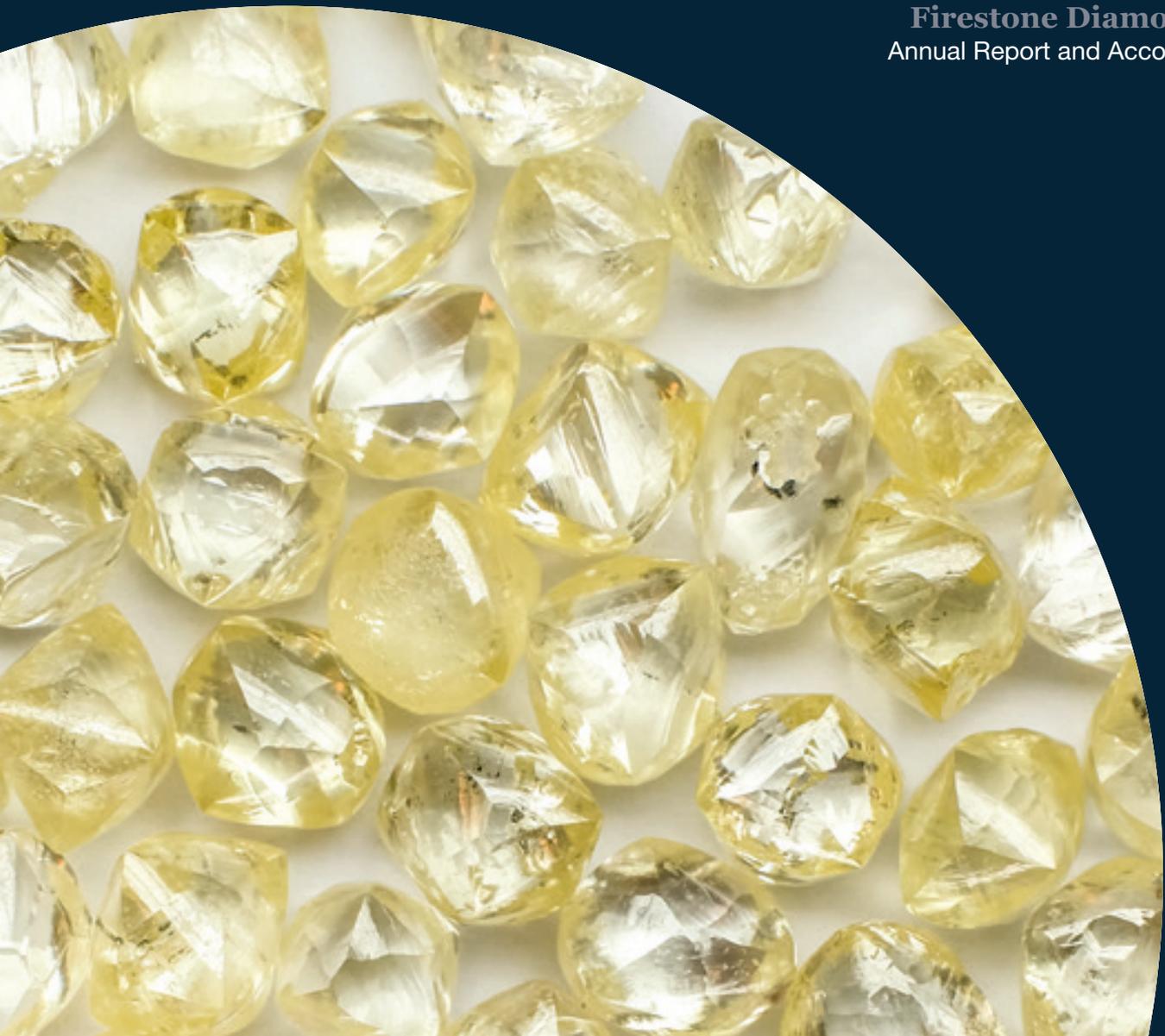




# EXCEPTIONAL OPERATIONAL PERFORMANCE

**Firestone Diamonds plc**  
Annual Report and Accounts 2018



# FIRESTONE DIAMONDS PLC

## A NEW DIAMOND PRODUCER WITH OPERATIONS FOCUSED IN LESOTHO

The exceptional operating performance at Liphobong Mine resulted in diamond recoveries of 835 832 carats.



### Key Highlights

- **FINAL QUARTER SAW RECORD PRODUCTION**
- **SUCCESSFULLY COMPLETED US\$25M CAPITAL RAISE AND DEBT RESTRUCTURING**
- **ZERO LOST TIME INJURY RECORD MAINTAINED**

## Contents

### Strategic Report

#### pages 1 to 27

2018 Summary	1
Introduction to the Strategic Report	2
Market Context	4
Business Model	6
Strategy	8
Key Performance Indicators	9
Risk Review	12
Operational Review	16
Financial Review	20
Health, Safety, Environment and Community	24

### Corporate Governance

#### pages 28 to 43

Board of Directors and Senior Management	28
Corporate Governance Statement	30
Audit Committee Report	34
Nomination Committee Report	36
SHEC Committee Report	37
Directors' Remuneration Report	38
Directors' Report	42

### Financial Statements

#### pages 44 to 88

Directors' Responsibilities Statement	44
Independent Auditor's Report	45
Consolidated Statement of Comprehensive Income	48
Consolidated Statement of Financial Position	49
Consolidated Statement of Changes in Equity	50
Consolidated Statement of Cash Flows	51
Company Statement of Financial Position	52
Company Statement of Changes in Equity	53
Company Statement of Cash Flows	54
Notes to the Financial Statements	55
Company Information	88

## 2018 SUMMARY

FIRESTONE SUCCESSFULLY COMPLETED ITS FIRST YEAR OF STEADY-STATE PRODUCTION, ENDING WITH A STRONG CASH BALANCE OF US\$18.4 MILLION

### Liqhobong Diamond Mine

Tonnes treated

**3.8m** (2017: 2.0m)

Waste tonnes mined

**2.9m** (2017: 1.8m)

Lost Time Injury ("LTI") free hours

**6.2m**  
recorded since project commencement

Carats recovered

**835 832** (2017: 365 891)

Carats sold

**831 637** (2017: 310 376)

Cash operating costs (US\$)

**11.62** (2017: US\$12.26) per tonne treated

Liqhobong Diamond Resource (carats)

**21.3m** (2017: 22.5m)

Potential in-situ value (US\$)

**1.6bn** at US\$75/ct (base case un-escalated)  
(2017: US\$1.7bn at US\$75/ct)

### Financial

Revenue (US\$)

**62.2m** (2017: US\$27.8m<sup>1</sup>)

EBITDA<sup>2</sup> (US\$)

**5.8m** (2017: US\$5.8m)

Loss after tax (US\$)

**14.2m**  
(2017: US\$151.7m including  
an impairment charge of US\$122.6m)

Cash balance (US\$)

**18.4m** (2017: US\$17.1m)

3.7 carat pink diamond  
recovered December 2017.  
Highest value per carat  
diamond recovered to date



1 All revenues and operating costs were capitalised to the cost of the asset in the Statement of Financial Position until commercial production was achieved on 30 June 2017.

2 The measure of operational cash performance calculated as earnings before interest, tax, depreciation and amortisation.

## INTRODUCTION TO THE STRATEGIC REPORT



**FIRESTONE HOLDS A 75% INTEREST IN THE LIQHOBONG DIAMOND MINE, LOCATED IN THE LESOTHO HIGHLANDS, WITH ITS 25% PARTNER – THE GOVERNMENT OF LESOTHO**

**Lucio Genovese**  
Non-Executive Chairman

### Summary

**6.2m**

man hours worked  
LTI-free since project  
commencement

**US\$82.4m**

ABSA debt facility  
restructured and  
term extended

**US\$25m**

equity raised in  
December 2017

**134 carat**

diamond recovered, the  
largest to date at Liqhobong



134 carat light  
yellow diamond

### Dear shareholder

Firestone's objective is to be a profitable 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 through production from the Liqhobong Diamond Mine in Lesotho, Southern Africa. The Liqhobong Diamond Mine is 75% owned by Firestone and 25% by the Government of Lesotho.

The 2018 financial year was exceptional in terms of all aspects which were within management's control, from achieving and exceeding recovery and tonnage treated guidance respectively, to operating at significantly lower than expected operating costs, and maintaining the unparalleled safety record, of which, we are very proud.

Just prior to the start of the financial year, we declared commercial production at our Liqhobong Diamond Mine in Lesotho, and as a result, 2018 represents the first full year of commercial production from the new plan.

During the first half of the year, a combination of lower than expected average diamond sale values, and earlier waste stripping requirements prompted a revision of the original 14-year mine plan. In December 2017, the Company announced a revised nine-year mine plan that was verified by its technical advisers in order to deliver the best returns in the medium term at low risk. Importantly, the new plan retained the optionality of taking advantage of a longer life of mine should the average diamond values increase or should there be an improvement in market conditions. The revised plan is over a shorter period and involves the stripping of fewer waste tonnes, resulting in higher cash generation.

In addition to this operational decision, the Group was successful in raising US\$25.0 million in December 2017, which, together with revised lending terms from ABSA bank, provides Firestone with sufficient resources to carry out the shorter mine plan. I would like to thank our shareholders for their continued support, and also ABSA Bank for extending the debt facility by two and a half years.



Concluding these efforts meant we were able to start off the second half of the financial year with a strong base and we went on to report ever improving operational numbers from the Mine, despite a heavier than expected rainy season, with the final quarter to end June resulting in several production records being achieved.

The Company also places great emphasis on its responsibility to its employees to provide safe working conditions. During the year, Lihobong maintained its zero Lost Time Injury record with a further 1.8 million LTI-free man hours, resulting in a total, since Project commencement, of over 6.2 million LTI-free man hours which is a considerable achievement.

A number of Board changes took place towards the end of the year. On behalf of the Board of Directors, I would like to thank Stuart Brown for his efforts over his five years as Chief Executive Officer (“CEO”) of Firestone. Having achieved his mandate to lead the financing and construction of Lihobong and therefore placing Firestone into the elite group of producing diamond companies, Stuart decided to embark on other challenges and we wish him every success for the future.

I would also like to thank Mike Wittet for his services to the Company over the past six years during a key part of the Company’s transformation into a major diamond producer and would also like to thank Deborah Thomas for her contribution.

I am very pleased to welcome Paul Bosma as CEO, who we feel with more than 24 years’ experience in the mining industry, together with his existing knowledge of the Mine gained as General Manager, is the appropriate person to guide the Group towards achieving its ambitious goals going forward.

I would also like to welcome Mr Patrick Meier to the Board as a Non-Executive Director. Patrick brings with him a wealth of knowledge and experience in the mining sector, having been an adviser and financier to numerous companies over the past 25 years.

In the following sections of this report, shareholders will find a discussion on the diamond market, Firestone’s business plan, strategy, key performance indicators, the risks facing the Company as well as the steps taken to mitigate those risks, a detailed operational review and a financial review. At the end of the Strategic Report, there is a report on other important aspects including health, safety, the environment and community engagement. This is followed by a brief look forward into the 2019 financial year.



## MARKET CONTEXT

### WE EXPECT THE DEMAND FOR BETTER QUALITY STONES TO REMAIN STRONG AND GROWING IN THE SHORT TO MEDIUM TERM

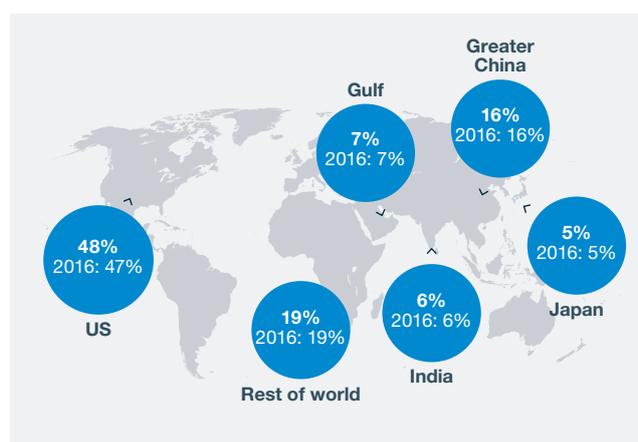
During the year, the demand for better quality rough diamonds was strong as evidenced by competitive bidding for our special stones. However the demand and average values achieved for the run of mine (“ROM”) category diamonds (smaller than three grainers) remained subdued and substantially lower than the pricing levels achieved during 2012 and 2013 when the Pilot Plant at Liqobong was still in operation.

The De Beers Lightbox offering that was launched at the end of May 2018 caused a large amount of debate in the industry due to the uncertain impact it will have on the natural diamond market in the long term and more specifically on the smaller, less valuable ROM segment. Firestone believes that the impact of laboratory grown diamonds (“LGDs”) will be minimal in the short term due to the relatively low quantity of LGD polished production compared to that of the natural diamond polished output. This view is supported by independent diamond analyst, Paul Zimmisky, in a recent report dated 28 August 2018, where he places the projected production volumes of LGDs into perspective. Currently LGDs constitute only 2% of the US\$87 billion diamond jewellery market by value for items selling for more than US\$250 and although it is predicted that output will increase to US\$14.9 billion by 2035, this will still only represent approximately 4.5% of the diamond jewellery market and approximately 7% of the fashion jewellery market (items selling for less than US\$250).

De Beers’ latest Diamond Insight Report shows that global demand for diamond jewellery increased by 2% in 2017 to US\$82 billion due to sustained robust growth in the US which grew by 4.2%, and a return in growth in China to 0.9%. De Beers’ view is that the outlook for 2018 demand remains favourable in most countries due in part to strong macro-economics and continued marketing investment by the diamond industry.

#### Demand

##### Global polished diamond demand share by geography



Source: De Beers Group – Diamond Insight Report 2018.

De Beers’ market research found that together, the Millennial and Gen Z generations accounted for two-thirds of global diamond jewellery sales in 2017 in the four main diamond-consuming countries. Understanding the views, preferences, personal and social values and lifestyles of Millennials and Gen Z is essential if businesses in the diamond sector are to grow in the future.

In 2017, the US gained share in polished diamond demand, since continued growth outpaced other consumer markets, which grew more moderately or declined. Greater China and Rest of World maintained their shares, while India, Japan and the Gulf lost some ground.

Looking forward, the demand for quality stones is expected to remain strong and growing in the short to medium term whilst the market for lower quality, smaller goods will likely remain subdued in the short term.



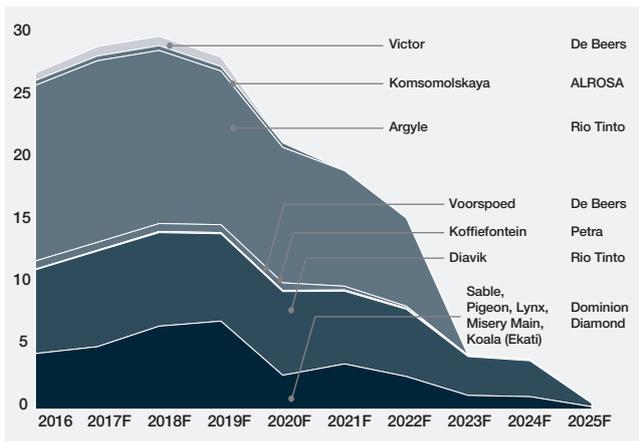
51 carat yellow diamond



45 carat flawless white diamond

## Production

Forecasted rough-diamond production of depleting mines, millions of carats, optimistic scenario



Note: Mines are sorted from top to bottom on the chart and in the legend.  
 Source: Bain & Company – The Global Diamond Industry 2017.

The overall supply-demand dynamics in the natural diamond market remain favourable in the short to medium term with no new sources of supply on the horizon and the major producers carrying minimal stock and operating close to full capacity. Global production capacity in the short term is expected to decline due to the closure of a number of ageing mines, including Voorspoed and Victor within a year and Argyle in two to three years' time. Diamond production is expected to continue falling in the longer term as new projects and expansions fail to replace lost output from closing mines. By 2025, several large mines will reach the end of their life, while only a few new projects are in the pipeline.

## BUSINESS MODEL

OUR BUSINESS MODEL UNDERPINS OUR AIM TO BECOME A PROFITABLE MID-TIER DIAMOND PRODUCER AND THE PREFERRED AND TRUSTED PARTNER OF CHOICE FOR OUR STAKEHOLDERS AND LOCAL COMMUNITIES

### Inputs

#### People

We have an experienced and appropriately qualified team across all disciplines, comprising mining, processing, engineering, mineral resource management, security, safety, health and environmental, human resources and finance.

#### Knowledge and skills

We have a deep understanding of mining operations and how to implement systems, processes and governance frameworks to protect and enhance our stakeholders' interests.

#### Relationships

We have strong relationships with our key stakeholders, including the Government of Lesotho, our shareholders, lenders, local communities, suppliers and sales broker.

#### Physical assets

We have modern plant and equipment, which supports our efficient operations.

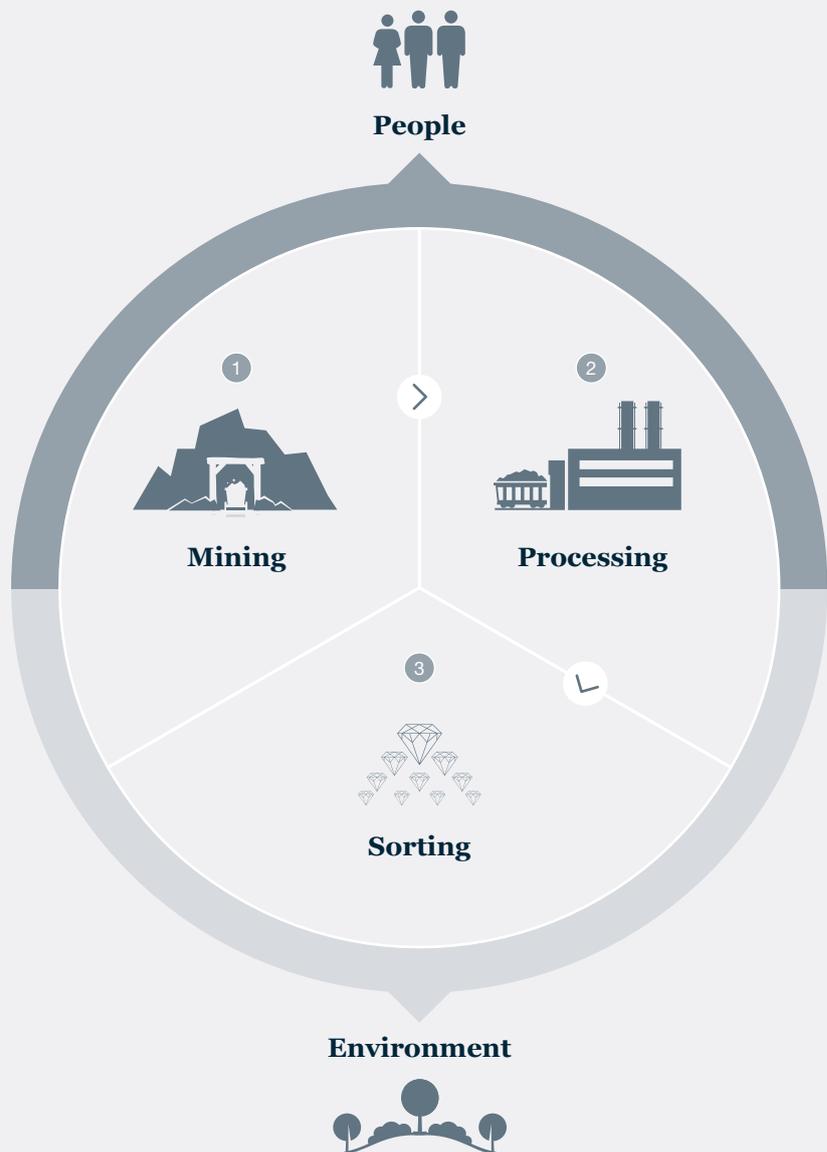
#### Natural resources

In addition to the ore body itself, the primary natural resources we rely on are energy and water.

#### Financial capital

Firestone is financed by both equity and debt and has strong relationships with its shareholders and lenders. This gives us the financial support required to implement our mine plan.

### Our value creation model



Ore and waste are mined by our specialist mining contractor, in accordance with our approved nine-year mine plan. We look to optimise operations as we gain more detailed knowledge of the mine pit and have processes and procedures in place to manage operating costs, identify risk and mitigate that risk where possible. This approach helps to ensure our average costs are competitive.

The mined ore is delivered to our processing plant, where diamonds are recovered using a secure, completely hands-off process, which ensures no one has physical access to the diamonds. Our plant is new, resulting in low running costs and lower capital replacement requirements.

We use the waste rock to increase the wall height of our Residue Storage Facility. Tailings from the production facility need careful managing to protect the environment, so we take a rigorous approach to environmental stewardship. Our on-site environmental department ensures we operate within acceptable limits for water, air and noise pollution.

Once the diamonds are processed, we send them to our sales broker in Antwerp for cleaning and sorting. Our broker then parcels the diamonds and uses a tender process to obtain the best price on our behalf. The revenue we earn depends on the quantity of carats we recover each year and the average value per carat realised at sale. The average value is influenced by the quality of the diamonds and market pricing dynamics.

Our people are an important strength for us. We have established teams in each discipline, staffed with the key skills and specialist knowledge they require. We employ local staff where those skills and experience are available in Lesotho. We also offer employment opportunities to local communities first and provide training to enhance employee skills. Our robust safety culture, procedures and processes help to keep our people healthy, safe and productive.

Strong stakeholder relationships are essential to retaining our licence to operate. We work closely with our communities to identify and develop sustainable projects to improve living standards. In addition, we contract with and purchase goods and services from as many locally registered businesses as possible. We also engage actively with the Government of Lesotho, which owns 25% of the Liqhobong Mine.

## Outputs

### Employees

Our people benefit from high-quality work with appropriate short and long-term pay structures, in a safe and healthy working environment.

### Communities

Our communities benefit from the jobs we provide, resulting in a stronger local economy, as well as our initiatives to improve living standards.

### Suppliers

Our suppliers have the opportunity to build long-term and mutually beneficial relationships with us and to grow their businesses alongside ours.

### Society

Wider society benefits from our strict protocols to protect the environment and from the royalties and indirect taxes paid to the Government of Lesotho.

### Shareholders

Our approach aims to generate returns for shareholders over time, through strong cash flows once debt has been repaid.

## STRATEGY

WE HAVE FOUR STRATEGIC OBJECTIVES AND MADE GOOD PROGRESS AGAINST ALL OF THEM DURING THE YEAR. WE ALSO USE THE KEY PERFORMANCE INDICATORS ON PAGES 9 TO 11 TO MONITOR OUR STRATEGIC PERFORMANCE

Strategic objective	Key achievements in 2018
 <p><b>Operational excellence</b></p> <p>We look to continuously improve our operations and achieve our targets by enhancing throughput, minimising diamond damage and ensuring we have world-class maintenance programmes.</p>	<ul style="list-style-type: none"> <li>Exceeded all of our production targets in the first full year of commercial production.</li> <li>Delivered ever-improving operational performance in the second half of the year.</li> <li>Achieved very competitive operating costs.</li> <li>Procured a new mining contractor.</li> </ul>
 <p><b>People</b></p> <p>People are key to maximising returns, so we aim to attract, retain and develop a motivated, skilled and incentivised workforce, and to keep them healthy and safe.</p>	<ul style="list-style-type: none"> <li>Recorded a further 1.8 million man hours without a single Lost Time Injury (“LTI”), bringing the total since project commencement to 6.2 million hours.</li> <li>Engaged an external safety audit firm to conduct a comprehensive audit and a fire risk assessment.</li> <li>Prioritised local recruitment, with 94% of people at Liqhobong Mine coming from within Lesotho.</li> </ul>
 <p><b>Licence to operate</b></p> <p>We retain our licence to operate by bringing all local stakeholders, communities and the government on our journey, ensuring they benefit from our work and addressing their concerns.</p>	<ul style="list-style-type: none"> <li>Commissioned an independent needs analysis, covering every household in the Liqhobong and Pulane villages.</li> <li>Maintained an open dialogue with the community and worked with government departments and non-governmental organisations.</li> <li>No major environmental incidents.</li> </ul>
 <p><b>Shareholder return</b></p> <p>We will generate returns for investors over time by achieving the three objectives above and by maximising our utilisation of the deposit and resource, under given market conditions.</p>	<ul style="list-style-type: none"> <li>Revised our mine plan, to deliver the best medium-term returns at low risk.</li> <li>Raised US\$25.0 million in equity and revised our lending terms with ABSA bank, to give us sufficient resources to continue to implement the revised mine plan.</li> </ul>

## KEY PERFORMANCE INDICATORS

### WE EXCEEDED ALL OPERATIONAL KPIs DURING OUR FIRST FULL YEAR OF STEADY-STATE PRODUCTION AT LIQHOBONG

#### Safety

##### LTIFR

# Zero

(2017: zero)

##### Definition:

Calculated as total number of Lost Time Injuries per million labour hours worked.

