro-active environmental monitoring and management plans so that the required standards of environmental protection are achieved and maintained throughout the life of the Mine. We report our performance against the plan to the Lesotho Department of Environment bi-annually and ensure that we are accountable to all our stakeholders.

Our employees and contractors form an integral part of the environmental management system within the Company, 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 bio-diversity and conservation, as well as the procedures in place to reduce, re-use and recycle waste thereby promoting efficient use of natural resources and minimising the quantity of final waste disposal. There is a strong culture of re-use and recycling at the Mine and all waste is handled and disposed of in a responsible manner.

Operational activities at the Mine require substantial volumes of water. Managing water supply is increasingly important given the fact that water is becoming a scarce resource in southern Africa, due to ongoing droughts, which have resulted from increasingly irregular annual rainfall patterns. We are therefore committed to responsible water management by continuously assessing our impact on the natural water resources with a strong focus on water reclamation, recycling and re-use in the operation. We continually participate in forums to discuss and share lessons learnt and exchange ideas regarding the environmental management of water resources.

Our operations are dependent on electricity supplied from the local grid, and our approach to energy management is focused on the awareness and reduction of energy consumption where at all possible. A number of energy efficiency initiatives were implemented during the year which included the installation of energy efficient LED lighting equipment throughout the operation, installing variable speed drives on appropriate equipment and optimising the use of power on the Mine.

Community

Firestone is committed to a Corporate Social Responsibility and Investment ("CSRI") programme in order to build long-term, transparent and mutually beneficial relationships with our two closest villages in particular, Liqhobong and Pulane, which are most affected by our operations. These relationships are important in balancing the community's expectations against the Group's strategy to develop sustainable projects and increase basic living standards in the area.

We have therefore maintained an open dialogue with the community, worked together with government departments and non-governmental organisations and, over the years, consistently delivered on resulting projects and initiatives. We have actively engaged with the community to understand its basic needs and to ensure that these projects benefit the community as a whole.

During the year, we embarked on community projects which focused on two important, life-changing aspects: providing clean potable water to the two villages adjacent to the Mine and improving school facilities.

Fresh drinking water is now available from 20 tap points, which are conveniently located within the villages. The water is sourced from 13 springs from the surrounding areas which are connected by a series of pipelines and other infrastructure. All of the work on this project was performed by the villagers together with the assistance of our own employees who have the required knowledge and skills to ensure that the project was a success.

Ambulance and clinic


Clean, potable water supply to community

Basic education is a priority, and an ongoing challenge in southern Africa. We built and equipped a crèche, where young children can be schooled prior to starting their formal education at the Liqhobong Primary School. During the year, we also increased the Primary School's capability by building an additional classroom and a school office. One of our partners, the Crossroads Foundation, provided school furniture and equipment, educational material and school uniforms, as well as clothing and other supplies which were distributed to those most in need.

We recognise the employment needs of the local communities and the positive impact that employment has on the local economy. It is for this reason that we always consider employing people from the local communities before searching further afield. We are particularly proud that Liqhobong Mine employs 94% of its people from within the country.

One of the challenges we face is that of increasing community expectation. We understand that the community needs to voice its concerns. Ongoing engagement and communication ensures that issues are identified and resolved satisfactorily. During the year we concluded an agreement of understanding with the two villages which clearly demonstrated our commitment to them.

We continue to work with the local communities to identify and implement successful and sustainable projects which benefit the communities as a whole, helping us achieve our strategic objective of increasing basic living standards in the area.

Strategic review conclusion

The current year has started well with 199 007 carats recovered during the first quarter, including the largest diamond recovered to date, a 133 carat light yellow stone, as well as 45 specials (larger than 10.8 carats). Mining is proceeding to plan and Firestone is gradually extending operations to additional areas in the pit and, as more detailed knowledge of the pit is acquired over the coming months, the Company expects to be able to fully optimise operations at Liqhobong. As announced on 1 December 2017, management, aided by consultants, has developed a revised mine plan to better cater for the current lower than expected diamond sales results and ensure the Company can mine sustainably should the lower average diamond values being achieved persist.

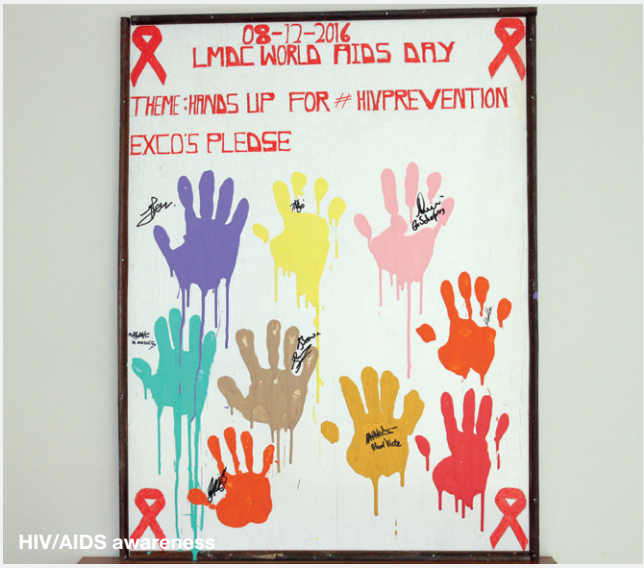
In parallel with finalising the new mine plan, Firestone has been in discussions with its major shareholders and debt providers on the future financing of the Company. These discussions have been productive and have yielded a positive outcome for the Company. We have announced a potential US$25.0 million equity capital raise and a restructuring of the ABSA debt facility (see note 1 for more detail). Together, these will provide the Group with financial strength and flexibility to continue to develop the Liqhobong Mine for the benefit of all of our stakeholders.

Strategic Report

This Strategic Report was approved by the Board on 30 November 2017 and is signed on its behalf by:

Lucio Genovese
Non-Executive Chairman

Stuart Brown
Chief Executive Officer



HIV/AIDS awareness


Opening of a new crèche

BOARD OF DIRECTORS

Stuart Brown, Chief Executive Officer

Mr Brown has over 25 years of experience in the diamond industry, where he has gained a wealth of experience across all aspects throughout the diamond pipeline from exploration, mine development and operations to selling and marketing of diamonds. In 2006, Mr Brown was appointed as the De Beers Group CFO, a position he held for over five years, and in 2010 was appointed joint acting CEO to run De Beers' global activities in addition to his CFO duties.

Mr Brown has an enviable track record of leading business transformation to develop lean, agile and high performing organisations. Mr Brown holds a Bachelor of Accounting Science from the University of South Africa and is a member of the South African Institute of Chartered Accountants. Mr Brown is also a member of the Commonwealth Enterprise and Investment Council.

Lucio Genovese, Non-Executive Chairman

NC

Mr Genovese has 30 years of experience in both the merchant and financial sector of the metals and mining industry. Mr Genovese is the CEO of Nage Capital Management in Baar, Switzerland. He is also a member of the board of Ferrexpo AG and Nevada Copper Inc. and was actively involved in the acquisition and development of Ferrous Resources and more recently Mantos Copper S.A., where he is also a board member. He was previously employed at Glencore International AG where he held several senior positions including CEO of the CIS region and manager of the Moscow office. Mr Genovese is a qualified Chartered Accountant and has a BComm and BAcc from the University of Witwatersrand, Johannesburg (South Africa).

Deborah Thomas, Non-Executive Director

AC NC RC

Ms Thomas was with Deloitte for over 22 years, during which time she gained extensive experience advising some of the world's leading mining companies in both the UK and Africa, including Anglo American, BHP Billiton and Rio Tinto. She retired from the firm as an audit and advisory partner, Head of the Metals & Mining Team and Head of Deloitte's Africa Services Group, having served as Deloitte's lead client service partner for De Beers for ten years.

Ms Thomas has held a number of Board positions including Chair of the South African Institute of Chartered Accountants (SAICA) UK Board, as well as on the Advisory Board to the South African Chamber of Commerce and Education Africa. She is currently Group CFO and executive director of Bibimoney Global Limited. Ms Thomas has been voted one of the Top 100 women in mining globally, 100 of the most influential South Africans in the UK, and is currently the Chair of Women in Mining (UK).

Ken Owen, Non-Executive Director

SHECC

Mr Owen has over 40 years of experience in the mining industry. From 1974 to 1995, he worked for De Beers Consolidated Mines, holding the position of consulting engineer for the group mines from 1988 to 1992 and general manager of the Premier Diamond Mine until 1995 when he was transferred to Anglo American South America as senior vice president of mining. In 2003 he joined the international mining and geological consultancy firm, SRK Consulting, as an associate consultant. In 2006 he joined Mwana Africa plc, an AIM-listed junior miner (now known as Asa Resource Group plc) as Technical Director, retiring in 2009. Mr Owen holds an MSc in minerals production management from Imperial College, London.

Paul Sobie BSc, PGeo, Non-Executive Director

AC RC

Mr Sobie is an economic geologist specialising in the exploration and evaluation of diamond deposits, which included the initial economic evaluations of the Liqhobong kimberlites in Lesotho. Mr Sobie has over 25 years of professional experience, including extensive project evaluation work for clients in both the junior and senior mining sectors and with a particular focus on southern Africa. He is currently president and managing partner of MPH Consulting Limited of Toronto, Canada, an international mineral exploration, geological and geophysical consultancy. Mr Sobie is a practising member of the Association of Professional Geoscientists of Ontario.

Mike Wittet, Non-Executive Director

RC NC SHECC

Mr Wittet has over 40 years of experience in mining, the majority of which were spent in the diamond industry. His career includes various senior positions in the industry including general manager of Jwaneng, Orapa and Namdeb diamond mines. Mr Wittet also held the position of consulting engineer in charge of De Beers SA operations and deputy managing director of Debswana Diamond Company (Pty) Limited. Mr Wittet holds an honours degree in chemical engineering from Edinburgh University in Scotland.

Niall Young, Non-Executive Director

Mr Young is an economic geologist with over 30 years' experience in exploration, evaluation, R&D and mining and has worked on projects across southern Africa, Canada, Russia, Eastern Europe, the Middle East and India. He spent 25 years with the Anglo American, Minorco and De Beers Group of companies in a range of commodities. In 2006, he was General Manager Mineral Resource Management for the De Beers Group, and from 2011 to 2014, was also CEO of Mantle Diamonds Limited, a diamond exploration and mining company. Mr Young is a co-founding director of Kleingeld Young & Partners, a mining and natural resources consultancy and a founding director of Blue Lias Technologies plc, a hi-tech start-up company specialising in the development and application of Radio Frequency Identification ("RFID") technology in mining. Mr Young is a director of GemRock Company Limited, a coloured gemstone exploration and mining company. Mr Young is Pacific Road Capital Management's nominated non-executive director of the company.

Mr Young holds a BSc (Hons) in Mineral Exploitation from University College Cardiff and is a Fellow of the Geological Society of London.

Keith Johnson, Non-Executive Director

AC

Mr Johnson has over 25 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.

Grant Ferriman, Chief Financial Officer

Mr Ferriman is a qualified Chartered Accountant with 17 years of experience, including ten years in the mining industry. He was appointed as Chief Financial Officer of Firestone Diamonds in 2012. Prior to joining the Company, he was the group financial controller for Mwana Africa 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.

Glenn Black, Chief Project Officer

Mr Black is a mechanical engineer with over 40 years of experience in senior management and operational roles in the mining industry. Mr Black spent 22 years at De Beers before leaving in 2012. During his time with De Beers, his primary role focused on project implementation, management, and operation for a variety of major projects globally, having managed nine major projects for the De Beers group of companies. Mr Black's career has seen him work in the coal, gold, mineral sands, platinum and diamond mining industries.

Paul Bosma, General Manager – Liqhobong

Mr Bosma is a qualified geologist with more than 24 years' 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 general manager of a joint venture company owned by De Beers and Anglo Gold Ashanti where after he worked as a vice president for Pala Investments, an international mining investment fund based in Switzerland. Mr Bosma holds BSc (Honours) and MSc degrees as well as an MBA from the University of Cape Town's Graduate School of Business.

Key

- AC — Audit Committee
- NC — Nomination Committee
- RC — Remuneration Committee
- SHECC — SHEC Committee

CORPORATE GOVERNANCE STATEMENT

WE ARE FULLY COMMITTED TO SUPPORTING HIGH STANDARDS OF GOVERNANCE AND RECOGNISE THAT BY APPLYING SOUND PRINCIPLES WE WILL PROVIDE A SOLID BASIS FOR GROWTH

Summary

Firestone Diamonds Board

- Nomination Committee
- Audit Committee
- Remuneration Committee
- Safety, Health, Environment and CSR Committee

Role of the Board

The Board has approved a Schedule of Matters reserved for the Board, which sets out the Board's responsibilities. The key tasks of the Board are:

- setting the Group's values and standards;
- approval of long-term objectives and strategy;
- approval of revenue and capital budgets and plans;
- review of performance in light of strategy and budgets ensuring any necessary corrective actions are taken;
- approval of the Annual Report and Accounts, material contracts and major projects;
- determination of the financial structure of the Group including the dividend policy;
- oversight of the internal control and risk management environments; and
- approval of communication with shareholders and the market.

Dear shareholder

I have pleasure in presenting Firestone Diamond's Corporate Governance Statement. This report summarises the Company's governance framework and highlights the work the Board has done during the year to develop our governance approach and practice.

AIM Companies of the London Stock Exchange are not required to comply with the UK Corporate Governance Code (the "Code") and due to its size, the Company does not seek to comply with the Code. As a Board, we are fully committed to supporting high standards of governance and recognise that by applying sound principles in running the Company we will provide a solid basis for growth and establish trust with our stakeholders. It is our goal therefore to improve and develop our governance procedures as the Company grows. We apply, wherever possible, and as appropriate to the size, nature and resources of the Group the Quoted Companies Alliance ("QCA") corporate governance guidelines and code for smaller quoted companies. It is our intention to be open and transparent about our governance arrangements and use the Annual Report and Accounts to give details of changes and improvements we have made during the year.

The Directors support high standards of corporate governance. The Company has identified areas of the Code it considers relevant to the current size and nature of the Group's operations as set out in this statement.

Lucio Genovese
Non-Executive Chairman
30 November 2017

Composition of the Board

The Board consists of eight Directors: the Non-Executive Chairman, one Executive Director, and six further Non-Executive Directors. The skill set of the Board includes experience in corporate finance, mining and exploration, and investor relations. As the requirements and focus of the Company change in the future, so too will the Board composition as we ensure the skills required are in place. Details of each of the Directors' experience and background are given in their biographies on pages 20 and 21.

