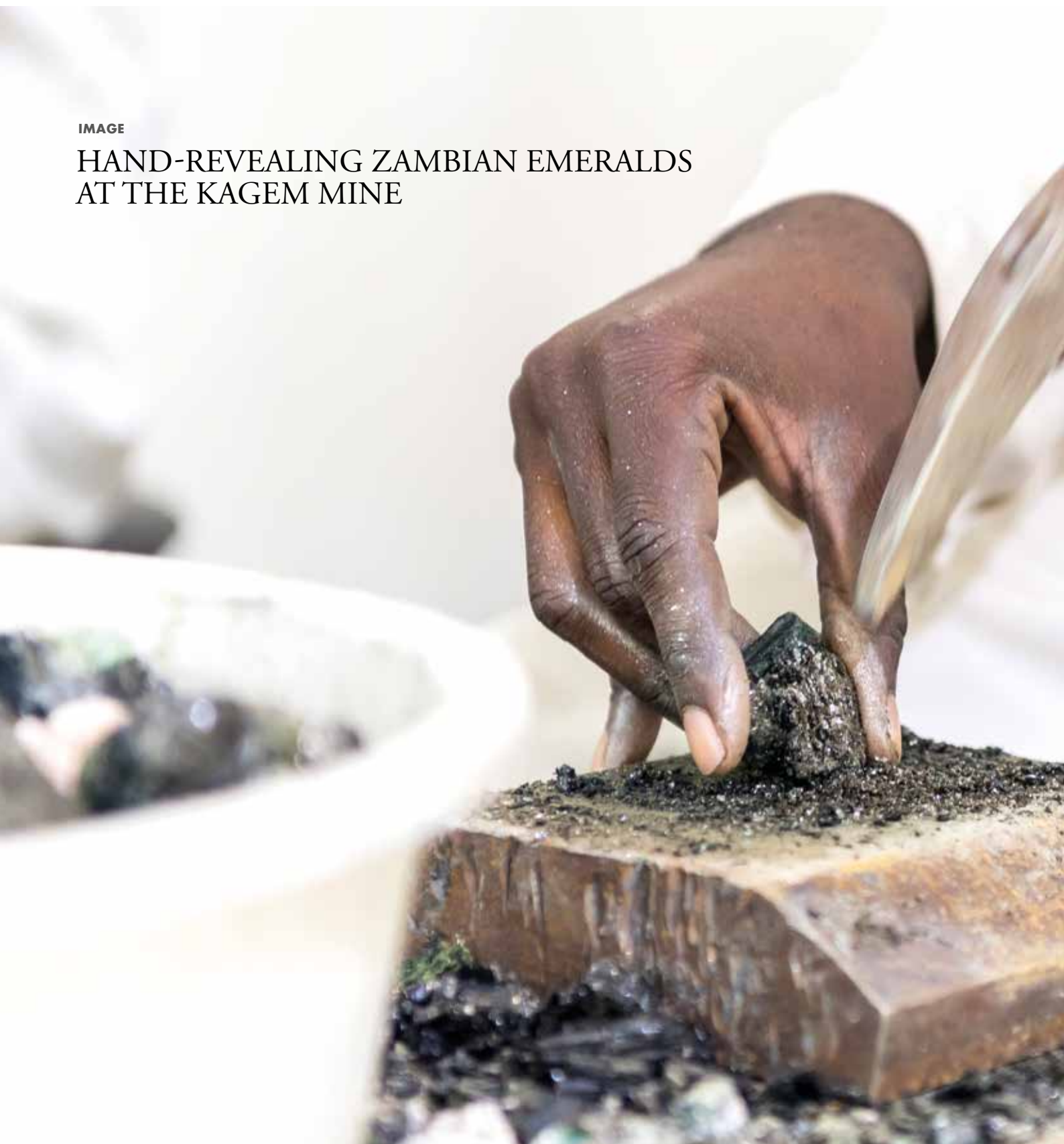


GEMFIELDS
ANNUAL REPORT 2019

COVER: *Gemfields Mozambican rubies surround Fabergé Charmeuse Ruby Ring and Emotion Multicolour Gemstone Ring*

IMAGE

HAND-REVEALING ZAMBIAN EMERALDS AT THE KAGEM MINE



01 | OVERVIEW

Map of Operations	4
Chairman's Statement	6
Chief Executive's Statement	8
Timeline of Events	12
Board of Directors	14

02 | PERFORMANCE

2019 Highlights	20
Marketing and Communications	22
Commodity Outlook	
<i>Coloured Gemstones</i>	27
Operational Review	
<i>Zambia</i>	29
<i>Mozambique</i>	35
<i>Fabergé Limited</i>	42
<i>New Projects and Other Assets</i>	44
Financial Review	46
Mineral Resources and Ore Reserves Summary	53

CONTENTS

03 | GOVERNANCE

About the Group	62
Sustainability and Corporate Responsibility	64
Principal Risks	71
Directors' Report	78
Corporate Governance Report	81
Audit Committee Report	84
Remuneration Committee Report	86
Nomination Committee Report	93

04 | FINANCIAL STATEMENTS

Consolidated Income Statement	96
Consolidated Statement of Comprehensive Income	97
Consolidated Statement of Financial Position	98
Consolidated Statement of Cash Flows	99
Consolidated Statement of Changes in Equity	100
Notes to the Consolidated Financial Statements	102
Independent Auditor's Report	164


ADMINISTRATION

Shareholder Information	172
Company Details	173



IMAGE

SUNLIGHT DANCING THROUGH ZAMBIAN
EMERALDS FROM THE KAGEM MINE



Map of Operations 4
Chairman's Statement 6
Chief Executive's Statement 8
Timeline of Events 12
Board of Directors 14

01 OVERVIEW



GEMFIELDS GROUP LIMITED

- 1 Gemfields Group Limited
Guernsey, Channel Islands, Registered Office
- 2 Gemfields Services Limited
London, United Kingdom, London Office

GEMFIELDS LIMITED

- 3 Gemfields Limited
London, United Kingdom, Head Office
- 4 Kagem Mining Limited
Kitwe, Zambia, Mine (emerald)
- 5 Montepuez Ruby Mining Limitada
Montepuez, Mozambique, Mine (ruby)
- 6 Web Gemstone Mining
Yabelo, Ethiopia, Exploration Assets

FABERGÉ

- 7 Fabergé (UK) Limited
London, United Kingdom, Head Office
- 8 Fabergé Dubai
Dubai, UAE, Retail Outlet
- 9 Fabergé Harrods
London, United Kingdom, Retail Outlet
- 10 Fabergé Inc
Houston, USA, Retail Outlet

INVESTMENTS

- 11 Sedibelo Platinum Mines Limited
Guernsey, Channel Islands, Investment
- 12 Sedibelo Platinum Mines Limited
Bushveld Complex, South Africa, Mine (PGMs)



OFFICE



MINE



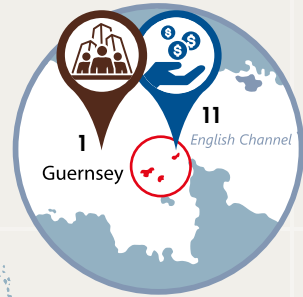
INVESTMENT



RETAIL
OUTLET



EXPLORATION
ASSET





Chairman's Statement

At the outset of this, my first Chairman's Statement, on behalf of the Board I should like to reiterate my thanks to Brian Gilbertson, one of the most highly regarded veterans of the mining industry – who stepped down as Chairman and Director on 25 November 2019 – for his significant contribution to the Company's business during his 12-year tenure. He leaves Gemfields in a position of financial strength and with a clear strategy of unlocking value for shareholders as a 'pure-play' African coloured gemstone supplier.