##### Performance:

The Group managed to maintain its exemplary zero Lost Time Injury Frequency Rate ("LTIFR") since July 2014 with over 6.2 million man hours worked. This is due to an embedded safety culture and adherence to standard operating procedures.

##### Risk management:

Policies and procedures, and monitoring systems are in place to contribute towards maintaining a safe working environment.

##### Outlook:

Our aim is to maintain our very high safety standards.

Link to strategy: 

Link to remuneration: **Yes**

#### Ore tonnes

# 3.8mt

 93%



##### Definition:

The quantity of ore tonnes treated by the treatment plant with a nameplate capacity of 500 tonnes per hour. Ore is supplied to the plant from the Mine itself or from stockpiles.

##### Performance:

The Mine performed well to achieve 3.8 million tonnes treated for the year which exceeded guidance of 3.6 million tonnes.

##### Risk management:

Liqhobong 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 treating for a period of up to five days should the main pit become inaccessible.

##### Outlook:

FY2019 guidance is to treat between 3.6 and 3.8 million tonnes of ore.

Link to strategy:  

Link to remuneration: **Yes**

#### Waste tonnes

# 2.9mt

 63%



##### Definition:

The quantity of waste tonnes mined. This activity is required to develop the Mine in order that a sufficient quantity of ore is available for treating.

##### Performance:

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

##### Risk management:

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

##### Outlook:

FY2019 guidance is to mine between 4.3 and 4.8 million tonnes of waste.

Link to strategy: 

Link to remuneration: **Yes**

## KEY PERFORMANCE INDICATORS CONTINUED

<h3>Grade</h3>										
<p><b>22.0 cpht</b></p> <p>↑ 18%</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Grade (cpht)</th> </tr> </thead> <tbody> <tr> <td>2017</td> <td>18.6</td> </tr> <tr> <td>2018</td> <td>22.0</td> </tr> </tbody> </table>	Year	Grade (cpht)	2017	18.6	2018	22.0	<p><b>Definition:</b></p> <p>Calculated as the quantity of carats recovered for every 100 tonnes of ore treated.</p>	<p><b>Performance:</b></p> <p>The grade for the year was precisely as expected.</p>	<p><b>Risk management:</b></p> <p>The Mine's Mineral Resource Management ("MRM") department reconciles grade recovery daily to identify any anomalies.</p>	<p><b>Outlook:</b></p> <p>Mining continues according to the most recently adopted life of mine ("LOM") plan and the grade is expected to be between 22 and 23 cpht for FY2019.</p>
Year	Grade (cpht)									
2017	18.6									
2018	22.0									
<p>Link to strategy: </p>		<p>Link to remuneration: <b>Yes</b></p>								
<h3>Plant utilisation</h3>										
<p><b>84%</b></p> <p>↑ 17%</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Plant utilisation (%)</th> </tr> </thead> <tbody> <tr> <td>2017</td> <td>72%</td> </tr> <tr> <td>2018</td> <td>84%</td> </tr> </tbody> </table>	Year	Plant utilisation (%)	2017	72%	2018	84%	<p><b>Definition:</b></p> <p>Calculated as a combination of the percentage of time the plant is available and used.</p>	<p><b>Performance:</b></p> <p>Plant utilisation was higher than expected due to excellent work by the plant processing staff.</p>	<p><b>Risk management:</b></p> <p>The Mine's engineering department adheres to a strict preventative maintenance system aimed at reducing unexpected equipment failures and delays.</p>	<p><b>Outlook:</b></p> <p>We aim to achieve overall utilisation of 81%, which is calculated at 90% utilisation of 90% plant availability.</p>
Year	Plant utilisation (%)									
2017	72%									
2018	84%									
<p>Link to strategy:  </p>		<p>Link to remuneration: <b>Yes</b></p>								
<h3>Carats recovered</h3>										
<p><b>835 832</b></p> <p>↑ 128%</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Carats recovered</th> </tr> </thead> <tbody> <tr> <td>2017</td> <td>365 891</td> </tr> <tr> <td>2018</td> <td>835 832</td> </tr> </tbody> </table>	Year	Carats recovered	2017	365 891	2018	835 832	<p><b>Definition:</b></p> <p>The quantity of carats recovered by the plant from ore treated.</p>	<p><b>Performance:</b></p> <p>Recoveries for the year were within the guidance range of 800 000 to 850 000 carats.</p>	<p><b>Risk management:</b></p> <p>The Mine's MRM department reconciles grade recovery daily to identify any anomalies.</p>	<p><b>Outlook:</b></p> <p>FY2019 guidance is to recover between 820 000 and 870 000 carats.</p>
Year	Carats recovered									
2017	365 891									
2018	835 832									
<p>Link to strategy: </p>		<p>Link to remuneration: <b>Yes</b></p>								
<h3>Revenue</h3>										
<p><b>US\$62.2m</b></p> <p>↑ 124%</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Revenue (US\$m)</th> </tr> </thead> <tbody> <tr> <td>2017</td> <td>27.8</td> </tr> <tr> <td>2018</td> <td>62.2</td> </tr> </tbody> </table>	Year	Revenue (US\$m)	2017	27.8	2018	62.2	<p><b>Definition:</b></p> <p>The gross sales value for diamonds sold during the year, before sales related costs and royalties.</p>	<p><b>Performance:</b></p> <p>Revenue for the year was in line with the revised mine plan which was announced in December 2017, and was impacted by lower average diamond values achieved.</p>	<p><b>Risk management:</b></p> <p>Revenue is mainly impacted by the average diamond value achieved, which is beyond the Group's control.</p>	<p><b>Outlook:</b></p> <p>We forecast modest growth in revenue due to expected continued strong demand for better quality diamonds, offset somewhat by flat pricing for the smaller, ROM category diamonds.</p>
Year	Revenue (US\$m)									
2017	27.8									
2018	62.2									
<p>Link to strategy: </p>		<p>Link to remuneration: <b>Yes</b></p>								

### US\$ per carat

US\$75

↓ 17%



#### Definition:

The average value per carat realised from all sales for the year.

#### Performance:

Average value per carat was lower than expected in the current year as a result of lower than expected recoveries of larger, higher value diamonds and continued lower average values realised for ROM category diamonds.

#### Risk management:

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

#### Outlook:

We expect lower average values from the smaller ROM category diamonds in the short term with continued strong average values for better quality diamonds.

Link to strategy:

Link to remuneration: **Yes**

### US\$ per tonne treated

US\$11.62

↓ 5%



#### Definition:

Total operating costs divided by the quantity of tonnes treated, resulting in a US Dollar cost per tonne treated.

#### Performance:

As a result of continued strong cost management, cash operating costs for the year were 16% lower than guidance of US\$13.80 per tonne treated despite a stronger local currency.

#### Risk management:

Operating costs are closely managed and are measured against forecasts which are updated regularly. Currency hedge contracts are used where appropriate to mitigate a portion of the exchange rate impact.

#### Outlook:

Operating costs are incurred mainly in local currency, the Lesotho Maloti, and are therefore impacted by the exchange rate against the US Dollar.

Link to strategy:

Link to remuneration: **Yes**

### EBITDA

US\$5.8m

↔



#### Definition:

The measure of operational cash performance calculated as earnings before interest, tax, depreciation and amortisation.

#### Performance:

EBITDA was in line with the previous year. However, in the previous year \$4.4 million of waste stripping cost was excluded as it was capitalised to the Statement of Financial Position. The current year EBITDA includes \$8.6 million of waste stripping cost, none of which was capitalised.

#### Risk management:

Average diamond value achieved is beyond the Group's control, however, the impact of changes in exchange rates can be hedged to a certain extent to try to maintain operating costs within expectation.

#### Outlook:

EBITDA is expected to increase in FY2019 and will largely be impacted by average values achieved for diamonds sold and the Lesotho Maloti versus US Dollar exchange rate.

Link to strategy:

Link to remuneration: **Yes**

### Capex

US\$2.0m

↓ 95%



#### Definition:

Amounts spent on additional capital items.

#### Performance:

Capex spend for the year was relatively low, due to the treatment plant having been only recently completed and there being few additional items required.

#### Risk management:

A systematic preventative maintenance programme is in place to ensure that equipment lasts as long as possible before being replaced.

#### Outlook:

Capex spend is expected to remain fairly low for the first few years of operation.

Link to strategy:

Link to remuneration: **No**

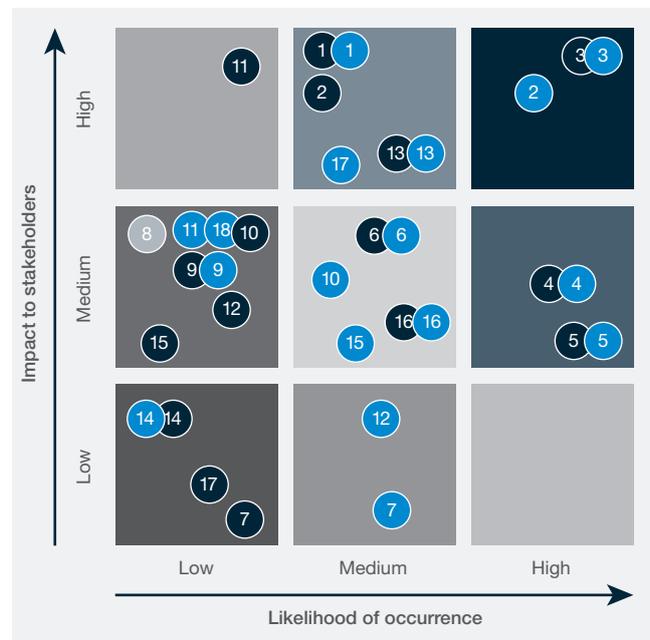
# RISK REVIEW

## WE FOCUS ON THE SUCCESSFUL AND SAFE OPERATION OF THE LIQHOBONG MINE IN LESOTHO, IDENTIFYING AND MANAGING RISKS TO WITHIN ACCEPTABLE LIMITS

Having successfully completed the ramp-up of mining operations and the achievement of commercial production at the end of the previous financial year, the focus is now firmly on ensuring that the Mine operates successfully over its planned life and at the designed specification to maximise returns to all stakeholders.

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 possibly impact on the Company achieving its goals:



1 Risk position this year	1 Risk position last year	1 Risk removed
1. Security of product	10. Grade variability	
2. Diamond quality	11. Safety and health	
3. Diamond price	12. Electricity supply	
4. Laboratory grown diamonds	13. Water supply	
5. Country and political	14. Cost control	
6. Foreign currency exposure	15. Workforce and community relations	
7. Interest rate exposure	16. Retention of key personnel	
8. Resource	17. Financing	
9. Mining and processing	18. Environmental	

### Commodity risks

Impact	Mitigation	Reason for change
<p><b>1 Security of product</b></p> <p>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.</p>	<p>Liqhobong operates a completely enclosed, hands-off diamond recovery system that ensures no physical access is available to diamonds. In addition to a permanently monitored camera surveillance system, security protocols are reviewed and updated on a regular basis. Personnel who exit the red area, or recovery area, are subjected to full body search and X-ray scanning.</p>	<p>↔</p> <p>No change</p>
<p><b>2 Diamond quality</b></p> <p>Diamond deposits are unique with regard to diamond quality and size frequency distribution. There is a risk, even if the expected quantity of carats is recovered, that the quality of the diamonds recovered is lower than expected, resulting in lower revenues. The frequency of recovery of large (greater than 10.8cts), high quality stones is especially difficult to predict.</p>	<p>Our latest LOM plan and budgets were adjusted to reflect the lower actual US Dollar per carat recovered.</p>	<p>↑</p> <p>Diamond quality has been generally lower than expected and has the highest impact on revenue which impacts profitability.</p>

**Impact**

3

**Diamond price**

The Group's financial performance is primarily determined by the volume of diamonds recovered and the average value realised from the sale of its rough diamonds. Rough diamond prices are influenced by many factors beyond the Group's control, including:

- over/undersupply of rough diamonds in the general market;
- the strength/weakness of rough and polished diamond prices;
- the impact of laboratory grown diamonds;
- economic factors globally;
- consumer trends;
- secondary market financing; and
- the impact of the exchange rate of the Indian Rupee against the US Dollar, particularly as it impacts the lower quality ROM category diamonds.

**Mitigation**

The Group monitors the market continuously to ensure that it is up to date on current diamond market information and trends.

Conservative average diamond values are used when modelling cash requirements for the Group to ensure that it is funded with sufficient headroom to withstand potential lower pricing outcomes.

**Reason for change**

No change

**External risks****Impact**

4

**Laboratory grown diamonds ("LGDs")**

LGDs have been available for many years. Technological advancements have resulted in gem-quality LGDs being more widely available. There is a risk that the demand for natural diamonds could be impacted. De Beers announced that it will manufacture and sell LGD jewellery under its Lightbox brand.

**Mitigation**

In the short term, the quantity of gem-quality LGDs produced is still very low and it remains to be seen how many companies can survive at the very low price points introduced by De Beers. In the longer term, the risk is a reduction in demand for the lower quality, smaller ROM category diamonds as consumers may rather opt for similar priced LGDs. LGDs are 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.

**Reason for change**

No change

5

**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, which has experienced two changes of government in the past few years. Emerging market economies are generally subject to greater volatility and political risk.

The Firestone team has extensive experience of operating in Southern Africa. The Company keeps in close contact with representatives of the Government of Lesotho to ensure it keeps abreast of all political and regulatory developments.



No change

6

**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 the Pound Sterling and Botswana Pula.

Fluctuations in these currencies may have a significant impact on the Group's financial performance.

The Company monitors the movement of the Rand against the US Dollar very closely. The Company has a policy to lock in exchange 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.



No change

7

**Interest rate exposure**

The Group is exposed to risk posed by floating interest rates charged on the Project's debt facilities. Rising interest rates pose a risk to the Group's cash flow, which could lead to the Group not being able to meet its operational and debt covenant cash requirements.

By applying the Group's hedging policy, the Group has entered into floating-to-fixed interest swaps for up to 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.



Early signs of recovery have been seen in the developed economies which have resulted in slight increases in interest rates and as a result a move from low to medium likelihood of occurrence. Due to the interest rate hedge currently in place over the ABSA debt facility and the fixed nature of the interest rate associated with the Eurobonds, the impact to stakeholders remains low.

# RISK REVIEW CONTINUED

## External risks continued

Impact	Mitigation	Reason for change
<p><b>8 Resource</b></p> <p>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.</p>	<p>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.</p>	<p></p> <p>This risk is removed as it is also referred to under risk 10, grade variability</p>

## Operational risks

Impact	Mitigation	Reason for change
<p><b>9 Mining and processing</b></p> <p>The successful operation of a diamond mine is dependent upon its ability to extract ore at a sufficient rate to meet the planned 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.</p>	<p>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.</p> <p>Ore and waste tonnages, recovery results and other performance metrics are monitored daily to ensure early identification of any adverse trends.</p> <p>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.</p>	<p></p> <p>No change</p>
<p><b>10 Grade variability</b></p> <p>The Group's financial performance is impacted by the quantity of carats recovered from Liqhobong. The treatment plant is specified to process ore at a rate of 500 tonnes per hour. Grade variability results in greater or fewer carats recovered and consequently impacts revenue.</p>	<p>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.</p>	<p></p> <p>Variability in grade has occurred and therefore the risk has moved from low to medium. The grade achieved is still within acceptable norms for an indicated resource.</p>
<p><b>11 Safety and health</b></p> <p>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.</p>	<p>Liqhobong is focused on maintaining its safety record through continued adherence to strict safety criteria. The Company follows a risk-based approach, assessing and adequately addressing the risks in a particular work area prior to work being performed in that area. Continuous training takes place and safety awareness is practiced by all employees.</p>	<p></p> <p>Safety and health has been reassessed as having a medium impact to stakeholders.</p>
<p><b>12 Electricity supply</b></p> <p>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.</p>	<p>A power factor correction unit is 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.</p>	<p></p> <p>Electricity supply interruptions are experienced, particularly during thunderstorms in the summer months and therefore the likelihood of occurrence has been adjusted from low to medium. On the other hand, the impact to shareholders has reduced due to the risk mitigation measure put in place.</p>

Impact	Mitigation	Reason for change
<p><b>13 Water supply</b></p> <p>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 treatment plant.</p>	<p>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 water as possible is harvested and stored on site.</p> <p>The Mine also prioritises effective water use. It operates a closed circuit, encourages reducing water use and recycles all water for further use. The Mine has the necessary approvals in place to build another water storage dam should the need arise.</p>	<p></p> <p>No change</p>
<p><b>14 Cost control</b></p> <p>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.</p>	<p>Firestone has a culture of cost consciousness which ensures that all costs are carefully considered on a continual basis. The Group also measures its performance on a monthly basis against the approved budget and latest forecast to ensure that costs are in line with expectations and to investigate further where necessary.</p>	<p></p> <p>No change</p>
<p><b>15 Workforce and community relations</b></p> <p>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.</p>	<p>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.</p>	<p></p> <p>Workforce and community relations are healthy at present. However, a recent increase in community protest action in surrounding areas, whilst not impacting the Mine or its operations directly, has resulted in an increase in the likelihood of occurrence from low to medium.</p>

## Strategic risks

Impact	Mitigation	Reason for change
<p><b>16 Retention of key personnel</b></p> <p>The Company is heavily reliant on a small group of key staff to achieve its objectives.</p>	<p>Firestone ensures that appropriate remuneration structures are in place to attract and 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.</p>	<p></p> <p>No change</p>
<p><b>17 Financing</b></p> <p>Mining activities are subject to a number of inherent risks. The most significant risk is lower than expected diamond revenues or an interruption to operations as this could lead to a shortfall in the amount of cash required to fund ongoing operational costs and debt repayments.</p>	<p>Management prepares detailed annual budgets and monthly forecasts based on recent performance and results to ensure that it is adequately financed. Action is taken at the appropriate time if and when it appears that a funding shortfall may occur.</p>	<p></p> <p>Financing risk is higher for new operators and has been reassessed by the Company as having a higher impact to stakeholders.</p>
<p><b>18 Environmental</b></p> <p>Liqhobong operates in an environmentally sensitive area, high up in a valley, which is a catchment area for the Motete and Malibamatsu rivers which ultimately flow into the Katse Dam. The Katse Dam supplements the water supply to South Africa.</p> <p>There is a risk that the mining operations could impact the immediate environment or cause contamination to the downstream aquatic system.</p>	<p>Environmental management forms an integral part of Firestone's strategy. There is an environmental department which operates on site, and which conducts regular tests on water, air and noise pollution to ensure that all disturbances are within acceptable limits. Any deviations are identified and corrective action is taken immediately.</p>	<p></p> <p>New risk</p>

# OPERATIONAL REVIEW



**LIQHOBONG SUCCESSFULLY COMPLETED ITS FIRST FULL YEAR OF PRODUCTION. WE ACHIEVED MARKET GUIDANCE FOR CARATS RECOVERED AND EXCEEDED THE PLANT'S NAMEPLATE CAPACITY**

**WE ALSO ACHIEVED BETTER THAN GUIDED OPERATING COSTS**

**Paul Bosma**  
Chief Executive Officer

## Highlights

**3.8m**  
ore tonnes treated

**835 832**  
carats recovered

**2.9m**  
waste tonnes mined

**US\$11.62**  
cash operating cost  
per tonne treated

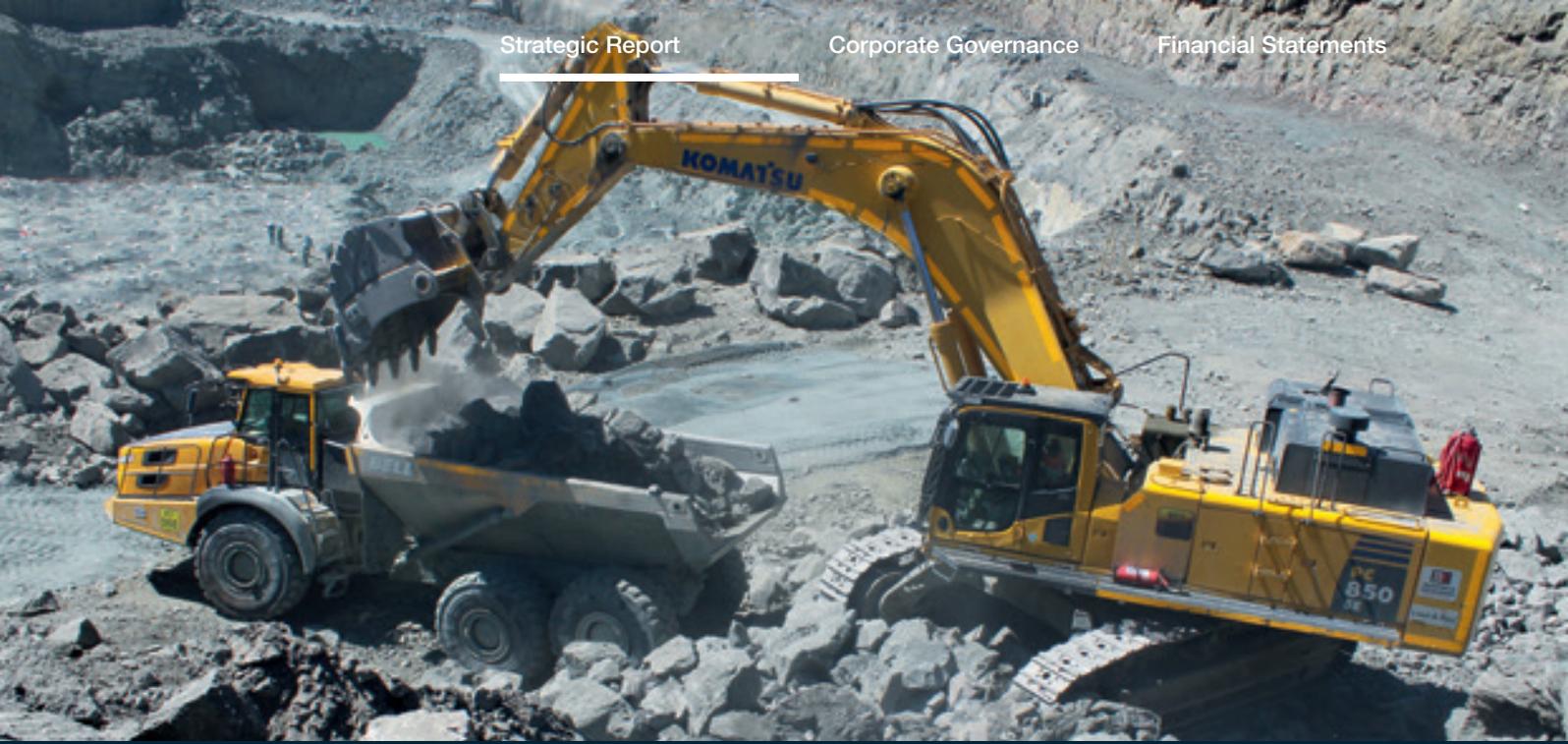


**9 carat fancy vivid  
yellow diamond**

## Introduction

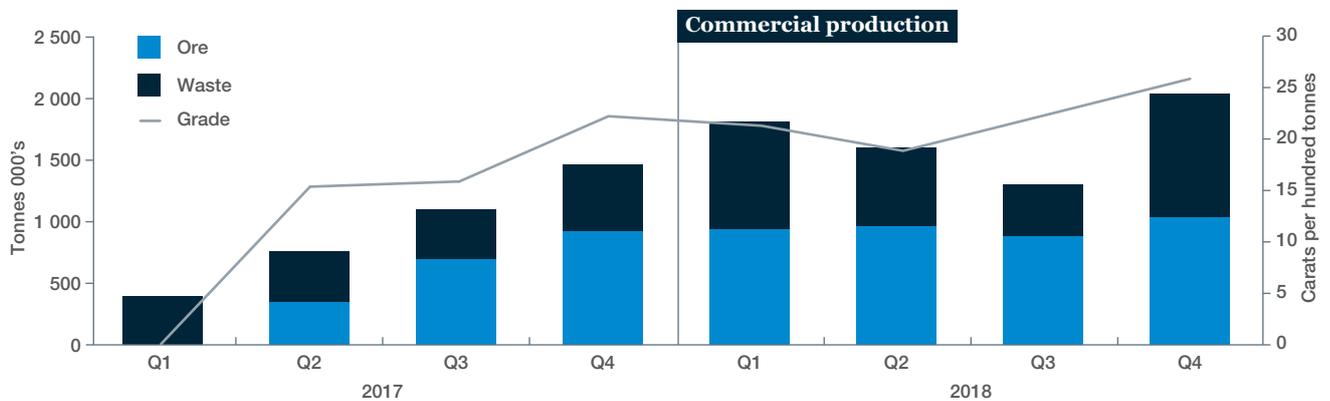
The Mine achieved commercial production at the end of the previous financial year resulting in the 2018 financial year being the first full year of steady-state production. The lower than expected frequency of valuable diamonds recovered and continued low prices for the ROM category diamonds during the early part of the year resulted in lower than expected average diamond values achieved at sale, prompting a revision to the mine plan. The result was a shorter nine-year mine plan, which could be supported by a lower average diamond value of US\$75 per carat, whilst retaining the optionality of taking advantage of the longer 14-year life of mine should realised diamond values increase or should there be a sustained improvement in market conditions. Together with the mine plan revision, the ABSA debt facility was also restructured in order to align the capital repayments to the expected cash flows according to the revised mine plan.