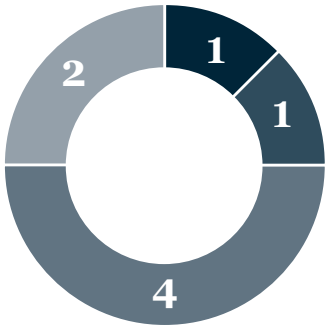
Independence

The Board considers four of its seven Non-Executive Directors, Ken Owen, Paul Sobie, Mike Wittet and Deborah Thomas to be fully independent. In this respect the Company is compliant with the Code which requires that smaller companies should have at least two independent Non-Executive Directors.
The Board has reviewed the independence of the Chairman, Lucio Genovese, and Non-Executive Directors Niall Young and Keith Johnson and is aware that these Directors will not be considered to be independent if strict best practice guidelines are applied. Niall Young and Keith Johnson are the nominated Non-Executive Directors of major shareholders of the Company: Pacific Road Capital Management and Resource Capital Fund respectively. The Chairman, Lucio Genovese is a representative of Nage Capital Management, which works on a number of projects with Audley Investment Management Limited which indirectly holds 0.9% of the Company.
The Board maintains that these Directors have retained their independence of thought and support for the interests of all the Company's shareholders.

Appointments to the Board and re-election

The Board has delegated the tasks of reviewing Board composition, searching for appropriate candidates and making recommendations to the Board on candidates to be appointed as Directors to the Nomination Committee. Further details on the role of the Nomination Committee may be found on page 27.

Split between Executive and Non-Executive Directors



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

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

Chairman and Chief Executive Officer

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

Senior Independent Director

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

Non-Executive Directors

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

Conflicts of interest

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

Development, information and support

The Directors are actively encouraged to visit the operations in Lesotho and several site visits have been made by individual Directors during the year. At least one Board meeting per year is held on site at Liqhobong. The Chairman is supported in governance matters by Prism Cosec, which also provides company secretarial services to the Company. Updates are given to the Board on developments in governance and regulations as appropriate.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Performance evaluation

A formal internal performance evaluation, by way of questionnaire, was carried out in 2016 and as a result various work streams arose. For example, the Board has begun to discuss succession planning in light of the Mine moving into its operational phase. In the year under review the Directors agreed that it would be good practice to repeat the Board exercise and have put forward the topics they feel should be addressed by the evaluation. These will be reviewed at a future Board meeting and the evaluation will take place in 2018.

Operation of the Board and its Committees

The Board is supported by Board Committees which are responsible for a variety of tasks delegated by the Board. Each Board Committee has approved Terms of Reference setting out their responsibilities. These are available on the Company's website at **www.firestonediamonds.com**.

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

The Board and its Committees meet regularly throughout the year. Directors also have ongoing contact with Senior Management on a variety of issues between formal meetings. Directors are encouraged to question and voice any concerns they may have on any topic put to the Board for debate.

Attendance of Directors at Board and Committee meetings is shown below.

	Board (6 meetings)	Audit Committee (4 meetings)	Remuneration Committee (4 meetings)	Nomination Committee (2 meetings)	SHEC Committee (3 meetings)
Lucio Genovese	6/6	—	—	2/2	—
Stuart Brown	6/6	—	—	—	—
Keith Johnson	5/5	4/4	—	—	—
Braam Jonker	2/2	3/3	—	1/1	—
Ken Owen	2/6	—	—	—	3/3
Paul Sobie	5/6	4/4	4/4	—	—
Deborah Thomas	3/4	1/1	4/4	1/1	—
Mike Wittet	6/6	—	4/4	2/2	3/3
Niall Young	5/6	—	—	—	—

The number of meetings attended is reported out of the number of the meetings that the Director was eligible to attend.

What the Board did during the year

Having put in place, during 2016, the structure necessary to ensure that the Mine progressed to operational readiness the Board spent time monitoring that structure and reviewing reports on all aspects of the working mine. The following areas were all addressed by the Board during the year:

- monitoring progress on the Liqhobong Development Project, the transition to operations and the ramp-up to steady state;
- regularly reviewing the Company's risk matrix;
- discussing and overseeing environmental and community issues arising from the Group's activities;
- considering and approving ongoing arrangements for the disposal of the Group's Botswana assets;
- considering the performance of the Company in the context of the market as a whole;
- considering and approving procedures under the new Market Abuse Regulations;
- considering and approving the appointment of a new Non-Executive Director;
- reviewing the Group's insurance arrangements;
- monitoring the operation of the treasury policy;
- approving the Group budget for the year;
- considering the appointment of additional brokers;
- continuing to ensure that the Group complies with UK governance and legislator regulations; and
- approving various procedural arrangements connected with the Group's Eurobond put in place in April 2015.

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

Risk management and internal control

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

The Board is responsible for the effectiveness of the internal financial control framework. Such a system can only provide reasonable and not absolute assurance against material misstatement. The Group does not currently have, nor considers there is currently a need for, an internal audit function. The Board will continuously assess the ongoing need for the strengthening of internal financial controls as the Group moves out of the development phase at the Liqhobong Diamond Mine.

Risks throughout the Group are considered and reviewed on a regular basis. Risks are identified and a risk matrix, detailing the major risks, is prepared. The risk matrix is used to track and monitor risks and put in place mitigating actions as required. Principal risks identified are set out in the Strategic Report on pages 8 to 10.

Relations with shareholders

The Board is committed to maintaining ongoing communication with its shareholders. The Directors are keen to build a mutual understanding of objectives with its institutional shareholders and a regular dialogue has been maintained throughout the year. The Directors also encourage communications with private shareholders and their participation in the Company's Annual General Meeting.

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

This year's Annual General Meeting of the Company will be held on 29 December 2017. The Notice of this year's Annual General Meeting is included with this Annual Report and Accounts and is available on the Company's website at **www.firestonediamonds.com**.

AUDIT COMMITTEE REPORT

Members of the Audit Committee

The Committee consists of the following Non-Executive Directors:

- Deborah Thomas (Chairperson);
- Paul Sobie; and
- Keith Johnson.

The Audit Committee ("the Committee") continued its important work to continually assess whether the Group's reporting, controls and systems are robust and appropriate to the business.

The Committee plays a crucial role by ensuring that the Company and Group has effective and appropriate risk management and internal control systems, backed up by comprehensive financial, governance, and reporting functions.

Duties

The main duties of the Audit Committee are set out in its Terms of Reference and include:

- to monitor the integrity of the financial statements of the Company, including its annual and half year reports;
- to review and challenge where necessary any changes to, and consistency of, accounting policies, whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor, the going concern assumption and all material information presented with the financial statements;
- to keep under review the effectiveness of the Company's internal controls and risk management systems and to review and approve the statements to be included in the Annual Report concerning internal controls and risk management;
- to consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor; and
- to oversee the relationship with the external auditor including approval of their remuneration, approval of their terms of engagement, assessment annually of their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services.

Principal activities during the year

Some of the key developments considered by the Committee during the year, as well as our ongoing responsibilities and objectives:

- review the Group's new accounting systems to ensure they were robust and fit for purpose;
- review the internal control environment to ensure effectiveness in identifying risks to be assessed and managed;
- review the Group risk log and mitigating factors;
- review the audit plan and scope and consideration of the key audit risks; and
- review the Group's tax arrangements.

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

- accounting for the BK11 Mine;
- impairment of assets;
- cash flow forecasts;
- going concern;
- debt re-structuring; and
- post balance sheet events.

With regard to year-end reporting:

- review of the financial statements and Annual Report;
- consideration of the external audit report; and
- review of the interim results announcement.

Role of the external auditor

The Committee monitors the relationship with the external auditor, BDO LLP, to ensure that auditor independence is maintained and reviews its performance. Having reviewed the auditor's independence and performance, the Audit Committee is recommending that BDO LLP be re-appointed as the Company's auditor at the next Annual General Meeting.

Audit process

The auditor prepares an Audit Plan for its review of the full year and half year financial statements. The Audit Plan sets out the scope of the audit, particular areas of focus and audit timetable. This plan is reviewed and agreed by the Audit Committee. Following its review the auditor presents its findings to the Audit Committee for discussion.

NOMINATION COMMITTEE REPORT

Members of the Nomination Committee

The Committee consists of the following Non-Executive Directors:

- Lucio Genovese (Chairman);
- Deborah Thomas; and
- Mike Wittet.

Duties

The main duties of the Nomination Committee are set out in its Terms of Reference and include:

- to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board compared to its current position and to make recommendations to the Board with regard to any changes;
- to give full consideration to succession planning and formulate succession plans for Directors and other senior Executives and in particular for the key roles of Chairman and Chief Executive Officer in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future;
- to be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- to assess the re-appointment of any Non-Executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required; and
- to assess the re-election by shareholders of any Director, having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.

Principal activities during the year

The Nomination Committee met formally twice during the year but also on a number of occasions, informally, as it was necessary to identify a new Non-Executive Director to replace Braam Jonker, who stepped down from the Board at the December 2016 AGM. The Committee considered the requirements of the Board and it was felt necessary to attract a candidate with extensive financial experience who could take over the chairmanship of the Audit Committee. The Nomination Committee compiled a short list of candidates, after consulting with an external recruitment consultant, which was considered by the Board. The Committee was pleased to recommend Deborah Thomas's appointment to the Board.

The Committee will begin to give greater consideration to succession planning for the Board, and for senior executives, during 2017 when the Company's ongoing organisational structure has been fully defined and senior recruitment completed.

SAFETY, HEALTH, ENVIRONMENT AND CORPORATE SOCIAL RESPONSIBILITY ("SHEC") COMMITTEE REPORT

The Group has maintained its excellent health, safety and environmental record during the 2017 financial year, an achievement that it is proud of. A total of 2 646 640 LTI-free hours was recorded during the year, which brings our total cumulative LTI-free hours to well over four million hours since construction commenced three years ago. Pleasingly, this achievement has been maintained through to the end of October 2017 during which time we achieved five million LTI-free hours. A number of minor safety incidents were investigated by Management during the year and reported to the SHEC Committee and Board where they received due attention. Appropriate corrective actions have been agreed and put in place following investigation. We are determined to maintain this excellent record.

As discussed in the SHEC Review in the Strategic Report, Firestone remained committed to its Corporate Social Responsibility and Investment ("CSRI") programme, which is evidenced by the completion of a number of successful CSRI initiatives during the year.

Members of the SHEC Committee

The SHEC Committee consists of the safety health and environmental managers, General Manager and two Non-Executive Directors, Mike Wittet, who chairs the Committee and Ken Owen.

Duties

The remit of the SHEC Committee has been extended to include the review of corporate social responsibility matters. The main duties of the SHEC Committee are set out in its Terms of Reference and include:

- evaluate the effectiveness of the Group's policies and systems for identifying and managing health, safety, social, and environmental risks within the Group's operations;
- to assess the policies and systems within the Group for ensuring compliance with health, safety, social and environmental regulatory requirements;
- to assess the performance of the Group with regard to the impact of health, safety, social and environmental decisions and actions upon employees, communities and other third parties and also to assess the impact of such decisions upon the reputation of the Group;
- to review the results of independent audits of the Group's performance in regard to health, safety, social or environmental matters, review any strategies and action plans developed by Management in response to issues raised and, where appropriate, make recommendations to the Board concerning these; and
- to review reports from Management concerning serious accidents and incidents within the Group and actions taken by Management with regard to investigation and implementation of mitigation measures.

Principal activities during the year

The principle activities of the SHEC Committee during the year were as follows:

- the SHEC Committee attended three two-day visits to the Liqhobong Mine site where presentations were given by the relevant departments, after which a full production plant walkthrough and an inspection of mining operations were conducted;
- evaluated the effectiveness of the policies and systems in place through review of the monthly incident and SHEC statistics reports;
- significant safety risks were considered together with SHEC department;
- monitored the implementation of SHEC initiatives presented to the committee by the SHEC department; and
- provided quarterly feedback to the Board regarding SHEC performance.

DIRECTORS' REMUNERATION REPORT

WE BELIEVE THE COMPANY HAS SUCCEEDED IN ASSEMBLING A HIGHLY EXPERIENCED TEAM WITH A PROVEN TRACK RECORD OF SUCCESSFUL PERFORMANCE IN THE DIAMOND INDUSTRY

Summary

- Highly experienced management team which achieved successful project completion and commissioning of the Liqhobong Mine
- Competitive remuneration packages implemented, benchmarked in both southern Africa and United Kingdom
- Motivating performance-related remuneration designed to attract and retain key staff implemented
- Compliance with best practice guidelines as the Committee consists entirely of independent Non-Executive Directors

Dear shareholder

I am pleased to present the Remuneration Report for the year ended 30 June 2017. The Company had an extremely busy year with completing construction of the Liqhobong Mine and attaining design capacity, under the direction of the Company's management team.

The Remuneration Committee continued to work closely with the Chief Executive Officer on the remuneration packages including new long-term and short-term incentive programmes for our executive and operational team. This work included commissioning independent consultants in 2016 to assist us in ensuring Firestone's packages are competitive and attractive in the southern African mining industry. We feel it imperative that our packages offer the right balance of fixed, performance and retention-based compensation that results in exceptional managers being attracted to, and staying with, the Company.

As a result of this work, the Company implemented its new Long-Term Incentive Plan ("LTIP") featuring restricted share units ("RSUs") which was approved by shareholders at the 2016 Annual General Meeting. We believe the Company has succeeded in assembling a highly experienced team with a proven track record of success in the diamond industry, and that the mixture of fixed and variable performance-related remuneration is balanced and will motivate the team to achieve exceptional results.

The Remuneration Committee

The Board has delegated certain responsibilities for Executive remuneration to the Remuneration Committee. The Remuneration Committee has approved Terms of Reference, a copy of which is available on the Company's website at **www.firestonediamonds.com**.

Remuneration Committee Membership and attendance at meetings

The current members of the Remuneration Committee are three Non-Executive Directors:

- Paul Sobie (Chairman);
- Mike Wittet; and
- Deborah Thomas.

The Committee consists of independent Non-Executive Directors and therefore complies with best practice guidelines which recommend that all members should be independent.

