



Mining Lease Agreement and Fundraising Timetable

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28 April 2014

Firestone Diamonds plc
("Firestone" or the "Company") (AIM: FDI)

Revised Mining Lease Agreement Signed and Updated Fundraising Timetable

Firestone Diamonds plc, the AIM-quoted diamond development company, is pleased to announce that Liqhobong Mining Development Company (Pty) Limited ("LMDC") (which is 75 per cent. owned by Firestone and 25 per cent. owned by the Lesotho Government), has entered into the Revised Mining Lease Agreement with the Lesotho Government, represented by the Honourable Minister of Mines, in relation to the development of the Liqhobong Diamond Mine.

The Revised Mining Lease Agreement represents an important milestone for Firestone and the Company looks forward to shortly commencing construction of the Main Treatment Plant and supporting infrastructure at the Liqhobong Diamond Mine.

Highlights

- Revised Mining Lease Agreement entered into for an initial period ending on 30 June 2021 and can be renewed for two further periods of 10 years each;
- A Placing Extension has been provided to allow sufficient time for the agreements in respect of the Fundraising and Absa Debt Facility to be reviewed. Accordingly, admission of the Subscription Shares and the Placing Shares must now be by no later than 30 May 2014;
- The Open Offer has now closed. The deadline for completion of the Offer Open conditions has been extended to 30 May 2014; and
- The General Meeting to approve the issue of the New Ordinary Shares pursuant to the Fundraising is unaffected by the Placing Extension and will be held at 10.00 a.m. today.

Stuart Brown, Chief Executive Officer of Firestone, commented:

"I am pleased to announce that Firestone has concluded the terms for the Revised Mining Lease Agreement for the Liqhobong Diamond Mine, with our partners, the Lesotho Government. The negotiations have been extensive and we believe that the concluded agreement is positive for all parties.

Importantly, the Revised Mining Lease Agreement enables the Company to proceed with its Fundraising, a considerable private investment in Lesotho, and commence construction of the Main Treatment Plant and supporting infrastructure at Liqhobong.

The Revised Mining Lease Agreement provides a framework by which Firestone and the Lesotho Government can realise its combined strategy and vision of building and commissioning the Main Treatment Plant at the Liqhobong Diamond Mine to benefit all stakeholders."

Revised Mining Lease Agreement

The Company and its subsidiaries (the "Group") have entered into the Revised Mining Lease Agreement which shall govern the terms under which LMDC shall mine diamonds at the Lihobong Diamond Mine for an initial period ending on 30 June 2021, with the ability to renew the mining lease for two further periods of 10 years each.

After extensive negotiations with the Lesotho Government, it has been agreed that concessions regarding the exemption from paying withholding tax on interest and dividends contained in the previous agreement will no longer be available. In addition to this, LMDC will also incur withholding tax on services rendered, having not been granted the exemption which the Group had, until recently, anticipated receiving. Accordingly, the obligation to pay withholding tax will increase the cash outflow during the two year construction period of the Main Treatment Plant.

In compensation for the requirement to pay withholding tax, the Lesotho Government has agreed that the royalty rate on diamond sales will be reduced from 8.0 per cent. to 4.0 per cent. from first production, until such time as LMDC has obtained benefit to the value of US\$20.0 million from the royalty rate reduction. Thereafter, the royalty rate will revert to 8.0 per cent. of diamond sales.

While the Board believes that the overall impact on the Group will be broadly cash neutral, the obligation to pay withholding tax may result in an increase in the Company's peak funding requirement of approximately US\$12.0 million during the construction phase of the Main Treatment Plant in late 2015/early 2016, when the majority of the withholding tax will be payable and before the commencement of full-scale production at the Lihobong Diamond Mine and the resultant revenue generation. In addition, a further US\$8.0 million of withholding tax is expected to be payable over the debt repayment period, following the commencement of full nameplate production.

The Group has budgeted for US\$24.0 million in two separate contingency funds in respect of the construction of the Main Treatment Plant and depending on the utilisation of the construction and owner's contingency funds, the ability of the Group and its contractors to manage construction costs going forward and the ability to minimise the withholding tax payable, Firestone may need to raise funding to bridge this cashflow timing mismatch, during the period prior to the commencement of production, of up to US\$12.0 million to satisfy the withholding tax requirements that will become payable as detailed above, prior to the royalty rate reduction taking effect.

The Board believes that, as well as careful cash management, seeking to minimise the withholding tax payable and potential savings due to the impact of exchange rate benefits, there are numerous funding options available to the Group which could be utilised to meet any funding gap which may materialise prior to commencement of production. These may include debt facilities (such as a bridge facility), royalty payment agreements, off take agreements or some other form of structured financing, such that the Board believes that additional equity funding will not be required.

Updated Fundraising Timetable

Following entering into the Revised Mining Lease Agreement, Firestone is seeking to finalise the agreements in relation to the Fundraising and the Absa Debt Facility as detailed in the circular sent to Shareholders on 11 April 2014 (the "Circular").

However, as the Absa Debt Facility, Subscription Agreements and the Mezzanine Facility Agreement are conditional on, *inter alia*, entering into the Revised Mining Lease Agreement, the Placing Agreement has been amended to allow sufficient time for these agreements to be reviewed and finalised, such that the satisfaction and/or waiver of all conditions precedent contained in the Absa Debt Facility, Subscription Agreements and the Mezzanine Facility Agreement and admission of the Subscription Shares and the Placing Shares must now be by no later than 30 May 2014 (the "Placing Extension").

However, there will be no delay in holding the General Meeting to approve, *inter alia*, the issue of the New Ordinary Shares pursuant to the Fundraising and this will still be held at 10.00 a.m. today.

As a result of the Placing Extension, subject to, *inter alia*, Shareholder approval of Resolutions 1 and 2, Admission is now expected to be on or before 30 May 2014 and the Share Capital Reorganisation will not occur until after Admission.

The opportunity for Qualifying Shareholders to participate in the Open Offer closed on 25 April 2014 and the results of the Open Offer will be announced today. The Open Offer is conditional, *inter alia*, upon the satisfaction and/or waiver of all the conditions precedent contained in the Placing Agreement (other than relating to Admission) and admission of the Open Offer Shares to AIM by 30 April 2014.

As completion of the Placing Agreement has been extended to 30 May 2014, the Company has, in accordance with the terms of the Open Offer as detailed in the Circular, decided to extend the date for satisfaction (or where applicable waiver) of the Open Offer conditions to 8.00 a.m. on 30 May 2014. In the event, that the conditions are not satisfied by such time the Open Offer will not proceed and in such circumstances application monies will be returned at the applicant's risk.

Further announcements will be made as appropriate.

Unless the context otherwise requires, defined terms used in this announcement shall have the meanings given to them in the Circular.

****ENDS****

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Background information on Firestone

Firestone is an international diamond development company with operations focused on Lesotho and Botswana. Firestone is currently in the process of developing the Main Treatment Plant at the Liqhobong Mine in Lesotho to become a plus-one million carat per annum producer.

Lesotho is emerging as one of Africa's significant new diamond producers, and hosts Gem Diamonds' Letseng Mine, Firestone's Liqhobong Mine, as well as Namakwa Diamonds' Kao Mine and the Mothae development project.

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

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