GGL's operations in Mozambique and Zambia generated auction revenues of USD121.5 million and USD79.0 million respectively during 2019, meaning that annual revenues from gemstone auctions have, for the first time, exceeded the USD200 million mark – an excellent achievement by the team. Gemfields' Mozambican ruby auctions continued to benefit from strong demand, competitive bidding and the setting of an all-time price-per-carat record for a lot offered at the June 2019 auction in Singapore. The focus on improving supply chain traceability saw 12 lots from the December 2019 auction becoming the first Gemfields rubies to deploy the use of Gübelin Gem Lab's Provenance Proof blockchain technology, a significant step forward in providing end consumers with comfort regarding the origin and route to market of their gemstones. Despite a difficult start to the year with impeded access to finance affecting many of GGL's customers in Jaipur, more companies placed bids at the November 2019 emerald auction than at any prior Gemfields auction, providing encouraging signs of recovery in 2019 from the difficult circumstances faced by the Company's Indian client base in recent years. That auction also saw a record overall price-per-carat for any emerald auction. In addition to loyal clients from India, Gemfields also welcomed new clients from Thailand and China who successfully participated in the May and November 2019 emerald auctions.

The financial year saw Gemfields face new challenges in both Mozambique and Zambia. Most significantly, Zambia imposed a 15% export duty on precious gemstones (excluding diamonds) from 1 January 2019. When added to the pre-existing mineral royalty tax of 6%, this fiscal change resulted in Kagem paying 21% of turnover tax on its revenues (before corporation taxes, in respect of which the 6% mineral royalty was not tax-deductible, meaning Kagem was taxed on tax already paid). Teams from both Gemfields

and Kagem worked tirelessly throughout the year to address the export tax, engaging in regular dialogue with the relevant ministries and technocrats in Zambia. In December 2019, the welcome news was received that the Government of the Republic of Zambia would suspend the 15% export duty on precious gemstones with effect from 1 January 2020. The 2019 Zambian export duty has cost the group approximately USD12 million and means that Kagem (which is 25% owned by the Government of Zambia via the Industrial Development Corporation of Zambia) is unable to pay a dividend to its shareholders in respect of 2019.

Fabergé Ltd ("Fabergé") recorded revenues of USD10.5 million in 2019, down from USD13.4 million in 2018, primarily as a result of the timing of delivery of some high-ticket-price bespoke sales agreed in 2019 and scheduled for delivery by Q4 2020. Fabergé's concession at Harrods, the London department store, has seen a 15% increase in sales, buoyed by a refreshed team and the lease expiration of Fabergé's Mayfair boutique. The London and New York-based "By Appointment" sales teams have also seen sales increase by a little over 21% with encouraging growth in the key wholesale markets of Europe and the UK & Ireland, up by a combined 67%.

Martin Tolcher
Chairman



In April 2019, in keeping with the strategy of focussing on African coloured gemstones, it was agreed to sell the (circa) 7.5% shareholding in ASX-listed Jupiter Mines Limited. The sale was structured in two phases with the first phase occurring in June 2019 and the second phase completing in November 2019. Pursuant to the terms of the agreed transaction, the Group received AUD0.33 per share in total, which equated to USD30.4 million in sale proceeds and a May 2019 dividend of USD2.6 million.

The platinum group metals (“PGM”) sector experienced a significant uplift during the year, mainly attributable to the change in fortunes of palladium and rhodium, two of the PGM basket’s key components. In addition, the South African Rand has depreciated against the US dollar, further boosting the basket price in South African Rand terms. These factors have reinvigorated the long moribund PGM market with some of the major pure-play PGM producers seeing their market values increasing significantly during 2019. The Group’s PGM investment, Sedibelo Platinum Mines Ltd (“Sedibelo”) remains unlisted and, with no market price to value the Group’s 6.5% stake, the decision was made to engage an independent third party to support the Group’s carrying value of Sedibelo on the balance sheet. Applying the results of the independent valuation report, the GGL Board has applied a USD7.1 million fair value increase for the year bringing the value for the Group’s 6.5% stake in Sedibelo to USD57.5 million as at 31 December 2019.

In June 2019, GGL entered into a joint venture agreement with Mwiriti Limitada (“Mwiriti”), its existing partner in Montepuez Ruby Mining Limitada, to advance six applications for mining concessions and six exploration licences in Mozambique which were held by Mwiriti. In the new joint venture, 75% owned by the Group, Gemfields will contribute proven exploration and project development experience together with the required financing, whilst Mwiriti will contribute the twelve greenfield licences. The licences are in close proximity to GGL’s existing ruby operations, with both secondary gold incidence and primary corundum mineralisation having already been observed. Notwithstanding the principal focus on African emeralds, rubies and sapphires, the proximity of, and early indicators from, these licences compelled taking a closer look. During 2019, the disposal of a 50% interest in Kariba Minerals Limited, the owner and operator of an amethyst mine in southern Zambia, was completed in return for consideration from Zambia’s ZCCM-IH of USD2.5 million. Operations in Ethiopia remain on hold until the prevailing political, social and operating conditions in the country improve and permit a safe return.

Despite the improvements made by the Company in reducing overall Board remuneration over the past 24 months, the non-binding shareholder resolution in respect of GGL’s Remuneration Policy once again failed to pass by the required margin at the 2019 Annual General Meeting. As the previous Chairman stated at the time, it is disappointing that proxy advisory services don’t always

review the finer detail but simply follow strict box-ticking guidelines when considering their recommendations to shareholders.

Given Gemfields’ depressed share price during the year, a proportion of the funds previously earmarked for a special dividend – arising principally from the sale of our 7.5% stake in Jupiter – was utilised to buy back 143 million of the GGL shares on-market at an average price of just ZAR1.50 per share, adding considerable value to remaining shareholders. Given the success of that programme, the requested shareholder approval was received in December 2019 to extend the parameters of the share buy-back to a further 20% of issued share capital. With approximately USD10.3 million remaining of the original ‘Distribution Pool’ (of USD24.7 million announced in April 2019), it was the clear intention to distribute this to shareholders, either by a share buy-back or dividend during 2020. However, given the global lockdown in relation to COVID-19, the Group is taking a number of cash-saving initiatives until there is certainty over the auction programme and therefore the distribution has been suspended. It remains a key ambition of the Board and management team to distribute dividends on a consistent and sustainable basis after the crisis has passed.

The Company’s listing on the Alternative Investment Market (“AIM”) of the London Stock Exchange in London on 14 February 2020 was an important milestone. The GGL Directors are confident that the AIM listing will increase the Company’s reach to UK, European and international investors, all of whom will benefit from a more convenient entry point into the precious coloured gemstone market. The AIM listing should improve trading liquidity in time as well as strengthening public profile and broker coverage. The most recent broker reports suggest that the share price has significant upside potential.

Finally, I would like to thank my fellow Board members for their support since I became Chairman a few months ago. I am also grateful to all of Gemfields’ management teams for their unrelenting hard work and determination to meet the assorted challenges presented by our exciting sector, as well as the efforts being made by all staff across the Group, especially as we grapple with the fast-changing impact of COVID-19. To alleviate the effect of the pandemic on our ability to continue as a going concern, we have commenced a programme of cash preservation. These measures should allow us to navigate the uncertainty brought about by COVID-19 and recommence selling our gemstones when the global market opens up again. Notwithstanding the present turbulence, I look forward to continuing the Gemfield’s vision of becoming end consumers’ preferred brand for emeralds, rubies and sapphires.