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

DIRECTORS' REMUNERATION REPORT CONTINUED

The Remuneration Committee's main responsibilities

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

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

What the Remuneration Committee did during the year

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

- worked closely with our Chief Executive Officer to ensure that Firestone's remuneration packages were competitive for all executives and managers;
- in relation with the above, carefully decided upon Firestone's peer group of mining companies for the purpose of benchmarking remuneration packages;
- reviewed and determined that both the Non-Executive Directors, and Non-Executive Chairman remuneration should remain unchanged at present;
- determined executive and management fixed-salary levels for 2017 based on benchmarking and cost-of-living indexing;
- determined executive and management Short-Term Incentive Plan ("STIP") levels and Key Performance Indicators ("KPIs") for these performance-based awards;
- implemented the Company's new Long-Term Incentive Plan ("LTIP") of share options for executives and management of restricted share unit ("RSU") performance-based awards over three years; and
- determined and awarded completion bonuses following successful commissioning of the Liqhobong Mine Development Project, to the 17 executives and managers responsible for the completion being below budget and on the revised timeline.

Priorities for the Remuneration Committee for 2018/19

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

Restricted Share Plan (Long-Term Incentive Plan)

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

A total of 7 773 000 restricted share units were issued under the plan, representing approximately 2.5% of the Company's share capital as at 15 January 2017.

Short-Term Incentive Plan

The Committee in consultation with the Chief Executive Officer determined that a bonus pool of 20% of salaries for the entire workforce was to be the FY2017 target. No formal STIP bonuses were awarded for FY2017, however a "13th cheque" was awarded to certain employees in recognition of their hard work, effort and diligence in performing duties on site. The 13th cheque was awarded to employees who were not involved in the construction project, as those that were received project completion bonuses in recognition of their contribution.

Advisers to the Remuneration Committee

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

Components of remuneration

Component	Purpose and link to strategy	Operation	Performance metrics
Base salary	To attract and retain talent.	Reflects individual's role, experience and performance. Base salaries are reviewed annually.	Business and individual performance are considered when setting base salary.
Short-Term Incentive Plan – annual performance bonus	Rewards the achievement of short-term financial and strategic project milestones.	Determined by the Remuneration Committee annually. Maximum level of award is 150% of base salary.	Award quantums are based on exceeding both operational performance and budget thresholds.
Long-Term Incentive Plan – restricted share unit awards	To incentivise and reward performance linked to strategic objectives and align the interests of management with those of the shareholders.	Award of restricted share units on hiring, or 2017 contract renewal. The Board may periodically make further awards upon recommendation by the Remuneration Committee.	One-third will vest on the first anniversary of the date of grant, one-third on the second anniversary and the final third upon the third anniversary of the grant.

Fees

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

	2017 US$	2016 US$
Chairman	**120 000**	120 000
Non-Executive Director	**60 000**	60 000

Share awards and additional payments to Non-Executive Directors

No share awards or additional payments were made to the Non-Executive Directors during the year.

Directors' remuneration table

	Base salary US$	Base fee US$	Annual bonus US$	Share-based payments US$	**Total 2017 US$**	Total 2016 US$
Executive Director						
Stuart Brown	550 000	—	1 100 000[1]	943 674[2]	**2 593 674**	1 209 639
Non-Executive Directors						
Lucio Genovese	—	120 000	—	—	**120 000**	120 000
Braam Jonker[3]	—	20 000	—	—	**20 000**	60 000
Deborah Thomas[4]	—	40 000	—	—	**40 000**	—
Keith Johnson	—	60 000	—	—	**60 000**	60 000
Ken Owen	—	60 000	—	—	**60 000**	60 000
Mike Wittet	—	60 000	—	—	**60 000**	60 000
Niall Young	—	60 000	—	—	**60 000**	60 000
Paul Sobie	—	60 000	—	—	**60 000**	60 000
	—	480 000	—	—	**480 000**	480 000
Total	550 000	480 000	1 100 000	943 674	**3 073 674**	1 689 639

1 Bonus payment was in respect of the successful completion of the Liqhobong Mine Development Project which was completed within budget and on the revised schedule.

2 The share-based payment expense relates to share options issued to Stuart Brown in May 2014 and restricted share units issued in January 2017. The share options vest over a three-year period and the expense is recognised over the vesting period. The restricted share units vest in three tranches over a three-year period and the expense is recognised over the vesting period.

3 Braam Jonker, who was a Non-Executive Director and who chaired the Audit Committee, resigned on 31 October 2016.

4 Deborah Thomas was appointed as a Non-Executive Director and Chairperson of the Audit Committee on 1 November 2016.

Operation of share option awards

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

DIRECTORS' REMUNERATION REPORT CONTINUED

Share option awards

	Date option granted	Exercise price	1 July 2016	Movements during the year			**30 June 2017**	Earliest exercise date	Latest exercise date
				Grants	Exercised	Lapsed			
Executive Director									
Stuart Brown	27/05/2014	30p	3 033 760	—	—	—	**3 033 760**	27/5/2016	26/05/2024
	27/05/2014	30p	3 033 760	—	—	—	**3 033 760**	27/5/2017	26/05/2024
	27/05/2014	30p	3 033 760	—	—	—	**3 033 760**	1/7/2017[1]	26/05/2024
	15/01/2017	1p	—	1 050 000	—	—	**1 050 000**	15/1/2018	14/01/2027
	15/01/2017	1p	—	1 050 000	—	—	**1 050 000**	15/1/2019	14/01/2027
	15/01/2017	1p	—	1 050 000	—	—	**1 050 000**	15/1/2020	14/01/2027
Non-Executive Director									
Lucio Genovese	23/11/2012	85p	900 000	—	—	—	**900 000**	23/11/2012	22/11/2022

1 The performance condition is the establishment of successful nameplate production (plant and commissioning complete) of the Liqhobong Mine. This was achieved when commercial production was established on 30 June 2017.

No options were exercised by Directors during the year.

Old share option schemes

Paul Sobie holds 15 000 options granted to him on 19 December 2007, when he was not a Director of the Company, with an exercise price of 200 pence and a term of ten years.

Dates of appointment

	Date appointed
Executive Director	
Stuart Brown	01/12/2013
Non-Executive Director	
Lucio Genovese	17/01/2012
Deborah Thomas	01/11/2016
Keith Johnson	01/05/2015
Ken Owen	18/06/2014
Mike Wittet	24/07/2012
Niall Young	18/06/2014
Paul Sobie	20/06/2011

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

	Number of shares[1]	
Director	**2017**	2016
Stuart Brown	**507 148**	507 148
Lucio Genovese	**2 846 944**	2 846 945
Deborah Thomas	**—**	—
Keith Johnson	**282 997**	282 997
Ken Owen	**—**	—
Mike Wittet	**—**	—
Niall Young	**—**	—
Paul Sobie	**—**	—

1 Excluding share option awards.

Paul Sobie

Non-Executive Chairman of the Remuneration Committee

30 November 2017

DIRECTORS' REPORT

The Directors present their Annual Report and Accounts for the year ended 30 June 2017. The contents of this report meet the disclosure requirements of the Companies Act 2006 and AIM Rules and, where the Directors have deemed it appropriate, the Listing Rules and the UKLA Disclosure and Transparency Rules. The Strategic Report, the Corporate Governance Statement and the Directors' Remuneration Report should be read in conjunction with this report.

Results and dividends

The Group made a loss after taxation of US$151.7 million (2016: profit after tax of US$13.6 million). Further details are shown in the Consolidated Statement of Comprehensive Income on page 40.

The Directors do not recommend a dividend (2016: 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 320 271 086 ordinary shares of 1 pence each (2016: 314 948 244 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 of the transfer or 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.	77 083 679	24.07%
Pacific Road Resources[1]	76 488 367	23.88%
Edwards Family Holdings Limited	31 653 174	9.99%
Sustainable Capital Limited	26 168 661	8.26%

1 Includes Pacific Road Resources Fund II L.P. ("PRC LP") and Pacific Road Resources Fund II ("PC Trust").

Directors

Biographies of the current Directors as at the date of this report are set out on pages 20 and 21.

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

	Position	Date of change
Stuart Brown	Chief Executive Officer	
Lucio Genovese	Non-Executive Chairman	
Deborah Thomas	Non-Executive Director	Appointed 1 Nov 2016
Keith Johnson	Non-Executive Director	
Ken Owen	Non-Executive Director	
Mike Wittet	Non-Executive Director	
Niall Young	Non-Executive Director	
Paul Sobie	Non-Executive Director	
Braam Jonker	Non-Executive Director	Resigned 31 Oct 2016

Details of Directors' emoluments and fees are shown in note 6 to the financial statements and further details of their remuneration and share interests are shown in the Remuneration Report on pages 29 to 32.

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 202 full time employees at the year end.

Employee involvement

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

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

Financial risk disclosures and details of the Group's exposure to risk arising from the use of financial instruments are provided within the Strategic Report and in note 29 to the financial statements.

DIRECTORS' REPORT CONTINUED

Going concern

The Directors, after making enquiries and considering uncertainties associated with the Group's operations, believe that, on the basis of a successful equity raise and restructuring of the ABSA debt facility, the Group and Company have, or have access to, the necessary financial resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts which do not include any adjustments that would result from the going concern basis of preparation being inappropriate. Further details are included within note 1 going concern on page 47.

Post-balance sheet events

Post-balance sheet events are detailed in note 32 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

Lucio Genovese

Non-Executive Chairman

30 November 2017

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

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

Website publication

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

On behalf of the Board

Lucio Genovese

Non-Executive Chairman

30 November 2017

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FIRESTONE DIAMONDS PLC

Opinion

We have audited the financial statements of Firestone Diamonds plc (the "Company") and its subsidiaries (the "Group") for the year ended 30 June 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Financial Position, the Company Statement of Changes in Equity, the Company Statement of Cash Flows and Notes to the Financial Statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the 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 Company's affairs as at 30 June 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainties in relation to going concern

We draw attention to note 1 in the financial statements which states that the Group can not repay the ABSA debt facility on the original repayment schedule. The Directors have engaged with ABSA and its major shareholders. ABSA have conditionally agreed to restructure the debt in line with the disclosures made in note 1. However, the debt restructure is subject to ECIC ("Export Credit Insurance Corporation of South Africa SOC Limited") approval which will occur after the date of these financial statements and may or may not be forthcoming. The debt restructure is further conditional upon the successful equity placement which is due to complete imminently but is not currently based upon legally binding agreements and funds have not yet been received and meeting the revised covenant terms which include that the mine is operated in line with the mine plan.

These events or conditions, along with the other matters as set forth in note 1, indicate that material uncertainties exists 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.

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

- we challenged the Directors' forecasts to assess the Group and Company's ability to meet its financial obligations as they fall due for a period of at least 12 month from the date of approval of the financial statements. We reviewed the consistency of committed cash flows against contractual arrangements, and compared forecast operating levels, production costs and overheads in the life of mine model to current run rates;
- we reviewed the terms of the debt restructure to understand the conditions attached to both the debt and equity raise. We reviewed the revised covenant terms with the ABSA term sheet and whether these could be met based upon the cash flow forecasts and life of mine model. We assessed these to be in line with the disclosures in the financial statements to ensure these had been adequately disclosed; and
- we confirmed the equity placement to the placing book confirming anticipated uptake, which was based on verbal confirmations and is not contractually binding.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Carrying value of Liqhobong Diamond Mine

The carrying value of the Liqhobong Diamond Mine at 30 June 2017 represented a significant risk for our audit given the level of estimation and judgments required such as future diamond pricing, foreign exchange rates, diamond recoveries, operational inputs and discount rate and the possibility that these judgments and estimates could be influenced by management bias. There is a risk that the Liqhobong Diamond Mine is carried at an amount greater than its recoverable amount through continued use or sale.

The continued volatility in diamond prices and the lower than expected quality of diamonds recovered at the Liqhobong Mine are factors which heighten the risk of impairment.

In total, impairments amounting to US$122.6 million were recognised in the year ended 30 June 2017. Further disclosure is made within notes 2 and 9 of the financial statements.

Our response

Our procedures in relation to management's assessment of the carrying value of Liqhobong Diamond Mine included:

- evaluating management's impairment model against the revised life of mine plan and our understanding of the operations. We critically reviewed the revised mine plan against resource and reserve reports and mine optimisation review undertaken by an independent third party expert;
- testing whether the methodology applied in the value in use calculation is compliant with the requirements of International Accounting Standards ("IAS") 36 Impairment of Assets, and the mathematical accuracy of management's model;
- challenging the significant inputs and assumptions used in the impairment model and whether these were indicative of potential bias. Our testing included:
  - assessment of the diamond price forecasts to prices achieved in the year and to third party reports in respect of past sales. We critically assessed the revenue assumptions regarding the diamond assortment and considered the appropriateness of growth assumptions based on empirical data and industry peers;
  - critically analysing the inputs in management's calculated discount rate. We engaged BDO valuation specialists to assess the reasonableness of the methodology used in determining the discount rate and challenged management's discount rate assumptions by benchmarking against industry peers and published market consensus;
  - comparison of foreign exchange rate assumptions to year end spot rates;
  - critical review of the forecast costs against the expected production profiles in the revised mine plan; and
- we also assessed the adequacy of impairment related disclosures contained within the financial statements.

Key audit matter

Recoverability of deferred tax assets

As disclosed in note 13 to the consolidated financial statements, as at 30 June 2017 the Group has recognised US$3.8 million of deferred tax assets in the consolidated statement of financial position (30 June 2016: US$20.3 million).

As a result of a change in the Liqhobong mine plan and life of mine model, the Group recognised a reversal of the previously recognised deferred tax asset, totalling US$18.7 million, in the current financial year.

We identified the recoverability of deferred tax assets as a key audit matter due to the recognition of these assets involving judgment by management as to the likelihood of the realisation of these deferred tax assets, which is based on a number of factors, including whether there will be sufficient taxable profits in the near term to support recognition. The risk is that the Group does not generate the anticipated profits and the asset is therefore not recoverable and impaired.

Our response

Our procedures in relation to management's assessment of the recoverability of deferred tax assets included:

- evaluating management's assessment of the sufficiency of future taxable profits in support of the recognition of deferred tax assets by comparing management's forecasts of future profits consistent with the life of mine model and critically assessing the assumptions and judgments included in these forecasts by considering the accuracy of forecasts against historic activity and the sensitivities of the profit forecasts;
- assessing the recovery of the level of deferred tax asset balance recognised in the Statement of Financial Position in accordance with the provisions of IAS 12 Income Taxes; and
- considering the adequacy of the tax disclosures (note 2) in the consolidated financial statements setting out the basis of the deferred tax balance and the level of estimation involved.