Pleasingly, the impeccable safety record was maintained throughout the 2018 financial year, reaching 6.2 million man hours worked without a single lost time injury at the end of the year. It was also an exceptional year from a production perspective as all production targets were exceeded. Weather incidents and power outages resulted in lower tonnages treated during the rainy season in Q3. However, that was quickly caught up during Q4, demonstrating the plant's ability to treat higher quantities of throughput on a short-term basis and was assisted by excellent overall plant utilisation. The grade recovered increased, as expected, in the final two quarters of the year and operating costs remained very well managed as demonstrated by the low operating cost per tonne of US\$11.62 for the year.



	Q1	Q2	Q3	Q4	2018	2017
<b>Production</b>						
Ore (tonnes)	944 582	963 213	869 126	1 025 647	<b>3 802 568</b>	1 966 493
Waste (tonnes)	861 331	626 742	419 122	1 003 441	<b>2 910 636</b>	1 784 894
<b>Total (tonnes)</b>	<b>1 805 913</b>	<b>1 589 955</b>	<b>1 288 248</b>	<b>2 029 088</b>	<b>6 713 204</b>	3 751 387
Carats recovered (carats)	199 007	180 709	192 604	263 512	<b>835 832</b>	365 891
Grade (carats per hundred tonnes)	21.07	18.76	22.16	25.69	<b>21.98</b>	18.61

## Production



## OPERATIONAL REVIEW CONTINUED

### Production

Having achieved commercial production at the end of June 2017, production got off to a good start in Q1. One of the highlights of the first quarter was the recovery of the largest diamond recovered to date, a light yellow 134 carat gem-quality stone.

The strong production performance continued in Q2.

The decrease in grade during the quarter was expected, as was the subsequent increase in grade during the second half of the year as mining followed the mine plan and progressed to the higher-grade areas in the southern part of the pit.

Q3 was particularly challenging as a result of adverse weather conditions that, although providing welcome rainfall, caused more disruptions than expected, resulting in lower plant throughput and fewer tonnes treated. Waste stripping was lower during this period to allow the new mining contractor, which commenced its ramp-up in February 2018 to focus on initially mining ore only, and to become familiar with the terrain and mobilise the necessary fleet before increasing its waste rock mining.

After a challenging Q3, Q4 performance resulted in several new production records, ending the year on a high note.

- Tonnes treated for the year of 3.8 million, were 93% higher than the previous year's 2.0 million and exceeded the plant nameplate capacity of 500 tonnes per hour ("tph").
- Carats recovered of 835 832 were 128% higher than the previous year's 365 891 and within guidance of between 800 000 and 850 000 carats.
- Grade recovered for the year of 21.98 cpht, was 18% higher than the previous year's 18.61 cpht.

### Mine development

Mine development commenced according to the original 14-year LOM plan and towards the end of the second quarter, was adjusted according to the revised nine-year LOM plan. Waste stripping is necessary to provide access to ore for mining. In Liqhobong's case, the mine plan also needs to provide for sufficient waste rock required to construct the Residue Storage Facility ("RSF") wall. The height of the RSF wall needs to increase in line with the rate of rise of slimes being generated by the treatment plant and a combination of waste rock and coarse tailings are being used for the ongoing construction of the wall. During the year, 2.9 million tonnes of waste rock was mined and placed on the RSF wall.

### Diamond breakage

Our processing plant includes a conventional three-stage crushing circuit which is designed to crush kimberlite and to liberate diamonds. We do our best to minimise diamond damage, however, the recovery process is inherently abrasive and damage does occur as in all recovery plants to a greater or lesser extent. During the year, there was an increase in diamond damage which is assessed on all +5 carat stones recovered, which resulted in a thorough investigation into all possible areas where damage might occur within the plant. Pleasingly, the minor modifications made subsequently to certain parts of the plant and recovery areas resulted in a decrease in diamond damage to well within acceptable industry standards by the year end.

### Diamond Resource and Reserve update for Liqhobong

#### Diamond Resource

The Diamond Resource was updated at the end of the financial year to account for the mining that took place during the year. A total of 3.908 million tonnes and 1.068 million carats were depleted. A further 0.198 million tonnes of ore containing 0.082 million carats was reclassified as waste as a result of contamination and dilution. There was a net gain of 0.014 million tonnes containing 0.008 million carats due to changes in the pipe contact. At the end of the year, a total of 0.118 million tonnes of ore and 0.026 million carats was estimated to reside on the ROM, in pit and low-grade stockpiles. Therefore, as at 30 June 2018, the total Indicated Resource was 28.910 million tonnes at a grade of 27 cpht containing 7.793 million carats which is a 12.8% reduction compared to the 2017 Indicated Diamond Resource statement. There were no changes to the Inferred Resource.

## Diamond Resource statement for Liqhobong Main Pipe as at 30 June 2018 (including Reserves)

Diamond Resource category	Depth from and to	Diamond Resource				
		Volume in m <sup>3</sup> (millions)	Specific gravity (tonnes/m <sup>3</sup> )	Metric tonnes (millions)	Grade (cpht)	Carats (millions)
Indicated	2 603 masl to 2 467 masl	11.031	2.62	28.910	27	7.793
Inferred	2 467 masl to 2 127 masl	18.135	2.65	48.064	28	13.553
<b>Total Diamond Resource</b>		<b>29.166</b>	<b>2.64</b>	<b>76.974</b>	<b>28</b>	<b>21.346</b>

- Diamond Resources as at 30 June 2018, 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

The Diamond Reserve was updated at the end of the financial year to account for mining that took place during the year. Therefore, as at 30 June 2018, the total Probable Reserve was 22.613 million tonnes at a grade of 23 cpht containing 5.274 million carats, which is a 15.4% reduction compared to the 2017 Probable Diamond Reserve statement.

In addition to the Probable Diamond Reserve, the 2017 split shell mine plan also assumes 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 mining of a cut 1 and cut 2 and has the optionality to revert to a longer LOM plan, which includes the original cut 3, within the next two-year period should there be a general improvement in the project economics including average diamond values or exchange rate, or further optimisation which is made possible by adopting steeper slope angles.

## Diamond Reserve statement for the Liqhobong Main Pipe as at 30 June 2018

Diamond Reserve category	Depth from and to	Diamond Reserve		
		Metric tonnes (millions)	Grade (cpht)	Carats (millions)
Probable	2 603 masl to 2 467 masl	22.613	23	5.274
<b>Total Diamond Reserve</b>		<b>22.613</b>	<b>23</b>	<b>5.274</b>

- The above Diamond Reserve is stated at a 1.25mm slotted screen bottom cut-off.
- The average diamond price per carat is estimated at US\$75/ct.
- The plant is currently using a bottom cut-off 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.

# FINANCIAL REVIEW



**WE REACTED SWIFTLY TO THE LOWER THAN EXPECTED AVERAGE DIAMOND VALUES, FORMULATING A REVISED MINE PLAN AND SUCCESSFULLY RAISING US\$25 MILLION AND RESTRUCTURING THE ABSA DEBT FACILITY**

**Grant Ferriman**  
Chief Financial Officer

## Summary

**US\$62.2m**  
revenue

**831 637**  
carats sold

**US\$5.1m**  
gross profit

**US\$75**  
average value per carat

**US\$14.2m**  
loss after tax

**US\$25.0m**  
capital raise concluded



**30 carat  
white diamond**

## Introduction

Towards the end of the previous financial year, it was apparent that lower than expected average diamond values were likely to persist due to continued lower than expected quality and occurrence of larger, higher value diamonds and continued depressed pricing of ROM goods. A revised mine plan was developed to support the Mine at lower average diamond values, US\$25.0 million capital was raised and the ABSA debt facility was successfully restructured at the end of the year.

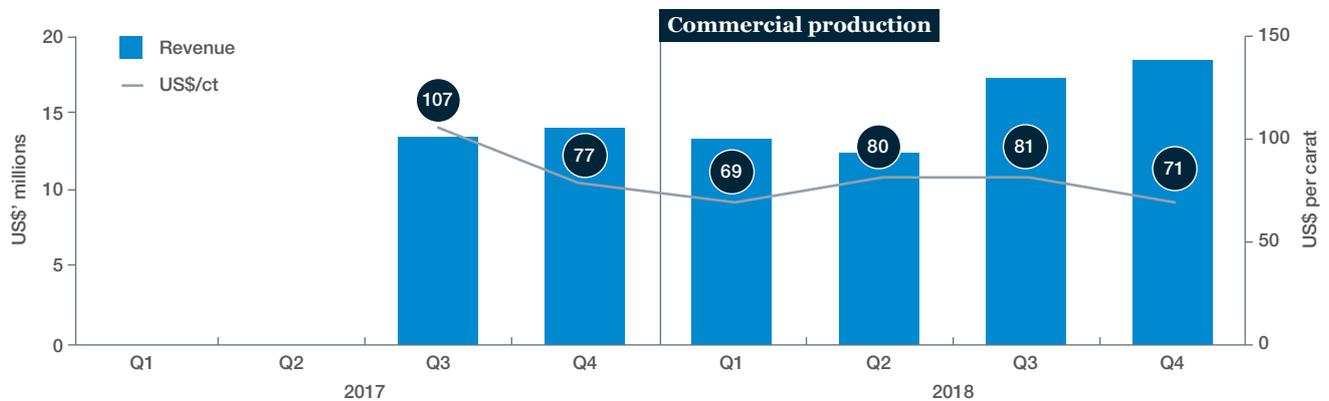
Performance against the revised plan for the six months to end June 2018 was better than expected, mainly due to lower operating costs as a result of stringent cost management.

The capital raised in December 2017 of US\$24.1 million after costs was essentially still available to the Group at year end, represented by closing cash of US\$18.4 million and trade receivables which includes proceeds of US\$10.4 million from the June 2018 sale which were received shortly after the year end.

## Financial statement presentation

Commercial production was achieved at the end of the previous financial year, bringing to an end the capitalisation of all revenues and operating costs associated with the commissioning and early stage production phase of the Mine. All revenues and operating costs for the 2018 financial year are once again reflected in the Statement of Comprehensive Income, impacting on a direct comparison against the previous year's results. This financial review presents the financial performance in such a way as to provide a more meaningful comparison with the prior year.

## Diamond sales



	Q1	Q2	Q3	Q4	Total FY2017	Q1	Q2	Q3	Q4	Total FY2018
<b>Revenue</b>										
Diamonds sold (carats)	—	—	127 590	182 786	<b>310 376</b>	195 330	156 942	217 380	261 985	<b>831 637</b>
Revenue (US\$m)	—	—	13.7	14.1	<b>27.8</b>	13.5	12.5	17.6	18.6	<b>62.2</b>
Average value (US\$/ct)	—	—	107	77	<b>90</b>	69	80	81	71	<b>75</b>
Number of sales	—	—	2	2	<b>4</b>	2	2	2	2	<b>8</b>

The Group realised total revenue for the year from its eight sales of US\$62.2 million where 831 637 carats were sold at an average value of US\$75 per carat. The realised average diamond value was lower than that achieved in the prior year, mainly due to the recovery of fewer, better quality large stones and continued depressed prices for ROM goods. Although the average value was lower, it was in line with the base case assumption used for purposes of the ABSA debt facility restructuring.

A combination of an over-supply of smaller goods and the impact of the Indian demonetisation programme persisted into the current year where prices remained under pressure and well below the average value for similar goods sold during 2013, prior to the commencement of the Mine construction project. Average values achieved were higher in the second and third quarters as a result of a slightly improved diamond assortment which included a 134 carat light yellow diamond which sold for US\$0.9 million and a fancy pink diamond which sold for US\$112 781 per carat, the highest Dollar per carat realised for a single diamond to date. Average values achieved in the fourth and final quarter of the year disappointed somewhat and were negatively impacted by a lower incidence of special diamonds.

### Cost of sales

Cost of sales relates to Liqobong and comprises the on-mine operating costs, depreciation and amortisation expenses that are associated with the diamonds sold during the year.

Cost of sales for the year of US\$57.1 million was US\$37.8 million higher than the previous year's US\$19.3 million and comprised of a full year of operating costs compared to the prior year cost of seven to eight months of ramp-up activities. Also included, is a depreciation charge of US\$10.5 million in the current year compared to US\$1.0 million in the prior year.

The cash operating cost per tonne treated for the year of US\$11.62 was well below guidance of US\$13.80 and was lower than the prior year's US\$12.26 due to continued careful cost management and the higher tonnages mined and treated.

Additionally, during the year, the local currency weakened by 6.5% from LSL12.89:US\$1 to LSL13.73:US\$1 which contributed towards a decrease in operating costs.

US\$million	2018	2017
On-mine cash costs	<b>44.2</b>	24.1
Less: Waste stripping cost capitalised	—	(4.4)
Waste stripping amortised	<b>0.3</b>	2.3
Depreciation	<b>10.5</b>	1.0
Diamond inventory movement	<b>1.3</b>	(3.9)
Share-based payments	<b>0.8</b>	0.2
<b>Sub-total</b>	<b>57.1</b>	19.3
Less: cost reclassified directly	—	(1.7)
<b>Cost of sales</b>	<b>57.1</b>	17.6 <sup>1</sup>
<b>Production</b>		
Ore (million tonnes)	<b>3.80</b>	1.96
Waste (million tonnes)	<b>2.90</b>	1.78
<b>KPIs:</b>		
Cash operating cost per tonne treated	<b>11.62</b>	12.26
Accounting cost per tonne treated	<b>14.45</b>	11.69

<sup>1</sup> The 2017 cost of sales was reclassified to the cost of the Liqobong Mine, which reached commercial production on 30 June 2017.

## FINANCIAL REVIEW CONTINUED

### Liqhobong selling and administrative expenses

Selling and administrative costs are specific to the Liqhobong operation and incorporate costs to maintain the administrative function of the business and all costs in respect of selling the diamonds which are recovered from the Mine. Costs for the year of US\$1.8 million were US\$1.3 million higher than the previous year mainly due to the increase in selling costs which are directly attributable to the increase in revenue.

### BK11 care and maintenance

BK11 was temporarily taken out of care and maintenance to allow Amulet Diamond Corporation to conduct bulk sampling of low grade tailings stockpiles and to access the pit to bulk sample in-situ kimberlite as part of its due diligence on the BK11 Mine and mineral resource. Amulet contributes up to US\$30,000 of the monthly operating costs until 31 December 2018 during which time it has an option to purchase the Company's 90% interest in the BK11 Mine for US\$5.1 million.

### Corporate overhead

Corporate costs for the year of US\$3.4 million were marginally higher than the previous year's US\$3.2 million mainly due to inflationary cost increases.

### Net finance expense

Net finance cost includes the amortisation of upfront fees and in the case of the ABSA debt facility, the upfront insurance premium paid to the Export Credit Insurance Corporation of South Africa ("ECIC").

	2018					2017			
	Cash cost	Settled in shares	Capitalised	Amortised cost	Total cost	Cash cost	Settled in shares	Amortised cost	Total cost
Cost of financing (US\$million)									
ABSA debt facility	3.2	—	—	3.0	6.2	2.7	—	3.0	5.7
Series A Eurobonds	—	2.4	—	1.3	3.7	—	2.4	1.3	3.7
Series B Eurobonds	—	—	0.5	0.1	0.6	—	—	—	—
	3.2	2.4	0.5	4.4	10.5	2.7	2.4	4.3	9.4 <sup>1</sup>
Other finance cost	0.2	—	—	0.3	0.5	1.0	—	0.3	1.3
Less: Finance income	0.8	—	—	—	0.8	0.5	—	—	0.5
<b>Net finance cost</b>	<b>2.6</b>	<b>2.4</b>	<b>0.5</b>	<b>4.7</b>	<b>10.2</b>	<b>3.2</b>	<b>2.4</b>	<b>4.6</b>	<b>10.2</b>

1 In 2017 the Group capitalised total net borrowing costs of US\$9.4 million as part of the cost of the Project. All borrowing costs capitalised are Project specific.

### Tax charge

The tax credit for the year of US\$3.3 million comprises an increase of the deferred tax asset recognised in Liqhobong of US\$3.4 million and an income tax charge of US\$0.1 million in Kopane Diamonds. The deferred tax credit is due to an increase in the amount of tax losses which are expected to be offset against taxable profit over a three year rolling period to June 2021. The tax charge resulted from taxable interest income earned on loan funding provided to Infrastructure Projects, a Group company. Withholding tax is levied by the Lesotho Revenue Authority on the interest paid by Infrastructure Projects at a rate of 10%, which is sufficient to offset the tax payable.

### Net loss for the year

In summary, the Group incurred a loss for the year of US\$14.2 million (2017: US\$151.7 million including an impairment charge of US\$122.6 million), made up as follows:

US\$million	2018	2017
<b>Revenue</b>	<b>62.2</b>	27.9
Less:		
Cost of sales	57.1	17.6
<b>Gross profit</b>	<b>5.1</b>	10.3 <sup>1</sup>
Other income	1.3	1.2
Administration and other costs	13.7	7.8
Impairment	—	122.6
Net finance cost	10.2	0.8 <sup>2</sup>
<b>Loss before tax</b>	<b>17.5</b>	130.0
Income tax credit/(charge)	3.3	(21.7)
<b>Net loss after tax</b>	<b>14.2</b>	151.7

1 The 2017 gross profit was reclassified to the cost of the Liqhobong Mine, which reached commercial production on 30 June 2017.

2 Excludes US\$9.4 million that was capitalised to the cost of the Liqhobong Mine.

## Capex

During the year US\$2.0 million was spent on capital items for the Mine.

## Debt

	Interest rate	Facility amount	2018 US\$'000	2017 US\$'000
ABSA debt facility	US\$ three-month LIBOR plus margin	82.4	67.8	81.0
Eurobond (Series A)	8% p.a.	30.0	30.0	30.0
Eurobond (Series B)	8% p.a.	15.0	7.5	5.0
		127.4	105.3	116.0

## Scheduled loan balance and interest margins on the ABSA debt facility

Year	Loan balance			Interest – US\$ three-month LIBOR plus:			
	A Loan US\$m	B Loan US\$m	Total US\$m	A Loan		B Loan	
				Tranche A 85% %	Tranche B 15% %	Tranche A 85% %	Tranche B 15% %
2018	58.2	9.6	67.8	1.80	7.50	2.55	7.50
2019	36.1	29.8	65.9	1.80	7.50	3.05	7.50
2020	15.9	39.9	55.8	1.80	7.50	3.55	7.50
2021	—	41.8	41.8	—	—	4.05	7.50
2022	—	20.6	20.6	—	—	4.05	7.50
2023	—	9.0	9.0	—	—	4.55	7.50

1 The ECIC insurance provides ABSA bank with cover over both Tranche A and Tranche B (together 100%) in respect of political risk and over Tranche A (85%) in respect of commercial risk.

2 The effective interest rate is in aggregate 9.29%, including upfront cost.

During the year, the Company repaid US\$13.2 million of the ABSA debt facility in accordance with the original agreement, and during October 2017 drew US\$2.0 million of the Series B Eurobonds to strengthen the Group's cash position at that time.

The ABSA debt facility was restructured during the year, allowing for a capital grace period of 18 months with capital repayments to commence from 30 June 2019, and an extension of the loan term by 2.5 years to 31 December 2023.

## Covenant measurement

The following table provides further details of the performance covenants which need to be met in respect of the ABSA debt facility:

Covenant	Calculation	Maintenance criteria
Forecast debt service cover ratio	Forecast operational cash flow divided by debt service costs for a twelve-month period.	>=1.2 times
Historic debt service cover ratio	Historic operational cash flow divided by debt service costs for a twelve-month period.	>=1.2 times
Loan life cover ratio	Operational cash flow during the loan period discounted by the average interest rate, divided by the capital loan balance outstanding.	>=1.4 times
Project life cover ratio	Operational cash flow over the life of the Project discounted by the average interest rate, divided by the capital loan balance outstanding.	>=1.7 times
Debt/equity ratio	The ratio of the ABSA debt facility to total equity and loans provided to Liqobong by the Group.	<=60:40
Reserve tail ratio	Remaining diamond reserves as a ratio of the total original diamond reserve of 36.4 million tonnes.	>=25%

## Cash flow

The Company began the year with US\$17.1 million in cash. During the year, Liqobong generated operational cash of US\$11.9 million (revenue of US\$62.2<sup>1</sup> million less cash operating costs of US\$50.3 million). The opening cash balance and cash generated from operations was sufficient to fund corporate and BK11 costs of US\$3.8 million, ABSA capital and interest payments of US\$16.6 million, stay-in-business capital of US\$2.0 million and working capital outflows of US\$3.9 million.

During the year, the Company raised a combined US\$26.1 million which comprised a capital raise of US\$24.1 million after expenses and US\$2.0 million from the Eurobond facility. This amount was still available at the year end and is represented by closing cash of US\$18.4 million and sales proceeds of US\$10.4 million included in trade and other receivables which were received shortly after the year end.

1 Including June 2018 sale, proceeds received in early July 2018.

# HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY

WE ARE COMMITTED TO CONTINUALLY ACHIEVING EXCEPTIONAL HEALTH, SAFETY AND ENVIRONMENTAL STANDARDS AND BENEFICIAL ENGAGEMENT WITH OUR LOCAL COMMUNITIES

## Health and safety



WE STRIVE TO PROVIDE ALL OF OUR EMPLOYEES AND CONTRACTORS WITH A SAFE AND HEALTHY WORKING ENVIRONMENT

**Zero**

Lost Time Injuries

**Independent**

SHE gap audit conducted during the year with no significant findings

**Independent**

fire risk assessment conducted

**6.2m**

LTI-free man hours worked since Project commencement

Weekly incident review meetings chaired by the Mine's General Manager and attended by both Lihobong and contractor department heads take place. During these meetings, incidents are discussed in detail and learnings and next steps are recorded to prevent recurrence.

Firestone maintained its zero Lost Time Injury safety record during the year. An important focus is to avoid complacency and therefore the Company decided to engage an external, independent safety audit firm, NOSA, to conduct a comprehensive audit during the year. No significant findings were recorded but a number of recommendations were proposed that will assist us in further improving our Safety Management System. NOSA also conducted a detailed fire risk assessment on the Mine and a number of very valuable recommendations were made to reduce our safety risk in this area.

Firestone strives to provide all its employees and contractors with a safe and healthy working environment. We aim to achieve this by maintaining a high standard of safety reporting, adherence to policies and procedures, holding awareness campaigns, running training programmes and by instilling a strong culture of safety awareness and ownership. Regular training and retraining of employees and contractors take 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.

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 their illness. During December 2017, an HIV/AIDS campaign was launched on the Mine to commemorate World AIDS Day and a total of 223 employees underwent voluntary HIV testing and counselling.



## Environment



## WE ARE COMMITTED TO MINIMISING OUR IMPACT ON THE ENVIRONMENT IN WHICH WE OPERATE

**49%**

reduction in water consumption per tonne processed

**Zero**

major environmental incidents

**100%**

compliance with all environmental regulations, licences and permits

Continued use of a closed-circuit water management programme during the dry season that ensures no contaminated water leaves the mine.

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 reuse in the operation. We participate in forums with the other mines, relevant government agencies and non-governmental organisations (“NGOs”) to discuss and share lessons learnt and exchange ideas regarding the environmental management of water resources and other environmental topics of mutual concern.

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.

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 biodiversity and conservation, as well as the procedures in place to reduce, reuse and recycle waste thereby promoting efficient use of natural resources and minimising the quantity of final waste disposal. There is a strong culture of reusing and recycling at the Mine and all waste is handled and disposed of in a responsible manner.



**Community**



**WE RECOGNISE THE EMPLOYMENT NEEDS OF THE LOCAL COMMUNITIES AND THE POSITIVE IMPACT THAT EMPLOYMENT HAS ON THE LOCAL ECONOMY**

**Independent**  
needs analysis  
study conducted

**Road repairs**  
to improve access to clinic  
and schools

**94%**  
employed from Lesotho

**Annual  
compensation**

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 NGOs and, over the years, consistently delivered on resulting projects and initiatives.