Martin Tolcher

Chairman

4 April 2020

Chief Executive's Statement

My first full year as Gemfields Group's Chief Executive has seen the persistent hard work of our circa 2,400 team members deliver record revenues for 2019. Accompanied by a consistent rise in the demand and price for precious coloured gemstones over the last decade, our company has been at the forefront of driving awareness, confidence and transparency in the sector.

Our strategy remains focussed on consolidating our position as the world's leading supplier of responsibly sourced emeralds, rubies and sapphires from Africa, with our ownership of the iconic Fabergé brand enhancing the positioning and perception of precious coloured gemstones in the minds of consumers.

MOZAMBIQUE

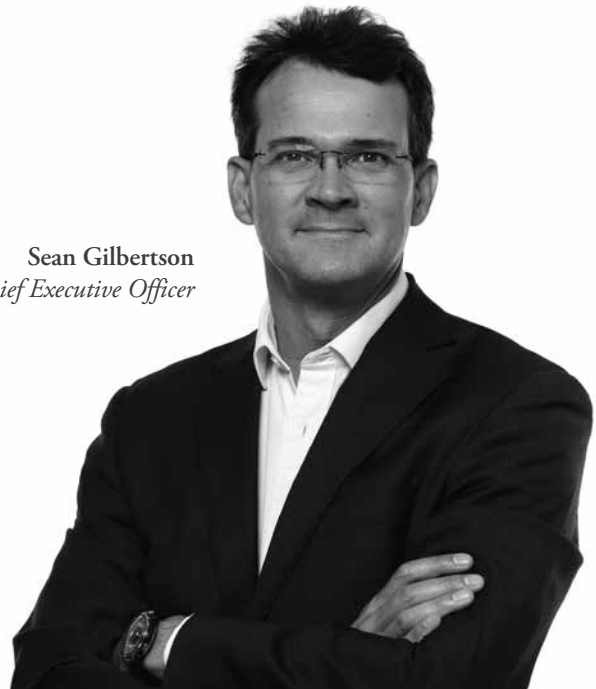
Montepuez Ruby Mining Limitada's ("MRM") production during the year was largely unaffected by the manifold challenges presented to the MRM team, including cyclones Idai and Kenneth and the increased presence of artisanal miners on our circa 350 km² licence area. A total 2.2 million carats of ruby and corundum were recovered in 2019. Given the extreme concentration of value in the higher quality gems, the premium ruby production of 81,300 carats is what really drives revenue (down from 92,200 carats in 2018). Coloured gemstone mining characteristically displays considerable volatility of both gemstone quality and ore grade. Total rock handling at MRM increased to 7.2 million tonnes for the year from 4.6 million tonnes during 2018.

The two mixed-quality ruby auctions held in Singapore during the year generated revenues of USD121.5 million with an average price per carat of USD64.32. In February 2019 we boosted our processing capability with the commissioning of an industry-leading sort house deploying state-of-the-art ultra-violet sorters. A new 30 metre diameter thickener was also commissioned during December 2019 and is expected to enhance throughput capacity throughout 2020. Total capital expenditure for the year was USD20.5 million, comprising USD13.2 million invested in expansion and exploration, USD2.7 million in existing mining and ancillary equipment replacements, and USD4.6 million associated with the Resettlement Action Plan ("RAP") which will see 105 families resettled in a new village by July 2020. All 105

homes were completed by year end and overall project delivery stood at approximately 80%.

Our Mozambican operations have observed increasing numbers of artisanal miners trespassing onto the licence area in search of shallow, ruby-bearing gravels. The associated illegal mining activity is exceptionally dangerous, and several ground collapse incidents resulted in the tragic loss of multiple lives. MRM routinely responds by providing humanitarian assistance and also conducts awareness and research programmes to warn of the dangers of illegal mining and to better understand the drivers of illegal mining activity. MRM's research revealed that many artisanal miners hailed from faraway towns and villages, including Nampula, some 400 kilometres by road from Montepuez, and were typically bound in debt to mostly foreign gemstone traders working in illegal smuggling syndicates. The influx of illegal miners into local villages damages the social fabric of the local communities due to alcohol and drug abuse, domestic and sexual violence, and environmental

Sean Gilbertson
Chief Executive Officer



problems relating, inter alia, to village water sources being used and silted for washing ruby-bearing gravels. MRM continues to raise awareness and liaise with the Mozambican authorities to encourage greater action against the financiers, facilitators and syndicates behind the illegal trade in Mozambican rubies. These parties exploit the illegal miners and keep a grossly disproportionate share of the proceeds of illegal ruby mining and smuggling.

ZAMBIA

Kagem Mining Limited ("Kagem") continued its run of robust emerald recovery throughout 2019. Production in the premium emerald category was 204,600 carats and overall production amounted to 36.3 million carats for the year at an average grade of 228 carats per tonne. Kagem's largest expense for the year was the 15% export duty imposed throughout 2019 and amounting to USD12.4 million. This reduced Kagem's cash flow dramatically and quashed capital expenditure planning for expansionary projects. As a result, Kagem's capital expenditure during the year reduced to a USD4.3 million (2018: USD11.8 million) and which was deployed in replacing mining and ancillary equipment as well as infrastructure improvements. Total rock handling at Kagem increased to 12.6 million tonnes for the year from 11.9 million tonnes during 2018.

Our four emerald auctions (two in Lusaka and two in Singapore) realised USD79 million in revenues in 2019, the second-best calendar year performance since we acquired Kagem more than a decade ago. We were very pleased to see the improving conditions for our emerald client base, who hail predominately from Jaipur in India, and which appeared to have solid foundations. That much-awaited recovery has of course now run brusquely into COVID-19.

We continued to progress the amalgamation of Mbuva-Chibolele ("Chibolele") and 10 other licences wholly owned by Gemfields into 75%-owned Kagem in order to expand the scale and scope of Kagem's operations. Significantly, this amalgamation also results in the Zambian Government (via its wholly owned Industrial Development Corporation) having a 25% shareholding in the wider Zambian emerald sector, thereby boosting Kagem's position as the flag-bearer for Zambian emeralds and the number one producer of emeralds internationally. The combined operations, including Chibolele – which continues to go from strength to strength – will also mitigate against the volatile ore grade and gemstone quality that is typical of emerald mining.

The year ended with two positive developments for our Zambian operations. Firstly, the Zambian Government announced that they would suspend the 15% export duty with effect from 1 January 2020. Secondly, Kagem's mining licence was renewed for a period of 25 years to April 2045.

During the year, updated Competent Person Reports ("CPR") for each of our Kagem and MRM assets were commissioned as part of

IMAGE

THE 5,655 CARAT INKALAMU "LION" EMERALD DISCOVERED AT THE KAGEM MINE WITH FABERGÉ'S LADY LIBERTINE I, WHOSE FACE DEPICTS THE ZAMBIAN LANDSCAPE IN ROUGH AND CUT ZAMBIAN EMERALDS



our AIM listing process. The CPRs were prepared in accordance with the JORC code and delivered encouraging net present values (at 10% discount rates) of USD600 million and USD567 million for Kagem and MRM respectively, highlighting the upside potential of our assets.

FABERGÉ

Our outright ownership of Fabergé – an iconic and prestigious brand of exceptional heritage – enables us to augment consumer awareness of coloured gemstones and advances our "mine and market" vision.