INDEPENDENT AUDITOR'S REPORT CONTINUED

TO THE MEMBERS OF FIRESTONE DIAMONDS PLC

Our application of materiality

Group materiality FY 2017	Group materiality FY 2016	Basis for materiality
US$2.0 million	US$2.5 million	Approximately 1.5% of total assets (2016: approximately 1.5% of total assets)

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

Our basis for the determination of materiality has remained unchanged. The benchmark percentage for calculating materiality has remained unchanged at 1.5% in 2016 to 2017 which reflect the public interest in the project as it nears completion of development. We consider total assets to be the most significant determinant of the Group's financial performance used by shareholders.

Whilst materiality for the financial statements as a whole was US$2.0 million, each significant component of the Group was audited to a lower level of materiality ranging from US$1.3 million to US$0.2 million which is used to determine the financial statement areas that are included within the scope of our audit and the extent of sample sizes during the audit.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of US$0.1 million (2016: US$0.1 million). We also agreed to report differences below these thresholds that, in our view warranted reporting on qualitative grounds.

An overview of the scope of our audit

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

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

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

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

As part of our audit strategy, as Group auditors:

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

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, 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.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

This report is made solely to the 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 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 Company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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. This description forms part of our auditor's report.

Scott Knight (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London

30 November 2017

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 2017

	Note	2017 US$'000	2016 US$'000
Other income		**1 232**	450
Total administrative expenses		**130 472**	7 396
Other administrative expenses		**518**	290
Impairment charge	9	**122 602**	—
Amortisation and depreciation	12	**2 316**	2 464
Share-based payments	22	**1 268**	775
Care and maintenance		**534**	518
Corporate expenses		**3 234**	3 349
Loss before finance charges and income tax	4	**(129 240)**	(6 946)
Finance income	8	**460**	111
Finance costs	8	**1 235**	2 198
Loss before tax		**(130 015)**	(9 033)
Taxation charge/(credit)	10	**21 664**	(22 641)
(Loss)/profit after tax for the year		**(151 679)**	13 608
(Loss)/profit after tax for the year attributable to:			
Owners of the parent		**(116 411)**	7 884
Non-controlling interests		**(35 268)**	5 724
(Loss)/profit after tax for the year		**(151 679)**	13 608
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translating foreign operations net of tax		**29 878**	(20 337)
Profit on cash flow hedges		**1 498**	344
Other comprehensive income/(loss)		**31 376**	(19 993)
Total comprehensive loss for the year		**(120 303)**	(6 385)
Total comprehensive loss for the year attributable to:			
Owners of the parent		**(92 475)**	(7 541)
Non-controlling interests		**(27 828)**	1 156
Total comprehensive loss for the year		**(120 303)**	(6 385)
(Loss)/profit per share			
Basic (loss)/profit per share from continuing operations (US cents)	11	**(36.9)**	2.5
Diluted (loss)/profit per share			
Diluted (loss)/profit per share from continuing operations (US cents)	11	**(36.9)**	2.5

The notes on pages 47 to 76 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	2017 US$'000	2016 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**118 590**	177 141
Deferred tax	13	**3 761**	20 248
Loan receivable	17	**—**	2 816
Total non-current assets		**122 351**	200 205
Current assets			
Inventory	18	**6 420**	248
Trade and other receivables	19	**3 590**	3 420
Cash and cash equivalents	20	**17 053**	10 282
Total current assets		**27 063**	13 950
Total assets		**149 414**	214 155
EQUITY			
Share capital	21	**163 557**	163 493
Share premium		**167 349**	164 680
Reserves		**(20 089)**	(46 065)
Accumulated losses		**(245 452)**	(129 041)
Total equity attributable to equity holders of the parent		**65 365**	153 067
Non-controlling interests		**(42 194)**	(13 402)
Total equity		**23 171**	139 665
LIABILITIES			
Non-current liabilities			
Borrowings	24	**79 734**	50 097
Rehabilitation provisions	25	**4 233**	3 306
Total non-current liabilities		**83 967**	53 403
Current liabilities			
Borrowings	24	**23 057**	4 680
Other financial liabilities	26	**357**	1 688
Trade and other payables	27	**18 472**	14 198
Provisions	28	**390**	521
Total current liabilities		**42 276**	21 087
Total liabilities		**126 243**	74 490
Total equity and liabilities		**149 414**	214 155

The financial statements were approved by the Board of Directors and authorised for issue on 30 November 2017.

Lucio Genovese
Director

The notes on pages 47 to 76 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	Share capital US$'000	Share premium US$'000	Warrant reserve[1] US$'000	Merger reserve US$'000	Hedging reserve US$'000	Share-based payment reserve US$'000	Translation reserve US$'000	Accumulated losses US$'000	Equity attributable to holders of the parent US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance as at 30 June 2015	163 441	163 600	—	(1 614)	(1 828)	3 542	(39 283)	(134 250)	153 608	(18 975)	134 633
Comprehensive income											
Profit for the year	—	—	—	—	—	—	—	7 884	7 884	5 724	13 608
Other comprehensive loss for the year											
Exchange losses on translating foreign operations	—	—	—	—	—	—	(15 685)	—	(15 685)	(4 652)	(20 337)
Profit on cash flow hedges	—	—	—	—	260	—	—	—	260	84	344
Total comprehensive loss for the year	—	—	—	—	260	—	(15 685)	7 884	(7 541)	1 156	(6 385)
Contributions by and distributions to owners											
Shares issued in the year	52	1 080	—	—	—	—	—	—	1 132	—	1 132
Warrants issued in the year[1]	—	—	7 609	—	—	—	—	—	7 609	—	7 609
Non-controlling interest in subsidiary	—	—	—	—	—	—	—	(2 749)	(2 749)	4 582	1 833
Share-based payment transactions	—	—	—	—	—	1 008	—	—	1 008	—	1 008
Share-based payments lapsed/expired	—	—	—	—	—	(74)	—	74	—	—	—
Dividends paid to minorities	—	—	—	—	—	—	—	—	—	(165)	(165)
Total contributions by and distributions to owners	52	1 080	7 609	—	—	934	—	(2 675)	7 000	4 417	11 417
Balance as at 30 June 2016	163 493	164 680	7 609	(1 614)	(1 568)	4 476	(54 968)	(129 041)	153 067	(13 402)	139 665
Comprehensive loss											
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(116 411)**	**(116 411)**	**(35 268)**	**(151 679)**
Other comprehensive income for the year											
Exchange gains on translating foreign operations	**—**	**—**	**—**	**—**	**—**	**—**	**22 391**	**—**	**22 391**	**7 487**	**29 878**
Profit on cash flow hedges	**—**	**—**	**—**	**—**	**1 545**	**—**	**—**	**—**	**1 545**	**(47)**	**1 498**
Total comprehensive loss for the year	**—**	**—**	**—**	**—**	**1 545**	**—**	**22 391**	**(116 411)**	**(92 475)**	**(27 828)**	**(120 303)**
Contributions by and distributions to owners											
Shares issued in the year	**64**	**2 669**	**—**	**—**	**—**	**—**	**—**	**—**	**2 733**	**—**	**2 733**
Non-controlling interest in subsidiary	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**492**	**492**
Transfer to other loans	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1 456)**	**(1 456)**
Share-based payment transactions	**—**	**—**	**—**	**—**	**—**	**2 040**	**—**	**—**	**2 040**	**—**	**2 040**
Total contributions by and distributions to owners	**64**	**2 669**	**—**	**—**	**—**	**2 040**	**—**	**—**	**4 773**	**(964)**	**3 809**
Balance as at 30 June 2017	**163 557**	**167 349**	**7 609**	**(1 614)**	**(23)**	**6 516**	**(32 577)**	**(245 452)**	**65 365**	**(42 194)**	**23 171**

1 Warrants issued relate to the Eurobond transaction, the details of which is disclosed in note 23.

The notes on pages 47 to 76 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 US$'000	2016 US$'000
Cash flows used in operating activities			
Loss before taxation		**(130 015)**	(9 033)
Adjustments for:			
Impairment charge	9	**122 602**	—
Depreciation and amortisation	12	**2 316**	2 464
Effect of foreign exchange movements		**—**	(2 615)
Equity-settled share-based payments		**1 268**	775
Profit on sale of assets		**—**	(3)
Changes in provisions		**(11)**	157
Finance income		**(460)**	(111)
Finance cost		**1 235**	2 198
Net cash flows used in operating activities before working capital changes		**(3 065)**	(6 168)
Increase in inventories		**(5 714)**	—
(Increase)/decrease in trade and other receivables		**(648)**	7 853
Increase/(decrease) in trade and other payables		**5 696**	(1 307)
Net cash flows (used in)/from operating activities		**(3 731)**	378
Cash flows used in investing activities			
Additions to property, plant and equipment		**(31 158)**	(68 209)
Proceeds on disposal of property, plant and equipment		**—**	16
Net cash used in investing activities		**(31 158)**	(68 193)
Cash flows from financing activities			
Increase in borrowings		**44 000**	73 400
Repayment of borrowings		**(1 509)**	—
Finance income		**73**	111
Finance cost		**(462)**	(12 062)
Dividends paid to minorities		**—**	(165)
Net cash from financing activities		**42 102**	61 284
Net increase/(decrease) in cash and cash equivalents		**7 213**	(6 531)
Cash and cash equivalents at beginning of the year		**10 282**	17 628
Exchange rate movement on cash and cash equivalents at beginning of year		**(442)**	(815)
Cash and cash equivalents at end of the year	20	**17 053**	10 282

The notes on pages 47 to 76 form part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	2017 US$'000	2016 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**2**	—
Investments in subsidiaries	14	**31 869**	134 984
Loans to subsidiaries	16	**19 522**	87 873
Total non-current assets		**51 393**	222 857
Current assets			
Trade and other receivables	19	**429**	—
Cash and cash equivalents	20	**113**	3 339
Total current assets		**542**	3 339
Total assets		**51 935**	226 196
EQUITY			
Share capital	21	**163 557**	163 493
Share premium		**167 349**	164 680
Reserves		**15 022**	12 982
Accumulated losses		**(323 608)**	(138 290)
Total equity attributable to equity holders of the Company		**22 320**	202 865
LIABILITIES			
Non-current liabilities			
Borrowings	24	**28 117**	22 140
Total non-current liabilities		**28 117**	22 140
Current liabilities			
Trade and other payables	27	**1 498**	1 191
Total current liabilities		**1 498**	1 191
Total liabilities		**29 615**	23 331
Total equity and liabilities		**51 935**	226 196

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$185 318 000 (2016: US$874 000) which included an impairment charge of US$186.8 million (refer to note 9). The Company had no other items of comprehensive income in the year (2016: US$nil).

The financial statements were approved by the Board of Directors and authorised for issue on 30 November 2017.

Lucio Genovese

Director

The notes on pages 47 to 76 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	Share capital US$'000	Share premium US$'000	Warrant reserve US$'000	Translation reserve US$'000	Share-based payment reserve US$'000	Retained earnings US$'000	Total equity US$'000
Balance as at 1 July 2015	163 441	163 600	—	897	3 542	(139 164)	192 316
Comprehensive income							
Profit for the year	—	—	—	—	—	874	874
Total comprehensive income for the year	—	—	—	—	—	874	874
Contributions by and distributions to owners							
Shares issued in the year	52	1 080	—	—	—	—	1 132
Warrants issued in the year	—	—	7 609	—	—	—	7 609
Share-based payment transactions	—	—	—	—	934	—	934
Total contributions by and distributions to owners	52	1 080	7 609	—	934	—	9 675
Balance as at 30 June 2016	163 493	164 680	7 609	897	4 476	(138 290)	202 865
Comprehensive loss							
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(185 318)**	**(185 318)**
Total comprehensive loss for the year	**—**	**—**	**—**	**—**	**—**	**(185 318)**	**(185 318)**
Contributions by and distributions to owners							
Shares issued in the year	**64**	**2 669**	**—**	**—**	**—**	**—**	**2 733**
Share-based payment transactions	**—**	**—**	**—**	**—**	**2 040**	**—**	**2 040**
Total contributions by and distributions to owners	**64**	**2 669**	**—**	**—**	**2 040**	**—**	**4 773**
Balance as at 30 June 2017	**163 557**	**167 349**	**7 609**	**897**	**6 516**	**(323 608)**	**22 320**

The Company had no other comprehensive income in the year.

The notes on pages 47 to 76 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 US$'000	2016 US$'000
Cash flows used in operating activities			
Profit before taxation		**(185 318)**	874
Adjustments for:			
Impairment charge		**186 822**	—
Depreciation and amortisation		**3**	31
Effect of foreign exchange movements		**(6)**	—
Equity-settled share-based payments		**1 138**	739
Finance cost		**3 719**	2 948
Finance income		**(8 415)**	(6 455)
Net cash flows used in operating activities before working capital changes		**(2 057)**	(1 863)
(Increase)/decrease in trade and other receivables		**(429)**	183
Increase in trade and other payables		**307**	116
Net cash used in operating activities		**(2 179)**	(1 564)
Cash flows used in investing activities			
Acquisition of investments		**—**	(14 088)
Loans to subsidiaries		**(6 047)**	(21 907)
Net cash used in investing activities		**(6 047)**	(35 995)
Cash flows from financing activities			
Proceeds from Eurobond issues		**5 000**	30 000
Finance cost		**—**	(1 460)
Finance income		**—**	14
Net cash flows from financing activities		**5 000**	28 554
Net decrease in cash and cash equivalents		**(3 226)**	(9 005)
Cash and cash equivalents at beginning of the year		**3 339**	12 344
Cash and cash equivalents at end of the year	20	**113**	3 339

The notes on pages 47 to 76 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies

Basis of preparation

Firestone Diamonds plc (the "Company") is a company domiciled in the United Kingdom and is quoted on the AIM market of the London Stock Exchange. The consolidated financial statements of the Company for the year ended 30 June 2017 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in diamond mining and exploration in southern Africa.

Going concern

The Group currently has two mines, the Liqhobong Diamond Mine in Lesotho where construction was completed and operations ramped up, achieving commercial production on 30 June 2017, and the BK11 Mine in Botswana which is currently being operated by Amulet in terms of an option agreement concluded in May 2017.

