

December 2019

ASX Quarterly Report



30 January 2020

Recapitalisation Highlights

- ▲ FDX to partner with Star Purchaser, AMR Blom Diamonds, to recapitalise FDX.
- ▲ The transaction to purchase the Star Diamond Mine will be cancelled. The new direction is to retain the Star mine within FDX as a cornerstone asset.
- ▲ AMR Blom have executed a loan agreement up to A\$3.5m to finance the FDX and recommencement of the Star Mine. These funds will be available over and above the existing investment undertaken by AMR Blom into the Star Mine of A\$1.9m to date.
- ▲ Dewatering and development of the Star Mine to start in the current quarter. Revenue expected to commence October 2020. Development to cost an estimated A\$3m.
- ▲ Sedibeng Mine to be sold to ex-director Jan Louw and associates in lieu of outstanding debts to the related party, FMP. The transaction will eliminate ~US\$8,143,826 (~A\$11,900,000) of debt and trade creditors from the accounts and positively impact the working capital position of FDX.
- ▲ Ernest Blom of AMR Blom Pty Ltd appointed as a Director to the FDX Board following the resignation of Jan Louw as CEO and Director on 19 December 2019.
- ▲ Global Blom Diamond Platform will then optimise the returns for FDX by sorting, polishing and selling the diamonds mined from Star Mine.
- ▲ Standstill agreements continue to defer the majority of note holders and creditors pending completion of financial recapitalisation.
- ▲ The Company is seeking to reach agreement with all Debt Note holders including Magna LP to convert their debt to equity and will continue discussions with other holders in support of the AMR Blom Loan Note transaction.
- ▲ The Company has commenced discussion with Royalty holders to convert their entitlements to equity. The Company has requested that all royalty holders agree to convert their royalty interests in various production assets to equity.
- ▲ FDX will seek continued extension of the self-imposed ASX suspension till 30 April 2020 to allow for resolution of funding and subsequent lifting of self-imposed suspension of the Company.

FDX Recapitalisation

The Company is pleased to advise that it has entered into revised MOU with Star Mine Purchaser, AMR Blom (Pty) Ltd, to recapitalise FDX and to also develop and retain Star Mine as a Flagship mine. As part of this MOU AMR Blom will provide an initial A\$3.5m underwriting of a future fundraising and to meet the re-compliance with ASX will commence release of these funds under a loan agreement to provide up to A\$3.5m to finance the Company and recommence production of the Star Mine.

A new management team has been appointed to develop the Star Mine following the termination of the current contractor, FMP, effective on 19 December 2019. The initial mine work program includes the dewatering of the flooded underground sections and establishment of stopes to support production commencing October 2020.

The total estimated costs to restart operations at Star is expected to be A\$3m and will be incurred over the following 6 months. This will include the dewatering, stope establishment, and skip loading capacity to support 6,000 tonnes of primary fissure production per month. The preliminary work done to date indicates that the production milestones confirmed in the original November 2017 Competent Persons Report are realistic and achievable.

This report identified that the mine running at 6,000 tonnes per month is expected to produce 42.6 carats per 100 tons (cpht) at an average of \$295/ct, before 2.5% real inflationary adjustments projected over the total mine life of 25 years.

More detail confirming the mine work program and the restart of Star Mine will be provided by FDX as progression milestones are achieved.

All the rough diamonds from the run of mine (ROM) production will be sorted into different categories, selected diamonds polished and the resultant rough and polished diamonds will be sold through the Global Blom Diamond Platform thereby optimising the returns for FDX.

Sedibeng Mine Sale

The sale of Sedibeng Mine to Jan Louw and associates is a pivotal step in the financial solvency of FDX. The sale will eliminate considerable debt of ~US\$8,143,826 (AUD11,900,000) which leaves the Company with minimal liabilities associated with South African operations and support from the A\$3.5m AMR Blom loan facility. In addition, FMP will be paid cash consideration of A\$500,000.

