24 February 2023

Firestone Diamonds Limited

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

QUARTERLY UPDATE – Q2 FY2023

Firestone Diamonds Limited, which owns 75% of the Liqhobong Diamond Mine in Lesotho ("Liqhobong" or “the Mine”), provides its update for the quarter ended 31 December 2022 (Q2 of the Company’s 2023 financial year).

Firestone is pleased to report strong quarterly results following a steady increase in operational activity at the Liqhobong Mine since successfully resuming operations during Q1 after a two-and-a-half-year care and maintenance period, and ramping up to continuous operations in Q2.

SECOND QUARTER ENDED 31 DECEMBER 2022:

HIGHLIGHTS:

- 122 871 Carats sold for US$11.6 million at an average value of US$94/ct, the highest average value realised for a comparable size assortment;
- Achievement of nameplate production after only 47 days; and
- A strong operational performance and efficient ramp up to full production.

SUMMARY:

- Lost time injury free quarter;
- Diamond recoveries of 173 720 carats;
- Grade of 19.2 carats per hundred tonnes (“cpht”);
- 906 835 Ore tonnes treated;
- 744 292 Waste tonnes moved was lower than plan – remedial action taken to address the shortfall;
- Operating cost of US$10.34 per tonne treated; and
- Closing unrestricted cash balance of US$8.8 million.

DEBT RESTRUCTURING:

- Final form definitive documentation was in place in respect of the restructuring of the Absa Bank Limited (“Absa”) US$82.4 million Senior Secured Term Facility (“Existing Facility”) and the refinancing of the Bridge Facility (referred to in the QUARTERLY UPDATE – Q1 FY2023) in a Second Amended and Restated Senior Secured Facilities Agreement (“New Facility Agreement”). The Bridge Facility, which would be replaced by Facility C (“Restart Facility”) in the New Facility Agreement, was increased to ZAR205.2 million. Additionally, the terms of a Working Capital Facility for ZAR201.7 million (equivalent US$11.4 million) were agreed with Absa and the Export Credit Insurance Corporation of South Africa.
- The Final Maturity Dates of the Company’s subordinated Series A and Series B Eurobonds were extended to 31 March 2023.

HIGHLIGHTS POST PERIOD END:

- The Absa debt restructuring and refinancing transaction was closed on 26 January 2023; and
- On 14 February 2023, 102 285 carats sold for US$11.0 million at an average value of US$107.50/ct, which surpassed the highest average value on record achieved at the previous sale in December 2022.

Rob de Pretto, Chief Executive Officer, commented:

"I am particularly pleased to report that the Company achieved its highest ever average value of US$94 per carat, which is significantly higher than the average value realised previously of US$75 per carat.

"Liqhobong's second quarter was injury-free and a solid quarter from an operational perspective. The on-mine team worked well to ensure that the ramp-up to steady state production progressed without any major issues, and that ore throughput targets were exceeded.

"Notwithstanding the good performance in Q2, the Company's financial position remains very challenging with its high debt levels, and we will continue to seek to repay this heavy debt burden over time, subject to continuing favourable market conditions."

Operations

During the quarter ended 31 December 2022, Liqhobong treated 906 835 tonnes of ore and moved 744 292 tonnes of waste. The plant, which commenced ramp-up on a single day shift from 15 August 2022, and achieved 24/7 steady-state production just 47 days after startup, performed very well, achieving an average throughput rate of 504 tonnes per hour ("tph") (nameplate capacity of 500tph). Waste tonnes mined was marginally lower than plan due to lower drill rig availability. The mining contractor began mobilising additional drill rigs towards the end of the quarter in order to recover the backlog, and to assist in meeting the plan going forward.

173 720 Carats was recovered at a grade of 19.2 cpht which was 8 per cent. lower than the planned grade of 20.9 cpht, partly due to treating mixed ore stockpiles of uncertain origin, during the rampup phase. However, we do note that lower recovered grades were reported previously, prior to the mine being placed on care and maintenance during March 2020, due to unexpected internal dilution in certain ore blocks being mined. We reported then that the situation was being investigated, and those investigations continue now that the mine is back in operation.

Safety, Health, Environment & Community

The second quarter was worked safely with no Lost Time Injury's.

