Final Results

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Firestone Diamonds plc
("Firestone", the "Group" or the "Company")

Final results for the year ended 30 June 2017

Firestone Diamonds (AIM: FDI), a new diamond producer with operations focused in Lesotho, announces its final audited results for the year ended 30 June 2017.

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

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

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)

[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.

For more information please visit www.firestonediamonds.com or contact:

Firestone Diamonds plc Stuart Brown	+44 (0)20 8741 7810
Macquarie Capital (Europe) Limited (Nomad and Broker) Nick Stamp Nicholas Harland	+44 (0)20 3037 2000

Tavistock (Public and Investor Relations) +44 (0)20 7920 3150
Simon Hudson
Jos Simson
Barney Hayward

STRATEGIC REVIEW

Introduction

Summary

- Construction of the Mine Development Project completed
- Over four million man-hours worked without any LTI's
- 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. 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 other sections of this announcement, 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.

MARKET CONTEXT

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 2017/18 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.

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.

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 objective	How we achieve the objective
Quality management	We employ suitably experienced people, with appropriate qualifications and experience to ensure that the Company's operations are managed successfully.
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.
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.
Environmental monitoring	We operate very strict environmental practices.
Performance	We manage the Group's performance by benchmarking achievement against set KPIs.

KEY PERFORMANCE INDICATORS

Safety	Ore tonnes	Waste tonnes
LTIFR: zero	**1.97mt**	**1.78mt**
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.	**Performance** The Mine performed well to process the tonnage which was in line with guidance of between 1.8 and 2 million tonnes.	**Performance** Waste stripping activities during the year were sufficient to meet the objectives of the Mine's development plan.
Risk management The Group has adequate policies and procedures and monitoring systems in place to ensure a safe working environment.	**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.	**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	Plant utilisation	Carats recovered
18.61 cpht	**72%**	**365 891 cts**
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.	**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.	**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 Mineral Resource Management ("MRM") department reconciles grade recovery daily to address any anomalies.	**Risk management** Liqhobong's engineering department adheres to a strict preventative maintenance system.	**Risk management** Liqhobong's MRM department reconciles grade recovery daily to address any anomalies.

Revenue	US$ per carat	US$ per tonne treated
US$27.8m	**US$90/ct**	**US$12.26/t**
Performance Revenue for the year was lower than expected as a result of lower average diamond values achieved.	**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 price achieved of US$90/ct for the year.	**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 Revenue is mainly impacted by the average diamond value achieved, which is outside the Group's control.	**Risk management** Revenue is mainly impacted by the average diamond value achieved which is largely outside the Group's control.	**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:

COMMODITY RISK	COMMODITY RISK	COMMODITY RISK
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.	**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.	**Diamond price risk** 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.
Mitigation 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	**Mitigation** 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.	**Mitigation** 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.

search and X-ray scanning.		

EXTERNAL RISK **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.	**EXTERNAL RISK** **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.	**EXTERNAL RISK** **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.
Mitigation 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.	**Mitigation** 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.	**Mitigation** 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 **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.	**OPERATIONAL RISK** **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.	**OPERATIONAL RISK** **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.
Mitigation 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.	**Mitigation** 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.	**Mitigation** 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.

OPERATIONAL RISK **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.	**OPERATIONAL RISK** **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.	**OPERATIONAL RISK** **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.
Mitigation 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	**Mitigation** 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.	**Mitigation** 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,

practiced by all employees.		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.

OPERATIONAL RISK	OPERATIONAL RISK	STRATEGIC RISK
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.	**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.	**Retention of key personnel** The Company is heavily reliant on a small group of key staff to achieve its objectives.
Mitigation 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 investigates further where necessary.	**Mitigation** 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.	**Mitigation** 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.

STRATEGIC RISK	STRATEGIC RISK
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.	**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.
Mitigation Management prepares detailed annual budgets and monthly forecasts based on recent performance and results to ensure that it is adequately financed. Action is undertaken at the appropriate time if and when it appears that a funding shortfall may occur.	**Mitigation** 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 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

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.

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.

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 total of 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 m^3 (millions)	Specific gravity (tonnes/m^3)	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 (2016: 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.

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.

	2017	2016
US$'million		
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 management's 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 3 to the financial statements, 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 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**

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.

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.

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 today, 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 today announced a potential US$25 million capital raise and a restructuring of the ABSA debt facility (see Note 2 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

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.

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
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 November 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 October 2016

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.

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 2 going concern.

Post-balance sheet events
Post-balance sheet events are detailed in note 13.

