

New Note Funding to Rapidly Pursue Growth Initiatives



21 March 2018

Frontier Diamonds (ASX: FDX) (**Frontier** or **the Company**) advises that it is seeking additional funding of approximately A\$4 million to rapidly undertake recently announced growth initiatives.

The planned source of this funding involves the issuance of up to A\$4 million unsecured loan notes. These notes are expected to be composed of two separate unlisted instruments: unsecured loan notes (up to A\$1 million in total) and unsecured redeemable convertible loan notes (up to A\$3 million in total).

The new funding is planned to be directed at enlargement and fast tracking of the recently announced Bellsbank Exploration Project bulk sampling and diamond recovery program, introduction of the Sub-Level Retreat mining method at both the Sedibeng and Star mining operations, and additional working capital to pursue potential regional acquisitions and/or farm-in agreements.

Highlights

- ▲ Seeking to raise up to A\$4 million additional funding from unsecured loan note issuance
- ▲ Target composition includes up to A\$3 million of redeemable convertible loan notes
- ▲ Planned use of funds:
 - Enlargement and fast tracking of Bellsbank bulk sampling and diamond recovery program
 - Introduction of Sub-Level Retreat mining method at Sedibeng and Star
 - Potential regional acquisitions and farm-in agreements

Bellsbank bulk sampling and diamond recovery program

Following the highly encouraging results from preliminary exploration activities at the Bellsbank Exploration Project (see Frontier ASX release: *“First diamonds discovered from the Bellsbank Kimberlite Pipe Exploration Project”*, 7 March 2018), the Company has decided to enlarge and fast track the first phase of bulk sampling and diamond recovery from the Project.

Bellsbank bulk sampling and diamond recovery program (continued)

Completion of the first cut of the bulk sampling pit at Bellsbank is expected to cost approximately US\$1.49 million. Frontier expects to extract approximately 120,000 tonnes of bulk sample material from this program. This material is to be treated through the Company's recently commissioned bulk sample and tailings retreatment facility at Sedibeng. A detailed geological report on the Bellsbank Pipe Exploration Project is expected to be completed and released to the market shortly.

Under the original scheduling, further expenditure on the Bellsbank bulk sampling program was not expected in financial year 2018 and, as such, not incorporated as part of FY18 forecasts in the Company's Prospectus, dated 1 November 2017.

Introduction of Sub-Level Retreat mining at Sedibeng and Star

As advised in Frontier's recent December 2017 Quarterly Activities Report, the Company's Board had granted in-principle approval for migration to a new mining method at both of its existing operations at Sedibeng and Star. Final approval for this initiative has now been delivered by the Frontier Board.

Implementation of the Sub-Level Retreat (SLR) mining method is expected to cost approximately US\$1.15 million in additional capital expenditure.

The new method will lift mechanisation levels and is expected to deliver a substantial reduction in waste dilution coupled with the significant enhancement of ROM diamond grades. Progressive introduction of Sub-Level Retreat mining is expected to increase the productivity of both the Sedibeng and Star mines by at least 30%. When combined with the extensive remediation and refurbishment works that have taken place over the past year, Frontier expects to deliver a considerably enhanced safety environment for its workforce and increased long-term profitability outcomes through greater efficiency and consistency of operations.

As previously advised, introduction of the new mining method is expected to extend the expected volume ramp-up at the Sedibeng and Star mines by around 3 months, relative to Frontier Prospectus forecasts. This is expected to negatively impact on expected output, earnings and cashflow levels for FY18, but is not expected to materially affect FY19 Prospectus guidance.

Targeted ore throughput levels are expected to be reached at Sedibeng by June 2018 (10kt per month) and Star by September 2018 (6kt per month). The final quarter of FY2018 should also benefit from processing of the Sedibeng Tailings Dump through the recently commissioned bulk sample and tailings retreatment plant at Sedibeng.

Potential regional acquisitions and farm-in agreements

Frontier continues to evaluate potential regional acquisitions and farm-in agreements that are complementary to the Company's existing business.

Given a number of potentially value-accretive opportunities are under consideration, Frontier is seeking additional capital to pursue, and possibly transact on, these opportunities.



Planned unsecured loan note issuance

To fund these new growth and acquisition initiatives, Frontier is currently seeking to raise up to A\$1 million in unsecured loan notes and up to A\$3 million in unsecured redeemable convertible loan notes. Both instruments are planned to be unlisted.

Table 1: Proposed unsecured loan note issuance

Sources of funds	A\$ million	US\$ million
Loan notes	1.00	0.78
Redeemable convertible loan notes	3.00	2.34
Issuance costs	(0.24)	(0.19)
Total net new funds	3.76	2.93

Uses of funds	US\$ million
Bellsbank bulk sampling program	1.49
Introduction of SLR mining method	1.15
Additional working capital	0.29
Total use of funds	2.93

Source: Frontier, March 2018, Amounts converted at AUD: USD exchange rate of \$0.78.

Key terms of the two tranches of unsecured loan notes are as set out below.

Loan notes (up to A\$1 million)

- Maturity date of 30 June 2019, at which time the Company is obligated to redeem the notes plus any accrued and unpaid interest.
- Coupon interest of 12% payable quarterly in arrears.
- Noteholders right to participate pro-rata in a royalty pool calculated as 10% payable on the gross proceeds of the first 100,000 tonnes processed from the Bellsbank Pit bulk sample (based on full subscription of the notes and the level of investment subscribed for).
- The royalty entitlement remains on foot until 100,000 tonnes of Bellsbank bulk sample material have been processed, irrespective of whether the notes have been redeemed.
- The Company maintains the right to repay the notes at any time prior to maturity at its sole discretion.
- Noteholders cannot require the Company to redeem until the maturity date (other than in the event of the Company breaching a default condition).

Redeemable convertible loan notes (up to A\$3 million)

- Maturity date of 31 October 2019, at which time the Company is obligated to redeem any unconverted notes plus any accrued and unpaid interest.
- Coupon interest of 10% payable quarterly in arrears.
- Noteholders right to participate pro-rata in a royalty pool calculated as 8% payable on the gross proceeds of the first 100,000 tonnes processed from the Bellsbank Pit bulk sample (based on full subscription of the notes and the level of investment subscribed for).

Redeemable convertible loan notes (up to A\$3 million) (Continued)

- The royalty entitlement remains on foot until 100,000 tonnes of Bellsbank bulk sample material have been processed, irrespective of whether the notes have been converted or redeemed.
- Conversion price is set at the lower of a 10% discount to the Company's 10-day volume weighted average price (VWAP) or the face value of A\$0.20.
- Conversion of notes will be subject to the Company complying with the ASX Listing Rules.
- The Company maintains the right to redeem the notes at any time prior to maturity at its sole discretion.
- Noteholders cannot require the Company to redeem until the maturity date (other than in the event of the Company breaching a default condition).

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.

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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.