During the year to 31 December 2019, Fabergé increased the number of items delivered to 1,992 (2018: 1,985) and the number of sales transactions increased to 1,050 (2018: 747). Administrative expenses improved by 3% from the previous year.

The year saw two high-end Fabergé egg objects sold to a client in the Middle East, and the company continued expanding the 'Colours of Love' collection featuring Gemfields' Mozambican rubies and Zambian emeralds.

OTHER PROJECTS

While the opportunity is at an early stage, Nairobi Resources Limitada (“NRL”), our new joint venture with Mwiriti Limitada (our partners at MRM), made good progress in setting up basic infrastructure to support exploration and sampling work in 2020 to better understand the secondary gold and primary corundum mineralisation which has been recovered in small quantities from several areas within the licence portfolio.

Should the situation in Ethiopia improve sufficiently, Web Gemstone Mining (“WGM”), in which we own 75% would need to restart bulk sampling in order to generate enough data for resource estimation, prefeasibility and licence conversion. Given the current uncertainty created by the COVID-19 outbreak, we will keep this under review.

Gemfields owns 100% of Oriental Mining SARL, a company which holds assorted licences in Madagascar, including for emerald and sapphire. Should the prevailing COVID-19 turbulence permit, we would seek to commence preliminary work on identified prospects in Madagascar.

Gemfields implemented a new group-wide and cloud-based reporting system for incidents, accidents and near-misses and made good progress with re-designing its risk monitoring system.

INVESTMENTS

Sedibelo Platinum Mines Ltd (“Sedibelo”), in which the Group has a 6.5% shareholding, continues to focus on optimising operating efficiencies, minimising production costs and on cash preservation. Its safety record remains unsurpassed in the industry, with over 5.4 million fatality free shifts during the period.

Sedibelo dispatched 95,000 4E PGM ounces during the nine months to September 2019, down 16% on the comparative period. An increase in the USD 4E PGM basket price for the period helped revenues to increase by 2% to USD130 million. As a result of the upsurge in the value of palladium and rhodium, the USD 4E PGM basket price increased to USD1,219 for the first nine months of 2019 (2018: USD1,030). Our recent independent valuation report has reduced the levels of subjectivity involved in our assessment of the value of Sedibelo.

Our shareholding in ASX-listed Jupiter Mines Ltd was successfully sold during 2019 and GGL continues to seek an orderly disposal of its interest in Sedibelo at an appropriate time.

RESULTS

Overall, the Company generated EBITDA of USD80.9 million and recognised Free Cash Flow (as defined in the Financial Review) of USD31.1 million, before working capital movements. At

31 December 2019, the Company was in a net cash position of USD25.4 million before auction receivables of USD56.7 million (31 December 2018: net cash of USD9.8 million) emphasising our much-improved balance sheet.

The wider Gemfields team achieved record revenues during the year of USD216.2 million, predominantly derived from our four emerald auctions and two mixed quality ruby auctions. Wholly owned jewellery brand Fabergé generated USD10.5 million of revenues during the year.

The sale of our stake in Jupiter realised a net profit of USD4.6 million during the period. A further USD2.6 million of cash was received from Jupiter as a dividend in May 2019.

Given the suspension of the 15% export duty in Zambia, the recoverable amount of Kagem has been reassessed to USD335.8 million, resulting in an impairment reversal of USD21.6 million. An impairment provision of USD8.4 million was recognised against slow moving inventory and long outstanding receivables. Our Sedibelo investment recognised an unrealised fair value gain of USD7.1 million during the year.

Our tax charge for the year was USD28.2 million (2018: USD6.5 million), consisting of a current tax charge of USD24.6 million and a deferred tax charge of USD3.6 million.

Normalised earnings for the year, after removing impairment charges and reversals, settlement costs relating to Leigh Day and fair value movements on Jupiter and Sedibelo, would be USD25.5 million (2018: USD19.8 million) as our improved operating results were offset by significantly higher tax charges, including the 15% export duty in Zambia.

OUTLOOK

While 2019 presented its share of challenges, the diligence and drive displayed by the Gemfields team nonetheless delivered many new records and a robust financial outcome. In January, we felt very excited about the year ahead.

Then came COVID-19. The ensuing turmoil, impact on financial markets and restrictions on human life are likely to represent one of the biggest challenges Gemfields has faced to date. Clearly the wellbeing of our employees and communities is our number one priority. It is difficult to imagine a faster and more severe change in broader market conditions. This will clearly have a significant effect on many of our downstream clients and on end consumers. Our clients cannot purchase our gems unless they carefully inspect them at the 5 to 7 auctions we hold each year. Gemfields cannot presently host gemstone auctions given the widespread travel restrictions. In 2019, some 93% of our revenue was derived from gemstone auctions. Once the travel restrictions are lifted it will clearly take some time for life and business to return to a relative

“normal”. There is of course also a risk that travel restrictions are extended or re-introduced should a second wave of virus infections take hold in key countries. Absent some miraculous recovery from COVID-19, the emerald and ruby auctions we planned in Singapore for May and June 2020 respectively will likely be deferred to the last quarter of the year, by when we hope the market would have had sufficient time to recover. Given this delay in auction revenue, we have suspended all discretionary and uncommitted spend to preserve cash. Gemfields is highly dependent on revenue from gemstone auctions and any further delay in the 2020 auctions would put severe strain on the Group's finances (as disclosed in Note 1: *Going Concern*).

We take some comfort from the fact that well-bought gemstones have for centuries been regarded as a store of value and a guard against turbulent times. This was also evidenced in the 2008 financial crisis, where gemstone pricing indices proved remarkably resilient when compared to equity indices.

I would not wish to face the challenge ahead with anyone other than the proven and spirited Gemfields team, and I look forward to the day where we can, as a team, a business and a species, collectively declare this virus beaten.

Sean Gilbertson
Chief Executive
4 April 2020





June 2017

Conversion of Pallinghurst Resources Limited ("PRL") from a 10-year closed-ended investment fund to an evergreen operating mining company.



July 2017

Gemfields plc is delisted from AIM and becomes Gemfields Ltd (effected January 2018).

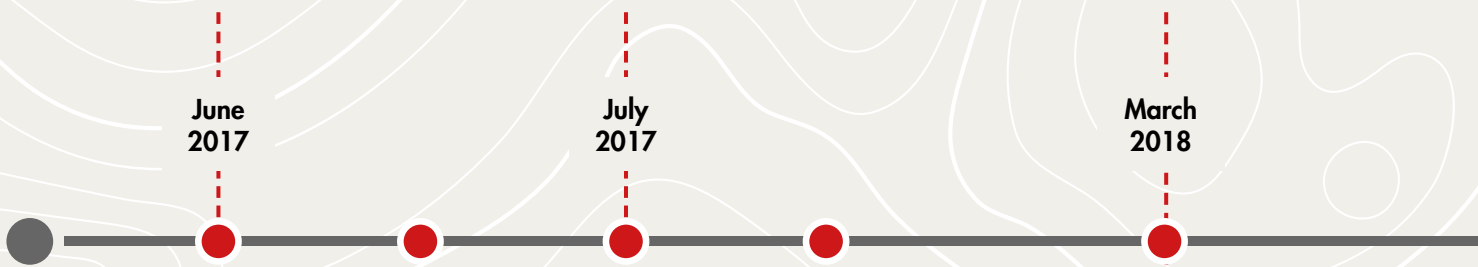


ASX Jupiter Mines Limited



March 2018

The PRL Board announces its decision to change the strategic focus of PRL to precious coloured gemstones and to support Jupiter at its IPO in April 2018.