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

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 cannot 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 the ability to meet 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	OUR RESPONSE
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 judgements 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 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, and - critical review of the forecast costs against the expected production profiles in the revised mine plan. • we also assessed the adequacy of impairment related disclosures contained within the financial statements.

KEY AUDIT MATTER	OUR RESPONSE

Key audit matter	How we addressed the key audit matter in our audit
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 judgement 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 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.

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	3	**122 602**	-
Amortisation and depreciation	6	**2 316**	2 464
Share-based payments		**1 268**	775
Care and maintenance		**534**	518
Corporate expenses		**3 234**	3 349
Loss before finance charges and income tax		**(129 240)**	(6 946)
Finance income		**460**	111
Finance costs		**1 235**	2 198
Loss before tax		**(130 015)**	(9 033)
Taxation charge/(credit)	4	**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)	5	**(36.9)**	2.5
Diluted (loss)/profit per share			
Diluted (loss)/profit per share from continuing operations (US cents)	5	**(36.9)**	2.5

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	6	**118 590**	177 141
Deferred tax	7	**3 761**	20 248
Loan receivable		**-**	2 816
Total non-current assets		**122 351**	200 205
Current assets			
Inventory	8	**6 420**	248
Trade and other receivables	9	**3 590**	3 420
Cash and cash equivalents		**17 053**	10 282
Total current assets		**27 063**	13 950
Total assets		**149 414**	214 155
EQUITY			
Share capital		**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	10	**79 734**	50 097
Rehabilitation provisions	11	**4 233**	3 306
Total non-current liabilities		**83 967**	53 403
Current liabilities			
Borrowings	10	**23 057**	4 680
Other financial liabilities		**357**	1 688
Trade and other payables	12	**18 472**	14 198
Provisions		**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

Consolidated statement of changes in equity for the year ended 30 June 2017

	Share capital US$'000	Share premium US$'000	Warrant reserve 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	-	-	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**

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	3	**122 602**	-
Depreciation and amortisation	6	**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		**17 053**	10 282

Notes to the extract of the Consolidated Financial Statements for the year ended 30 June 2017

1 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.

The financial information for the years ended 30 June 2017 and 30 June 2016 does not constitute statutory accounts as defined by section 435 of the Companies Act 2006 but is extracted from the audited accounts for those years.

The Company has adopted International Financial Reporting Standards ("IFRSs") 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.

2. 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, and a lower than expected average diamond value referred to in the "Diamond sales" section of the Financial Review, 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 million from existing shareholders and new investors through a fundraising, the preliminary announcement of which was made on Friday 1 December 2017, and the results of which are expected to be announced on Friday 1 December 2017.

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 section. 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 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.

3 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 cash-generating units, 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 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 CGU's, 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**

Impairment charge

	Group	
	2017 US$'000	2016 US$'000
Property, plant and equipment (note 6)	**118 908**	-
Loans receivable	**3 694**	-
	122 602	-

4 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	2016
	US$'000	US$'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.

5 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 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.

6 Property, plant and equipment

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	(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	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.

7 Deferred tax

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

	Group	
	2017	2016
Deferred tax asset/(liability)	**US$'000**	US$'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	2016
	US$'000	US$'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).

8 Inventory

	Group	
	2017	2016
	US$'000	US$'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.

9 Trade and other receivables

	Group	
	2017	2016
	US$'000	US$'000
Trade receivables	**1 262**	-
Other receivables	**2 010**	2 715
Prepayments	**318**	705
	3 590	3 420

Trade receivables relate to proceeds that were received shortly after 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.

10 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**

	Group	
	2017	2016
Finance charges - ABSA debt facility	**US$'000**	US$'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 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.

	Group	
	2017	2016
Finance charges - Series A Eurobonds	**US$'000**	US$'000
Interest settled in shares	**2 442**	1 739
Amortised finance charges	**1 277**	1 099
	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 in respect 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.

	Group	
	2017	2016
Finance charges - other loans	**US$'000**	US$'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
	9 836	4 342

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

11 Rehabilitation provision

	Group	
	2017	2016
	US$'000	US$'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

12 Trade and other payables

	Group	
	2017	2016
	US$'000	US$'000
Trade payables	**5 518**	2 306
Tax and social security	**250**	245
Accruals and other payables	**12 704**	11 647
	18 472	14 198

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

13 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 foreseeable 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.

14 AGM
The Annual General Meeting ("AGM") of the Company will be held at the offices of Tavistock Communications, 1 Cornhill London EC3V 3ND at 10:30 a.m. on Friday, 29 December 2017. Copies of the Annual Report and the notice of AGM will be sent to shareholders shortly and will be available on the Company's website today.

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