Debt restructuring and refinancing activities

Absa

The Absa restructuring and refinancing was essentially completed by the end of Q2, awaiting only regulatory approvals which were received subsequent to the end of the quarter.

i) Salient terms

Salient terms of the debt restructuring include:

	Facility A	**Facility B**	**Facility C**	**Working Capital Facility**
Facility amount	US$20,500,000	US$45,230,425[1]	ZAR205,204,000	ZAR201,666,000
Availability period	n/a	n/a	26 July 2023	26 January 2024[2]
Interest calculation	Reference rate + Margin	Interest-free	Reference rate + Margin	Reference rate
Reference rate	Term SOFR	n/a	JIBAR	South African Prime Lending Rate
Margin	6%	0%	4.5%	0%
Default margin	2%	0%	2%	2%
Commitment fee	n/a	n/a	n/a	0.6%
Final repayment date	26 January 2030	26 January 2030	26 January 2030	26 January 2024[1]
Covenants				
Loan Life Cover Ratio	n/a	n/a	1.2x	n/a
Project Life Cover Ratio	n/a	n/a	1.2x	n/a
Interest Cover Ratio (ICR)	n/a	n/a	1.5x	n/a

1 – To be confirmed by Absa Bank. Includes capitalised interest to end March 2022.
2 – The Working Capital Facility is renewable annually

ii) Debt repayments

All debt service and related repayments are made on a cash sweep basis, subject to excess cash being generated by the Company, and in order of priority as set out in the New Facility Agreement.

iii) Other items

- Restructuring costs and fees of US$1.1 million;
- Remaining terms and conditions are typical of a debt refinancing agreement; and
- Existing security package remains in place.

Eurobonds

During October 2022, the Company entered into a Deed of variation with its Bondholders, Pacific Road Resources Fund II L.P. and Pacific Road Capital II Pty Ltd, in terms of which the final maturity dates of the US$30.0 million 8.00 per cent. Bonds (Series A) and US$15.0 million 8.00 per cent. Bonds (Series B) were extended to 31 March 2023.

The Company continues to engage with its Bondholders concerning the restructuring of the Series A and Series B Eurobonds or a further extension of the final maturity dates.

Financial

Cash flow for the period:

US$'million	FY2023 Q2	FY2023 Q1	FY2022 FY
Opening cash	3.5	5.0	6.2
Inflows			
Revenue	11.6	-	-
DRA award	-	-	2.6
Restart funding received	5.2	2.5	3.1
Outflows			
Royalties	0.7	-	-
Operating cost	9.0	-	-
Corporate	0.5	0.9	1.9
Capex – incl. waste stripping	0.4	-	-
Care and maintenance cost	-	1.2	3.8
Ramp-up cost	0.1	2.2	1.0
Net working capital outflow/(inflow)	(0.3)	(0.3)	0.2
Closing cash	**9.9**	**3.5**	**5.0**
Unrestricted cash (free cash)	8.8	2.5	4.1
Restricted cash:			
- Environmental rehabilitation	1.1	1.0	1.0

Debt outstanding as at 31 December of US$125.8 million (subject to confirmation from Absa bank) comprised:

	US$'million
Absa senior debt (subject to restructure)	65.2
Restart Facility	11.1
Eurobonds (Series A & B incl. capitalised interest)	49.5
Total debt	**125.8**

Operating cost

Operating cost for the first full quarter of production since the mine restart of US$10.34 per tonne treated including waste stripping cost was lower than guidance of between US$15.50 and US$16.50 per tonne treated. Operating costs were lower due to timing, cost savings against the plan and the impact of the weaker local currency against the US dollar.

Diamond Sales

During the quarter, the Company sold 122 871 carats, realising revenue of US$11.6 million at an average value of US$94 per carat. The average value was significantly higher than the Company's historic average of US$75 per carat (for similar size diamond assortment), due to the ongoing robust market for diamonds, particularly for the smaller goods which Liqhobong predominantly recovers. This contrasts to the subdued market conditions which the Company experienced since commencing production in 2017, which have now been impacted by the closure of Argyle mine in Australia in November 2020 which produced a large quantity of smaller diamonds, and more recently by the sanctions imposed on Alrosa.

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

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Rob De Pretto

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Background information on Firestone

Firestone is a UK registered diamond mining company with an operation in Lesotho. Firestone owns 75% of Liqhobong with the remaining 25% owned by the Government of Lesotho. Lesotho is one of Africa's significant diamond producers, hosting Gem Diamonds' Letšeng Mine, Firestone's Liqhobong Mine, Namakwa Diamonds' Kao Mine and Lucapa's Mothae Mine.