June 2017

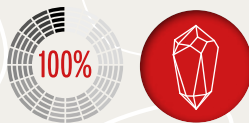
July 2017

March 2018

June–September 2017

July / August 2017

March 2018



June–September 2017
PRL acquires the remaining Gemfields plc shares it did not already own, taking it to 100% ownership of Gemfields plc.



July–August 2017
The Board of Gemfields plc is restructured – Sean Gilbertson becomes CEO and David Lovett becomes CFO.

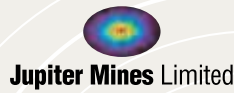
Gemfields veterans Adrian Banks, Kartikeya Parikshya and CV Suresh join the Gemfields plc Board.



March 2018
Arne H. Frandsen and Andrew Willis step down as CE and FD, respectively.

Sean Gilbertson and David Lovett take up the positions of CEO and CFO, respectively.

Timeline of Events



April 2019

GGL takes decision to fully realise its investment in Jupiter. The final phase of the transaction completed in November 2019.



December 2019

GGL receives shareholder approval from its EGM to buy back up to a further 20% of its issued share capital.

April 2019

December 2019

June 2018

June 2019

February 2020



June 2018

PRL shareholders approve PRL's name change to Gemfields Group Limited ("GGL").

GEMFIELDS



June 2019

GGL announces its intention to distribute USD24.7 million to its shareholders by way of Share Buy-Back and Special Dividend.



London Stock Exchange

February 2020

GGL completes its listing on AIM, as its secondary listing.

Board of Directors



MARTIN TOLCHER (56)

Chartered FCSI

Non-Executive Chairman

Member of the Audit, Remuneration and Nomination Committees

Martin Tolcher has been involved in the fund administration industry in Guernsey for over 30 years. Mr Tolcher has worked at senior levels for three Guernsey subsidiaries of Bermudan and Canadian international banks, gaining considerable experience in a wide variety of offshore fund and private equity structures.

Mr Tolcher joined Legis Fund Services Limited in 2005 and was appointed managing director at the beginning of 2007, a position he held until the end of 2010. Mr Tolcher remained a director of that company until September 2011. Since November 2011, Mr Tolcher has been self-employed as an independent non-executive director and holds directorships within a number of other fund structures domiciled in Guernsey, including a number listed on the London Stock Exchange and the International Stock Exchange. Mr Tolcher is a Chartered Fellow of the Chartered Institute for Securities & Investment. Mr Tolcher is a British citizen and is a resident of Guernsey.

Following Mr Brian Gilbertson's resignation as non-executive chairman of Gemfields and given Mr Tolcher's extensive experience and knowledge of Gemfields, Mr Tolcher was appointed as non-executive chairman of Gemfields on 25 November 2019.



SEAN GILBERTSON (47)

BSc (Mining Engineering)

Chief Executive Officer – Executive Director

Sean Gilbertson graduated as a mining engineer from Wits University in South Africa, having spent time in the country's deep-level gold and platinum mines. Mr Gilbertson worked as a project financier for Deutsche Bank in Frankfurt and London, specialising in independent power projects and public-private partnerships.

In 1998, Mr Gilbertson co-founded globalCOAL, a company that played a central role in the commoditisation of the thermal coal industry, and was appointed chief executive officer in 2001 when the business was acquired by industry players, including Anglo American plc, BHP Billiton plc, Glencore International AG and Rio Tinto plc. He was also co-founder of the pioneering Spectron eMetals trading platform for category I and II members of the London Metals Exchange.

Mr Gilbertson was a co-founder of the Pallinghurst Group in 2005 and bore responsibility for Pallinghurst's coloured gemstone strategy from 2006 to 2017.

IMAGE

LIGHT PASSING THROUGH
A NEWLY DISCOVERED
ZAMBIAN EMERALD FOR THE
VERY FIRST TIME



After the unbundling of the Pallinghurst Group in 2017/18, Mr Gilbertson was appointed CEO of Gemfields Group Limited on 31 March 2018 and remains CEO of Gemfields Limited, Fabergé Limited and Kagem Mining Limited, on whose boards he has served for more than a decade.

Mr Gilbertson is a British and South African citizen.



DAVID LOVETT (37)
BCom (Economics & Marketing), ACA

Chief Financial Officer – Executive Director

David Lovett graduated from Birmingham University's Business School in 2005 with a Bachelor of Commerce focussed on Economics and Marketing. He then joined Grant Thornton in the UK, working across advisory and tax services and becoming a chartered accountant with the Institute of Chartered Accountants in England and Wales ("ICAEW").

Mr Lovett joined Gemfields' finance team in 2008. He has acted as a senior financial manager across a number of Gemfields' operating subsidiaries during his nine-year tenure and has a thorough understanding of the Group's activities, including Fabergé. Mr Lovett is a director of Gemfields and Fabergé, as well as various related companies. Mr Lovett is a British citizen.



DR CHRISTO WIESE (78)
BA LLB DComm (h.c.), University of Stellenbosch;
DTech: Marketing, Cape Peninsula University of Technology;
DComm (Business Management) (h.c.), Nkhoma University of Malawi

Non-Executive Director

Dr Christo Wiese is chairman of Shoprite Holdings Limited, Africa's largest fast-moving consumer goods retail company with a total of more than 2,400 outlets trading in 15 countries in Africa and the Indian Ocean Islands and employing more than 148,000 people.

Dr Wiese is a significant shareholder in a range of businesses throughout the world. He holds large and controlling stakes in Brait SE (an investment holding company), Tradehold Ltd (a UK-based property investment company) and Invicta Holdings Ltd, all listed on the JSE.

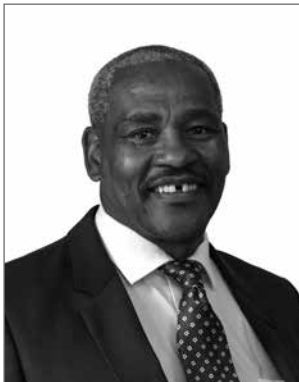
Dr Wiese has served on the boards of many listed companies over the years and is a past director of the South African Reserve Bank and former chairman of the Industrial Development Corporation of South Africa Ltd ("IDC") and Pepkor Holdings (Pty) Ltd.

**IMAGE**

THIS BAOBAB TREE, THE TREE OF LIFE, STANDS UNTOUCHED IN THE CENTRE MONTEPUEZ RUBY MINING'S OPERATIONS, AWAITING REPLANTATION OF SURROUNDING VEGETATION

In 2015, Dr Wiese was awarded Lifetime Achievement Awards at the Sunday Times Top 100 Companies Awards and the All Africa Business Leaders Awards, and was inducted into the World Retail Hall of Fame.

Dr Wiese owns Lourensford Wine Estate, a producer of internationally acclaimed wines, and is the owner of a game reserve in the Kalahari. Dr Wiese is a South African citizen.

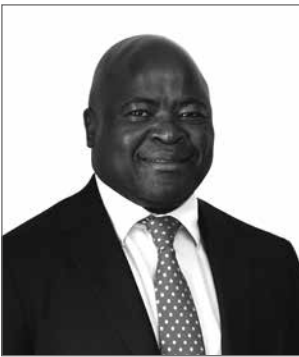
**LUMKILE MONDI (57)**

BCom (Hons) in Economics, MA (Economics)

Lead Independent Non-Executive Director
Chair of the Nomination Committee
Member of the Audit and Remuneration Committees

Lumkile Mondi is a senior lecturer at the School of Economics and Business Science of the University of the Witwatersrand in Johannesburg, South Africa. Mr Mondi is a strategist, an economist and a leader. He has worked extensively on the African continent, undertaking his responsibilities at the IDC, where he was an executive for 11 years. He is also the chairman of Thelo Rolling Stock Leasing. He previously served on the board of ArcelorMittal South Africa.