During the year, we commissioned an independent needs analysis which incorporated all 180 households in the Liqhobong and Pulane villages. The analysis took the form of door-to-door interviews with the head of each household on the basis of a detailed questionnaire which incorporated many aspects such as demographics, livelihood, perceptions of the Mine and basic needs requirements. The result of the survey was very useful to determine where CSR investments would add most value and will be used to prioritise our funding and assistance. The survey indicated that the number one requirement for the community was the provision of latrines. The Company is currently working together with its mining contractor to create a scope of works and costing of the project.

Liqhobong Mine assisted the community by repairing roads in and around the village which were damaged during the rainy season. One of these roads connects Pulane and Liqhobong villages to the nearby Motete village where the primary and secondary schools are located as well as the nearest government clinic.

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 a forum to voice its concerns and therefore a monthly meeting takes place between mine management and the community committee to discuss a variety of topics.

Annual compensation payments for loss of grazing land due to the Mine's fence perimeter and the impact of the Mine access road on farmland were made.

Fostering and building relationships with the communities living around the Mine is a very important activity that the Company takes very seriously. The Company strives to be honest and fair in its dealings with the community and to ensure we uplift our neighbours through employment and the execution of value adding CSR projects.

### Looking forward to the 2019 financial year

We will continue to seek ways of improving upon the plan with the objective of delivering the best returns in the medium term at low risk, whilst at the same time retaining the optionality of taking advantage of the longer life of mine potential of the ore body should realised diamond values increase or should there be a sustained improvement in market conditions.

We continue to see strong prices and competitive offers for Liqhobong's better quality, larger diamonds, however, our ROM category diamonds have realised lower than expected average values over the recent past, and we expect pressure to remain on these goods in the short term. We remain focused on achieving the Company's longer-term objectives.

Lastly, I would like to extend my thanks to the management team and to all staff for the excellent operational performance during the year and for maintaining the exemplary safety record of zero LTIs at year end. I look forward to updating our shareholders and stakeholders in the coming months.

### Strategic Report

This Strategic Report was approved by the Board on 27 September 2018 and is signed on its behalf by:

**Lucio Genovese**  
Non-Executive Chairman

**Paul Bosma**  
Chief Executive Officer

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

### THE BOARD PROVIDES LEADERSHIP TO PROMOTE THE INTERESTS OF ALL STAKEHOLDERS



#### **Lucio Genovese, Non-Executive Chairman**

NC

Mr Genovese has 30 years of experience in both the merchant and financial sector of the metals and mining industry. Mr Genovese is the CEO of Nage Capital Management in Baar, Switzerland. He is also a member of the board of Ferrexpo AG and Nevada Copper Inc. and was actively involved in the acquisition and development of Ferrous Resources and more

recently Mantos Copper S.A., where he is also a board member. He was previously employed at Glencore International AG where he held several senior positions including CEO of the CIS region and manager of the Moscow office. Mr Genovese is a qualified Chartered Accountant and has a BComm and BAcc from the University of Witwatersrand, Johannesburg (South Africa).



#### **Paul Bosma, Chief Executive Officer**

Mr Bosma is a qualified geologist with more than 25 years' experience in the mining industry, of which 14 years were in the diamond industry where he worked for De Beers. Before joining Firestone Diamonds, Mr Bosma was general manager of a joint venture between De Beers and Anglo Gold Ashanti whereafter he worked as a Vice President for Pala Investments, an international mining investment fund based in

Switzerland. He joined Firestone Diamonds in July 2014 and has been General Manager of the Liqhobong Mine for the past two years where he successfully managed the ramp-up to full commercial production. He holds BSc (Honours) and MSc degrees as well as an MBA from the University of Cape Town Graduate School of Business.



#### **Keith Johnson, Non-Executive Director**

AC

Mr Johnson has over 25 years of experience in the natural resources sector, 18 of which were in the mining industry where he held various senior positions within Rio Tinto plc, including on its executive committee from 2003 to 2009. From 2003 to 2007, he had overall responsibility for Rio's global diamond business which accounted for over US\$1 billion in revenue and operated across three continents. In 2007, Mr Johnson was appointed head of business resources, where he was part of the team responsible

for the integration of Alcan Inc., following its acquisition in October 2007.

In January 2010, Mr Johnson joined FTSE 250 oil and gas company, BG Group plc, as general manager of strategy and portfolio development. He holds an MBA in Finance and a BSc degree in Mathematics and Operational Research. Mr Johnson is Resource Capital Fund VI L.P.'s nominated non-executive director of the Company.



#### **Ken Owen, Non-Executive Director**

SHECC

Mr Owen has over 40 years of experience in the mining industry. From 1974 to 1995, he worked for De Beers Consolidated Mines, holding the position of consulting engineer for the group mines from 1988 to 1992 and general manager of the Premier Diamond Mine until 1995 when he was transferred to Anglo American South America as senior vice president of mining.

In 2003, he joined the international mining and geological consultancy firm, SRK Consulting, as an associate consultant. In 2006, he joined Mwana Africa plc, an AIM-listed junior miner (now known as Asa Resource Group plc) as Technical Director, retiring in 2009. Mr Owen holds an MSc in minerals production management from Imperial College, London.



### Niall Young, Non-Executive Director

Mr Young is an economic geologist with over 30 years' experience in exploration and mining. He spent 25 years with the Anglo American, Minorco and De Beers Group of companies. In 2006, he was general manager Mineral Resource Management for the De Beers Group of companies. He has worked on projects in Southern Africa, Canada, Russia, Eastern Europe, the Middle East and India. In 2009, Mr Young co-founded Kleingeld Young & Partners, a mining consultancy firm. From 2011 to 2014, Mr Young was also CEO of Mantle Diamonds Limited, a diamond exploration and mining company.

Mr Young is a director of GemRock Company Limited, a coloured gemstone exploration and mining company. He is a director of Blue Lias Technologies plc, a hi-tech start-up company specialising in the development and application of Radio Frequency Identification ("RFID") technology.

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

Mr Young is Pacific Road Capital Management's nominated non-executive director of the company.



### Patrick Meier, Non-Executive Director

Mr Meier has over 30 years of experience in investment banking with specialist knowledge of the mining sector. He is chairman of Anglo Pacific Group plc, the London listed Natural Resources Royalty Company. He also acts as a senior adviser to Bacchus Capital Advisers, an advisory boutique and in various other advisory roles from time to time. Mr Meier headed up the investment banking activities for RBC Capital Markets in

Europe and Asia and drove a major expansion of RBC's European presence. Prior to this role, he headed up RBC's activities in the Metals and Mining sector in Europe, Africa and Asia for many years, and continues to enjoy strong relationships within the sector. He also served as a director on the board of RBC's main operating subsidiary in Europe. He has an MA in Natural Sciences from Cambridge University.

AC NC RC



### Paul Sobie BSc, PGeo, Non-Executive Director

Mr Sobie is an economic geologist specialising in the exploration and evaluation of diamond deposits, which included the initial economic evaluations of the Lihobong kimberlites in Lesotho. Mr Sobie has over 25 years of professional experience, including extensive project evaluation work for clients in both the junior and senior mining sectors and with

a particular focus on Southern Africa. He is currently president and managing partner of MPH Consulting Limited of Toronto, Canada, an international mineral exploration, geological and geophysical consultancy. Mr Sobie is a practising member of the Association of Professional Geoscientists of Ontario.

AC RC



### Grant Ferriman, Chief Financial Officer

Mr Ferriman is a qualified Chartered Accountant with 18 years of experience, including eleven years in the mining industry. He was appointed as Chief Financial Officer of Firestone Diamonds in 2012. Prior to joining the Company, he was the group financial controller for Mwana Africa plc, an AIM-listed junior mining company with assets based in South Africa, Zimbabwe and the DRC, where he was responsible for reporting and

control systems across the Group. Mr Ferriman has extensive experience in public company reporting in the United Kingdom and the development and implementation of control systems for companies with assets based in Southern Africa. He holds an honours bachelor of accounting science degree from the University of South Africa and is a member of the South African Institute of Chartered Accountants.

#### Key

AC

Audit Committee

NC

Nomination Committee

RC

Remuneration Committee

SHECC

SHEC Committee

# CORPORATE GOVERNANCE STATEMENT



**WE ARE FULLY COMMITTED TO HIGH STANDARDS OF GOVERNANCE AND HAVE ADOPTED THE QCA CODE FOR SMALLER QUOTED COMPANIES**

## Summary



## Role of the Board

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

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

## Dear shareholder

I have pleasure in presenting Firestone Diamonds’ Corporate Governance Statement. This report summarises the Company’s governance framework and highlights the work the Board has done during the year to develop our governance approach and practice. The ultimate responsibility for the quality of, and approach to, corporate governance lies with me as Chairman of the Board and I am assisted in this by the Company Secretary.

## Compliance with a recognised Corporate Governance Code

From 28 September 2018, AIM Companies of the London Stock Exchange have been required to provide details of the recognised corporate governance code that the board of directors has decided to apply and explain how the company complies with that code, and, where it departs from the chosen corporate governance code, provide an explanation of the reasons for doing so. The Board has chosen to seek to comply with the Quoted Companies Alliance corporate governance guidelines and code for smaller quoted companies (the “QCA Code”) as published in April 2018 as we believe this is most suited to a company of our size and stage of development. As a Board, we are fully committed to supporting high standards of governance and recognise that by applying sound principles in running the Company we will provide a solid basis for growth and establish trust with our stakeholders. It is our intention to be open and transparent about our governance arrangements and thus we use the Annual Report and Accounts to give details of changes and improvements we have made during the year.

Since the year end there have been some changes to the composition of the Board of Directors. In June 2018, Stuart Brown stepped down from the position of CEO and was replaced by Paul Bosma. Deborah Thomas and Mike Wittet also stepped down in July and Patrick Meier joined the Board as a Non-Executive Director. I would like to take this opportunity to thank Stuart, Deborah and Mike for their service to the Board and the Company and to welcome Patrick to the Board.

## Culture

It is a requirement of the QCA Code that I set out how the Company’s culture is consistent with the Company’s objectives, strategy and business model. We consider our culture to comprise safety, respect for our colleagues and the communities we work in, cost consciousness and a commitment to legal and regulatory compliance, integrity and sound business ethics.

**Lucio Genovese**

Non-Executive Chairman

27 September 2018

## Composition of the Board

The Board consists of seven Directors: the Non-Executive Chairman, one Executive Director, and five further Non-Executive Directors. The Board considers this to be an appropriate balance of Executive and Non-Executive Directors. The skill set of the Board includes experience in corporate finance, mining and exploration, and investor relations. As the requirements and focus of the Company change in the future, so too will the Board composition as we ensure the skills required are in place. Details of each of the Directors' experience and background are given in their biographies on pages 28 and 29.

## Independence

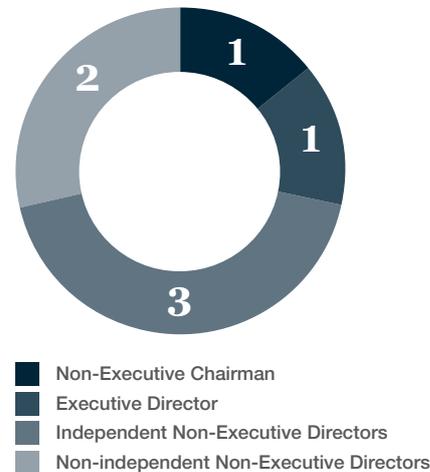
The Board considers four of its six Non-Executive Directors, Lucio Genovese, Ken Owen, Patrick Meier and Paul Sobie to be fully independent. This complies with the QCA Code, which requires that at least two members of the Board should be independent. The Board has reviewed the independence of Non-Executive Directors Niall Young and Keith Johnson and is aware that these Directors will not be considered to be independent as they are the nominated Non-Executive Directors of major shareholders of the Company: Pacific Road Capital Management and Resource Capital Fund respectively. The Board maintains, however, that these Directors have retained their independence of thought and support for the interests of all the Company's shareholders.

## Appointments to the Board and re-election

The Board has delegated the tasks of reviewing Board composition, searching for appropriate candidates and making recommendations to the Board on candidates to be appointed as Directors to the Nomination Committee. Further details on the role of the Nomination Committee may be found on page 36.

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

## Split between Executive and Non-Executive Directors



## Chairman and Chief Executive Officer

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

## Senior Independent Director

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

## Non-Executive Directors

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

## CORPORATE GOVERNANCE STATEMENT CONTINUED

### Conflicts of interest

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

### Development, information and support

The Directors are actively encouraged to visit the operations in Lesotho and several site visits have been made by individual Directors during the year. The Chairman is supported in governance matters by Prism Cosec, which also provides company secretarial services to the Company. Regular updates are given to the Board on developments in governance and regulations.

### Performance evaluation

The Chairman conducted a series of one to one interviews with all of the Directors during the year and fed back his findings to the Board as a whole. One of the outcomes of this meeting was a change to the composition of the Board to ensure that all Directors were able to devote sufficient time to Board matters. It was recognised that in addition to being able to attend the Board meetings, it was important that Directors could be contacted at short notice should the Company require.

### Operation of the Board and its Committees

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

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

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

Attendance of Directors at Board and Committee meetings during the financial year is shown below.

	Board (9 meetings)	Audit Committee (3 meetings)	Remuneration Committee (4 meetings)	Nomination Committee (1 meeting)	SHEC Committee (4 meetings)
Lucio Genovese	9/9	—	—	1/1	—
Stuart Brown	9/9	—	—	—	—
Deborah Thomas	7/9	3/3	4/4	1/1	—
Keith Johnson	7/9	3/3	—	—	—
Ken Owen	8/9	—	—	—	4/4
Mike Wittet	8/9	—	4/4	1/1	4/4
Niall Young	6/9	—	—	—	—
Paul Sobie	8/9	3/3	4/4	—	—

A Board meeting was held in October 2017 to update the Directors on discussions with key stakeholders and ABSA bank. This was in addition to the scheduled meetings for the year. Keith Johnson and Niall Young recused themselves from the meeting because of their associations to the Company's major shareholders. An additional Board meeting was held on 20 December 2017 to deal with certain administrative and procedural matters connected with the allotment and issue of new ordinary shares pursuant to the Company's Offer and Placing. Authority to execute the required documents was delegated by the Board to the Chairman and Stuart Brown who attended the meeting. Niall Young was unable to attend the November 2017 Board meeting, and Deborah Thomas was unable to attend the March 2018 Board meeting, due to other commitments.

## What the Board did during the year

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

- regularly reviewing the Company's risk matrix;
- considering and executing a capital raise in December 2017 and the restructure of the ABSA debt facility;
- discussing and overseeing environmental and community issues arising from the Group's activities;
- considering the performance of the Company in the context of the market as a whole;
- reviewing the Group's insurance arrangements;
- monitoring the operation of the treasury policy;
- approving the Group budget for the 2019 financial year;
- continuing to ensure that the Group complies with UK governance and legislator regulations;
- approving various procedural arrangements connected with the Group's Eurobonds which were put in place in April 2015; and
- considering and approving ongoing arrangements for the disposal of the Group's Botswana assets.

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

## Risk management and internal control

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

The Board is responsible for the effectiveness of the internal financial control framework. Such a system can only provide reasonable and not absolute assurance against material misstatement. The Group does not currently have an internal audit function, however, this will be reviewed by the Audit Committee in the coming year. The Board will continually assess the ongoing need for the strengthening of internal financial controls.

Risks throughout the Group are considered and reviewed on a regular basis. Risks are identified and a risk matrix, detailing the major risks, is prepared. The risk matrix is used to track and monitor risks and put in place mitigating actions as required. Principal risks identified are set out in the Strategic Report on pages 12 to 15.

## Relations with shareholders

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

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

This year's Annual General Meeting of the Company will be held on 28 November 2018. The Notice of this year's Annual General Meeting is included with this Annual Report and Accounts and is available on the Company's website at [www.firestonediamonds.com](http://www.firestonediamonds.com).

## AUDIT COMMITTEE REPORT

### Members of the Audit Committee

The Committee consists of the following Non-Executive Directors:

- Patrick Meier (Chairman), who replaced Deborah Thomas who resigned on 5 July 2018;
- Paul Sobie; and
- Keith Johnson (Non-independent Director).

Composition of the Committee is in accordance with the Quoted Companies Alliance corporate governance guidelines and code for smaller quoted companies (the “QCA Code”). This prescribes that the Audit Committee should comprise a minimum of two independent Non-Executive Directors with at least one of the members having recent relevant financial experience. We refer you to pages 28 and 29 for each of the Committee members’ experience. The Committee is also assisted in its duties by Grant Ferriman, the Chief Financial Officer (“CFO”).

### Meetings

The Audit Committee met three times during the year and all members attended all of the meetings. Grant Ferriman, the CFO, was also invited, and attended all of the meetings. The Committee members were presented with detailed papers ahead of each meeting.

The Chairperson reported the findings of the Committee back to the Board.

### Roles

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

Roles	Activities in 2018
Monitor the integrity of the financial statements of the Company, including its annual and half-year reports.	<ul style="list-style-type: none"> <li>• The Committee formally reviewed the Group’s annual and half-year report before recommending these to the Board for approval.</li> <li>• In its review, the Committee focused on the presentation of the reports to ensure that these represent a fair and balanced assessment of the Group’s financial and operational activities for the period.</li> <li>• The Committee reviewed key accounting issues and significant audit risks as presented to them by management and the auditor respectively to ensure that issues and significant audit risks were adequately addressed in the reports.</li> </ul>
Review and challenge where necessary any changes to, and consistency of, accounting policies, whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor, the going concern assumption and all material information presented with the financial statements.	<ul style="list-style-type: none"> <li>• The Audit Committee was presented with detailed papers ahead of the release of the Group’s annual and half-year reports which provided details on how each of the accounting issues and significant audit risks were addressed. An assessment was made of the relevant accounting standards to be applied, relevant estimates used and judgements made in the annual and half-year reports. The Committee reviewed and challenged the information contained in these papers.</li> </ul>
Review the effectiveness of the Company’s internal controls and risk management systems and to review and approve the statements to be included in the Annual Report concerning internal controls and risk management.	<ul style="list-style-type: none"> <li>• The Committee was provided with updates on the effectiveness of internal controls by the CFO on a regular basis, and was satisfied that these were sufficient for the Group’s purposes. The Committee reviewed the Group’s risk register to ensure that adequate mitigating actions were in place to reduce risk, where possible, to an acceptable level.</li> </ul>
Consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company’s external auditor.	<ul style="list-style-type: none"> <li>• The Committee considered BDO LLP to be best suited to meet the Group’s external audit requirement, with sufficient knowledge and understanding of the Group’s business.</li> </ul>

Roles	Activities in 2018
Oversee the relationship with the external auditor including approval of their remuneration, approval of their terms of engagement, assessment annually of their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services.	<ul style="list-style-type: none"> <li>The Committee considered both its and senior management's relationship with the auditor and did not identify any significant threat to the independence.</li> <li>The external auditor has sufficient controls in place to mitigate any threat to their independence, which includes mandatory audit partner rotation every five years.</li> <li>During the year, the Group employed BDO LLP to perform non-audit work in relation to the Group's tax affairs. Independence with the audit firm was maintained as services were rendered through an entirely separate department within BDO and by different staff to those providing audit-related services.</li> </ul>

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

Significant matters	Audit Committee considerations
Impairment testing of the Group's assets	<ul style="list-style-type: none"> <li>The Committee considered the judgements made by management in assessment of impairment indicators of the Group's two cash-generating units ("CGUs"). These included the assessment of external and internal factors which could potentially indicate the existence of an impairment.</li> <li>The Committee also considered the disclosure in the annual and half year reports to ensure that these were adequate.</li> <li>Disclosures regarding impairment is included in note 10 to these financial statements.</li> </ul>
Going concern of the Group	<ul style="list-style-type: none"> <li>The Committee reviewed the assumptions and judgements included in the financial model of the Group to ensure that these were balanced. The financial model was also subjected to sensitivity analysis for the two major assumptions, being average diamond value and exchange rates, to ensure that the going concern assumption would continue to apply at lower average diamond values and/or stronger exchange rate. Apart from these major assumptions, a key risk to going concern remains the satisfaction of the ABSA covenants.</li> <li>The Committee, having considered the appropriateness of the assumptions made, conclude that the going concern principle is appropriate.</li> <li>The going concern statement is disclosed in note 1 to these financial statements.</li> </ul>
Application of new standards and interpretations that will become effective in future financial years	<ul style="list-style-type: none"> <li>The Committee reviewed management's assessment of the potential impact of the application of new standards and interpretations issued by the International Accounting Standards Board. These assessments are disclosed in note 1 to these financial statements.</li> </ul>
ABSA debt restructure	<ul style="list-style-type: none"> <li>The Committee considered the accounting impact of the ABSA debt restructure and specifically whether the impact was substantial and would result in a change in the IFRS value of the debt in the Consolidated Statement of Financial Position. The impact of the amended terms was determined as not being substantially different to the original terms, and therefore no change was required. The revised terms are disclosed in note 26 to these financial statements.</li> </ul>

## External Auditor

### Role of the external auditor

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

### Audit process

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

# NOMINATION COMMITTEE REPORT

## Members of the Nomination Committee

The Committee consists of the following Non-Executive Directors:

- Lucio Genovese (Chairman); and
- Patrick Meier, who replaced Mike Wittet and Deborah Thomas who both resigned on 5 July 2018.

Composition of the Nomination Committee (“the Committee”) is in accordance with its Terms of Reference which prescribes that the Committee should comprise a minimum of two Directors, the majority of whom should be Non-Executive Directors, and that the Chairman of the Committee should be either the Chairman of the Board or a Non-Executive Director.

## Roles

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

Roles	Activities in 2018
Regular review of the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board, compared to its current position and to make recommendations to the Board with regard to any changes.	<ul style="list-style-type: none"> <li>• The Chairman conducted a thorough Board evaluation during the year, which highlighted the necessity to refresh the Board with the appropriate skills required to guide the Company during its challenging early stage of full scale operations. Directors were required to dedicate sufficient time, often over and above the time needed for the review of Board papers and attendance at Board meetings.</li> </ul>
To give full consideration to succession planning and formulate succession plans for Directors and other senior executives and in particular for the key roles of Chairman and Chief Executive Officer in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future.	<ul style="list-style-type: none"> <li>• In the coming year, the Committee will begin to give greater consideration to succession planning for the Board, and for senior executives, now that the Company’s ongoing organisational structure has been fully defined and senior recruitment completed. The Committee also has a process in place in relation to future appointments, the Board’s approach to succession planning and how best to develop potential candidates. The Committee will also work to establish a policy on diversity, inclusion and gender balance on the Board and in the senior management team.</li> </ul>
Be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.	<ul style="list-style-type: none"> <li>• The main task undertaken by the Nomination Committee during the year was to consider the appointment of a new Chief Executive Officer to replace Stuart Brown, who resigned in June 2018. The Chairman talked extensively with Stuart regarding the attributes needed for his successor. He then held a series of meetings and calls with members of the Committee, and the Board as a whole, to identify an appropriate replacement. It became clear, early in the process that Paul Bosma, the General Manager of the Lihobong Mine, had the attributes and experience that were required. All members of the Board had met Paul and his appointment was unanimously supported.</li> <li>• Furthermore, the Committee sought a replacement for two Non-Executive Directors, Deborah Thomas and Mike Wittet, who decided to step down from the Board.</li> <li>• The Chairman liaised with a firm of headhunters, Savannah Group, to establish a shortlist of candidates, these were considered by the Board as a whole as both Non-Executive Directors were part of the Committee. Patrick Meier, who has extensive financial and banking experience, was felt to be the most appropriate candidate and joined the Board on 5 July 2018. Patrick also joined the Audit, Remuneration and Nomination Committees.</li> </ul>
Assess the re-appointment of any Non-Executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required.	<ul style="list-style-type: none"> <li>• During the year, the Chairman of the Committee conducted a thorough review of the ability of Non-Executive Directors to spend sufficient time to contribute meaningfully to the Board.</li> </ul>
Assess the re-election by shareholders of any Director, having due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.	<ul style="list-style-type: none"> <li>• In accordance with best practice, all of the Directors will stand for re-election at the forthcoming AGM. The Chairman has conducted a thorough Board evaluation during the year and is of the view that all Directors standing for election or re-election will contribute to the Board in light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.</li> </ul>

# SAFETY, HEALTH, ENVIRONMENT AND CORPORATE SOCIAL RESPONSIBILITY (“SHEC”) COMMITTEE REPORT

## Members of the SHEC Committee

The Committee consists of the following Directors:

- Ken Owen (Non-Executive Chairman), who replaced Mike Wittet who resigned on 5 July 2018; and
- Paul Bosma (Executive Director).