The sale includes the projects located at the Sedibeng Mine, which consists of the Mine, Tailings Plant, and the Bellsbank Pit as an offset against all outstanding loans to FMP along with all liabilities sitting in the entities that hold the above assets.

The sale of Sedibeng is subject to all regulatory approvals including an exemption from the Takeover Regulation Panel, to the extent applicable the Competition Commission approval and the written consent of the Minister of mines.

The Company is preparing the necessary notice of meeting and expects to have the meeting within the next 3 months.

Appointment and Change of Directors

We are excited with the appointment of Ernest Blom to the Board of FDX on 19 December 2019. His wealth of experience across the mining, beneficiation sector and global trade of diamonds are a valuable addition to the FDX management team and will complement the recapitalisation and growth strategy for the future of the Company. Mr. Ernie Blom is the current President of World Federation of Diamond Bourses and has played an important role in streamlining and growing the Diamond Trade business globally as the President of World Federation of Diamond Bourses since 2006. He has also been one of the most eminent persons in the Diamond trade in South Africa and over the last 40 decades has taken a leadership role in a number of Associations and Trade Bodies. Additionally, he had served as the youngest Vice President of the South African Diamond Workers Union at the age of 24.

Ernest Blom appointment follows Jan Louw's resignation as CEO and Director of FDX on 19 December 2019.

Creditor and Note Holders Agreements

The Company in accordance with the MOU signed with AMR Blom is seeking to reach agreement with all Debt holders to convert their debt to equity.

a. Magna Loan

The Company has secured a written confirmation from Magna that they will convert the lesser of A\$500,000 or 4.99% of the FDX's shares of their outstanding debt to equity and not call their loan before such time as the Company is in a position to pay it.

b. Non-Convertible Notes

The Company has received waivers from all Non-Convertible note holders on all defaults and for the Note Holders not to call the funds until such time as the Company is in a position to pay these amounts.

c. Series 3 Convertible Notes into Equity

The Company is in discussions with Series 3 Convertible note holders to provide the waiver on all defaults, to convert to equity and to provide assurances that they will not call their loans until such time the Company has sufficient funds.

d. Creditors

The Company is managing its creditors during the recapitalisation phase and has received written confirmations from the majority of creditors not to call any funds until the Company is in a position to pay these amounts.

Statutory Obligations

The Company is currently working with its auditors to complete the half year and full year accounts. Once completed they will be lodged forthwith along with all outstanding ASX releases.

Suspension of Listing Request Extension

Further to the announcement on 19 December 2019 the Company requests that the voluntary suspension of the Company's securities (FDX) first granted on 27 December 2018 continues in place till 30 April 2020.

The Company remains in discussions with a view to updating the market on its financial position and operations , and requires further time to finalise its funding strategy.

The extension of the voluntary suspension is requested until an announcement is made to the market in relation to the update or the commencement of trading on 1 May 2020, whichever is earlier.

The Company is not aware of any reason why the extension of voluntary suspension should not be granted.

Forward Looking Statements

This announcement contains forward looking statements that are subject to risk factors associated with diamond mining businesses. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a variety of variables and changes in underlying assumptions which could cause actual results or trends to differ materially, including but not limited to: price fluctuations, actual demand, currency fluctuations, production results, reserve estimates, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory developments, economic and financial market conditions in various countries and regions, political risks, project delay or advancement, approvals and cost estimates.

For **investor** enquiries please contact:

Frank Petruzzelli
Executive Director

fpetruzzelli@frontierdiamonds.com
+61 3 9347 2409

Frontier Diamonds Limited

About Frontier Diamonds Limited

Frontier Diamonds Limited (ASX: FDX) is an independent diamond mining company with interests in two producing underground mines in South Africa, the Sedibeng Diamond Mine and the Star Diamond Mine, and a development project at Bellsbank.

Visit www.frontierdiamonds.com for information on Frontier's current and planned future activities.