Mr Mondi has more than 20 years of postgraduate experience and over seven years working in financial markets in interest rate derivatives and asset and liability management. Mr Mondi is also involved in the BRICS (Brazil, Russia, India, China, South Africa) think tanks on institutional strengthening and coordination. He has presented at and participated in various conferences worldwide, including the United Nations, World Bank, the Brazilian Development Bank and the Organisation for Economic Co-Operation and Development ("OECD"). Mr Mondi has travelled extensively throughout the world, bringing innovation to his work for a better world for all. Mr Mondi is a South African citizen.



KWAPE MMELA (49)
LLB, MPhil (Business Research)

Independent Non-Executive Director
Chair of the Remuneration Committee
Member of the Nomination Committee

Kwape Mmela is the founder and chairman of ShepherdTree Holdings Ltd and Hlamogolo Capital (Pty) Ltd, which are his family investment vehicles.

He has more than 20 years' experience in both public and private sectors in South Africa, including stints with the Constitutional Assembly during the drafting of South Africa's post-apartheid Constitution and with the Land Claims Commission to address past land dispossessions. He served as a director of Sedibelo Platinum Mines Limited for almost ten years. In 2005, Mr Mmela established the Moepi Group (Pty) Ltd, which eventually became the Black Economic Empowerment partner of Sedibelo Platinum Mines. Mr Mmela is a South African citizen.



CAREL MALAN (34)
Chartered Accountant (South Africa)

Independent Non-Executive Director
Chair of the Audit Committee

Carel Malan started his career at Ernst & Young where he received his first exposure to the mining industry. After three years with the firm in Gauteng, he requested a transfer to Bermuda, where he spent a further year.

Mr Malan joined Tshipi in January 2012 and was appointed chief financial officer ("CFO") in May 2014. In October 2015, Mr Malan resigned from Tshipi to pursue other interests. However, his interest in mining and his in-depth knowledge and experience of Tshipi's business model brought him back to the company, where he was reappointed as CFO. He was part of the executive team growing the Tshipi asset to become the largest exporter of manganese ore from South Africa. In 2018, he was part of the team that listed Jupiter Mines on the Australian Securities Exchange ("ASX") in what was flagged as the biggest IPO in the last decade on the ASX.

Mr Malan is a chartered accountant and a South African citizen.



IMAGE

VIBRANT SHADOWS CAST BY MOZAMBICAN RUBIES FROM MONTEPUEZ RUBY MINING



2019 Highlights.....	20
Marketing and Communications	22
Commodity Outlook.....	27
<i>Coloured Gemstones</i>	27
Operational Review	29
<i>Zambia</i>	29
<i>Mozambique</i>	35
<i>Fabergé Limited</i>	42
<i>New Projects and Other Assets</i>	44
Financial Review	46
Mineral Resources and Ore Reserves Summary	53

02 PERFORMANCE

2019 Highlights

GEMFIELDS



ZAMBIA

- Kagem Emerald Mine (“Kagem”) produced 204,600 carats of premium emerald for the year to 31 December 2019.
- Kagem produced 36.3 Mct of emerald and beryl during the year, with an average grade of 228 carats per tonne.
- During the year, total cash operating costs were USD45.6 million, with unit operating costs of USD3.60 per tonne.
- The 15% export duty introduced in 2019 was indefinitely suspended from 1 January 2020 – USD12.4 million export duty was paid in 2019.
- Kagem mining licence was renewed to April 2045.
- Total auction revenues of USD79.0 million were generated from four auctions during the year, namely two higher-quality (“HQ”) and two commercial-quality (“CQ”) auctions.
- Kagem held the two HQ auctions in Singapore in May and November. HQ auction revenues of USD49.6 million were achieved, with an average price per carat of USD78.63.
- Operations at the Mbuva-Chibolele property, adjacent to the Kagem licence area, continued with 8.3 Mct of emerald and beryl produced at an average grade of 128 carats per tonne for the full year.



MOZAMBIQUE

- Montepuez Ruby Mine (“MRM”) produced a total of 81,300 carats of premium ruby were produced for the year to 31 December 2019.
- A total of 2.2 Mct of ruby and corundum were produced during the year, with an average grade of 2.6 carats per tonne.
- During the year, total cash operating costs were USD32.8 million, with unit operating costs of USD5.90 per tonne.
- MRM held two mixed-quality auctions in Singapore in June and December of 2019. Revenues of USD121.5 million were achieved with an average price per carat of USD64.32.
- A new, state-of-the-art automated sort house was commissioned in February 2019.

2019 Highlights

GEMFIELDS

FABERGÉ

- Key wholesale markets of Europe and the UK and Northern Ireland saw sales increase by a combined 67% in the year to 31 December 2019.
- The global “By Appointment” team’s sales increased by over 21% in the year to 31 December 2019.
- Sales at the company’s Harrods concession in London increased 15% in the year to 31 December 2019.
- During the year to 31 December 2019, Fabergé saw an increase in the number of items delivered at 1,992 (2018: 1,985) and increased number of sales transactions at 1,050 (2018: 747).
- Administrative expenses reduced by 3% over the year.
- Two high-end Fabergé egg objets d’art (Imperial class eggs) were delivered to a client in the Middle East in 2019 – the Pearl Egg and the Rocaille Egg which was inspired by the Rocaille Egg of 1902.

IMAGE

MOZAMBICAN RUBIES SURROUND
FABERGÉ CHARMEUSE RUBY RING,
EMOTION MULTICOLOUR GEMSTONE
RING AND EMOTION OPEN BRACELET



Marketing and Communications



Driving consumer demand for responsibly sourced African coloured gemstones through innovative marketing remains a key part of Gemfields' approach. During 2019, Gemfields' marketing and communication efforts honed in on education, leadership and gemstone visibility.

The year's activations saw the Group build connections with new audiences in the art and fashion worlds, forge jewellery collaborations with like-minded brand partners and step up efforts to grow a meaningful presence in China. Stand-out projects such as VOID, the Knight Frank Luxury Investment Index and a retail seminar enhanced the appeal of Zambian emeralds and Mozambican rubies in target audiences.

EXPANDING GEMFIELDS' LEADERSHIP POSITION IN THE SECTOR

This year, Gemfields took steps to advance the perception of the brand as a world-leading supplier of responsibly sourced coloured gemstones, pushing the sector forward in terms of transparency, adoption of pioneering technology and taking a prominent role in raising awareness of coloured gemstones.

In this endeavour, Gemfields contributed to Knight Frank's latest Luxury Investment Index that was launched in June. The consumer-focussed report analysed coloured gemstone values, significant sales and auction price performance, particularly when compared with colourless diamonds and the wider jewellery market. Andrew Shirley, head of luxury research at Knight Frank, commented, "The interesting story here is that coloured gemstones are outperforming the wider jewellery market with some significant sales taking place already in 2019." Media coverage commented on the rising popularity of coloured gemstones with investors and collectors worldwide.

Gemfields' pioneering approach to increasing sector-wide transparency led to a further partnership with the Gübelin Gem Lab, this time adopting blockchain technology for rubies and combining blockchain with Provenance Proof nanoparticles for the very first time at the November 2019 high-value emerald auction.