Composition of the SHEC Committee (“the Committee”) is in accordance with its Terms of Reference which prescribes that the Committee should comprise a minimum of at least two members including at least one Director.

## Roles

The main roles of the SHEC Committee are set out in its Terms of Reference and include:

Roles	Activities in 2018
Evaluate the effectiveness of the Group’s policies and systems for identifying and managing health, safety, social and environmental risks within the Group’s operations.	<ul style="list-style-type: none"> <li>• The Committee was presented with monthly incident and SHEC statistics reports by the SHEC department on site which were used to evaluate the effectiveness of the policies and systems in place, which have evolved with the transformation from a construction project to a sustainable mining operation. The Committee considered significant safety risks and the mitigation thereof.</li> <li>• The policies and systems in place were found to be effective in addressing significant safety risks on the Mine.</li> </ul>
Assess the policies and systems within the Group for ensuring compliance with health, safety, social and environmental regulatory requirements.	<ul style="list-style-type: none"> <li>• The Committee attended four two-day visits to the Lihobong Mine where presentations were given by the relevant departments, after which a full production plant walkthrough and an inspection of mining operations was conducted.</li> <li>• It was found that policies and systems are well communicated and understood by the workforce and contractors and that they complied with the relevant legislative and other requirements.</li> </ul>
Assess the performance of the Group with regard to the impact of health, safety, social and environmental decisions and actions upon employees, communities and other third parties and also to assess the impact of such decisions upon the reputation of the Group.	<ul style="list-style-type: none"> <li>• The Committee monitored the implementation of a number of initiatives, further details of which are contained in the Health, Safety, Environment and Community Report on pages 24 to 27 of these financial statements and gave quarterly feedback to the Board. The results to date are to be commended, particularly in light of the increased production activity and the change of mining contractor during the year.</li> </ul>
Review the results of independent audits of the Group’s performance in regard to health, safety, social or environmental matters and review any strategies and action plans developed by management in response to issues raised and, where appropriate, make recommendations to the Board concerning these.	<ul style="list-style-type: none"> <li>• Internal and third-party audits were conducted, improvements were noted and are being addressed.</li> </ul>
Review reports from management concerning serious accidents and incidents within the Group and actions taken by management with regard to investigation and implementation of mitigation measures.	<ul style="list-style-type: none"> <li>• The Committee was briefed on all incidents. Investigation reports were considered, as well as corrective measures to be implemented.</li> </ul>

## Conclusion

The Committee can confirm that mine management and staff place the highest priority on safety at work, the maintenance of health and environmental standards consistent with industry standards and the continued positive relationship building with the local communities through the CSRI initiatives.

## DIRECTORS' REMUNERATION REPORT



**THE COMPANY HAS A HIGHLY EXPERIENCED MANAGEMENT TEAM WITH A PROVEN TRACK RECORD OF SUCCESSFUL PERFORMANCE**

### Summary

Highly experienced management team met or exceeded all 2018 production guidance measures for the Liqhobong Mine

Remuneration packages were reviewed, ensuring competitive benchmarking in both Southern Africa and the United Kingdom

Continued efforts to ensure Firestone offers motivating performance-related remuneration to attract and retain key staff

Compliance with best practice guidelines as the Committee consists entirely of independent Non-Executive Directors

### Dear shareholder

I am pleased to present the Remuneration Report for the year ended 30 June 2018. The Company had a busy year with the Liqhobong Mine completing its first full year of production, under the direction of the Company's management team.

The Remuneration Committee continued to work closely with the Chief Executive Officer and Chairman on the remuneration packages, including reviewing the Long-Term Incentive Plan and determining incentives for the executive and operational teams in terms of the short-term incentive programme, in respect of the achievement of KPIs for the year ended 30 June 2018.

As detailed previously in this report, we are extremely proud of our team's 2018 performance which included:

- zero Lost Time Injury record maintained with over 6.2 million man hours worked since project commencement in July 2014;
- recoveries for the full year of 835 832 carats, within guidance of between 800 000 and 850 000 carats;
- grade of 22.0 cphct;
- 3.8 million tonnes ("mt") treated, ahead of guidance of 3.6 mt; and
- cash operating costs of US\$11.62 per tonne treated for the year.

The Committee's work in 2018 included commissioning independent consultants to assist in ensuring Firestone's remuneration packages are competitive and attractive in the Southern African mining industry. We feel it is imperative to be vigilant and ensure that the packages offer the right balance of fixed, performance and retention-based compensation that result in exceptional people being attracted to, and remaining with, the Company.

2018 also saw the Committee recommending an appropriate service agreement for incumbent CEO Paul Bosma.

### The Remuneration Committee

The Board has delegated certain responsibilities for executive remuneration to the Remuneration Committee. The Remuneration Committee has approved Terms of Reference, a copy of which is available on the Company's website at [www.firestonediamonds.com](http://www.firestonediamonds.com).

### Remuneration Committee membership and attendance at meetings

Three Non-Executive members served on the Remuneration Committee during the year and there are currently two Non-Executive Directors on the Committee:

- Paul Sobie (Chairman); and
- Patrick Meier, who replaced Mike Wittet and Deborah Thomas who both resigned on 5 July 2018.

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

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

### The Remuneration Committee's main responsibilities

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

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

### What the Remuneration Committee did during the year

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

- worked closely with our Chief Executive Officer and Chairman to ensure that Firestone's remuneration packages were competitive for all executives and managers;
- reviewed and determined that both the Non-Executive Directors, and Non-Executive Chairman remuneration should remain unchanged at present;
- determined executive and management fixed-salary levels for 2018 based on benchmarking and cost-of-living indexing;

- determined executive and management Short-Term Incentive Plan ("STIP") levels and key performance indicators ("KPIs") for these performance-based awards;
- approved adjustments to the number of restricted share units ("RSU") issued to executives and management in respect of the Long-Term Incentive Plan ("LTIP"); and
- settled the employment agreement with the new CEO, Paul Bosma.

### Priorities for the Remuneration Committee over the next year

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

### Restricted Share Plan (Long-Term Incentive Plan)

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

During the year, an adjustment was made to the RSU plan to recalibrate the plan against the Company's increased share capital following the December 2017 capital raise, and 2 591 000 RSUs were exercised in January 2018.

### Short-Term Incentive Plan

The Committee, in consultation with the Chief Executive Officer, determined that a bonus pool of 20% of salaries for the entire workforce was appropriate for the year. Full STIP bonuses were awarded based on all KPIs being met, and were self-funded out of operational cost savings.

### Advisers to the Remuneration Committee

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

**DIRECTORS' REMUNERATION REPORT** CONTINUED**Components of remuneration**

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

**Fees**

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

	2018 US\$	2017 US\$
Chairman	120 000	120 000
Non-Executive Director	60 000	60 000

**Share awards and additional payments to Non-Executive Directors**

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

**Directors' remuneration table**

	Base salary US\$	Base fee US\$	Accrued leave pay US\$	Annual bonus US\$	Share-based payments US\$	Total 2018 US\$	Total 2017 US\$
<b>Executive Director</b>							
Stuart Brown <sup>1</sup>	550 000	—	153 786	45 833	136 899 <sup>2</sup>	886 518	2 593 674
<b>Non-Executive Directors</b>							
Lucio Genovese	—	120 000	—	—	—	120 000	120 000
Braam Jonker <sup>3</sup>	—	—	—	—	—	—	20 000
Deborah Thomas <sup>4</sup>	—	60 000	—	—	—	60 000	40 000
Keith Johnson	—	60 000	—	—	—	60 000	60 000
Ken Owen	—	60 000	—	—	—	60 000	60 000
Mike Wittet <sup>5</sup>	—	60 000	—	—	—	60 000	60 000
Niall Young	—	60 000	—	—	—	60 000	60 000
Paul Sobie	—	60 000	—	—	—	60 000	60 000
	—	480 000	—	—	—	480 000	480 000
<b>Total</b>	<b>550 000</b>	<b>480 000</b>	<b>153 786</b>	<b>45 833</b>	<b>136 899</b>	<b>1 366 518</b>	<b>3 073 674</b>

1 Stuart Brown, the Chief Executive Officer, resigned on 30 June 2018.

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

3 Braam Jonker, Non-Executive Director, resigned on 31 October 2016.

4 Deborah Thomas, Non-Executive Director and Chairperson of the Audit Committee and a member of the Remuneration and Nomination Committees, resigned on 5 July 2018.

5 Mike Wittet, Non-Executive Director and Chairman of the Safety, Health, Environment and Corporate Social Responsibility Committee and a member of the Audit and Remuneration Committees, resigned on 5 July 2018.

**Operation of share option awards**

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

## Share option awards

	Date option granted	Exercise price	1 July 2017	Movements during the year			30 June 2018	Earliest exercise date	Latest exercise date
				Grants	Exercised	Lapsed			
<b>Executive Director</b>									
Stuart Brown	27/05/2014	30p	3 033 760	—	—	—	<b>3 033 760</b>	27/05/2016	26/05/2024
	27/05/2014	30p	3 033 760	—	—	—	<b>3 033 760</b>	27/05/2017	26/05/2024
	27/05/2014	30p	3 033 760	—	—	—	<b>3 033 760</b>	01/07/2017 <sup>1</sup>	26/05/2024
	15/01/2017	1p	1 050 000	—	(1 050 000) <sup>1</sup>	—	—	15/01/2018	14/01/2027
	15/01/2017	1p	1 050 000	330 750	—	(525 000)	<b>855 750</b>	15/01/2019	14/01/2027
	15/01/2017	1p	1 050 000	—	—	(1 050 000)	—	15/01/2020	14/01/2027
<b>Non-Executive Director</b>									
Lucio Genovese	23/11/2012	85p	900 000	—	—	—	<b>900 000</b>	23/11/2012	22/11/2022

<sup>1</sup> Stuart Brown exercised 1 050 000 RSUs with a strike price of 1.00 pence, at 9.35 pence in January 2018.

## Dates of appointment

	Date appointed	Date resigned
<b>Executive Director</b>		
Paul Bosma	01/07/2018 <sup>1</sup>	
Stuart Brown	01/12/2013	30/06/2018
<b>Non-Executive Director</b>		
Lucio Genovese	17/01/2012	
Deborah Thomas	01/11/2016	05/07/2018
Keith Johnson	01/05/2015	
Ken Owen	18/06/2014	
Mike Wittet	24/07/2012	05/07/2018
Niall Young	18/06/2014	
Patrick Meier	05/07/2018	
Paul Sobie	20/06/2011	

<sup>1</sup> Paul Bosma commenced work with the Company on 1 July 2014, initially as a member of the owners team which was responsible for the construction project, and subsequently as General Manager of Liqobong. Paul was appointed as the Chief Executive Officer from 1 July 2018, taking over from Stuart Brown.

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

Director	Number of shares <sup>1</sup>	
	2018	2017
Paul Bosma	—	—
Stuart Brown	— <sup>2</sup>	507 148
Lucio Genovese	<b>3 586 316</b>	2 846 944
Deborah Thomas	—	—
Keith Johnson	<b>393 903</b>	282 997
Ken Owen	—	—
Mike Wittet	—	—
Niall Young	—	—
Patrick Meier	—	—
Paul Sobie	—	—

<sup>1</sup> Excluding share option awards.

<sup>2</sup> Shareholding is not presented as Stuart Brown was no longer a Director as at the date of this report.



**Paul Sobie**

Non-Executive Chairman of the Remuneration Committee

27 September 2018

## DIRECTORS' REPORT

The Directors present their Annual Report and Accounts for the year ended 30 June 2018. 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\$14.2 million (2017: loss after tax of US\$151.7 million). Further details are shown in the Consolidated Statement of Comprehensive Income on page 48.

The Directors do not recommend a dividend (2017: 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 523 937 848 ordinary shares of 1 pence each (2017: 320 271 086 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 on the transfer of 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.	141 254 410	26.96%
Pacific Road Resources Fund II L.P.	123 386 165	23.55%
Edwards Family Holdings Limited	63 472 355	12.31%
Sustainable Capital Limited	59 128 295	11.47%
Pacific Road Resources Fund II	17 272 933	3.30%

### Directors

Biographies of the current Directors as at the date of this report are set out on pages 28 and 29.

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

	Position	Date of change
Lucio Genovese	Non-Executive Chairman	
Paul Bosma	Chief Executive Officer	Appointed 1 July 2018
Stuart Brown	Chief Executive Officer	Resigned 30 June 2018
Deborah Thomas	Non-Executive Director	Resigned 5 July 2018
Keith Johnson	Non-Executive Director	
Ken Owen	Non-Executive Director	
Mike Wittet	Non-Executive Director	Resigned 5 July 2018
Niall Young	Non-Executive Director	
Patrick Meier	Non-Executive Director	Appointed 5 July 2018
Paul Sobie	Non-Executive Director	

Details of Directors' emoluments and fees are shown in note 7 to the financial statements and further details of their remuneration and share interests are shown in the Directors' Remuneration Report on pages 38 to 41.

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 225 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 30 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 the forecast assumptions adopted, the Group and Company 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 information is included within note 1 going concern on page 55.

## Post-balance sheet events

The Directors are not aware of any significant matters or circumstances arising since the end of the financial year, not otherwise dealt with in this report or the annual financial statements, that significantly affects the financial position of the Company or the results of its operations until the date of this report.

## 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

27 September 2018

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

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

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

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

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

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

### **Website publication**

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

On behalf of the Board



### **Lucio Genovese**

Non-Executive Chairman

27 September 2018

# 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 2018 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 ("IFRSs") 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 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company's financial statements have been properly prepared in accordance with IFRSs 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 uncertainty in relation to going concern

We draw attention to note 1 in the financial statements, which states that there is a risk the Group might breach its future lending covenants on the ABSA debt facility. If the covenants are breached, ABSA would have the right to put the loan into default and require immediate repayment.

These events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group'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 twelve months 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 ABSA debt restructure including the covenants;
- we checked that no covenants were breached to date and we recalculated the estimates of forecast covenant compliance; and
- we reviewed the disclosures in the financial statements to ensure these were adequate.

## Key audit matters

In addition to the matter described in the material uncertainty in relation to going concern section above, key audit matters are those matters that, in our professional judgement, 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.

# INDEPENDENT AUDITOR'S REPORT CONTINUED

TO THE MEMBERS OF FIRESTONE DIAMONDS PLC

Key audit matter	Our response
<b>Carrying value of Liqhobong Diamond Mine</b>	
<p>As detailed in note 10, the assessment of any impairment to the carrying value of mining assets require significant judgement and estimate by management. As at 30 June 2018, there is a risk that the Liqhobong Diamond Mine is carried at an amount greater than its recoverable amount through continued use or sale.</p> <p>The carrying value of the Liqhobong Diamond Mine represents a significant risk for our audit given the level of estimation and judgements 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. Whilst partially impaired there remains significant judgement and risk associated with the life of mine plans which could give rise to an additional impairment.</p>	<p>Our procedures in relation to management's assessment of the carrying value of Liqhobong Diamond Mine included:</p> <ul style="list-style-type: none"> <li>evaluating management's impairment models against approved life of mine plans and our understanding of the operations, and critically reviewing the consistency of the mine plan against resource and reserve reports and mine optimisation review undertaken by an independent third party expert;</li> <li>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;</li> <li>challenging the significant inputs and assumptions used in the impairment model and whether these were indicative of potential bias. Our testing included: <ul style="list-style-type: none"> <li>critically assessing the diamond price forecasts to prices achieved in the year, pricing trends and market forecasts and considering the appropriateness of growth assumptions based on empirical data and industry peers trend growth;</li> <li>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 managements discount rate assumptions by benchmarking against industry peers;</li> <li>comparison of foreign exchange rate assumptions to year-end spot rates; and</li> <li>critical review of the forecast costs against the expected production profiles in the mine plan and historical performance.</li> </ul> </li> <li>assessing the adequacy of impairment related disclosures contained within note 10 of the financial statements.</li> </ul>

## Our application of materiality

Group materiality FY 2018	Group materiality FY 2017	Basis for materiality
US\$2.2 million	US\$2.0 million	1.5% of total assets (2017: 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 at 1.5% of total assets which reflects the stakeholders interest in the project as it had a full year of commercial production. We consider total assets to be the most significant determinant of the Group's financial performance used by stakeholders.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at \$1.6 million (2017: \$1.5 million) which represents 75% (2017: 75%) of the above materiality levels.

Whilst materiality for the Group financial statements as a whole was US\$2.2 million, each significant component of the Group was audited to a lower level of materiality ranging from US\$1.7 million to US\$0.7 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.

Materiality in respect of the audit of the parent company has been set at \$0.7 million (2017: \$ 0.7 million) using a benchmark of 1.5% of total assets (2017: 1.5% of total assets). Due to the focus of stakeholders being, the assets of the parent company we consider total assets to be the most appropriate measure for the basis of materiality.

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 (2017: 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 Group risk 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 auditor:

- 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 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 parent 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, or returns adequate for our audit have not been received from branches not visited by us; or

- the parent 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

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Use of our report

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

*Scott Knight*

### Scott Knight (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor  
London

27 September 2018

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 2018

	Note	2018 US\$'000	2017 US\$'000
<b>Revenue</b>	4	<b>62 246</b>	—
Cost of sales		<b>57 116</b>	—
<b>Gross profit</b>		<b>5 130</b>	—
Other income		<b>1 267</b>	1 232
<b>Selling, administrative and other expenses</b>		<b>13 707</b>	130 472
Other administrative expenses		<b>1 784</b>	518
Diamond royalty and selling expenses		<b>4 318</b>	—
Impairment charge	10	—	122 602
Amortisation and depreciation	5	<b>2 408</b>	2 316
Share-based payments	24	<b>1 345</b>	1 268
Care and maintenance		<b>485</b>	534
Corporate expenses		<b>3 367</b>	3 234
<b>Loss before finance charges and income tax</b>	5	<b>(7 310)</b>	(129 240)
Finance income	9	<b>794</b>	460
Finance costs	9	<b>11 021</b>	1 235
<b>Loss before tax</b>		<b>(17 537)</b>	(130 015)
Taxation credit/(charge)	11	<b>3 304</b>	(21 664)
<b>Loss after tax for the year</b>		<b>(14 233)</b>	(151 679)
<b>Loss after tax for the year attributable to:</b>			
Owners of the parent		<b>(11 635)</b>	(116 411)
Non-controlling interests		<b>(2 598)</b>	(35 268)
<b>Loss after tax for the year</b>		<b>(14 233)</b>	(151 679)
<b>Other comprehensive (loss)/income:</b>			
<b>Items that may be reclassified subsequently to profit and loss</b>			
Exchange differences on translating foreign operations net of tax		<b>(7 426)</b>	29 878
Movement on cash flow hedges		<b>791</b>	1 498
<b>Other comprehensive (loss)/income</b>		<b>(6 635)</b>	31 376
<b>Total comprehensive loss for the year</b>		<b>(20 868)</b>	(120 303)
<b>Total comprehensive loss for the year attributable to:</b>			
Owners of the parent		<b>(16 432)</b>	(92 475)
Non-controlling interests		<b>(4 436)</b>	(27 828)
<b>Total comprehensive loss for the year</b>		<b>(20 868)</b>	(120 303)
<b>Basic and diluted loss per share</b>			
Basic and diluted loss per share from continuing operations (US cents)	12	<b>(2.8)</b>	(36.9)

The notes on pages 55 to 87 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	2018 US\$'000	2017 US\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	101 220	118 590
Deferred tax	14	6 501	3 761
Loan receivable	18	487	—
<b>Total non-current assets</b>		<b>108 208</b>	122 351
<b>Current assets</b>			
Inventory	19	5 881	6 420
Other financial assets	20	265	—
Trade and other receivables	21	13 288	3 590
Cash and cash equivalents	22	18 421	17 053
<b>Total current assets</b>		<b>37 855</b>	27 063
<b>Total assets</b>		<b>146 063</b>	149 414
<b>EQUITY</b>			
Share capital	23	166 239	163 557
Share premium		191 201	167 349
Reserves		(24 201)	(20 089)
Accumulated losses		(255 607)	(245 452)
<b>Total equity attributable to equity holders of the parent</b>		<b>77 632</b>	65 365
Non-controlling interests		(46 630)	(42 194)
<b>Total equity</b>		<b>31 002</b>	23 171
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	26	94 225	79 734
Rehabilitation provisions	27	4 313	4 233
<b>Total non-current liabilities</b>		<b>98 538</b>	83 967
<b>Current liabilities</b>			
Borrowings	26	2 143	23 057
Other financial liabilities	20	—	357
Trade and other payables	28	14 055	18 472
Provisions	29	325	390
<b>Total current liabilities</b>		<b>16 523</b>	42 276
<b>Total liabilities</b>		<b>115 061</b>	126 243
<b>Total equity and liabilities</b>		<b>146 063</b>	149 414

The financial statements were approved by the Board of Directors and authorised for issue on 27 September 2018.



**Lucio Genovese**

Director

The notes on pages 55 to 87 form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE YEAR ENDED 30 JUNE 2018

	Share capital US\$'000	Share premium US\$'000	Warrant reserve <sup>1</sup> 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 2016	163 493	164 680	7 609	(1 614)	(1 568)	4 476	(54 968)	(129 041)	153 067	(13 402)	139 665
<b>Comprehensive loss</b>											
Loss for the year	—	—	—	—	—	—	—	(116 411)	(116 411)	(35 268)	(151 679)
<b>Other comprehensive income for the year</b>											
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
<b>Total comprehensive loss for the year</b>	—	—	—	—	1 545	—	22 391	(116 411)	(92 475)	(27 828)	(120 303)
<b>Contributions by and distributions to owners</b>											
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
<b>Total contributions by and distributions to owners</b>	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
<b>Comprehensive loss</b>											
Loss for the year	—	—	—	—	—	—	—	(11 635)	(11 635)	(2 598)	(14 233)
<b>Other comprehensive income for the year</b>											
Exchange losses on translating foreign operations	—	—	—	—	—	—	(5 429)	—	(5 429)	(1 997)	(7 426)
Profit on cash flow hedges	—	—	—	—	632	—	—	—	632	159	791
<b>Total comprehensive loss for the year</b>	—	—	—	—	632	—	(5 429)	(11 635)	(16 432)	(4 436)	(20 868)
<b>Contributions by and distributions to owners</b>											
Shares issued in the year	2 682	24 752	—	—	—	—	—	—	27 434	—	27 434
Share issue expenses	—	(900)	—	—	—	—	—	—	(900)	—	(900)
Share-based payments lapsed/expired	—	—	—	—	—	(1 480)	—	1 480	—	—	—
Share-based payment transactions	—	—	—	—	—	2 165	—	—	2 165	—	2 165
<b>Total contributions by and distributions to owners</b>	2 682	23 852	—	—	—	685	—	1 480	28 699	—	28 699
<b>Balance as at 30 June 2018</b>	<b>166 239</b>	<b>191 201</b>	<b>7 609</b>	<b>(1 614)</b>	<b>609</b>	<b>7 201</b>	<b>(38 006)</b>	<b>(255 607)</b>	<b>77 632</b>	<b>(46 630)</b>	<b>31 002</b>

1 Warrants issued relate to the Eurobond transaction, the details of which is disclosed in note 25.

The notes on pages 55 to 87 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 US\$'000	2017 US\$'000
<b>Cash flows used in operating activities</b>			
Loss before taxation		(17 537)	(130 015)
Adjustments for:			
Impairment charge	10	—	122 602
Depreciation and amortisation	13	13 158	2 316
Equity-settled share-based payments		1 888	1 268
Changes in provisions		(65)	(11)
Finance income	9	(794)	(460)
Finance cost	9	11 021	1 235
<b>Net cash flows from/(used in) operating activities before working capital changes</b>		<b>7 671</b>	<b>(3 065)</b>
Increase in inventories		(34)	(5 714)
Increase in trade and other receivables		(10 421)	(648)
(Decrease)/increase in trade and other payables		(3 822)	5 696
<b>Net cash flows used in operating activities</b>		<b>(6 606)</b>	<b>(3 731)</b>
<b>Cash flows used in investing activities</b>			
Additions to property, plant and equipment		(1 977)	(31 158)
<b>Net cash used in investing activities</b>		<b>(1 977)</b>	<b>(31 158)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of ordinary shares		25 000	—
Share issue expense		(900)	—
Increase in borrowings		2 000	44 000
Repayment of borrowings		(13 476)	(1 509)
Finance income		307	73
Finance cost		(3 421)	(462)
<b>Net cash from financing activities</b>		<b>9 510</b>	<b>42 102</b>
<b>Net increase in cash and cash equivalents</b>		<b>927</b>	<b>7 213</b>
Cash and cash equivalents at beginning of the year		17 053	10 282
Exchange rate movement on cash and cash equivalents at beginning of year		441	(442)
<b>Cash and cash equivalents at end of the year</b>	22	<b>18 421</b>	<b>17 053</b>

The notes on pages 55 to 87 form part of these financial statements.