As a result of the lower quality recoveries referred to in the section headed "Production" in the Operational Review on page 12, and a lower than expected average diamond value referred to in the "Diamond sales" section of the Financial Review on pages 14 to 15, the Group has realised a lower than expected average value at sale, such that the Group requires additional equity and a restructure of its existing debt arrangements in order to continue as a going concern.

The Directors recognised the challenge of operating at the current lower average price realised to date of US$82 per carat, which prompted a revision of the Liqhobong Mine business plan, the result of which was a shorter nine year life of mine compared to the existing 14 year mine plan. The shorter nine year mine plan reserves optionality to convert to the longer mine plan should the average diamond value realised improve substantially over the next three years.

Debt restructure and capital raise

The Directors recognised that, at the current lower than expected average diamond values, the Group could not afford to repay the ABSA bank debt on the original repayment schedule and that, even in the event of restructuring the ABSA bank debt, the Group would require additional equity funding. The Directors and management therefore engaged with ABSA and Firestone's major shareholders to find a solution. Both the bank and major shareholders have been supportive throughout the process as evidenced by the progress made on the debt restructuring and capital raise to date.

ABSA bank has conditionally agreed to the following revised terms which are subject to ECIC approval, a successful capital raise of US$20.0 to US$25.0 million and certain other conditions. The key revised terms include:

- December 2017 capital repayment of US$5.2 million to be made according to the original repayment schedule;
- an 18 month debt standstill on capital repayments from January 2018 to June 2019;
- an extension of debt tenor by two and a half years to December 2023;
- re-profiled debt repayments;
- amendments to covenants and reporting requirements;
- a credit review in twelve months time, no later than the end of November 2018 to assess actual performance against expectations and consider additional restructuring actions if necessary;
- the ability to call a credit review before December 2018, or to declare default in the event of average diamond values for three consecutive sales being below US$70 per carat, which is below the base case value of US$75 per carat adopted by ABSA for measurement during the standstill period;
- an increase of between 0.25% and 0.50% in the margin rates payable;
- an increase in the cash sweep from 40% to 50% of excess operational cash generated; and
- a restructuring fee of US$169,000.

In addition, the Group expects to raise US$25.0 million from existing shareholders and new investors through a fundraising, the preliminary announcement on 1 December and results of the placing on the same day.

Conclusion

The Directors have reviewed cash flow forecasts for the Group which include the proposed amendments to the ABSA debt facility and the anticipated proceeds from the fundraising.

The Directors recognise that the cash flow forecasts are based on certain forward looking assumptions, including average diamond price, operating cost per tonne treated, and exchange rates. These uncertainties are disclosed in the Risk Review on pages 8 to 10. As part of the debt restructuring there are a number of amended covenants and conditions, as stated above, which, if not achieved, could result in further restructuring or an event of default. Whilst the Group expects to comply with the amended covenants and conditions in the future, there can be no guarantee that these will be achieved.

Having reviewed the key assumptions and considered the impact of the debt restructuring and capital raise, the Directors are confident that the existing cash resources together with the remaining balance of US$8.0 million available under the Standby Facility, anticipated net proceeds from the capital raise of approximately US$24.0 million, and a restructuring of the ABSA debt facility are sufficient to enable the Group to fund its operational requirements, for a period of at least twelve months from the date of approval of this Annual Report. On this basis, the Directors have therefore concluded that it is appropriate to prepare the financial statements on a going concern basis. However, there is no certainty that ECIC will provide approval of the ABSA debt restructuring or that the equity placement will complete or that the Mine will continue to operate according to the financial plan thus remaining within the amended covenants. These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group was 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies continued

Statement of compliance continued

No new standards and interpretations issued by The International Accounting Standards Board became effective for accounting periods starting on or before 1 July 2016.

Standards and interpretations issued but not yet effective:

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

Standard, amendment or interpretation		Effective date
IFRS 9	Financial Instruments	Period beginning after 1 January 2018
IFRS 15	Revenue from Contracts with Customers	Period beginning after 1 January 2018
IFRS 16	Leases	Period beginning after 1 January 2019

The effect on the financial statements of the application of the standards and interpretations that are expected to have a significant impact or are relevant to the Group, are:

IFRS 9, Financial Instruments

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 July 2018. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss, but remains largely the same for financial liabilities. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Based on its preliminary assessment, the Group does not believe that the new classification requirements, if applied at 30 June 2017 or in the future, would have had a material impact on its accounting for trade receivables, trade payables, loans and investments in equity securities that are managed on a fair value basis.

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group's current plan is that it will elect to apply the new requirements of IFRS 9 as the application of IFRS 9 to current hedging instruments is not different to those of IAS 39.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or fair value through other comprehensive income, except for investments in equity instruments, and to contract assets. Based on its preliminary assessment, the Group does not believe that the change in impairment model will have a material impact on the Group's financial statements.

IFRS 15, Revenue from Contracts with Customers

The Group is required to apply IFRS 15 for annual reporting periods beginning on or after 1 January 2018. Management have assessed the core principles of IFRS 15, which are to recognise revenue to depict the transfer of diamond sales to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for the diamond sales.

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

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

Diamond sales are realised through a competitive tender process. Each individual customer enters into a sale agreement (the contract) with the Group once he is awarded the winning bid. The transaction price is determined as the winning bid price per parcel sold. The performance obligation to transfer the risks and rewards associated with the ownership of the goods is satisfied when the purchaser has won the bid on the parcel. The Group retains no further rights to the diamonds at that stage as it is legally bound by the sale agreement to deliver the goods to the purchaser.

The Group is still assessing the impact of IFRS 15 on the financial statements.

IFRS 16, Leases

The Group is required to apply IFRS 16 for annual reporting periods beginning on or after 1 January 2019. The Group will not early adopt this standard. The core principle of IFRS 16 is to change the accounting of operating leases for lessees. IFRS 16 will require lessees to account for leases through the recognition of a right of use asset, representing the right to use the leased item and a corresponding liability for future lease payments. The lease cost, i.e. rental charge will be recognised against the lease liability and replaced by the recognition of a depreciation charge of the right of use asset over the expected lease term and finance charges representing the unwinding of discount on the lease liability.

IFRS 16 is required to be applied to all contracts where that contract meets the definition of a lease. A lease is defined in IFRS 16 as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

The Group is currently assessing the impact that IFRS 16 will have on the financial statements, through applying the lease definition to service level agreements and current leases that the Group has entered into to determine whether these contracts meet the definition of a lease to be recognised in accordance with IFRS 16. The Group expects the impact on normal operating leases to be immaterial. There is however the possibility that the recognition of right of use assets for some of its larger service level agreements, such as the Tailings Management Agreement at its Liqhobong Mine, could have a potential material impact on the financial statements. Once the final impact of applying IFRS 16 has been assessed the Group will make the required disclosures.

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

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

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

Transactions eliminated on consolidation

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

Business combinations and goodwill

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

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

Any contingent consideration to be transferred by the Group is recognised at fair value on the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or a liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change in other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured.

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

Exploration and evaluation expenditure

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies continued

Property, plant and equipment

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

Mining and development expenditure in respect of mining properties in production is amortised 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 the statement of profit and loss. The expected useful economic life and residual values of property, plant and equipment are reviewed annually.

Investments in subsidiaries

Investments in subsidiary undertakings are shown at cost less provisions for impairment in value. The cost of acquisition excludes directly attributable professional fees and other expenses incurred in connection with the acquisition which is expensed as incurred. 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 uncut diamonds produced, ore stockpiles, and consumables and spares. Inventories are valued at the lower of cost and net realisable value. Rough diamond inventories and ore stockpile cost is calculated on the weighted average cost basis and includes all costs directly incurred up to the relevant point in the process such as mining and processing cost, but excludes other operating costs such as general mine or administration costs. The net realisable value is determined by reference to market prices at year end. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to conclude the sale.

Investment in financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separable embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Trade and other receivables

Trade and other receivables arise from normal commercial activities by the Group and are classified as loans and receivables. These are recognised at invoice value adjusted for any allowance for impairment. Impairment and any reversal are recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and

receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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.

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently remeasured to fair value at each reporting date.

The Group formally assesses on an ongoing basis whether the changes in cash flow of the derivatives are highly effective in offsetting changes in the cash flow of the hedged item.

If these changes are deemed to be effective the changes in cash flow of the hedge instrument is recognised in equity. Amounts recognised in equity are transferred to the initial cost of the asset in the period during which the hedge instrument matures. Any ineffective element of a cash flow hedge, which has been designated for hedge accounting, is recognised through profit and loss.

Financial liabilities

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. 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 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 benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Decommissioning and site rehabilitation

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

Decommissioning and site rehabilitation costs arising from 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 operating costs.

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 rate, 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 interest paid. 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 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 made, and the highest bid above the reserve price for the parcel is accepted provisionally until funds are received, at which point the parcel is released to the winning bidder. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies continued

Borrowing cost continued

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.

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/(losses) arising on retranslating the net assets of overseas operations into US Dollar, the Group's presentation currency.

Accumulated losses

All other net gains and losses and transactions with owners (e.g. dividends) 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.

Operating leases

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

Foreign currency

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

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

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items is included in the 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 income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

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

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

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

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

2 Critical accounting estimates and judgements

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

Share-based payments

In order to calculate the charge for share-based compensation as required by IFRS 2, the Group makes estimates principally relating to the assumptions used in its option-pricing model as set out in note 22.

Warrants

In order to calculate the fair value of warrants issued as required by IAS 32, the Group makes estimates principally relating to the assumptions used in its warrant-pricing model as set out in note 23.

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:

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

2 Critical accounting estimates and judgements continued

Impairment testing continued

The Group currently has two main cash-generating units:

Liqhobong Mine

The Liqhobong Mine, where commissioning and testing activities were completed at 30 June 2017, at which time commercial production was established.

BK11 Mine

The BK11 Mine, which remained on care and maintenance until 24 May 2017, when the Group entered into a conditional option agreement for the potential disposal to Amulet Diamond Corporation for a total potential consideration of US$5.1 million in cash.

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).

Valuation of hedges

The fair value of open forward foreign exchange contracts were measured using the current market exchange rate that would have been obtained if the forward foreign exchange contract was entered into on the last day of the financial year for the remaining period of the forward foreign exchange contract.

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.

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 13.

Valuation of inventories

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

Depreciation

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

Commercial production

Judgement is required to determine when a construction asset is in the location and condition intended. No specific guidance exists within IFRS, particularly as to what it means for an asset to be "in the location and condition necessary for it to be capable of operating as intended by management", but it is common to simply refer to the achievement of "commercial production" as the point at which the assets are commissioned, i.e., ready for their intended use.

In determining the commercial production date, management uses certain criteria that are required to be met before commercial production is achieved. These criteria include:

- the completion of a sufficient period of commissioning and testing, which is measured by the asset operating at its designed capacity for a period of time;
- the asset needs to achieve steady state recovery capacity; and
- the asset needs to maintain steady state production cost levels.

Once all the criteria are met the Group will declare commercial production. The Liqhobong Mine Development Project achieved commercial production at 30 June 2017 and commercial production was declared. At that date capitalisation of cost to the asset ceased and depreciation commenced.

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 are 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.

3 Segmental analysis

For management purposes, the Group is organised into operating units which risks and required rates of return differs from those of other segments. The Group operated in one sector during the year – diamond mining and development – and has three principal operating segments – Liqhobong Mine, BK11 Mine and Corporate segments. The management information received by the Chief Executive Officer and the Board is prepared on this basis. The management information is used by the Chief Executive Officer as the basis for decision making.

The Group has two mines, Liqhobong, where commercial production was established on 30 June 2017 and BK11, which remained on care and maintenance until 24 May 2017, when the Group entered into a conditional option agreement for its potential disposal. The segmental results for the operations of these two operating segments are disclosed separately.

The Group also conducts business within the United Kingdom and South Africa including ad hoc raising of funds, subsequently passed to subsidiary companies, and incurring of expenditure in relation to the Company's activities as a holding company. The segmental results for these activities are included in the Corporate segment.

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

	Liqhobong Mine		BK11 Mine		Corporate		Total	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000
Revenue	**27 846**	—	**—**	—	**—**	—	**27 846**	—
Selling expenses and royalties	**1 653**	—	**—**	—	**—**	—	**1 653**	—
Net revenue	**26 193**	—	**—**	—	**—**	—	**26 193**	—
Production costs	**15 913**	—	**—**	—	**—**	—	**15 913**	—
Segment operating profit reclassified to property, plant and equipment	**(10 280)**	**—**	**—**	—	**—**	—	**(10 280)**	—
Other income	**860**	450	**22**	—	**350**	—	**1 232**	450
Segmental operating result	**(119 521)**	(499)	**(1 753)**	(2 277)	**(7 966)**	(4 170)	**(129 240)**	(6 946)
Finance income	**68**	95	**—**	—	**392**	16	**460**	111
Finance expense	**(1 106)**	(1 846)	**(116)**	—	**(13)**	(352)	**(1 235)**	(2 198)
Taxation	**(18 666)**	22 641	**—**	—	**(2 998)**	—	**(21 664)**	22 641
Segmental result	**(139 225)**	20 391	**(1 869)**	(2 277)	**(10 585)**	(4 506)	**(151 679)**	13 608
Segmental assets	**142 522**	203 741	**5 816**	6 847	**1 076**	3 567	**149 414**	214 155
Segmental liabilities	**94 665**	49 323	**1 664**	1 493	**29 914**	23 674	**126 243**	74 490
Other segmental information								
Capital expenditure:								
Property, plant and equipment	**30 896**	68 209	**—**	—	**262**	—	**31 158**	68 209
Impairment charge: Property, plant and equipment	**118 908**	—	**—**	—	**—**	—	**118 908**	—
Loans receivable	**—**	—	**—**	—	**3 694**	—	**3 694**	—
Depreciation amortisation:								
Property, plant and equipment	**955**	643	**1 241**	1 774	**120**	47	**2 316**	2 464
Receipts:								
Long-term loans	**39 000**	43 400	**—**	—	**5 000**	30 000	**44 000**	73 400

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

3 Segmental analysis continued

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

	Group	
	2017 US$'000	2016 US$'000
Lesotho	**112 667**	170 429
Botswana	**5 588**	6 558
United Kingdom and South Africa	**335**	154
	118 590	177 141

Total revenue of US$27.8 million, which was capitalised to the cost of the asset, is generated from the sale of diamonds from mining activities from Liqhobong Mine, which is domiciled in Lesotho. All diamonds are sold in Antwerp, Belgium through a competitive tender process. Below is an analysis of major customers which accounts for more than 10% of the Group's revenue:

	Group	
	2017 US$'000	**2017 %**
Customer – Europe	**6 353**	**23**
Other customers	**21 493**	**77**
	27 846	**100**

4 Operating loss

	Group	
	2017 US$'000	2016 US$'000
Operating loss for the year is stated after charging:		
Operating results of commissioning and testing phase		
Revenue	**27 846**	—
Selling expenses	**534**	—
Government royalty	**1 119**	—
Net revenue	**26 193**	—
Production costs	**15 913**	—
Operating profit reclassified to property, plant and equipment (note 12)	**10 280**	—
Impairment charge (note 9)	**122 602**	—
Employee costs (note 5)	**6 195**	3 192
Operating lease rentals	**401**	264

5 Employee numbers and costs

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

	Group	
	2017 Number	2016 Number
Operations	**183**	42
Administration	**19**	19
	202	61

The employment benefits were as follows:

	Group	
	2017 US$'000	2016 US$'000
Salaries and wages	**4 904**	2 404
Social security cost	**23**	13
Share-based payments	**1 268**	775
	6 195	3 192

6 Directors' emoluments

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

	Group	
	2017 US$'000	2016 US$'000
Short-term benefits	**2 130**	1 022
Share-based payments	**944**	668
Total	**3 074**	1 690

US$'000 Director	Salaries and fees	Bonus	Share-based payments	Total
2017				
Stuart Brown	**550**	**1 100**[1]	**944**[2]	**2 594**
Lucio Genovese	**120**	**—**	**—**	**120**
Braam Jonker[3]	**20**	**—**	**—**	**20**
Deborah Thomas[4]	**40**	**—**	**—**	**40**
Keith Johnson	**60**	**—**	**—**	**60**
Ken Owen	**60**	**—**	**—**	**60**
Mike Wittet	**60**	**—**	**—**	**60**
Niall Young	**60**	**—**	**—**	**60**
Paul Sobie	**60**	**—**	**—**	**60**
	1 030	**1 100**	**944**	**3 074**

US$'000 Director	Salaries and fees	Bonus	Share-based payments	Total
2016				
Stuart Brown	500	42	668	1 210
Lucio Genovese	120	—	—	120
Braam Jonker	60	—	—	60
Keith Johnson	60	—	—	60
Ken Owen	60	—	—	60
Mike Wittet	60	—	—	60
Niall Young	60	—	—	60
Paul Sobie	60	—	—	60
	980	42	668	1 690

1 The bonus payment was in respect of the successful completion of the Liqhobong Mine Development Project which was completed within budget and on the revised schedule.

2 The share-based payment expense relates to share options issued to Stuart Brown in May 2014 and restricted share units issued in January 2017. The share options vest over a three-year period and the expense is recognised over the vesting period. The restricted share units vest in three tranches over a three-year period and the expense is recognised over the vesting period.

3 Braam Jonker, who was a Non-Executive Director and who chaired the Audit Committee, resigned on 31 October 2016.

4 Deborah Thomas was appointed as a Non-Executive Director and Chairperson of the Audit Committee on 1 November 2016.

7 Auditor's remuneration

	Group	
	2017 US$'000	2016 US$'000
Fees payable to the Group's auditor for the audit of the Group's annual financial statements		
Audit of the Group's financial statements	**72**	104
Fees payable to the Group's auditor and its associates for other services		
Audit of accounts of subsidiaries of the Company	**33**	22
Taxation compliance services	**6**	20
Other taxation services	**4**	28
	115	174

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

8 Net finance income and costs

	Group	
	2017 US$'000	2016 US$'000
Interest income on bank deposits	**73**	111
Interest income on loans receivable	**387**	—
Finance income	**460**	111
Interest paid on borrowings	**394**	110
Unwinding of discount on rehabilitation liability	**278**	137
Foreign exchange adjustments on cash balances	**563**	1 951
Finance costs	**1 235**	2 198

During the year, borrowing cost on the Series A Eurobond and ABSA debt facility to the value of US$9.4 million (2016: US$4.3 million) was capitalised to the cost of the Liqhobong Mine Development Project, refer to note 24.

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 necessary.

The Group has two CGUs, the Liqhobong and BK11 Mines, which are situated in Lesotho and Botswana respectively. During the year, a general downturn in diamond prices was experienced, which in itself, is an impairment indicator. As the carrying value of the BK11 CGU is lower than the recoverable amount, no further impairment is necessary. However, the carrying value of the Liqhobong CGU was subjected to impairment testing and resulted in an impairment charge.

Liqhobong Mine

Production at the Mine commenced from October 2016, at which time construction activities were substantially completed. Operational ramp-up proceeded according to plan with the operation achieving all of its production goals.

The average diamond prices achieved at sale during the year were lower than expected, mainly as a result of the Indian demonetisation programme, an over-supply of finer lower quality diamonds and the lower than expected occurrence of larger, better quality diamonds at Liqhobong itself. During the early stage of mining, it became clear that early waste stripping activities were required to secure adequate supply of ore to the production plant. Both the lower average prices achieved, and the impact of earlier waste stripping activities are indicators of impairment and result in lower than expected cash flows.

It is important to note that should market prices improve to levels above the current average price of US$82 per carat that it is possible for a portion or all of the impairment charge to reverse.

The recoverable amount of the Liqhobong CGU of US$118.6 million was determined using its value in use based on a discounted cash flow model.

Value in use of Liqhobong Mine

The value in use of the Liqhobong CGU is based on discounted cash flows over a revised nine year mine life (previously 14 year mine life).

The key assumptions used in the value in use calculation are as follows:

Key assumptions	Value	Basis for assumption
Discount rate	9.2%	The discount rate used to account for the time value of money represents the pre-tax weighted average cost of capital (WACC) that would be expected by market participants based on risks specific to the Liqhobong Mine. The rate included adjustments for market risk, volatility and risks specific to the asset.
Diamond price (US$/carat)	US$82	The average diamond price is based on average historic sales data of Liqhobong's assortment.
Real diamond price growth	3%	The diamond price growth is based on long-term diamond price projections.
Exchange rate (ZAR:US$)	R12.89	The exchange rate is based on the spot rate as at 30 June 2017.

The value in use of the Liqhobong Mine is impacted mostly by changes in the average diamond price followed by changes in, particularly, the ZAR:US$ exchange rate.

Impairment summary

The following table presents current and previous impairments recorded against the Group's two CGUs, the Liqhobong and BK11 mines:

Cash-generating unit	Liqhobong US$'000	BK11 US$'000	Total US$'000
Carrying value	**241 205**	**7 338**	**248 543**
Accumulated impairment	**—**	**3 125**	**3 125**
At 1 July	**241 205**	**4 213**	**245 418**
Impairment charge for the year	**122 602**	**—**	**122 602**
Carrying value after impairment	**118 603**	**4 213**	**122 816**

	Group		Company	
Impairment charge	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000
Property, plant and equipment (note 12)	**118 908**	—	**—**	—
Investments in subsidiaries (note 14)	**—**	—	**104 017**	—
Loans to subsidiaries (note 16)	**—**	—	**82 805**	—
Loans receivable (note 17)	**3 694**	—	**—**	—
	122 602	—	**186 822**	—

10 Taxation

	Group	
	2017 US$'000	2016 US$'000
Current tax	**2 998**	—
Deferred tax charge/(credit)	**18 666**	(22 641)
Total tax charge/(credit) for the year	**21 664**	(22 641)

Factors affecting the tax charge for the year

The reasons for the difference between the actual tax charge and the standard rate of corporation tax of 20% (2016: 20%) in the United Kingdom applied to the loss for the year are as follows:

	Group	
	2017 US$'000	2016 US$'000
Loss before tax	**130 015**	9 033
Tax credit on loss at standard rate of 20% (2016: 20%)	**(26 003)**	(1 807)
Adjustments to deferred tax not recognised	**44 145**	—
Effect of tax in foreign jurisdictions	**354**	(1 397)
Effect of the change in the standard tax rate	**—**	126
Foreign exchange adjustment on effective interest rate on borrowings	**1 423**	307
Withholding tax credits relinquished	**1 273**	—
Recognition of previously unrecognised deferred tax assets	**472**	(19 871)
Expenses not deductible for tax purposes	**—**	1
	21 664	(22 641)

Other comprehensive income

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

11 Profit/(loss) per share

The calculation of the basic profit/(loss) per share is based upon the net loss after tax attributable to ordinary shareholders of US$116.4 million (2016: US$7.9 million profit) and a weighted average number of shares in issue for the year of 315 161 224 (2016: 310 377 720).

Diluted profit/(loss) per share

The dilutive loss per share in 2017 is the same as the basic loss per share as the potential ordinary shares to be issued have no dilutive effect.

The calculation of the dilutive profit or loss per share in 2016 was based upon the net profit after tax attributable to ordinary shareholders US$7.9 million. The weighted average number of shares in issue for the year of 312 373 475, includes potentially issuable shares in respect of share options issued to employees of 1 995 755.

The Company has a further 23 313 589 (2016: 13 544 834) potentially issuable shares in respect of share options issued to employees (note 22) that do not have a dilutive effect as at 30 June 2017 and 59 202 488 (2016: 48 786 437) potentially issuable shares in respect of warrants issued to strategic investors.

12 Property, plant and equipment – Group

US$'000	Mining property	Plant and equipment	Motor vehicles and other assets	Total
Cost				
At 1 July 2015	130 514	17 516	2 323	150 353
Additions	71 652	—	233	71 885
Assets purchased	66 518	—	233	66 751
Finance cost capitalised	4 232	—	—	4 232
Share-based payments capitalised	902	—	—	902
Disposals	—	—	(45)	(45)
Exchange difference	(23 381)	(1 695)	(246)	(25 322)
At 30 June 2016	178 785	15 821	2 265	196 871
Additions	34 297	80	705	35 082
Assets purchased	34 363	80	705	35 148
Operating profit reclassified to property, plant and equipment (note 4)	(10 280)	—	—	(10 280)
Finance cost capitalised	9 442	—	—	9 442
Share-based payments capitalised	772	—	—	772
Exchange difference	28 585	905	742	30 232
At 30 June 2017	**241 667**	**16 806**	**3 712**	**262 185**
Accumulated depreciation and impairments				
At 30 June 2015	10 364	8 405	1 308	20 077
Amortisation and depreciation charge for the year	652	1 599	213	2 464
Disposals	—	—	(32)	(32)
Exchange difference	(1 763)	(889)	(127)	(2 779)
At 30 June 2016	9 253	9 115	1 362	19 730
Amortisation and depreciation charge for the year	575	1 239	502	2 316
Impairment charge for the year (note 9)	118 908	—	—	118 908
Exchange difference	2 033	581	27	2 641
At 30 June 2017	**130 769**	**10 935**	**1 891**	**143 595**
Net book value at 1 July 2015	120 150	9 111	1 015	130 276
Net book value at 30 June 2016	169 532	6 706	903	177 141
Net book value at 30 June 2017	**110 898**	**5 871**	**1 821**	**118 590**

The Group capitalised total net borrowing costs of US$9.4 million (2016: US$4.3 million) as part of the cost of the Project. All borrowing costs capitalised are Project specific.

13 Deferred tax

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

	Group	
Deferred tax asset/(liability)	**2017 US$'000**	2016 US$'000
At 1 July	**20 248**	(3 480)
Movement in temporary differences recognised in income	**(18 666)**	22 641
Exchange difference	**3 052**	214
Income tax credits receivable	**(873)**	873
At 30 June	**3 761**	20 248

The deferred tax asset/(liability) comprises:

	Group	
	2017 US$'000	2016 US$'000
Accelerated capital allowances	**(25 250)**	(37 718)
Provisions	**698**	502
Borrowings	**(1 980)**	(2 471)
Losses available for offsetting against future taxable income	**33 185**	61 954
Income tax credits available for offsetting against future taxable income	**—**	873
Temporary difference arising on acquisition of subsidiary	**(2 892)**	(2 892)
	3 761	20 248

In the previous financial year, a deferred tax asset was raised in respect of the entire assessed tax loss at Liqhobong of US$247.8 million as there was compelling evidence at the time that this amount would be recovered over the medium term. However, as sales took place during the year, it became apparent that a lower price environment existed. The Directors, having reconsidered the financial projections of Liqhobong at lower average diamond prices, determined that there is compelling evidence to support a deferred tax asset that is based on the value of the taxable profit which is expected to be generated over the next three years. No deferred tax asset was raised for assessed losses remaining to be utilised after the initial three-year period and these losses do not have an expiry date.

Deferred tax assets and deferred tax liabilities relating to the same tax authorities have been disclosed as a net asset or liability.

The Group has unrecognised tax losses of approximately US$205.0 million (2016: US$61.4 million), of which US$163.3 million relates to the Liqhobong Mine (2016: US$nil), US$34.2 million to the BK11 Mine (2016: US$51.5 million) and US$7.5 million to the Group's corporate entities in the UK and South Africa (2016: US$9.9 million).

14 Investments in subsidiaries – Company

	2017 US$'000	2016 US$'000
At 1 July	**134 984**	120 700
Additions	**—**	14 088
Share-based payments to employees of subsidiaries	**902**	196
Impairment charge (note 9)	**(104 017)**	—
At 30 June	**31 869**	134 984

The impairment charge relates to the impairment of the Liqhobong CGU as disclosed in note 9.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

14 Investments in subsidiaries – Company continued

As at 30 June 2017, the Company had direct and indirect holdings in the following subsidiary undertakings.

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

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

All subsidiaries are included in the consolidated financial statements.