A media masterclass in March updated the UK press on all things emerald and ruby and underlined Gemfields' authority to speak on topics concerning the sector. In addition, Gemfields sponsored the International Coloured Gemstone Association ("ICA") Congress in Bangkok, a competition to drive innovative marketing of coloured gemstones at the East and Southern African Coloured Gemstones Forum in Nairobi and provided insights into successfully marketing coloured gemstones at the China International Gems and Jewellery Development Conference in Beijing. Gemfields had a presence at both the March and September Hong Kong Jewellery & Gem Fairs, in addition to appearing at the India International Jewellery Show ("IIJS"), the Jewellers Association Show ("JAS") and the Jaipur Jewellery Show ("JJS") in India.

EDUCATING AND ENTHUSING CONSUMERS WITH COLOURED GEMSTONES

A retail seminar in October 2019 provided the opportunity to enthuse UK retail professionals with stories from the coloured gemstone sector. The free one-day introductory seminar was the first of its kind, bringing together a panel of speakers to provide those on the front line of the jewellery business – salespeople – with the most up-to-date understanding of the "big three" rare coloured gemstones. The result was that over 100 salespeople left the seminar equipped with stories and insights to share with clients, just in time for the retail flurry in the run-up to Christmas.



IMAGE

GIANT EMERALD AND RUBY SCULPTURES ENTICE AND EDUCATE AT SHANGHAI'S CONTEMPORARY ART EXHIBITION, ART021

Gemfields has introduced a series of informative booklets for point of sale that explore four key topic areas – Buyer's Guide, Emerald, Ruby, and Responsible Sourcing. These handy guides provide information directly to consumers and are available at trade shows and at partnership brands' retail locations, such as Fabergé boutiques. The booklets have been brought up to date by new photography from shoots at mine sites. In addition, new films outlining the mining process, responsible sourcing and coloured gemstones have been created and will be released across marketing channels and activations.

Further educational efforts were made directly to consumers by carefully selected sponsored content advertisements. Gemfields partnered with *Vanity Fair* to create a film, *In conversation...*, with in-house gemmologist Elena Basaglia and jewellery editor Annabel Davidson as part of the Sustainability Series. It has already had 438,062 views on social media. Gemstone meanings and attributes were explored in an article for the October edition of *Vogue China* (accessible to 9.7 million WeChat subscribers), a practical how-to-buy guide was published in *Femina* and reached the Indian market, while a series with *GQ* centred on a male audience, providing purchase guidance to consumers in the UK, US and Middle East (2.3 million impressions). A sponsored content piece in December's *Forbes India* focussed on blockchain technology and transparency in the coloured gemstone sector to coincide with Gemfields' high-value auctions of emeralds and rubies, while *Mine Magazine* highlighted the importance of knowing where your gemstone comes from.



IMAGE

CONTRASTING EMERALD AND RUBY TONES WERE EXPLORED BY ARTIST SEBASTIEN LEON AT DESIGN MIAMI/

Activations in the UK and India to bring Gemfields' Every Piece Unique campaign to life involved a fact-filled sweet cart celebrating the many shades of emeralds and rubies across London, and an augmented reality experience in Mumbai's retail district.

BOOSTING VISIBILITY OF AFRICAN COLOURED GEMSTONES ON THE WORLD STAGE

The third pillar of Gemfields' marketing approach is a concerted effort to increase the visibility of coloured gemstones in the realms of jewellery, fashion and the arts, with the aim of engaging with new audiences. Often surprising, unexpected and unique, these collaborations have been chosen to promote consumer awareness of coloured gemstones, raising their profile and, in turn, providing greater benefit to their place of origin in Africa.

On top of 392 million impressions gained through advertising, including social (102.4 million), digital (83.5 million), print (17.5 million) and out-of-home (69.5 million) advertisement, 2019 saw a considerable upsurge in Gemfields' activations to boost visibility, particularly in art-related partnerships.

ART PARTNERSHIPS ENABLE STORYTELLING AND OPEN NEW DOORS

In September 2019, Gemfields partnered with designer Dan Tobin Smith and The Experience Machine to present VOID, a multi-

sensory spatial installation presenting gemstone inclusions as part of the 2019 London Design Festival. Visitors became part of an immersive experience, travelling through a series of large-scale projections. A selection of Mozambican rubies and Zambian emeralds were brought to life through the photography of tiny inclusions magnified to become abstract, galaxy-like structures. The exhibition presented the opportunity for gemstone masterclasses, public and private views and live performances by the female drone choir NYX.

The art conversation was continued in the US in December 2019, when Gemfields partnered with Whitewall to present GEOCHROM by Los Angeles-based artist and designer, Sebastien Leon, for the Design Miami / global design forum, which attracts 42,000 attendees. This unique installation – whose name is taken from “geo” (the earth) and “chrom” (colours) – celebrated the ultimate contrast presented by the colours red and green, exploring the geological structure of emeralds and rubies in both 2D and 3D forms, with geometric paintings, large glass installations coloured by LED tubes and a sound sculpture.

CONTINUED DEVELOPMENT OF VISIBILITY IN CHINA WELCOMES THE FIRST CHINESE CUSTOMER

Two notable art moments took place in China, a prominent market with huge growth potential. Gemfields celebrated Chinese New Year at the In Art We Live space in Shanghai K11, offering



visitors the opportunity to share New Year's wishes in red envelopes hung from a flower-laden baobab tree. In November 2019, giant emerald and ruby structures dominated the entrance to Art021 Shanghai Contemporary Art Fair, showing brand-new, informative films to any visitors stepping inside the larger-than-life gemstone structures. The activation included stand interviews and a press dinner.

Gemfields was delighted to welcome the first Chinese customer to one of their commercial emerald auctions earlier this year. This customer went on to successfully win a schedule of 117,500 carats of Zambian emeralds. The customer returned in November 2019, this time purchasing schedules of premium-grade emeralds. The year also saw a cohort of Chinese jewellery business professionals visiting Gemfields' mines in both Zambia and Mozambique and a new partnership was announced with the GUILD Institute of Gemology, who will present a series of ruby masterclasses across China.

ALIGNING WITH FASHION'S COLOURFUL RHETORIC

July 2019's couture shows in Paris attracted significant attendance from US fashion editors. Therefore, Gemfields created a Suite of Gemstones in tribute to African emeralds and rubies, showcasing their versatility and wearability in fine and high jewellery creations. A myriad of coloured gemstone designs were shown, from brand partners AYA, Backes & Strauss, Bina Goenka, Fabergé, Fehmida

Lakhany, Francis de Lara, GFG Jewellery by Nilufer, James Ganh, Margery Hirschey, Paul Morelli, Valani Atelier, Van Leles and William & Son.

In Dubai's fashion mall, 30 media representatives and influencers, along with over 1,000 shoppers, took the "ultimate selfie" inside a giant emerald structure, reading fun gemstone facts and visiting Fabergé's boutique to see coloured gemstone jewellery for themselves.

In India, Gemfields once again proudly sponsored the *Vogue India* Women of the Year Awards with influencers' social posts reaching an audience of 8.2 million.

NEW JEWELLERY PARTNERSHIPS WITH LIKE-MINDED BRANDS

We saw new brand partnerships for Gemfields in 2019. Renowned for celebrating unconventional beauty and sustainable methods, Ruth Tomlinson's limited-edition collection, entitled JARDIN, features Gemfields' emeralds, which Tomlinson selected for their otherworldly inclusions.