**COMPANY STATEMENT OF FINANCIAL POSITION**

AS AT 30 JUNE 2018

	Note	2018 US\$'000	2017 US\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		1	2
Investments in subsidiaries	15	27 430	31 869
Loans to subsidiaries	17	19 509	19 522
<b>Total non-current assets</b>		<b>46 940</b>	51 393
<b>Current assets</b>			
Trade and other receivables	21	462	429
Cash and cash equivalents	22	5 401	113
<b>Total current assets</b>		<b>5 863</b>	542
<b>Total assets</b>		<b>52 803</b>	51 935
<b>EQUITY</b>			
Share capital	23	166 239	163 557
Share premium		191 201	167 349
Reserves		15 707	15 022
Accumulated losses		(354 274)	(323 608)
<b>Total equity attributable to equity holders of the Company</b>		<b>18 873</b>	22 320
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	26	32 031	28 117
<b>Total non-current liabilities</b>		<b>32 031</b>	28 117
<b>Current liabilities</b>			
Trade and other payables	28	1 899	1 498
<b>Total current liabilities</b>		<b>1 899</b>	1 498
<b>Total liabilities</b>		<b>33 930</b>	29 615
<b>Total equity and liabilities</b>		<b>52 803</b>	51 935

**Companies Act section 408 exemption**

The Company has taken advantage of the exemptions allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The Company incurred a loss on ordinary activities after tax of US\$31.8 million (2017: US\$185.3 million) which included an impairment charge of US\$25.2 million (2017: US\$186.8 million) (refer to note 10). The Company had no other items of comprehensive income in the year (2017: US\$nil). The financial statements were approved by the Board of Directors and authorised for issue on 27 September 2018.


**Lucio Genovese**

Director

The notes on pages 55 to 87 form part of these financial statements.

## COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

	Share capital US\$'000	Share premium US\$'000	Warrant reserve US\$'000	Translation reserve US\$'000	Share-based payment reserve US\$'000	Retained earnings US\$'000	Total equity US\$'000
Balance as at 1 July 2016	163 493	164 680	7 609	897	4 476	(138 290)	202 865
<b>Comprehensive loss</b>							
Loss for the year	—	—	—	—	—	(185 318)	(185 318)
<b>Total comprehensive loss for the year</b>	—	—	—	—	—	(185 318)	(185 318)
<b>Contributions by and distributions to owners</b>							
Shares issued in the year	64	2 669	—	—	—	—	2 733
Share-based payment transactions	—	—	—	—	2 040	—	2 040
<b>Total contributions by and distributions to owners</b>	64	2 669	—	—	2 040	—	4 773
Balance as at 30 June 2017	163 557	167 349	7 609	897	6 516	(323 608)	22 320
<b>Comprehensive loss</b>							
Loss for the year	—	—	—	—	—	(31 803)	(31 803)
<b>Total comprehensive loss for the year</b>	—	—	—	—	—	(31 803)	(31 803)
<b>Contributions by and distributions to owners</b>							
Shares issued in the year	2 682	24 752	—	—	—	—	27 434
Share issue expenses	—	(900)	—	—	—	—	(900)
Share-based payments lapsed/expired	—	—	—	—	(1 480)	1 137	(343)
Share-based payment transactions	—	—	—	—	2 165	—	2 165
<b>Total contributions by and distributions to owners</b>	2 682	23 852	—	—	685	1 137	28 356
<b>Balance as at 30 June 2018</b>	<b>166 239</b>	<b>191 201</b>	<b>7 609</b>	<b>897</b>	<b>7 201</b>	<b>(354 274)</b>	<b>18 873</b>

The Company had no other comprehensive income in the year.

The notes on pages 55 to 87 form part of these financial statements.

**COMPANY STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 US\$'000	2017 US\$'000
<b>Cash flows used in operating activities</b>			
Loss before taxation		(31 803)	(185 318)
Adjustments for:			
Impairment charge		25 166	186 822
Depreciation and amortisation		1	3
Effect of foreign exchange movements		—	(6)
Equity-settled share-based payments		923	1 138
Finance cost		4 339	3 719
Finance income		(456)	(8 415)
<b>Net cash flows used in operating activities before working capital changes</b>		<b>(1 830)</b>	<b>(2 057)</b>
Increase in trade and other receivables		(35)	(429)
Increase in trade and other payables		413	307
<b>Net cash used in operating activities</b>		<b>(1 452)</b>	<b>(2 179)</b>
<b>Cash flows used in investing activities</b>			
Loans to subsidiaries		(19 403)	(6 047)
<b>Net cash used in investing activities</b>		<b>(19 403)</b>	<b>(6 047)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of ordinary shares		25 000	—
Share issue expense		(900)	—
Proceeds from Eurobond issues		2 000	5 000
Finance income		43	—
<b>Net cash flows from financing activities</b>		<b>26 143</b>	<b>5 000</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>5 288</b>	<b>(3 226)</b>
Cash and cash equivalents at beginning of the year		113	3 339
<b>Cash and cash equivalents at end of the year</b>	22	<b>5 401</b>	113

The notes on pages 55 to 87 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

## 1 Accounting policies

### Basis of preparation

Firestone Diamonds plc (the “Company”) is a company domiciled in the United Kingdom and is quoted on the AIM market of the London Stock Exchange. The consolidated financial statements of the Company for the year ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the “Group”). The Group is primarily involved in diamond mining and exploration in Southern Africa.

### Going concern

The Directors have reviewed the Group’s cash flow forecast and the forecast covenant compliance in relation to the ABSA debt facility for a period of twelve months from signing these annual financial statements.

The operations are forecast to generate sufficient cash to fund the Group’s operating costs and to repay the scheduled debt over the forecast period.

The underlying assumptions in the covenant forecasts are volatile and the current headroom in relation to covenant compliance is limited.

The Directors recognise that the covenant forecast is based on certain forward-looking assumptions, including future diamond price, exchange rates — particularly between the South African Rand and the United States Dollar, and operating cost per tonne treated.

In the event that diamond prices fall or the South African Rand strengthens against the United States Dollar, covenants may be breached. Importantly, no covenant breach has occurred to date. If a breach did occur, the lender could require immediate repayment of the loan. No discussion has been held with the lender to date regarding what action may be taken by the lender in the event of a future covenant breach.

Having reviewed the cash flow forecast and forecast covenant compliance, the Directors are confident that the existing cash resources 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, and that no covenant breaches are forecast to occur during this period.

On this basis, the Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis. Notwithstanding this, the Directors, in accordance with Financial Reporting Council guidance in this area, conclude that at this time there is material uncertainty as to whether future covenants will be met and that failure to meet a future covenant may cast significant doubt upon the Group’s ability to continue as a going concern and may therefore be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

### Statement of compliance

These consolidated financial statements of Firestone Diamonds plc have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and as adopted for use in the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

No new standards and interpretations issued by The International Accounting Standards Board became effective for accounting periods starting on or before 1 July 2017.

### Standards and interpretations issued but not yet effective:

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

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

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

#### IFRS 9, Financial Instruments

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

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss, but remains largely the same for financial liabilities. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Based on the Group’s assessment, the new classification requirements, if applied at 30 June 2018 or in the future, will not have a material impact on its accounting for trade receivables, trade payables and loans receivable.

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

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

### 1 Accounting policies continued

#### Statement of compliance continued

##### IFRS 9, Financial Instruments continued

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets measured at amortised cost or fair value through other comprehensive income, except for investments in equity instruments, and to contract assets. The Group does not hold any financial assets that have extended terms of payment and which are subject to significant credit risk. The change in impairment model will not have a material impact on the Group's financial statements.

##### IFRS 15, Revenue from Contracts with Customers

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

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

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

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

Following assessment of the new requirements of IFRS 15 and the terms and conditions of the current sale contract entered into with each of our customers we are satisfied that, based on the terms of the current contracts, there is no change to the timing of revenue recognition on tender sales under IFRS 15.

##### IFRS 16, Leases

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

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

The Group is currently assessing the impact that IFRS 16 will have on the financial statements, through applying the lease definition to service level agreements and current leases that the Group has entered into to determine whether these contracts meet the definition of a lease to be recognised in accordance with IFRS 16. The Group expects the impact on normal operating leases to be immaterial. There is however the possibility that the recognition of right of use assets for some of its larger service level agreements could have a potential material impact at asset and liability levels, but in aggregate the net impact on the financial statements should not be material. Once the final impact of applying IFRS 16 has been assessed the Group will make the required disclosures.

### Basis of consolidation

#### Subsidiaries and acquisitions

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

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

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

#### Transactions eliminated on consolidation

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

### Business combinations and goodwill

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

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

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

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

### Exploration and evaluation expenditure

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

Once a development decision has been taken, the carrying amount of any exploration and evaluation expenditure in respect of the area of interest recognised as an asset in accordance with the above policy is aggregated with subsequent development expenditure (see below).

No amortisation is recognised in respect of exploration and evaluation expenditure until it is reclassified as a development property and commercial production commences.

Exploration and evaluation expenditure is tested for impairment annually if facts and circumstances indicate that impairment may exist. Exploration and evaluation expenditure is also tested for impairment once commercial reserves are found, before the assets are transferred to development expenditure.

### Development costs

Development costs incurred by or on behalf of the Group or acquired from a third party are classified as a tangible asset included within property, plant and equipment and are accumulated separately for each area of interest in which economically recoverable resources have been identified.

Such expenditure comprises acquisition costs and other incurred costs which are directly attributable to the construction of a mine and the related infrastructure. This expenditure is carried at cost less accumulated amortisation and impairment.

### Stripping costs incurred during production

To the extent that the benefit of the stripping activity results in improved access to ore, the directly attributable costs are treated as a non-current stripping activity asset where the following criteria are met:

- it is probable that the future economic benefit of improved access to the ore body, associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity to improve access to the ore body can be measured reliably.

The stripping activity asset is recognised initially at cost, treated as an enhancement of an existing asset and not as an independent asset. Subsequently, the stripping activity asset is accounted for in the same manner as that adopted for the asset it has enhanced, and is depreciated on a unit of production method, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity.

### Property, plant and equipment

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

Mining and development expenditure in respect of mining properties in production is depreciated on a unit of production method reflecting the production activity in the period as a proportion of the total mining resource for the relevant mining property. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset was already of the age and in the condition expected at the end of its useful life. The applicable rates are:

Mining property, development expenditure and plant and equipment	Unit of production method (ore tonnes)
Motor vehicles	3 to 5 years
Office equipment and other assets	3 to 10 years
Other equipment	3 to 10 years

The carrying value of tangible fixed assets is assessed annually and any impairment is charged to profit and loss. The expected useful economic life and residual values of property, plant and equipment are reviewed annually.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

### 1 Accounting policies continued

#### Investments in subsidiaries

Investments in subsidiary undertakings are shown at cost less provisions for impairment in value. The cost of acquisition includes directly attributable professional fees and other expenses incurred in connection with the acquisition. Investments in subsidiaries are all classified as non-current assets.

#### Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

#### Inventories

Inventories comprise uncut diamonds recovered, ore stockpiles, and consumables and spares. Inventories are valued at the lower of cost and net realisable value. Rough diamond inventories and ore stockpile cost is calculated on the weighted average cost basis and includes all costs directly incurred up to the relevant point in the process such as mining and processing cost, but excludes other operating costs such as general mine or administration costs. The net realisable value is determined by reference to market prices at year end. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to conclude the sale.

#### Investment in financial assets

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

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

#### Financial assets at fair value through profit or loss

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

#### Trade and other receivables

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

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the Consolidated Statement of Financial Position.

Cash and cash equivalents includes cash on hand and deposits held on call with banks.

### Hedging instruments

The Group's activities expose it to the financial risks of changes in foreign exchange rates and variable interest rates. The Group uses derivatives (forward exchange contracts and interest rate swaps) to offset changes in cash flow of highly probable forecast transactions. These derivatives are designated as cash flow hedges by the Group.

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

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

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

### Financial liabilities

The Group classifies its financial liabilities as:

#### Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process. Amortised interest arising in respect of loans and borrowings specifically allocated to the development of mining assets and production plant is capitalised on a pro-rata basis into the cost of the related asset using a weighted average interest rate applicable to the amount of the loans allocated.

### Trade and other payables

These are initially recognised at invoiced value. These arise principally from the receipt of goods and services. There is no material difference between the invoiced value and the value calculated on an amortised cost basis.

### Provisions

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic resources will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

### Decommissioning and site rehabilitation

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

Decommissioning and site rehabilitation costs arising from development activity or from the installation of plant and other site preparation work are provided for when the obligation to incur such costs arises and are capitalised as a component of the related assets. These costs are charged against profits through amortisation or impairment of the asset. Amortisation and impairment are included in cost of sales.

Changes in the discounted amount of estimated restoration costs are charged to profit or loss during the period in which such changes occur. Estimated restoration costs are reviewed annually and discounted using a rate which reflects the Company's weighted average cost of capital, which reflects the Company's assessments of the time value of money. The increase in restoration provisions, owing to the passage of time, is charged to finance cost. All other changes in the carrying amount of the provision subsequent to initial recognition are recognised against the carrying value of the decommissioning asset in the Consolidated Statement of Financial Position.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

### 1 Accounting policies continued

#### Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duties. Diamond sales are conducted through a competitive tender process where bids for specific parcels of diamonds are offered, and the highest bid above the reserve price for the parcel is accepted. The parcel is released to the winning bidder upon full and final payment. Revenue is recognised when the tender closes and the winning bids are accepted.

#### Other income

Other income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the other income can be reliably measured. Other income is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duties.

#### Borrowing cost

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing cost eligible for capitalisation is determined as follows:

- actual borrowing cost on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings; and
- weighted average of the borrowing cost applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing cost capitalised does not exceed the total borrowing cost incurred.

The capitalisation of borrowing cost commences when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

#### Share capital and reserves

##### Share capital

Share capital is the amount subscribed for share capital at the nominal value.

##### Share premium

Share premium is the amount subscribed for share capital in excess of the nominal value.

##### Warrant reserve

Warrant reserve is the value of warrants issued by the Company for subscription by warrant holders.

##### Merger reserve

The merger reserve represents amounts arising from the merger accounting for subsidiary investments under UK GAAP on formation of the Group.

##### Hedge reserve

The hedge reserve represents gains/(losses) arising on the effective portion of hedging instruments carried at fair value in a qualifying cash flow hedge, that was accounted for through other comprehensive income.

##### Share-based payment reserve

The share-based payment reserve represents amounts where the entity recognises the increases and decreases in equity for equity-settled share-based payment transactions.

##### Translation reserve

These are the gains and losses arising on retranslating the net assets of overseas operations into the US Dollar, the Group's presentation currency.

##### Accumulated losses

All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

### Share-based payment transactions

Certain employees (including Directors and senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using an appropriate pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### Operating leases

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

### Foreign currency

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

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

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items is included in the Consolidated Statement of Comprehensive Income for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in US Dollars using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the rate of exchange prevailing on the dates of transactions. Exchange differences arising, if any, are classified as other comprehensive income and are transferred to the Group's translation reserve.

Foreign currency movements arising from the Group's net investment, which comprises equity and long-term debt, in subsidiary companies whose functional currency is not the US Dollar are recognised in the translation reserve, included within equity until such time as the relevant subsidiary company is sold, whereupon the net cumulative foreign exchange difference relating to the disposal is transferred to profit and loss.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

### 1 Accounting policies continued

#### Taxation

Income tax expense or taxation recoverable represents the sum of the tax currently payable or recoverable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

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

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

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

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

### 2 Critical accounting estimates and judgements

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

#### Share-based payments

In order to calculate the charge for share-based compensation as required by IFRS 2, the Group makes estimates principally relating to the assumptions used in its option-pricing model as set out in note 24.

#### Warrants

In order to calculate the fair value of warrants issued as required by IAS 32, the Group makes estimates principally relating to the assumptions used in its warrant-pricing model as set out in note 25.

#### Rehabilitation provisions

The Group makes estimates of future site restoration costs (rehabilitation provisions) based upon current legislation in Botswana and Lesotho and technical reports and estimates provided by the Group's senior employees and advisers. These estimates will be affected by actual legislation in place, actual mining activity to be performed and actual conditions of the relevant sites when the restoration activity is to be performed in future periods.

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair value less costs to sell. In determining the future cash flows of each cash-generating unit, management makes a number of significant estimates and judgements including the following:

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

It is reasonably possible that assumptions may change, which may impact our estimates and may then require a material adjustment to the carrying value of tangible and intangible assets.

The Group reviews and tests the carrying value of tangible and intangible assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets and of the likely disposal proceeds and related costs.

Expected future cash flows used to determine the value in use of tangible and intangible assets are inherently uncertain and could change materially over time.

The Group currently has two main cash-generating units:

#### Liqhobong Mine

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

#### BK11 Mine

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

### Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy. The fair value hierarchy prioritises the inputs to valuation techniques used to measure fair value. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments and other assets and liabilities for which the fair value was used:

- level 1: quoted prices in active markets for identical assets or liabilities;
- level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### Valuation of hedges

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

### Cash flow forecasts

As part of determining whether the going concern assumption is appropriate, management assesses the cash flow forecasts prepared. The cash flow forecast includes a number of critical estimates and judgements. These estimates and judgements include:

- estimated diamond value per carat;
- estimated production and other operating costs;
- inflation rates; and
- exchange rates.

It is management's policy to obtain sufficient supporting evidence from external sources such as analyst predictions, global supply and demand curves for diamond price estimates as well as internal sources such as the Group's diamond sales history and size distribution to ensure that the cash flow forecast is as accurate as possible.

### Deferred tax assets

The recognition of deferred tax assets is based upon whether sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. Recognition of deferred tax assets therefore involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

The amounts recognised in the consolidated financial statements are derived from the Group's best estimation and judgement as set out in note 14.

### Valuation of inventories

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

### Depreciation

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

### Functional currency

A key issue for mining companies reporting under IFRS is correctly determining their functional currency. This is defined by IAS 21 as 'the currency of the primary economic environment in which the entity operates'.

Whilst an entity's functional currency should be a matter of fact, there are several factors that need to be considered in determining the most appropriate currency against which judgement is required to consider which of these has the strongest weighting. The primary indicator of the appropriate currency is that which most influences sales prices, often that in which revenue is denominated, and is usually the most significant driver of functional currency. Other considerations include the currency in which labour and material expenses are incurred, the currency in which borrowings are denominated, and the currency in which cash is held.

The relative importance of these factors changes during the life cycle of the Company and may present mixed indicators. Management are therefore required to make a judgement on which is the most appropriate currency that faithfully represents the economic effects of the underlying transactions, events and conditions based on the relative weight of each of the indicators.

The functional currency of the Group's operating subsidiary Lihobong Mining Development Company (Pty) Limited is the Lesotho Maloti, which is pegged to the South African Rand, on the basis that the Mine operates in Lesotho and the majority of costs are denominated in Lesotho Maloti and internal reporting to LMDC board is in Lesotho Maloti.

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

**3 Segmental analysis**

The Group operated in one sector during the year – diamond mining and development – and has three principal operating segments – Liqhobong Mine, BK11 Mine and corporate segments. The management information received by the Chief Executive Officer and the Board is prepared on this basis. The management information is used by the Chief Executive Officer as the basis for decision making.

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

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

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

	Liqhobong Mine		BK11 Mine		Corporate		Total	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Revenue	<b>62 246</b>	27 846	—	—	—	—	<b>62 246</b>	27 846
Cost of sales	<b>57 116</b>	17 566	—	—	—	—	<b>57 116</b>	17 566
Segment operating profit reclassified to property, plant and equipment	—	(10 280)	—	—	—	—	—	(10 280)
Other income	<b>895</b>	860	<b>356</b>	22	<b>16</b>	350	<b>1 267</b>	1 232
Segmental operating result	<b>(1 149)</b>	(119 521)	<b>(1 399)</b>	(1 753)	<b>(4 762)</b>	(7 966)	<b>(7 310)</b>	(129 240)
Finance income	<b>158</b>	68	—	—	<b>636</b>	392	<b>794</b>	460
Finance expense	<b>(6 793)</b>	(1 106)	<b>(79)</b>	(116)	<b>(4 149)</b>	(13)	<b>(11 021)</b>	(1 235)
Taxation	<b>3 304</b>	(18 666)	—	—	—	(2 998)	<b>3 304</b>	(21 664)
Segmental result	<b>(4 480)</b>	(139 225)	<b>(1 478)</b>	(1 869)	<b>(8 275)</b>	(10 585)	<b>(14 233)</b>	(151 679)
Segmental assets	<b>134 896</b>	142 522	<b>4 473</b>	5 816	<b>6 694</b>	1 076	<b>146 063</b>	149 414
Segmental liabilities	<b>79 181</b>	94 665	<b>1 624</b>	1 664	<b>34 256</b>	29 914	<b>115 061</b>	126 243
<b>Other segmental information</b>								
Capital expenditure:								
Property, plant and equipment	<b>1 953</b>	30 896	—	—	<b>24</b>	262	<b>1 977</b>	31 158
Impairment charge:								
Property, plant and equipment	—	118 908	—	—	—	—	—	118 908
Loans receivable	—	—	—	—	—	3 694	—	3 694
Depreciation and amortisation:								
Property, plant and equipment	<b>11 739</b>	955	<b>1 270</b>	1 241	<b>149</b>	120	<b>13 158</b>	2 316
Receipts:								
Long-term loans	—	39 000	—	—	<b>2 000</b>	5 000	<b>2 000</b>	44 000

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

	Group	
	2018 US\$'000	2017 US\$'000
Lesotho	<b>96 810</b>	112 667
Botswana	<b>4 215</b>	5 588
United Kingdom and South Africa	<b>195</b>	335
	<b>101 220</b>	118 590

## 4 Revenue

	Group	
	2018 US\$'000	2017 US\$'000
Sale of diamonds	62 246	27 846

All diamonds are sold in Antwerp, Belgium through a competitive tender process. In 2017, total revenue of US\$27.8 million was capitalised to the cost of the asset. Below is an analysis of major customers which accounts for more than 10% of the Group's revenue:

	Group			
	2018		2017	
	US\$'000	%	US\$'000	%
Customer – Europe	6 674	11	6 353	23
Other customers	55 572	89	21 493	77
	62 246	100	27 846	100

## 5 Operating loss

	Group	
	2018 US\$'000	2017 US\$'000
<b>Operating loss for the year is stated after charging:</b>		
Impairment charge (note 10)	—	122 602
Cost of inventories recognised as an expense excluding amortisation and depreciation	46 366	—
Amortisation and depreciation	13 158	2 316
Included in cost of sales	10 750	—
Other	2 408	2 316
Employee costs (note 6)	11 691	6 195
Operating lease rentals	203	401
<b>Operating results of commissioning and testing phase:</b>		
<b>Revenue</b>	—	27 846
Selling expenses	—	534
Government royalty	—	1 119
Production costs	—	15 913
<b>Operating profit reclassified to property, plant and equipment (note 13)</b>	—	10 280

## 6 Employee numbers and costs

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

	Group	
	2018 Number	2017 Number
Operations	195	113
Administration	19	19
	214	132

The employment benefits were as follows:

	Group	
	2018 US\$'000	2017 US\$'000
Salaries and wages	9 472	4 904
Social security cost	25	23
Share-based payments	2 194	1 268
	11 691	6 195

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

**7 Directors' emoluments**

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

	Group	
	2018 US\$'000	2017 US\$'000
Short-term benefits	1 230	2 130
Share-based payments	137	944
<b>Total</b>	<b>1 367</b>	<b>3 074</b>

US\$'000 Director	Salaries and fees	Accrued leave pay	Bonus	Share-based payments	Total
<b>2018</b>					
Stuart Brown <sup>1</sup>	550	154	46	137 <sup>2</sup>	887
Lucio Genovese	120	—	—	—	120
Deborah Thomas <sup>3</sup>	60	—	—	—	60
Keith Johnson	60	—	—	—	60
Ken Owen	60	—	—	—	60
Mike Wittet <sup>4</sup>	60	—	—	—	60
Niall Young	60	—	—	—	60
Paul Sobie	60	—	—	—	60
	<b>1 030</b>	<b>154</b>	<b>46</b>	<b>137</b>	<b>1 367</b>

US\$'000 Director	Salaries and fees	Bonus	Share-based payments	Total
<b>2017</b>				
Stuart Brown	550	1 100 <sup>5</sup>	944 <sup>2</sup>	2 594
Lucio Genovese	120	—	—	120
Braam Jonker	20	—	—	20
Deborah Thomas	40	—	—	40
Keith Johnson	60	—	—	60
Ken Owen	60	—	—	60
Mike Wittet	60	—	—	60
Niall Young	60	—	—	60
Paul Sobie	60	—	—	60
	<b>1 030</b>	<b>1 100</b>	<b>944</b>	<b>3 074</b>

1 Stuart Brown, the Chief Executive Officer, resigned on 30 June 2018.

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

3 Deborah Thomas, Non-Executive Director and Chairperson of the Audit Committee and member of the Remuneration and Nomination Committees, resigned on 5 July 2018.