15 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	
Items included in the Consolidated Statement of Comprehensive Income:	**2017 US$'000**	2016 US$'000
Other income	**2 278**	2 345
Impairment charge	**118 908**	—
Administrative expenses	**1 773**	2 626
Loss before finance charges and income tax	**(118 403)**	(281)
Finance income	**67**	95
Finance cost	**2 993**	544
Loss before income tax	**(121 329)**	(730)
Taxation charge/(credit)	**18 666**	(22 641)
(Loss)/profit after tax for the year	**(139 995)**	21 911
(Loss)/profit after tax allocated to non-controlling interest	**(35 228)**	5 759
Other comprehensive income/(loss) allocated to non-controlling interest	**7 440**	(4 808)
Total comprehensive (loss)/income allocated to non-controlling interest	**(27 788)**	951

Items included in the Consolidated Statement of Financial Position	Group 2017 US$'000	2016 US$'000
Assets		
Non-current assets		
Property, plant and equipment	**87 072**	163 085
Deferred taxation	**3 657**	22 323
Current assets		
Inventories	**5 811**	19
Trade and other debtors	**4 993**	5 043
Cash and cash equivalents	**16 934**	6 562
Total assets	**118 467**	197 032
Liabilities		
Non-current liabilities		
Borrowings	**74 435**	33 518
Rehabilitation provisions	**2 494**	2 009
Loans from Group companies	**202 923**	186 885
Current liabilities		
Trade and other payables	**20 673**	14 092
Other financial liabilities	**191**	1 688
Provisions	**173**	343
Total liabilities	**300 889**	238 535
Translation reserve	**9 320**	(19 614)
Accumulated non-controlling interests	**(43 179)**	(14 545)

16 Loans to subsidiaries

	Company 2017 US$'000	2016 US$'000
Kopane Diamond Developments Limited[1]	**73 907**	65 854
Firestone Diamonds Limited[2]	**5 778**	5 573
Firestone Diamonds (Pty) Limited[3]	**5 440**	2 524
Liqhobong Mining Development Company (Pty) Limited[2]	**17 178**	13 902
Other[3]	**24**	20
	102 327	87 873
Impairment charge (note 9)	**(82 805)**	—
	19 522	87 873
Non-current assets	**19 522**	87 873
Current assets	**—**	—
Total assets	**19 522**	87 873

1 The loan to Kopane Diamond Developments Limited bears interest at 12.5% (2016: 12.5%), is unsecured and is repayable in equal instalments over 60 months from the time that the ABSA debt facility, which is provided directly to Liqhobong Mining Development Company (Pty) Limited, and Company debt have been repaid.

2 Other loans to related parties bear no interest, are unsecured and have no fixed terms of repayment.

3 The loan to Firestone Diamonds (Pty) Limited bears interest at 2.3% (2016: 2.5%), is unsecured and has no fixed terms of repayment.

The impairment charge relates to the impairment of Liqhobong CGU as disclosed in note 9.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

17 Loan receivable

	Group	
Government of Lesotho	**2017 US$'000**	2016 US$'000
At 1 July	**2 816**	—
Additions	**492**	2 816
Interest	**386**	—
Impairment charge (note 9)	**(3 694)**	—
	—	2 816
Non-current assets	**—**	2 816
Current assets	**—**	—
Total assets	**—**	2 816

The loan to the Government of Lesotho currently bears interest at 12.75% (2016: 12.5%), is unsecured and is repayable out of dividends declared by Liqhobong Mining Development Company (Pty) Limited.

18 Inventory

	Group	
	2017 US$'000	2016 US$'000
Diamond inventory	**4 237**	—
Spares and consumables	**2 183**	248
	6 420	248

At the end of the year, the value of uncut diamond inventory was written down by US$0.4 million to net realisable value of US$75 per carat. The net realisable value adjustment was capitalised to the cost of the Liqhobong Mine Development Project along with revenues and production costs for the period.

19 Trade and other receivables

	Group		Company	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Trade receivables	**1 262**	—	**217**	—
Other receivables	**2 010**	2 715	**122**	—
Prepayments	**318**	705	**90**	—
	3 590	3 420	**429**	—

Trade receivables relate to proceeds that were received shortly after the year end relating to the diamond sale that completed on 23 June 2017. Other receivables relate to value added taxation due mainly from the Lesotho Revenue Authority. None of the trade and other receivables are past due date or considered to be impaired, and there is no significant difference between the fair value of the trade and other receivables and the values stated above.

20 Cash and cash equivalents

	Group		Company	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Cash and cash equivalents	**17 053**	10 282	**113**	3 339
	17 053	10 282	**113**	3 339

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

	Group		Company	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
US Dollars	**15 490**	7 380	**—**	2 952
British Pounds	**404**	549	**113**	387
Lesotho Maloti	**982**	2 130	**—**	—
Botswana Pula	**77**	77	**—**	—
South African Rand	**100**	146	**—**	—
Cash and cash equivalents	**17 053**	10 282	**113**	3 339

Cash deposits of US$64 000 (2016: US$69 500) are held in favour of various suppliers in Lesotho and South Africa.

There is no significant difference between the fair value of the loans to subsidiaries, borrowings and cash and cash equivalents' values stated above.

21 Share capital

The Company's share capital consists of one class of ordinary shares and two classes of deferred shares. As at 30 June 2017, the ordinary share capital of the Company was 317 471 892 ordinary shares of 1 pence each (2016: 312 574 644).

During the year the Company issued 4 340 568 new ordinary shares of 1 pence each in respect of the quarterly interest due on the Series A Eurobonds and 556 680 new ordinary shares of 1 pence each in respect of the US$300 000 commitment fee for the amendments to the Series B Eurobonds, which included an extension of the existing facility to June 2018. A further 1 096 208 shares in respect of interest due on the Series A Eurobonds at 30 June 2017 were issued after the year end and are not reflected in the table below.

	Number of shares		Nominal value of shares	
	2017	2016	**2017 US$'000**	2016 US$'000
Allotted called up and fully paid				
Opening balance	**312 574 644**	308 992 814	**3 526**	3 474
Issued during the year	**4 897 248**	3 581 830	**64**	52
Closing balance	**317 471 892**	312 574 644	**3 590**	3 526
Deferred type A shares				
Opening balance	**7 079 649 109**	7 079 649 109	**113 345**	113 345
Closing balance	**7 079 649 109**	7 079 649 109	**113 345**	113 345
Deferred type B shares				
Opening balance	**308 992 814**	308 992 814	**46 622**	46 622
Closing balance	**308 992 814**	308 992 814	**46 622**	46 622
Total	**7 706 113 815**	7 701 216 567	**163 557**	163 493

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

22 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 technique. 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 and adjusted for the effect of non-market-based vesting conditions.

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

	2017	2016
Weighted average share price	**36.3p**	31.4p
Weighted average option exercise prices	**1.0p**	70.7p
Expected volatility	**37%**	35%
Expected option life	**5 years**	5 years
Risk-free interest rate	**0.58%**	0.82%
Expected dividend yield	**0%**	0%
Fair value of option granted in the year (US cents)	**60.5**	40.7

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 Basic Share Option Scheme and the Performance-Related Share Option Scheme during the year are as follows:

	Number of share options		Weighted average exercise price (US cents)	
	2017	2016	**2017**	2016
Outstanding at beginning of year	**15 540 589**	15 052 200	**70.7**	48.0
Granted during the year	**7 773 000**	1 032 714	**60.5**	40.7
Lapsed or expired in the year	**—**	(544 325)	**—**	62.3
Outstanding at the end of the year	**23 313 589**	15 540 589	**47.5**	70.7
Exercisable at the end of the year	**13 534 206**	2 491 000	**73.9**	173.6

The options outstanding as at 30 June 2017 have a weighted average contractual life of five years (2016: five years). These options have an exercise price ranging from 1.0 pence to 275.0 pence (2016: a range of 26.5 pence to 275.0 pence). The options exercisable at 30 June have an exercise price ranging from 26.5 pence to 275.0 pence (2016: a range of 85.0 pence to 275.0 pence). No options were exercised during the year.

	Group		Company	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Charge for the year allocated to the Company	**1 138**	738	**1 138**	738
Charge for the year allocated to subsidiary companies	**902**	271	**902**	271
Total charge for the year	**2 040**	1 009	**2 040**	1 009
Amount capitalised to the cost of the Liqhobong Mine	**(772)**	(234)	**—**	—
Amount capitalised to investments	**—**	—	**(902)**	(271)
Charge for the year in profit and loss	**1 268**	775	**1 138**	738

Basic Share Option Scheme

	Exercise period		Share options held at		Exercise price	
Date of grant	From	To	**2017 number**	2016 number	**2017 pence**	2016 pence
06/12/2007	06/12/2008	05/12/2017	**6 000**	6 000	**200.0**	200.0
19/12/2007	19/12/2008	18/12/2017	**15 000**	15 000	**200.0**	200.0
15/01/2008	15/01/2009	14/01/2019	**20 000**	20 000	**200.0**	200.0
17/05/2011	17/05/2012	16/05/2022	**16 666**	16 666	**275.0**	275.0
17/05/2011	17/05/2014	16/05/2022	**16 667**	16 667	**275.0**	275.0
17/05/2011	17/05/2015	16/05/2022	**16 667**	16 667	**275.0**	275.0
			91 000	91 000		

Unapproved Executive Share Option Scheme

	Exercise period		Share options held at		Exercise price	
Date of grant	From	To	**2017 number**	2016 number	**2017 pence**	2016 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	**891 290**	891 290	**38.8**	38.8
01/09/2014	01/09/2014	31/08/2024	**339 380**	339 380	**37.3**	37.3
01/10/2014	01/10/2014	30/09/2024	**203 074**	203 074	**36.5**	36.5
01/11/2014	01/11/2014	31/10/2024	**222 292**	222 292	**33.8**	33.8
01/05/2015	01/05/2015	30/04/2025	**430 213**	430 213	**26.5**	26.5
06/10/2015	30/04/2015	29/04/2025	**737 653**	737 653	**26.5**	26.5
06/10/2015	30/04/2015	29/04/2025	**295 061**	295 061	**26.5**	26.5
			13 949 589	13 949 589		

Unapproved Share Option Scheme

	Exercise period		Share options held at		Exercise price	
Date of grant	From	To	**2017 number**	2016 number	**2017 pence**	2016 pence
23/11/2012	23/11/2012	22/11/2022	**1 500 000**	1 500 000	**85.0**	85.0

Restricted Share Plan

	Exercise period		Share options held at		Exercise price	
Date of grant	From	To	**2017 number**	2016 number	**2017 pence**	2016 pence
15/01/2017	15/01/2017	14/01/2027	**7 773 000**	—	**1.0**	—

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 2017 at the average share price for the year of 36.3 pence per share would have been 13 229 534 shares as a result of it trading above the exercisable price limit (2016: average share price of 31.4 pence, therefore 1 995 755). However, these shares are anti-dilutive as at 30 June 2017 and is thus not taken into account in calculating the diluted loss per share.

23 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 Eurobond, the obligation to pay the subscription amount of the warrants can be offset against any monies outstanding at the time of exercise under the Eurobond. The terms of the warrants are as follows:

Series A warrants

- total warrants issued: 48 786 437;
- subscription price: 61.4925 US cents;
- subscription 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 Firestone Diamonds plc share price trades above the closing mid-market share price of 75 pence and the Project completion condition has been met.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

23 Warrant reserve continued

Series A warrants continued

The warrants were measured at fair value at the date of grant as determined through the use of the Black-Scholes technique. 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 Eurobond.

The inputs into the Black-Scholes model for the warrants issued in the year ended 2016 were as follows:

	2016
Exercise price (US cents)	61.49
Expected volatility	35.0%
Expected subscription period	4 years
Risk-free interest rate	1.96%
Fair-value of warrants issued in the year (US cents)	15.60

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 warrant life as at the date of grant.

	Group		Company	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Warrant reserve				
At 1 July	**7 609**	—	**7 609**	—
Warrants issued the year	**—**	7 609	**—**	7 609
At 30 June	**7 609**	7 609	**7 609**	7 609

24 Borrowings

	Group – 2017				
	ABSA debt facility US$'000	**Series A Eurobonds US$'000**	**Series B Eurobonds US$'000**	**Other loans US$'000**	**Total US$'000**
Capital amount					
At 1 July	43 400	30 000	—	—	73 400
Additions	39 000	—	5 000	1 456	45 456
Foreign exchange adjustments	—	—	—	212	212
Capital repayments	(1 393)	—	—	(117)	(1 510)
At 30 June	**81 007**	**30 000**	**5 000**	**1 551**	**117 558**
Finance cost to be amortised over the life of the facility					
At 1 July	(10 763)	(7 860)	—	—	(18 623)
Additions	(178)	—	(300)	—	(478)
Finance cost capitalised to property, plant and equipment	3 057	1 277	—	—	4 334
At 30 June	**(7 884)**	**(6 583)**	**(300)**	—	**(14 767)**
At amortised cost					
Non-current liabilities	50 307	23 417	4 700	1 310	79 734
Current liabilities	22 816	—	—	241	23 057
Total	**73 123**	**23 417**	**4 700**	**1 551**	**102 791**

	Group – 2016		
	ABSA debt facility US$'000	Series A Eurobonds US$'000	Total US$'000
Capital amount			
At 1 July	—	—	—
Additions	43 400	30 000	73 400
Capital repayments	—	—	—
At 30 June	43 400	30 000	73 400
Finance cost to be amortised over the life of the facility			
At 1 July	—	—	—
Additions	(11 243)	(8 959)	(20 202)
Finance cost capitalised to property, plant and equipment	480	1 099	1 579
At 30 June	(10 763)	(7 860)	(18 623)
At amortised cost			
Non-current liabilities	27 957	22 140	50 097
Current liabilities	4 680	—	4 680
Total	32 637	22 140	54 777

	Company					
	Series A Eurobonds 2017 US$'000	Series A Eurobonds 2016 US$'000	**Series B Eurobonds 2017 US$'000**	Series B Eurobonds 2016 US$'000	**Total 2017 US$'000**	Total 2016 US$'000
Capital amount						
At 1 July	**30 000**	—	**—**	—	**30 000**	—
Additions	**—**	30 000	**5 000**	—	**5 000**	30 000
At 30 June	**30 000**	30 000	**5 000**	—	**35 000**	30 000
Finance cost to be amortised over the life of the facility						
At 1 July	**(7 860)**	—	**—**	—	**(7 860)**	—
Additions	**—**	(8 959)	**(300)**	—	**(300)**	(8 959)
Finance cost	**1 277**	1 099	**—**	—	**1 277**	1 099
At 30 June	**(6 583)**	(7 860)	**(300)**	—	**(6 883)**	(7 860)
At amortised cost						
Non-current liabilities	**23 417**	22 140	**4 700**	—	**28 117**	22 140
Current liabilities	**—**	—	**—**	—	**—**	—
Total	**23 417**	22 140	**4 700**	—	**28 117**	22 140

Finance charges – ABSA debt facility

	Group		Company	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Interest paid	**2 666**	914	**—**	—
Amortised finance charges	**3 057**	480	**—**	—
	5 723	1 394	**—**	—

Interest on the ABSA facility is calculated at 3-month US$ LIBOR plus the following margin:

- Tranche A (85% of the loan balance) – 1.8%; and
- Tranche B (15% of the loan balance) – 10% pre-financial completion and 7.5% post-financial completion.