4 Mike Wittet, Non-Executive Director and Chairman of the Safety, Health, Environment and Corporate Social Responsibility Committee and member of the Audit and Remuneration Committees, resigned on 5 July 2018.

5 The bonus payment in 2017 was in respect of the successful completion of the Lihobong Mine Development Project which was completed within budget and on the revised schedule.

During the year, the total remuneration for Directors was US\$1 351 024 and consisted of remuneration for qualifying services of US\$1 230 000 and gains on exercise of options of US\$121 024. The related aggregate remuneration for the highest paid Director was US\$871 024.

**8 Auditor's remuneration**

	Group	
	2018 US\$'000	2017 US\$'000
<b>Fees payable to the Group's auditor for the audit of the Group's annual financial statements</b>		
Audit of the Group's financial statements	76	72
<b>Fees payable to the Group's auditor and its associates for other services</b>		
Audit of accounts of subsidiaries of the Company	54	33
Taxation compliance services	11	6
Other taxation services	59	4
	<b>200</b>	<b>115</b>

## 9 Finance income and costs

	Group	
	2018 US\$'000	2017 US\$'000
Interest income on bank deposits	202	73
Interest income on loans receivable	487	387
Foreign exchange adjustments on cash balances	105	—
<b>Finance income</b>	<b>794</b>	<b>460</b>
Interest on borrowings	10 737	394
Unwinding of discount on rehabilitation liability	284	278
Foreign exchange adjustments on cash balances	—	563
<b>Finance costs</b>	<b>11 021</b>	<b>1 235</b>

No borrowing costs were capitalised during the year. During 2017, borrowing cost on the Series A Eurobond and ABSA debt facility to the value of US\$9.4 million was capitalised to the cost of the Liqhobong Mine Development Project, refer to note 26.

## 10 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 required.

### Liqhobong Mine

At year end, the Group assessed both external and internal indicators of impairment. The average diamond values achieved at sale during the year decreased from US\$82 per carat to US\$75 per carat mainly as a result of the recovery of fewer more valuable diamonds.

### Value in use of Liqhobong Mine

At year end, the recoverable amount of the Liqhobong CGU was determined using its value-in-use based on a discounted cash flow model. The carrying value was similar to the recoverable amount based on discounted cash flows over the remaining eight-year mine life (2017: nine-year mine life) and the following key assumptions were used in the calculation:

Key assumptions	2018	2017	Basis for assumption
Discount rate	<b>8.9%</b>	9.2%	The discount rate used to account for the time value of money represents the pre-tax weighted average cost of capital (“WACC”) that would be expected by market participants based on risks specific to the Liqhobong Mine. The rate included adjustments for market risk, volatility and risks specific to the asset.
Diamond price (per carat)	<b>US\$75</b>	US\$82	The average diamond value is based on average historic sales data of Liqhobong’s assortment.
Real diamond price growth	<b>3%</b>	3%	The diamond price growth is based on long-term diamond price projections.
Exchange rate (ZAR:US\$)	<b>R13.73</b>	R12.89	The exchange rate is the spot exchange rate as at 30 June.

However, subsequent to the year end it became apparent that price pressure, particularly on the ROM category diamonds (smaller than three grainers) existed, which could lead to a potential indicator of impairment in the future. The Board expects the price pressure to continue in the short term and for prices to recover thereafter as the market stabilises.

The sensitivity table provides the potential impact on the carrying value of the Liqhobong CGU using various average diamond values:

US\$ per carat	CGU value US\$'m	Potential (impairment)/reversal US\$'m
76	111.4	4.0
75	107.4	—
74	102.2	(5.2)
70	73.9	(23.5)

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

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

FOR THE YEAR ENDED 30 JUNE 2018

**10 Impairment continued****BK11 Mine**

At year end, the Group assessed both external and internal indicators of impairment. No indicators of impairment were identified and therefore no impairment test was performed.

**Impairment summary**

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

Cash-generating unit	Liqhobong US\$'000	BK11 US\$'000	Total US\$'000
Carrying value pre-impairment	230 011	6 033	<b>236 044</b>
Accumulated impairment	(122 602)	(3 125)	<b>(125 727)</b>
<b>Carrying value after impairment</b>	<b>107 409</b>	<b>2 908</b>	<b>110 317</b>

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Impairment charge				
Property, plant and equipment (note 13)	—	118 908	—	—
Investments in subsidiaries (note 15)	—	—	<b>5 337</b>	104 017
Loans to subsidiaries (note 17)	—	—	<b>19 827</b>	82 805
Loans receivable (note 18)	—	3 694	—	—
	—	122 602	<b>25 164</b>	186 822

**11 Taxation**

	Group	
	2018 US\$'000	2017 US\$'000
Current tax	<b>(102)</b>	(2 998)
Deferred tax credit/(charge)	<b>3 406</b>	(18 666)
Total tax credit/(charge) for the year	<b>3 304</b>	(21 664)

**Factors affecting the tax charge for the year**

The reasons for the difference between the actual tax charge and the tax charge based on the Company's standard corporation tax rate of 19% (2017: 20%) are as follows:

	Group	
	2018 US\$'000	2017 US\$'000
Loss before tax	<b>(17 537)</b>	(130 015)
Tax credit on loss at standard rate of 19% (2017: 20%)	<b>3 332</b>	26 003
Adjustments to deferred tax not recognised	<b>(2 432)</b>	(44 145)
Effect of tax in foreign jurisdictions	<b>2 840</b>	(354)
Foreign exchange adjustment on effective interest rate on borrowings	<b>(238)</b>	(1 423)
Withholding tax credits relinquished	<b>(102)</b>	(1 273)
Recognition of previously unrecognised deferred tax assets	—	(472)
Expenses not deductible for tax purposes	<b>(96)</b>	—
	<b>3 304</b>	(21 664)

**Other comprehensive income**

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

## 12 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\$11.6 million (2017: US\$116.4 million) and a weighted average number of shares in issue for the year of 419 672 178 (2017: 315 161 224).

## Diluted loss per share

The diluted loss per share in 2018 is the same as the basic loss per share as the potential ordinary shares to be issued have no dilutive effect.

The Company has a further 21 299 898 (2017: 23 313 589) potentially issuable shares in respect of share options issued to employees (note 24) that do not have a dilutive effect as at 30 June 2018 and 65 101 758 (2017: 59 202 488) potentially issuable shares in respect of warrants issued to strategic investors, which could be dilutive in the future.

## 13 Property, plant and equipment – Group

US\$'000	Mining property	Plant and equipment	Motor vehicles and other assets	Total
<b>Cost</b>				
At 1 July 2016	178 785	15 821	2 265	<b>196 871</b>
Additions	34 297	80	705	<b>35 082</b>
Assets purchased	34 363	80	705	<b>35 148</b>
Operating profit reclassified to property, plant and equipment (note 5)	(10 280)	—	—	<b>(10 280)</b>
Finance cost capitalised	9 442	—	—	<b>9 442</b>
Share-based payments capitalised	772	—	—	<b>772</b>
Exchange difference	28 585	905	742	<b>30 232</b>
At 30 June 2017	241 667	16 806	3 712	<b>262 185</b>
Additions	1 852	35	90	<b>1 977</b>
Disposals	—	(2)	(241)	<b>(243)</b>
Exchange difference	(16 611)	(1 142)	(239)	<b>(17 992)</b>
<b>At 30 June 2018</b>	<b>226 908</b>	<b>15 697</b>	<b>3 322</b>	<b>245 927</b>
<b>Accumulated depreciation and impairments</b>				
At 1 July 2016	9 253	9 115	1 362	<b>19 730</b>
Amortisation and depreciation charge for the year	575	1 239	502	<b>2 316</b>
Impairment charge for the year (note 10)	118 908	—	—	<b>118 908</b>
Exchange difference	2 033	581	27	<b>2 641</b>
At 30 June 2017	130 769	10 935	1 891	<b>143 595</b>
Amortisation and depreciation charge for the year	11 315	1 270	573	<b>13 158</b>
Disposals	—	(2)	(216)	<b>(218)</b>
Exchange difference	(10 867)	(839)	(122)	<b>(11 828)</b>
<b>At 30 June 2018</b>	<b>131 217</b>	<b>11 364</b>	<b>2 126</b>	<b>144 707</b>
Net book value at 1 July 2016	169 532	6 706	903	<b>177 141</b>
Net book value at 30 June 2017	110 898	5 871	1 821	<b>118 590</b>
<b>Net book value at 30 June 2018</b>	<b>95 691</b>	<b>4 333</b>	<b>1 196</b>	<b>101 220</b>

In 2017, the Group capitalised total net borrowing costs of US\$9.4 million as part of the cost of the Project. All borrowing costs capitalised were Project specific.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

FOR THE YEAR ENDED 30 JUNE 2018

**14 Deferred tax**

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

	Group	
	2018 US\$'000	2017 US\$'000
Deferred tax asset/(liability)		
At 1 July	<b>3 761</b>	20 248
Movement in temporary differences recognised in income	<b>3 406</b>	(18 666)
Exchange difference	<b>(666)</b>	3 052
Income tax credits receivable	<b>—</b>	(873)
At 30 June	<b>6 501</b>	3 761

The deferred tax asset/(liability) comprises:

	Group	
	2018 US\$'000	2017 US\$'000
Accelerated capital allowances	<b>(21 585)</b>	(25 250)
Provisions	<b>708</b>	698
Borrowings	<b>(1 375)</b>	(1 980)
Losses available for offsetting against future taxable income	<b>31 645</b>	33 185
Temporary difference arising on acquisition of subsidiary	<b>(2 892)</b>	(2 892)
	<b>6 501</b>	3 761

The Directors, having considered the financial projections of Liqhobong, 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\$191.8 million (2017: US\$205.0 million), of which US\$164.7 million relates to the Liqhobong Mine (2017: US\$163.3 million), US\$18.3 million to the BK11 Mine (2017: US\$34.2 million) and US\$8.8 million to the Group's corporate entities in the UK and South Africa (2017: US\$7.5 million).

**15 Investments in subsidiaries – Company**

	2018	2017
	US\$'000	US\$'000
At 1 July	<b>31 869</b>	134 984
Share-based payments to employees of subsidiaries (note 24)	<b>1 090</b>	902
Share-based payments to employees of subsidiaries lapsed or expired	<b>(192)</b>	—
Impairment charge (note 10)	<b>(5 337)</b>	(104 017)
At 30 June	<b>27 430</b>	31 869

The impairment charge relates to the Liqhobong CGU. An assessment of the net present value of future cash flows from Liqhobong, after repayment of the ABSA debt facility, attributable to the Company, decreased during the year as a result of a lower average diamond value assumption compared with the previous year.

As at 30 June 2018, the Company had direct and indirect holdings in the following subsidiary undertakings.

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

<sup>1</sup> Company in which Firestone Diamonds plc has a direct holding.

All subsidiaries are included in the consolidated financial statements.

## 16 Non-controlling interest

The Group currently has two subsidiaries with significant non-controlling interests. The Group owns 75% of Liqhobong Mining Development Company (Pty) Limited and 49% of Infrastructure Projects (Pty) Limited. The non-controlling interest of all other subsidiaries that are not 100% owned by the Group is considered to be immaterial. Summarised financial information in relation to these two subsidiaries, before intra-group eliminations, is presented below together with amounts attributable to non-controlling interests:

Items included in the Consolidated Statement of Comprehensive Income:	Group	
	2018 US\$'000	2017 US\$'000
Revenue	62 246	—
Cost of sales	57 884	—
Gross profit	4 362	—
Other income	2 302	2 278
Impairment charge	—	118 908
Administrative expenses	8 545	1 773
<b>Loss before finance charges and income tax</b>	<b>(1 881)</b>	<b>(118 403)</b>
Finance income	264	67
Finance cost	12 439	2 993
<b>Loss before income tax</b>	<b>(14 056)</b>	<b>(121 329)</b>
Taxation credit/(charge)	3 406	(18 666)
<b>Loss after tax for the year</b>	<b>(10 650)</b>	<b>(139 995)</b>
Loss after tax allocated to non-controlling interest	(2 567)	(35 228)
Other comprehensive (loss)/income allocated to non-controlling interest	(1 839)	7 440
<b>Total comprehensive loss allocated to non-controlling interest</b>	<b>(4 406)</b>	<b>(27 788)</b>

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

**16 Non-controlling interest** continued

Items included in the Consolidated Statement of Financial Position	Group	
	2018 US\$'000	2017 US\$'000
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	75 949	87 072
Deferred taxation	7 064	3 657
<b>Current assets</b>		
Inventories	5 874	5 811
Trade and other debtors	16 529	4 993
Cash and cash equivalents	13 294	16 934
<b>Total assets</b>	<b>118 710</b>	<b>118 467</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	64 199	74 435
Rehabilitation provisions	2 715	2 494
Loans from Group companies	223 118	202 923
<b>Current liabilities</b>		
Trade and other payables	17 111	20 673
Other financial liabilities	—	191
Provisions	182	173
<b>Total liabilities</b>	<b>307 325</b>	<b>300 889</b>
<b>Translation reserve</b>	<b>(5 167)</b>	<b>9 320</b>
<b>Accumulated non-controlling interests</b>	<b>(48 183)</b>	<b>(43 179)</b>

**17 Loans to subsidiaries**

	Company	
	2018 US\$'000	2017 US\$'000
Loan A to Kopane Diamond Developments Limited <sup>1</sup>	69 572	73 907
Loan B to Kopane Diamond Developments Limited <sup>2</sup>	4 360	—
Firestone Diamonds Limited <sup>3</sup>	6 206	5 778
Firestone Diamonds (Pty) Limited <sup>4</sup>	5 504	5 440
Liqhobong Mining Development Company (Pty) Limited <sup>3</sup>	36 458	17 178
Other <sup>3</sup>	41	24
	<b>122 141</b>	<b>102 327</b>
Accumulated impairment	<b>(102 632)</b>	<b>(82 805)</b>
	<b>19 509</b>	<b>19 522</b>
Non-current assets	<b>19 509</b>	<b>19 522</b>
Current assets	<b>—</b>	<b>—</b>
<b>Total assets</b>	<b>19 509</b>	<b>19 522</b>

1 Loan A to Kopane Diamond Developments Limited is in respect to the mine development project. The loan bears interest of 0% (2017: 12.5%), is unsecured and is repayable in equal instalments over a 60-month period from the time that the ABSA debt facility, which is provided directly to Liqhobong Mining Development Company (Pty) Limited, and Company debt have been repaid. The loan is considered non-current on the basis of the expected recovery profile.

2 Loan B to Kopane Diamond Developments Limited is in respect to grid electricity funding. The loan bears interest at 12.25% (2017: 12.5%), is unsecured and is repayable in quarterly instalments ending March 2024.

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

4 The loan to Firestone Diamonds (Pty) Limited bears interest at 2.5% (2017: 2.3%), is unsecured and has no fixed terms of repayment.

The accumulated impairment relates to the Liqhobong CGU. During the year, the Company provided US\$19.8 million additional funding to Liqhobong. The impairment charge relates to an assessment of the net present value of future cash flows from Liqhobong as discussed in note 15 investments in subsidiaries above.

## 18 Loan receivable

	Group	
	2018 US\$'000	2017 US\$'000
Government of Lesotho		
At 1 July	—	2 816
Additions	—	492
Interest	487	386
Impairment charge (note 10)	—	(3 694)
	<b>487</b>	—
Non-current assets	<b>487</b>	—
Current assets	—	—
<b>Total assets</b>	<b>487</b>	—

The loan to the Government of Lesotho currently bears interest at 12.25% (2017: 12.75%), is unsecured and is repayable out of dividends declared by Liqhobong Mining Development Company (Pty) Limited. The loan remains impaired until such time as there is sufficient evidence to support the recovery of diamond value estimates in Liqhobong.

## 19 Inventory

	Group	
	2018 US\$'000	2017 US\$'000
Diamond inventory	2 898	4 687
Write down to net realisable value	—	450
Diamond inventory at the lower of cost or net-realisable value	2 898	4 237
Spares and consumables	2 983	2 183
	<b>5 881</b>	6 420

## 20 Other financial assets/(liabilities)

	Group	
	2018 US\$'000	2017 US\$'000
Cash flow hedges		
Interest rate swaps	265	(357)
	<b>265</b>	(357)

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

## Timing profile of the nominal amount of the hedging instruments

### Cash flow hedges

	Less than 6 months US\$'000	6-12 months US\$'000	1-2 years US\$'000	2-5 years US\$'000	5-10 years US\$'000
<b>2018</b>					
Interest rate swaps	29	23	30	9	—
	Less than 6 months US\$'000	6-12 months US\$'000	1-2 years US\$'000	2-5 years US\$'000	5-10 years US\$'000
2017					
Interest rate swaps	(170)	(148)	(223)	(166)	—

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

**20 Other financial assets/(liabilities)** continued**Hedge effectiveness****Cash flow hedges**

	Effective hedge loss US\$'000	Ineffective hedge loss US\$'000	Through other comprehensive income US\$'000	Amount reclassified to fixed assets US\$'000
<b>2018</b>				
Interest rate swaps	(622)	—	(622)	—
	Effective hedge loss US\$'000	Ineffective hedge loss US\$'000	Through other comprehensive income US\$'000	Amount reclassified to fixed assets US\$'000
<b>2017</b>				
Forward foreign exchange contracts	(630)	—	(470)	(160)
Interest rate swaps	(638)	—	(861)	223

**Forward foreign exchange contracts**

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

There were no unrealised forward exchange contracts as at 30 June 2018. In 2017, the average rate of the realised forward exchange contracts was ZAR13.68:US\$1 and all matured forward exchange contracts were effective.

**Interest rate swaps**

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. The Group raises long-term borrowings at floating rates and swaps a portion of floating rate for fixed rates.

The notional principal amounts of outstanding floating-to-fixed interest rate swap contracts designated as hedging instruments in cash flow interest rate hedges of variable rate debt at 30 June 2018 totalled US\$29.1 million (2017: US\$38.9 million).

At 30 June 2018, the floating rate was LIBOR. The effective portion of the realised interest rate swap losses was included in profit and loss (2017: reclassified as part of the cost of the Project). The effective portion of the unrealised interest swaps that are still to mature was recognised in other comprehensive income.

**21 Trade and other receivables**

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Trade receivables	10 696	1 262	279	217
Other receivables	2 302	2 010	103	122
Prepayments	290	318	80	90
	13 288	3 590	462	429

Trade receivables relate to the diamond sale that completed on 29 June 2018 from which proceeds were received shortly after the year end. 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.

## 22 Cash and cash equivalents

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Cash and cash equivalents	18 421	17 053	5 401	113
	<b>18 421</b>	17 053	<b>5 401</b>	113

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

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
US Dollars	8 188	15 490	1 603	—
British Pounds	3 798	404	3 798	113
Lesotho Maloti	6 226	982	—	—
Botswana Pula	162	77	—	—
South African Rand	47	100	—	—
<b>Cash and cash equivalents</b>	<b>18 421</b>	17 053	<b>5 401</b>	113

As at 30 June 2018, the Group had restricted cash deposits of US\$8.7 million (2017: US\$0.1 million) which comprised US\$6.5 million in the ABSA debt service reserve account, US\$1.8 million in favour of several suppliers and US\$0.4 million in the rehabilitation reserve account. The Company does not hold any restricted cash.

There is no significant difference between the fair value of the cash and cash equivalents' values stated above.

## 23 Share capital

The Company's share capital consists of one class of ordinary shares and two classes of deferred shares. As at 30 June 2018, the ordinary share capital of the Company was 515 677 580 ordinary shares of 1 pence each (2017: 317 471 892).

On 21 December 2017, the Company issued 184 842 884 new ordinary shares of 1 pence each at a premium of 9 pence per share. The funds were raised to sustain operations at a lower than initially expected average diamond value of US\$75 per carat.

During the year, the Company issued a further 13 362 804 new ordinary shares of 1 pence each in respect of the quarterly interest due on the Series A Eurobonds. A further 8 260 268 (2017: 1 096 208) shares in respect of interest due on the Series A Eurobonds at 30 June 2018 were issued after the year end and are not reflected in the table below.

	Number of shares		Nominal value of shares	
	2018	2017	2018 US\$'000	2017 US\$'000
<b>Allotted called up and fully paid</b>				
Opening balance	317 471 892	312 574 644	3 590	3 526
Issued during the year	198 205 688	4 897 248	2 682	64
<b>Closing balance</b>	<b>515 677 580</b>	317 471 892	<b>6 272</b>	3 590
<b>Deferred type A shares</b>				
Opening balance	7 079 649 109	7 079 649 109	113 345	113 345
<b>Closing balance</b>	<b>7 079 649 109</b>	7 079 649 109	<b>113 345</b>	113 345
<b>Deferred type B shares</b>				
Opening balance	308 992 814	308 992 814	46 622	46 622
<b>Closing balance</b>	<b>308 992 814</b>	308 992 814	<b>46 622</b>	46 622
<b>Total</b>	<b>7 904 319 503</b>	7 706 113 815	<b>166 239</b>	163 557

Firestone Diamonds Limited, a subsidiary company, has advanced funds to the Group's Employee Share Trust of US\$181 329. The Employee Share Trust holds 30 853 ordinary shares in Firestone Diamonds plc. These shares have not been allocated to any employees.

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

**24 Equity-settled share option schemes**

The Group and Company issue equity-settled share-based payments to employees and Directors. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) as determined at the date of grant, using the Black-Scholes technique. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's and Company's estimate of shares that will eventually vest, adjusted for the effect of non-market-based vesting conditions.

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

	<b>2018</b>	2017
Weighted average share price	<b>20.8p</b>	36.3p
Weighted average option exercise prices	<b>1.0p</b>	1.0p
Expected volatility	<b>53%</b>	37%
Expected option life	<b>1.7 years</b>	5 years
Risk-free interest rate	<b>1.04%</b>	0.58%
Expected dividend yield	<b>0%</b>	0%
Fair value of option granted in the year (US cents)	<b>7.5</b>	60.5

The calculation of the volatility of the share price was based on the Company's daily closing share price over the historic period of the expected option life as at the date of grant.

Details of the total share options outstanding in respect of the Basic Share Option Scheme and the Performance-Related Share Option Scheme during the year are as follows:

	Number of share options		Weighted average fair value (US cents)	
	<b>2018</b>	2017	<b>2018</b>	2017
Outstanding at beginning of year	<b>23 313 589</b>	15 540 589	<b>47.5</b>	70.7
Granted during the year	<b>2 360 624</b>	7 773 000	<b>7.5</b>	60.5
Exercised in the year	<b>(2 591 000)</b>	—	<b>1.2</b>	—
Lapsed or expired in the year	<b>(1 783 315)</b>	—	<b>31.0</b>	—
Outstanding at the end of the year	<b>21 299 898</b>	23 313 589	<b>49.4</b>	47.5
Exercisable at the end of the year	<b>15 332 274</b>	13 534 206	<b>68.1</b>	73.9

The options outstanding as at 30 June 2018 have a weighted average contractual life of five years (2017: five years).

These options have an exercise price ranging from 1.0 pence to 275.0 pence (2017: a range of 1.0 pence to 275.0 pence).

The options exercisable at 30 June have an exercise price ranging from 26.5 pence to 275.0 pence (2017: a range of 26.5 pence to 275.0 pence). 2 591 000 restricted share units (2017: nil) with a weighted average exercise price 1.0 pence (1.2 US cents) were exercised during the year.

	Group		Company	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>US\$'000</b>	US\$'000	<b>US\$'000</b>	US\$'000
Charge for the year allocated to the Company	<b>1 075</b>	1 138	<b>1 075</b>	1 138
Charge for the year allocated to subsidiary companies	<b>1 090</b>	902	<b>1 090</b>	902
Included in selling, administrative and other expenses	<b>270</b>	—	—	—
Included in cost of sales	<b>820</b>	—	—	—
Total charge for the year	<b>2 165</b>	2 040	<b>2 165</b>	2 040
Amount capitalised to the cost of the Liqobong Mine	—	(772)	—	—
Amount capitalised to investments	—	—	<b>(1 090)</b>	(902)
Charge for the year in profit and loss	<b>2 165</b>	1 268	<b>1 075</b>	1 138

## Basic Share Option Scheme

Date of grant	Exercise period		Share options held at		Exercise price	
	From	To	2018 number	2017 number	2018 pence	2017 pence
06/12/2007	06/12/2008	05/12/2017	—	6 000	—	200.0
19/12/2007	19/12/2008	18/12/2017	—	15 000	—	200.0
15/01/2008	15/01/2009	14/01/2019	<b>20 000</b>	20 000	<b>200.0</b>	200.0
17/05/2011	17/05/2012	16/05/2022	<b>16 666</b>	16 666	<b>275.0</b>	275.0
17/05/2011	17/05/2014	16/05/2022	<b>16 667</b>	16 667	<b>275.0</b>	275.0
17/05/2011	17/05/2015	16/05/2022	<b>16 667</b>	16 667	<b>275.0</b>	275.0
			<b>70 000</b>	91 000		

## Unapproved Executive Share Option Scheme

Date of grant	Exercise period		Share options held at		Exercise price	
	From	To	2018 number	2017 number	2018 pence	2017 pence
23/11/2014	23/11/2014	23/11/2022	<b>200 000</b>	200 000	<b>85.0</b>	85.0
23/11/2014	23/11/2015	23/11/2022	<b>300 000</b>	300 000	<b>85.0</b>	85.0
23/11/2014	23/11/2015	23/11/2022	<b>300 000</b>	300 000	<b>85.0</b>	85.0
23/11/2014	23/11/2015	23/11/2022	<b>100 000</b>	100 000	<b>85.0</b>	85.0
27/05/2015	27/05/2015	26/05/2024	<b>829 345</b>	829 345	<b>38.8</b>	38.8
15/01/2015	15/01/2015	14/01/2024	<b>9 101 281</b>	9 101 281	<b>30.0</b>	30.0
30/06/2015	30/06/2015	29/06/2024	<b>703 975</b>	891 290	<b>38.8</b>	38.8
01/09/2014	01/09/2014	31/08/2024	<b>339 380</b>	339 380	<b>37.3</b>	37.3
01/10/2014	01/10/2014	30/09/2024	<b>203 074</b>	203 074	<b>36.5</b>	36.5
01/11/2014	01/11/2014	31/10/2024	<b>222 292</b>	222 292	<b>33.8</b>	33.8
01/05/2015	01/05/2015	30/04/2025	<b>430 213</b>	430 213	<b>26.5</b>	26.5
06/10/2015	30/04/2015	29/04/2025	<b>737 653</b>	737 653	<b>26.5</b>	26.5
06/10/2015	30/04/2015	29/04/2025	<b>295 061</b>	295 061	<b>26.5</b>	26.5
			<b>13 762 274</b>	13 949 589		

## Unapproved Share Option Scheme

Date of grant	Exercise period		Share options held at		Exercise price	
	From	To	2018 number	2017 number	2018 pence	2017 pence
23/11/2012	23/11/2012	22/11/2022	<b>1 500 000</b>	1 500 000	<b>85.0</b>	85.0

## Restricted Share Plan

Date of grant	Exercise period		Share options held at		Exercise price	
	From	To	2018 number	2017 number	2018 pence	2017 pence
15/01/2017	15/01/2017	14/01/2027	<b>3 607 000</b>	7 773 000	<b>1.0</b>	1.0
01/05/2018	01/05/2018	14/01/2027	<b>2 360 624</b>	—	<b>1.0</b>	—
			<b>5 967 624</b>	7 773 000		

## Share option settlement scheme

To minimise the share capital dilution that would arise on the exercise of options, the Company has implemented a share option settlement scheme. Under this scheme the Company will, at the time of exercise of any options, agree to issue shares to the option holder with a value equal to the difference between the market value of the shares and the option exercise price on the date of exercise. On the basis of this scheme, the effective dilution resulting from all outstanding basic and performance-related options as at 30 June 2018 at the average share price for the year of 20.8 pence per share would have been 5 967 624 shares as a result of it trading above the exercisable price limit (2017: 13 229 534 shares at an average price of 36.5 pence). However, these shares are anti-dilutive as at 30 June 2018 and is thus not taken into account in calculating the diluted loss per share.

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

**25 Warrant reserve**

As part of the funding package, the Group issued warrants to its strategic investors Resource Capital Fund VI L.P., Pacific Road Resources Fund II L.P. and Pacific Road Resources Fund II. In terms of the Series A Eurobond, the obligation to pay the subscription amount of the warrants can be offset against any monies outstanding at the time of exercise under the Eurobond. The terms of the warrants are as follows:

**Series A warrants**

- total number of warrants issued: 48 786 437;
- subscription price: 61.4925 US cents;
- subscription period: 26 May 2014 to the later of 28 May 2018 or six calendar months after the repayment of the ABSA debt facility; and
- mandatory exercise if the Company's share price trades above the closing mid-market share price of 75 pence.

The warrants were measured at fair value at the date of grant as determined through the use of the Black-Scholes technique. The fair value determined at the grant date of the warrants is recognised in the Group's warrant reserve and is amortised as a finance cost over the life of the Series A Eurobond.

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
<b>Warrant reserve</b>	<b>7 609</b>	7 609	<b>7 609</b>	7 609

**26 Borrowings**

Group	2018				Total US\$'000
	ABSA debt facility US\$'000	Series A Eurobonds US\$'000	Series B Eurobonds US\$'000	Other loans US\$'000	
<b>Capital amount</b>					
At 1 July	81 007	30 000	5 000	1 551	117 558
Additions	—	—	2 000	—	2 000
Finance cost capitalised	—	—	528	—	528
Foreign exchange adjustments	—	—	—	(76)	(76)
Capital repayments	(13 217)	—	—	(259)	(13 476)
<b>At 30 June</b>	<b>67 790</b>	<b>30 000</b>	<b>7 528</b>	<b>1 216</b>	<b>106 534</b>
<b>Finance cost to be amortised over the life of the facility</b>					
At 1 July	(7 884)	(6 583)	(300)	—	(14 767)
Finance cost capitalised	855	—	—	—	855
Additions	(617)	—	—	—	(617)
Finance cost	2 977	1 284	102	—	4 363
<b>At 30 June</b>	<b>(4 669)</b>	<b>(5 299)</b>	<b>(198)</b>	<b>—</b>	<b>(10 166)</b>
<b>Total at amortised cost</b>					
Non-current liabilities	61 251	24 701	7 330	943	94 225
Current liabilities	1 870	—	—	273	2 143
<b>Total</b>	<b>63 121</b>	<b>24 701</b>	<b>7 330</b>	<b>1 216</b>	<b>96 368</b>

Group	2017					Total US\$'000
	ABSA debt facility US\$'000	Series A Eurobonds US\$'000	Series B Eurobonds US\$'000	Other loans US\$'000		
<b>Capital amount</b>						
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)
<b>At 30 June</b>	<b>81 007</b>	<b>30 000</b>	<b>5 000</b>	<b>1 551</b>		<b>117 558</b>
<b>Finance cost to be amortised over the life of the facility</b>						
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
<b>At 30 June</b>	<b>(7 884)</b>	<b>(6 583)</b>	<b>(300)</b>	<b>—</b>		<b>(14 767)</b>
<b>Total at amortised cost</b>						
Non-current liabilities	50 307	23 417	4 700	1 310		79 734
Current liabilities	22 816	—	—	241		23 057
<b>Total</b>	<b>73 123</b>	<b>23 417</b>	<b>4 700</b>	<b>1 551</b>		<b>102 791</b>

Company	2018			2017		
	Series A Eurobonds US\$'000	Series B Eurobonds US\$'000	Total US\$'000	Series A Eurobonds US\$'000	Series B Eurobonds US\$'000	Total US\$'000
<b>Capital amount</b>						
At 1 July	30 000	5 000	35 000	30 000	—	30 000
Finance cost capitalised	—	528	528	—	—	—
Additions	—	2 000	2 000	—	5 000	5 000
<b>At 30 June</b>	<b>30 000</b>	<b>7 528</b>	<b>37 528</b>	<b>30 000</b>	<b>5 000</b>	<b>35 000</b>
<b>Finance cost to be amortised over the life of the facility</b>						
At 1 July	(6 583)	(300)	(6 883)	(7 860)	—	(7 860)
Additions	—	—	—	—	(300)	(300)
Finance cost	1 284	102	1 386	1 277	—	1 277
<b>At 30 June</b>	<b>(5 299)</b>	<b>(198)</b>	<b>(5 497)</b>	<b>(6 583)</b>	<b>(300)</b>	<b>(6 883)</b>
<b>Total at amortised cost</b>						
Non-current liabilities	24 701	7 330	32 031	23 417	4 700	28 117
Current liabilities	—	—	—	—	—	—
<b>Total</b>	<b>24 701</b>	<b>7 330</b>	<b>32 031</b>	<b>23 417</b>	<b>4 700</b>	<b>28 117</b>

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

**26 Borrowings** continued**Finance charges – ABSA debt facility**

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Interest paid	<b>3 235</b>	2 666	—	—
Amortised finance charges	<b>2 977</b>	3 057	—	—
	<b>6 212</b>	5 723	—	—

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

**Original loan**

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

**Deferred loan**

- Tranche A (85% of the loan balance) – 1.8% plus staggered margin increase disclosed below; and
- Tranche B (15% of the loan balance) – 7.5% post-financial completion.

The effective interest rate is, in aggregate 9.29% (2017: 9.90%). Under revised terms the facility is repayable in 19 quarterly instalments which will commence on 30 June 2019.

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.

**Finance charges – Series A Eurobonds**

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Interest settled in shares	<b>2 425</b>	2 442	<b>2 425</b>	2 442
Amortised finance charges	<b>1 284</b>	1 277	<b>1 284</b>	1 277
	<b>3 709</b>	3 719	<b>3 709</b>	3 719

The Series A Eurobonds have a coupon rate of 8.00% per annum payable quarterly. The effective interest rate is, in aggregate 12.02% (2017: 13.77%). 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 £:US\$ exchange rate for the 20 days preceding the interest calculation date.

The Series A bonds are repayable on the final maturity date, which is 20 August 2022.

**Finance charges – Series B Eurobonds**

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Interest capitalised	<b>528</b>	—	<b>528</b>	—
Amortised finance charges	<b>102</b>	—	<b>102</b>	—
	<b>630</b>	—	<b>630</b>	—

During the year, the Group exercised a further US\$2.0 million Series B Eurobonds, in addition to the US\$5.0 million exercised in 2017.

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% (2017: 10.18%).

Warrants are issued upon exercise of the Series B bonds which entitles the bondholder to receive shares in lieu of cash in respect of the outstanding balance of the bonds. The exercise price is calculated based on the lower of a) an amount equal to a 10% premium to the VWAP of an ordinary share over a 30-day period immediately prior to the issue of the bonds and b) 37.5 pence, using an average £:US\$ exchange rate over a 20-day period immediately prior to the issue.

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

## Finance charges – other loans

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Interest paid	186	394	–	–
<b>Finance charges</b>				
Finance charges capitalised to property, plant and equipment	–	9 442	–	–
Finance charges recognised in profit and loss	10 737	394	4 339	3 719
	10 737	9 836	4 339	3 719

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

### ABSA debt facility

In June 2018, the Company amended the terms of its ABSA debt facility following lower than expected average diamond values achieved since the commencement of production in October 2016. The changes in terms are noted below:

- an 18-month debt standstill on capital repayments from January 2018 to June 2019;
- an extension of debt tenure by two and a half years to December 2023;
- re-profiled debt repayments;
- a credit review in 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 in the cash sweep from 40% to 50% of excess operational cash generated;
- amendments to covenants; and

Covenant	Revised maintenance criteria	Previous maintenance criteria
Forecast debt service cover ratio	>=1.2 times	>=1.3 times
Historic debt service cover ratio	>=1.2 times	>=1.3 times
Loan life cover ratio	>=1.4 times	>=1.5 times
Project life cover ratio	>=1.7 times	n/a
Debt/equity ratio	<=60:40	<=60:40
Reserve tail ratio	>=25%	>=25%

- staggered increase in the margin rates payable on the deferred loan.

		Percentage
Deferred loan margin increase	March 2018	0.75
	March 2019	1.25
	March 2020	1.75
	March 2021	2.25
	March 2022	2.25
	March 2023	2.75

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

**27 Rehabilitation provisions**

	Group	
	2018 US\$'000	2017 US\$'000
At 1 July	<b>4 233</b>	3 306
Exchange difference	<b>(204)</b>	367
Opening balance restated for effect of foreign exchange	<b>4 029</b>	3 673
Increase in the year	—	282
Unwinding of discount on rehabilitation liability	<b>284</b>	278
At 30 June	<b>4 313</b>	4 233

The Group recognised a provision for the rehabilitation of the environmental disturbances caused by the construction and continued mining at the Liqhobong Mine 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	
	2018	2017
Discount rate	<b>8.0%</b>	8.0%
Lesotho inflation rate	<b>4.7%</b>	4.7%
Remaining open pit life of mine	<b>8 years</b>	9 years

**28 Trade and other payables**

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Trade payables	<b>4 486</b>	5 518	<b>82</b>	183
Inter-company payables	—	—	<b>773</b>	320
Tax and social security	<b>454</b>	250	<b>51</b>	21
Accruals and other payables	<b>9 115</b>	12 704	<b>993</b>	974
	<b>14 055</b>	18 472	<b>1 899</b>	1 498

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

**29 Provisions**

	Group	
	2018 US\$'000	2017 US\$'000
At 1 July	<b>390</b>	521
Exchange difference	—	(13)
Opening balance restated for effect of foreign exchange	<b>390</b>	508
Reallocation	—	(137)
Raised in the year through profit or loss	<b>(65)</b>	(11)
Capitalised as part of the cost of the Project	—	30
At 30 June	<b>325</b>	390

Provisions relate to leave pay due to staff.

### 30 Financial instruments

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

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

#### Principal financial instruments

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

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

The above financial instruments are classified in the following categories:

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
<b>Financial assets at fair value through other comprehensive income</b>				
Other financial assets	265	—	—	—
<b>Financial assets at amortised cost</b>				
Loans receivable	487	—	—	—
Trade and other receivables	11 203	1 687	453	401
Loans to subsidiaries	—	—	39 366	19 522
Cash and cash equivalents	18 421	17 053	5 401	113
	<b>30 111</b>	<b>18 740</b>	<b>45 220</b>	<b>20 036</b>
<b>Financial liabilities at fair value through other comprehensive income</b>				
Other financial liabilities	—	357	—	—
<b>Financial liabilities at amortised cost</b>				
Borrowings	96 368	102 791	32 031	28 117
Trade and other payables	14 055	18 472	1 899	1 498
	<b>110 423</b>	<b>121 263</b>	<b>33 930</b>	<b>29 615</b>

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables and trade and other payables approximates their fair value.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

FOR THE YEAR ENDED 30 JUNE 2018

**30 Financial instruments continued****Financial instruments measured at fair value**

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

	Level 1		Level 2		Level 3	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Other financial assets	—	—	265	—	—	—
Other financial liabilities	—	—	—	357	—	—

There were no transfers between levels during the period.

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

Item	Valuation approach and inputs used
Derivative through fair value through other comprehensive income	The fair value of forward exchange contracts is determined based on the forward exchange rates as at the reporting date. The fair value of floating-to-fixed interest rate swaps value is provided by ABSA Bank Limited, the counterparty to the instrument. Their valuation is determined through discounting future cash flows using discount rates obtained from the ZAR-swap curve.

**General objectives, policies and processes**

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated part of the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives reports from financial personnel through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The risks to which the Group is exposed and the policies adopted by the Board have not changed significantly in the year.

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

**Credit risk**

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

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

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

Credit risk with cash and cash equivalents is reduced by placing funds with banks that have acceptable credit ratings and indicated government support where applicable.

The maximum exposure to credit risk is the same as the carrying value of these items in the financial statements.

**Liquidity risk**

Liquidity risk arises from the Group and Company management of working capital, finance charges and capital repayments of its debt instruments. It is the risk that the Group will encounter difficulties in meeting its financial obligations as they fall due. The Board manages this risk through monthly cash flow projections containing information regarding what the expected commitments will be per month as well as what the available funding is, before and after settlement of the monthly commitments. The monthly cash flow projections includes projected adherence to the covenants as prescribed in the terms of the restructured ABSA debt facility and will act as an early warning mechanism. Based on the latest cash forecast, the Group has sufficient funds to continue operating for the foreseeable future.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

The principal liabilities of the Group and Company arise in respect of the ongoing operating costs, capital expenditure and trade and other payables. Trade and other payables are all payable within six months.

### Effective interest rates and maturity analysis

The following table indicates the effective interest rates of interest earning/bearing financial assets and liabilities at 30 June 2018 and the periods in which they mature:

Group	Effective interest rate	Total US\$'000	Current US\$'000	1-2 years US\$'000	2-5 years US\$'000
<b>2018</b>					
Cash and cash equivalents	0.25%	18 421	18 421	—	—
ABSA debt facility	9.29%	67 790	1 870	10 193	55 727
Series A Eurobonds	12.02%	30 000	—	—	30 000
Series B Eurobonds	10.18%	7 000	—	7 000	—
Other loans	12.25%	1 217	273	273	671
<b>2017</b>					
Cash and cash equivalents	0.25%	17 053	17 053	—	—
ABSA debt facility	9.90%	81 007	22 816	42 321	15 870
Series A Eurobonds	13.77%	30 000	—	—	30 000
Series B Eurobonds	10.18%	5 000	—	—	5 000
Other loans	12.75%	1 551	241	582	728
<b>Company</b>					
Company	Effective interest rate	Total US\$'000	Current US\$'000	1-2 years US\$'000	2-5 years US\$'000
<b>2018</b>					
Cash and cash equivalents	0.25%	5 401	5 401	—	—
Loans to subsidiaries	6.84%	4 360	—	—	4 360
Series A Eurobonds	12.02%	30 000	—	—	30 000
Series B Eurobonds	10.18%	7 000	—	7 000	—
<b>2017</b>					
Cash and cash equivalents	0.25%	113	113	—	—
Loans to subsidiaries	11.80%	79 347	—	—	79 347
Series A Eurobonds	13.77%	30 000	—	—	30 000
Series B Eurobonds	10.18%	5 000	—	—	5 000

### Interest rate risk

The Group and the Company are exposed to interest rate risk in respect of surplus funds held on deposit and on long-term borrowings entered into for the financing of the Project. The Company is also exposed to interest rate risk on loans to subsidiaries. The Group's policy is to manage the risk associated with floating interest rates by entering into floating-to-fixed interest rate swaps.

**NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 30 JUNE 2018

**30 Financial instruments** continued**Interest rate table**

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

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

	2018		2017	
	Change in rate	US\$'000	Change in rate	US\$'000
Group				
US\$ equivalent	<b>-0.5%</b>	<b>390</b>	-0.5%	404
	<b>-1.0%</b>	<b>779</b>	-1.0%	808
	<b>-1.5%</b>	<b>1 169</b>	-1.5%	1 212
US\$ equivalent	<b>+0.5%</b>	<b>(390)</b>	+0.5%	(404)
	<b>+1.0%</b>	<b>(779)</b>	+1.0%	(808)
	<b>+1.5%</b>	<b>(1 169)</b>	+1.5%	(1 212)

	2018		2017	
	Change in rate	US\$'000	Change in rate	US\$'000
Company				
US\$ equivalent	<b>-0.5%</b>	<b>111</b>	-0.5%	265
	<b>-1.0%</b>	<b>223</b>	-1.0%	530
	<b>-1.5%</b>	<b>334</b>	-1.5%	795
US\$ equivalent	<b>+0.5%</b>	<b>(111)</b>	+0.5%	(265)
	<b>+1.0%</b>	<b>(223)</b>	+1.0%	(530)
	<b>+1.5%</b>	<b>(334)</b>	+1.5%	(795)

**Currency risk**

The Group adopts a hedging strategy, approved by the Board, to mitigate currency risk. In accordance with the hedging strategy, management has the discretion to hedge against the volatility in the Lesotho Maloti/South African Rand and US Dollar exchange rates up to a maximum of 100% of total funding available for capital projects and up to 70% of US Dollar revenue generated. The Group uses forward foreign currency exchange contracts as the hedging instrument and designates these contracts as cash flow hedges.

As at 30 June 2018, the Group held no significant monetary assets or liabilities in currencies other than the functional currency of the operating units involved (2017: nil), other than a cash balance held in Pound Sterling equivalent to US\$3.8 million (2017: US\$0.4 million). If the Pound Sterling were to appreciate against the US Dollar by 1%, the cash balance would increase by US\$37 982 (2017: US\$4 041). Similarly, if Pound Sterling were to depreciate against the US Dollar by 1%, the cash balance would decrease by US\$37 982 (2017: US\$4 041).

Loans between companies that are members of the Group are made in the operating currency of the lending company. In all other respects, the policy for all Group companies is that they only trade in their principal operating currency, except in exceptional circumstances from time to time. Long-term group loans to South African and Botswana subsidiary companies are considered to be part of the net investment by the Group in those subsidiaries.

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

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

	2018 US\$'000	2017 US\$'000
Net foreign currency financial assets/(liabilities)		
US Dollar	<b>8 462</b>	(1 349)
Lesotho Maloti	<b>(9 294)</b>	(17 044)
Other	<b>2 152</b>	(185)
<b>Total</b>	<b>1 320</b>	(18 578)

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

	Average rate		Balance sheet rate	
	2018	2017	2018	2017
South African Rand	<b>12.8558</b>	13.6235	<b>13.7335</b>	12.8915
Lesotho Maloti	<b>12.8558</b>	13.6235	<b>13.7335</b>	12.8915
Botswana Pula	<b>10.0432</b>	10.2322	<b>10.4644</b>	10.2404
Pound Sterling	<b>1.3473</b>	1.2717	<b>1.3112</b>	1.2957

The Group's expenses in Botswana, Lesotho and South Africa are incurred in Pula, Maloti, which is pegged to the Rand, and Rand respectively, so any weakening in these currencies would result in a reduction in expenses in US Dollar terms, which would be to the Group's advantage. There is an equivalent downside risk to the Group of strengthening in the Pula, Maloti or Rand.

### Capital

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

Details of the Group and Company capital are disclosed in the Group and Company Statement of Changes in Equity and in note 23.

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

### 31 Operating lease commitments

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Land and buildings				
Within one year	<b>259</b>	160	<b>133</b>	132
Between one and two years	<b>269</b>	163	<b>133</b>	132
Between two and five years	<b>365</b>	295	<b>122</b>	252
	<b>893</b>	618	<b>388</b>	516

### 32 Capital commitments and contingencies

At 30 June 2018 the Group had no capital commitments or contingent liabilities.

### 33 Post-balance sheet events

The Directors are not aware of any significant matters or circumstances arising since the end of the financial year, not otherwise dealt with in this report or the annual financial statements, that significantly affects the financial position of the Group or Company or the results of operations until the date of this report.

### 34 Related party transactions

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

	2018 US\$'000	2017 US\$'000
Finance income received	<b>413</b>	8 415
Management fee paid	<b>532</b>	320
Management fee income	<b>279</b>	216

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

## COMPANY INFORMATION

### UK office

#### Firestone Diamonds plc

The Triangle  
5-17 Hammersmith Grove  
London W6 0LG  
Tel: +44 (0)20 8741 7810  
Email: info@firestonediamonds.com

### Lesotho office

#### Liqhobong Mining Development Company (Pty) Ltd

5th Floor  
Pension House  
Constitution Road  
Maseru West  
Lesotho  
Tel: +266 223 14120

### South Africa office

#### Firestone Diamonds (Pty) Ltd

Black River Park South  
Ground Floor, Old Warehouse Building  
2 Fir Street  
Observatory, 7925  
Cape Town  
Tel: +27 21 816 2940

### Registered address

#### Firestone Diamonds plc

The Triangle  
5-17 Hammersmith Grove  
London W6 0LG

### Registered number

3589905

### Nominated broker and adviser

#### Macquarie Capital (Europe) Limited

Ropemaker Place  
28 Ropemaker Street  
London EC2Y 9HD

### Registrar

#### Link Asset Services

The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

### Auditor

#### BDO LLP

55 Baker Street  
London W1U 7EU

### Legal adviser

#### Gowling WLG

4 More London Riverside  
London SE1 2AU

### PR consultant

#### Tavistock Communications

1 Cornhill  
London EC3V 3ND

### Company Secretary

#### Prism Cosec

5 Thomas More Square  
London E1W 1YW



Discover more about  
Firestone Diamonds online at

**[WWW.FIRESTONEDIAMONDS.COM](http://WWW.FIRESTONEDIAMONDS.COM)**

Designed and produced by  
**lyonsbennett**  
[www.lyonsbennett.com](http://www.lyonsbennett.com)

This report is printed on Symbol Freelifa Satin, an FSC mixed  
sources, high white environmentally-friendly triple coated paper.



**Firestone Diamonds plc**

The Triangle  
5-17 Hammersmith Grove  
London W6 0LG

Tel: +44 (0)20 8741 7810  
[info@firestonediamonds.com](mailto:info@firestonediamonds.com)