The effective interest rate is, in aggregate 9.90% (2016: 9.60%). The facility is repayable in 18 quarterly instalments which commenced on 31 March 2017.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

24 Borrowings continued

Finance charges – Series A Eurobonds

	Group		Company	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Interest settled in shares	**2 442**	1 739	**2 442**	1 739
Amortised finance charges	**1 277**	1 099	**1 277**	1 099
	3 719	2 838	**3 719**	2 838

The Series A Eurobonds have a coupon rate of 8.00% per annum payable quarterly. The effective interest rate is, in aggregate 13.77% (2016: 12.33%). The interest can be settled in cash or through the issue of ordinary shares at market value based on the volume-weighted average share price ("VWAP") and average £:$ exchange rate for the 20 days preceding the interest calculation date.

The Series A bonds are repayable on the final maturity date, which is August 2022.

Finance charges – Series B Eurobonds

The Series B Eurobonds were first exercised at year end.

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%.

Warrants are issued upon exercise of the Series B bonds which entitle the bondholder to receive shares in lieu of cash in respect of the outstanding balance of the bonds. The exercise price is 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 £:$ exchange rate over a 20-day period immediately prior to the issue.

The Series B bonds are repayable no later than 36 months following the first drawdown, being 21 June 2020.

Finance charges – other loans

	Group		Company	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Interest paid	**394**	—	**—**	—
Finance charges				
Finance charges capitalised to property, plant and equipment	**9 442**	4 232	**—**	—
Finance charges recognised in profit and loss	**394**	110	**3 719**	2 838
	9 836	4 342	**3 719**	2 838

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

25 Rehabilitation provisions

	Group	
	2017 US$'000	2016 US$'000
At 1 July	**3 306**	3 078
Exchange difference	**367**	(425)
Opening balance restated for effect of foreign exchange	**3 673**	2 653
Increase in the year	**282**	442
Unwinding of discount on rehabilitation liability	**278**	211
At 30 June	**4 233**	3 306

The Group raised a provision for the rehabilitation of the environmental disturbances caused by the construction of the Project that commenced in July 2014 and which has been capitalised as part of the cost of the asset.

The environmental rehabilitation provision is based on current best practice and the current Environmental Management Plan.

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.

In determining the amount attributable to the rehabilitation provision, management used the following assumptions:

	Group	
	2017	2016
Discount rate	**8.0%**	8.0%
Lesotho inflation rate	**4.7%**	4.7%
Open pit life of mine	**9 years**	15 years

26 Other financial liabilities

	Group	
Cash flow hedges	**2017 US$'000**	2016 US$'000
Forward foreign exchange contracts	**—**	470
Interest rate swaps	**357**	1 218
	357	1 688

The Group 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 a majority of the funding made available for the Project is denominated.

The Group designated interest rate swaps as cash flow hedges. These interest rate swap contracts were entered into to mitigate the risk that variable interest rates pose to the Company's cash flow.

Timing profile of the nominal amount of the hedging instruments

Cash flow hedges

2017	**Less than 6 months US$'000**	**6-12 months US$'000**	**1-2 years US$'000**	**2-5 years US$'000**	**5-10 years US$'000**
Interest rate swaps	**170**	**148**	**223**	**166**	**—**

2016	Less than 6 months US$'000	6-12 months US$'000	1-2 years US$'000	2-5 years US$'000	5-10 years US$'000
Forward foreign exchange contracts	10 388	—	—	—	—
Interest rate swaps	75	252	487	597	—

Hedge effectiveness

Cash flow hedges

2017	**Effective hedge profit US$'000**	**Ineffective hedge profit US$'000**	**Through other comprehensive income US$'000**	**Amount reclassified to fixed assets US$'000**
Forward foreign exchange contracts	**(630)**	**—**	**(470)**	**(160)**
Interest rate swaps	**(638)**	**—**	**(861)**	**223**

2017	Effective hedge profit US$'000	Ineffective hedge profit US$'000	Through other comprehensive income US$'000	Amount reclassified to fixed assets US$'000
Forward foreign exchange contracts	3 486	—	(1 586)	5 072
Interest rate swaps	1 311	—	1 241	70

Forward foreign exchange contracts

The Group formally assesses, at inception, and on an ongoing basis, whether the hedging contracts are highly effective in offsetting changes in the cash flows of the hedged item. The above table presents both the realised and unrealised foreign exchange losses on forward foreign currency exchange contracts for the year. The effective portion of the realised foreign exchange losses on matured contracts was reclassified as part of the cost of the Project, the hedged item. The effective portion of the unrealised foreign exchange losses on contracts that are still to mature was recognised in other comprehensive income.

The average rate of the realised forward exchange contracts was ZAR13.68:US$1 (2016: ZAR11.92:US$1) and all matured forward exchange contracts were effective. There were no unrealised forward exchange contracts as at 30 June 2017. The average rate of the unrealised forward exchange contracts as at 30 June 2016 was ZAR14.09:US$1 and all forward exchange contracts that had not as yet matured at that date were effective.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

26 Other financial liabilities continued

Interest rate swaps

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.

The notional principal amounts of outstanding floating-to-fixed interest rate swap contracts designated as hedging instruments in cash flow interest rate hedges of variable rate debt at 30 June 2017 totalled US$38.9 million (2016: US$21.7 million).

At 30 June 2017, the floating rate was LIBOR. The effective portion of the realised interest rate swap losses was reclassified as part of the cost of the Project. The effective portion of the unrealised interest swaps that are still to mature was recognised in other comprehensive income.

27 Trade and other payables

	Group		Company	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Trade payables	**5 518**	2 306	**183**	52
Inter-company payables	**—**	—	**320**	—
Tax and social security	**250**	245	**21**	—
Accruals and other payables	**12 704**	11 647	**974**	1 139
	18 472	14 198	**1 498**	1 191

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

28 Provisions

	Group	
	2017 US$'000	2016 US$'000
At 1 July	**521**	390
Exchange difference	**(13)**	(111)
Opening balance restated for effect of foreign exchange	**508**	279
Reallocation	**(137)**	377
Raised in the year through profit or loss	**(11)**	(3)
Capitalised as part of the cost of the Project	**30**	(132)
At 30 June	**390**	521

Provisions relate to leave pay due to staff.

29 Financial instruments

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

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

Principal financial instruments

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

- loans receivable;
- trade and other receivables;
- loans to subsidiaries;
- cash and cash equivalents;
- other financial liabilities;
- trade and other payables; and
- cash flow hedging instruments.

The above financial instruments are classified in the following categories:

	Group		Company	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Financial assets at amortised cost				
Loans receivable	**—**	2 816	**—**	—
Trade and other receivables	**1 687**	571	**401**	—
Loans to subsidiaries	**—**	—	**19 522**	87 873
Cash and cash equivalents	**17 053**	10 282	**113**	3 339
	18 740	13 669	**20 036**	91 212
Financial liabilities at fair value through other comprehensive income				
Other financial liabilities	**357**	1 688	**—**	—
Financial liabilities at amortised cost				
Borrowings	**102 791**	54 777	**28 117**	22 140
Trade and other payables	**18 472**	14 198	**1 498**	1 191
	121 263	68 975	**29 615**	23 331

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.

Financial instruments measured at fair value

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

	Level 1		Level 2		Level 3	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000	**2017 US$'000**	2016 US$'000
Other financial liabilities	**—**	—	**357**	1 688	**—**	—

There were no transfers between levels during the period.

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

Item	Valuation approach and inputs used
Derivative through fair value through other comprehensive income	The fair value of forward exchange contracts is determined based on the forward exchange rates as at 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 though discounting future cash flows using discounted rates obtained from the ZAR-swap curve.

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 retained full control over the Group's past investments in quoted securities and associated derivative financial instruments. 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 is exposed and the policies adopted by the Board have not changed significantly in the year.

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

Credit risk

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

The Group mitigates the risk of non-payment from trade debtors by selling its rough diamond production through a competitive tender process to reputable diamond buyers. Parcels are only released once full payment is received from the winning bidder.

Loans to subsidiaries in the Company mostly relates to the funding of the Project and the Company expects to recoup these loans when the Mine starts to generate positive cash flows.

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 CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

29 Financial instruments continued

Liquidity risk

Liquidity risk arises from the Group and Company management of working capital, finance charges and capital repayments of its debt instruments. It is a 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. As at the year end, the Group has US$10 million remaining on the standby facility. Based on cash balance and debt facilities at year end, the Group would have insufficient funds to continue operating. The Group therefore requires the successful completion of the capital raise and ABSA debt restructuring to provide the necessary funds to continue to operate for the foreseeable future.

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

Effective interest rates and maturity analysis

The following table indicates their effective interest rates of interest earning/bearing financial assets and liabilities at 30 June 2017 and the periods in which they mature:

Group	Effective interest rate	Total US$'000	Current US$'000	1-2 years US$'000	2-5 years US$'000
2017					
Cash and cash equivalents	**0.25%**	**17 053**	**17 053**	**—**	**—**
ABSA debt facility	**9.90%**	**73 123**	**22 816**	**42 321**	**7 986**
Series A Eurobonds	**13.77%**	**23 417**	**—**	**—**	**23 417**
Series B Eurobonds	**10.18%**	**4 700**	**—**	**—**	**4 700**
Other loans	**12.75%**	**1 551**	**241**	**582**	**728**
2016					
Cash and cash equivalents	0.03%	10 282	10 282	—	—
ABSA debt facility	9.60%	32 637	4 680	19 529	8 428
Series A Eurobonds	12.33%	22 140	—	—	22 140

Company	Effective interest rate	Total US$'000	Current US$'000	1-2 years US$'000	2-5 years US$'000
2017					
Cash and cash equivalents	**0.25%**	**113**	**113**	**—**	**—**
Loans to subsidiaries	**11.80%**	**79 347**	**—**	**—**	**79 347**
Series A Eurobonds	**13.77%**	**23 417**	**—**	**—**	**23 417**
Series B Eurobonds	**10.18%**	**4 700**	**—**	**—**	**4 700**
2016					
Cash and cash equivalents	0.03%	3 339	3 339	—	—
Loans to subsidiaries	12.12%	68 378	—	—	68 378
Series A Eurobonds	12.33%	22 140	—	—	22 140

Interest rate risk

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

The Group's policy is to manage the risk associated with floating interest rates by entering into floating-to-fixed interest rate swaps.

Interest rate table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group and Company's profit or loss before tax (through the impact on floating rate borrowings) and cash flows.

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

	2017		2016	
Group	**Change in rate**	**US$'000**	Change in rate	US$'000
US$ equivalent	**-0.5%**	**404**	-0.5%	227
	-1.0%	**808**	-1.0%	454
	-1.5%	**1 212**	-1.5%	681
US$ equivalent	**+0.5%**	**(404)**	+0.5%	(227)
	+1.0%	**(808)**	+1.0%	(454)
	+1.5%	**(1 212)**	+1.5%	(681)

	2017		2016	
Company	**Change in rate**	**US$'000**	Change in rate	US$'000
US$ equivalent	**-0.5%**	**(265)**	-0.5%	(219)
	-1.0%	**(530)**	-1.0%	(437)
	-1.5%	**(795)**	-1.5%	(656)
US$ equivalent	**+0.5%**	**265**	+0.5%	219
	+1.0%	**530**	+1.0%	437
	+1.5%	**795**	+1.5%	656

Currency risk

The Group adopts a hedging strategy, approved by the Board, to mitigate 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% 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.

As at 30 June 2017 the Group held no significant monetary assets or liabilities in currencies other than the functional currency of the operating units involved (2016: nil), other than a cash balance held in Pound Sterling equivalent to US$0.4 million (2016: US$0.5 million). If Pound Sterling were to appreciate against the US Dollar by 1%, the cash balance would increase by US$4 041 (2016: US$6 012). Similarly, if Pound Sterling were to depreciate against the US Dollar by 1%, the cash balance would decrease by US$4 041 (2016: US$6 012).

Loans between companies that are members 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.

The Company is exposed to a number of different currency risks between the Rand, Maloti, US Dollar and Pula.

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

Net foreign currency financial liabilities	**2017 US$'000**	2016 US$'000
US Dollar	**1 349**	1 427
Lesotho Maloti	**17 044**	11 080
Other	**185**	506
Total	**18 578**	13 013

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

	Average rate		Balance sheet rate	
	2017	2016	**2017**	2016
South African Rand	**13.6235**	14.4926	**12.8915**	14.7737
Lesotho Maloti	**13.6235**	14.4926	**12.8915**	14.7737
Botswana Pula	**10.2322**	10.6395	**10.2404**	10.7880
Pound Sterling	**1.2717**	1.4819	**1.2957**	1.3394

The Group's expenses in Botswana, Lesotho and South Africa are incurred in Pula, 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 Pula, Maloti or Rand.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2017

29 Financial instruments continued

Capital

The Group considers its capital and reserves attributable to equity shareholders together with interest-bearing borrowings to be the Group's capital. In managing its capital, the Group's primary long-term objective is to provide a return for its equity shareholders through capital growth. Going forward the Group will seek to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital needs.

Details of the Group and Company capital are disclosed in the Group and Company Statement of Changes in Equity and in note 21.

There have been no other significant changes to the Group's management objectives, policies and processes in the year, nor has there been any change in what the Group considers to be capital.

30 Operating lease commitments

	Group Land and buildings		Company Land and buildings	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Within one year	**160**	132	**132**	102
Between one and two years	**163**	531	**132**	521
Between two and five years	**295**	—	**252**	—
	618	663	**516**	623

There is no material difference between the fair value of these commitments shown and the values disclosed.

31 Capital commitments and contingencies

At 30 June 2017 the Group had no capital commitments or contingent liabilities.

32 Post-balance sheet events

Capital raise

On 1 December 2017 Firestone Diamonds plc announced a potential capital raise. The net proceeds will be used to sustain the Group at the current lower than expected average diamond values and to fund working capital for the forseeable future.

Amendment of ABSA debt facility

The Group has agreed revised terms which are conditional upon ECIC approval, the success of the capital raise mentioned above, and certain other conditions. The key revised terms can be found in the Going Concern paragraph on page 47.

33 Related party transactions

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

	2017 US$'000	2016 US$'000
Finance income received	**8 415**	6 441
Management fee income received	**216**	206

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

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