The Gemfields x The Alkemy collection is available at accessible price points on Farfetch.com and includes seven earring designs alongside a Gemfields x Zoë Chicco collection, with Zoë Chicco's five bestsellers redesigned to feature Gemfields' Zambian emeralds. Kirstie Gibbs, The Alkemy founder, commented, "Gemfields is a brand that is very close to my heart. With a family farm on the

borders of Mozambique and a brother who is a virologist in Africa, I hugely admire the work Gemfields does with communities in Africa, and being able to support that through my jewellery store in the UK means a lot to me.”

Gemfields’ Las Vegas Couture presence took a different tone this year, celebrating established brand partnerships and a resultant presence integrated throughout the show – highlighting Gemfields’ role within the industry. Gemfields’ responsibly source gemstones featured on the stands of Valani Atelier, New York-based Misahara and the fine jewellery house of Paul Morelli.

Fabergé’s latest advertising campaign proudly surrounded jewellery pieces with rough Gemfields emeralds and rubies. A champion of sustainable sourcing, Bibi van der Velden’s pieces strive to preserve what is precious. Her Momento Mori Ring, featuring Gemfields gemstones, went on display at the Hermitage Amsterdam in September until March 2020 – the very first piece of contemporary jewellery to be exhibited.

IMAGE

THE BEAUTY OF COLOURED GEMSTONE INCLUSIONS, BROUGHT TO LIFE BY DAN TOBIN SMITH, TEM AND GEMFIELDS IN AN EXHIBITION TITLED VOID

TRANSPARENCY IN ACTION

Gemfields once again hosted media trips to mine sites in Zambia and Mozambique, this time for crews from Tokyo and London. There was also a top-tier press trip to the Kagem emerald mine in November, with attendees from US titles *Celebrated Living* and *Monocle* (US), UAE titles *Marie Claire*, *Haya*, *Buro247* and *The National*, as well as Chinese luxury title *Comfort Mag*.

Gemfields’ marketing materials have been revamped with a focus on sustainability. Tote bags are made from fairtrade cotton, branded pencils from FSC-certified, sustainable wood and branded point-of-sale materials are now fully recycled.

THE YEAR AHEAD: 2020

The year 2020 will see Gemfields continuing education, leadership and visibility efforts across target markets, with tempered activations in the US and China as a result of COVID-19.

New jewellery pieces will be created with new brand partnerships, increasing consumers’ ability to buy into the Gemfields brand. The launch of a new Foundation will allow consumers to join in with community and conservation efforts.

Gemfields will continue to expand its position as a global leader in African emeralds, rubies and sapphires, promoting transparency, trust and responsible mining practices.



Commodity Outlook

COLOURED GEMSTONES

The Coloured Gemstones data below is based on the most recently published figures in the United Nations Commodity Trade Database (“UNCTD”) and by the Gems and Jewellery Industries Centre (“GIJC”), Thailand. Given the specialised nature of the coloured gemstones market, figures are only published annually – in June of each year. The 2019 data, however, is not yet available. Unless referenced, 2018 numbers are used with 2017 numbers as a comparison as these are the latest figures available.

From 2014 to 2018, the average annual value of the global coloured stone trade was USD23.1 billion, while the polished precious stones accounted for nearly half of the finished coloured gemstone market. In the first quarter of 2019, the global coloured stone trade value was at USD5 billion, a 2.10% increase compared with the same period of 2018. Although the global economy has started to weaken, demand for coloured stone remains firm as coloured stones are bought as an investment, particularly precious stones without treatment. The world’s top three coloured stone importers, with a total share of over half of the world’s gross import value, are the US, Hong Kong and India respectively.

According to the UNCTD, emeralds, rubies and sapphires alone account for 78% of the finished coloured gemstone and pearl market in 2018 (2017: 48%). In 2018, global imports of the top three coloured gemstones reached USD9.3 billion, representing an increase of 80% compared with the previous year (2017: USD5.1 billion), whereas global imports of finished diamonds for jewellery use decreased in 2018 to USD46.1 billion (2017: USD74.0). The category of other coloured gemstones (excluding diamonds, emeralds, rubies and sapphires) was stable and global imports were at the same levels (USD1.23 billion in global imports in 2018 compared with USD1.26 billion in 2017).

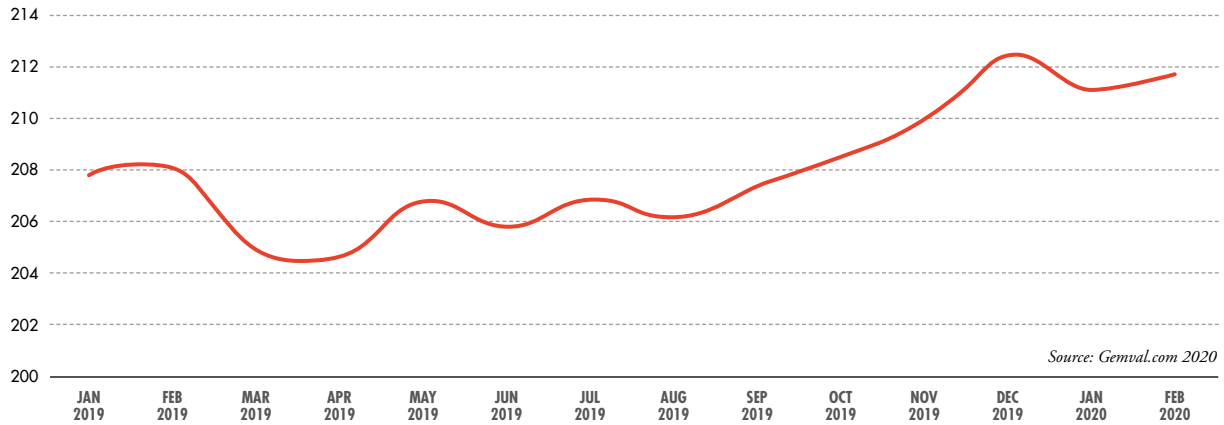
As noted by the GIJC, historically the US has been the world’s largest coloured stone market. In 2018, the US import value of coloured stones from across the world was at USD2.1 billion, or a quarter of the world’s total coloured stone import value. Though its economy has begun to slow down, demand for coloured stone among consumers with high purchasing power continues to rise. The increase can be proven by the coloured stone import value during the first five months of 2019, which increased by over



IMAGE

ZAMBIAN EMERALDS
RECOVERED AT THE
KAGEM MINE

FIGURE 1: Gemval Aggregate Index – GVA



Source: Gemval.com 2020

Note: The Gemval Aggregate Index (GVA) is calculated as a total value of 26 standard specimens of gemstone and represents the overall pricing trend in the jewellery market. GVA values have been monitored since 1st July 2005. The current value of GVA is measured in %, as a ratio of current GVA value to the initial value on July 2005.

3%, compared with the same period of 2018. In 2019, over 72% of the US coloured stone imports were of polished precious stones with an import value of USD1.55 billion, a 3.77% growth year-on-year. Emerald was the US dominant product, followed by blue sapphire and ruby. The products grew from the previous year. The US imported the highest share of around 14% of polished precious stones from Thailand – particularly rubies and sapphires. Thailand was followed by France and Colombia, which exported emerald as its dominant product, respectively.

The global gemstones industry as estimated by Future Market Insights (“FMI”) is expected to grow moderately at 4.4% in 2019. According to FMI, nearly 85% of overall sales of gemstones is accounted for by jewellery and ornaments, the majority of which is accounted for by gemstone-studded rings. Customisation of gems and jewellery has been trending in the recent past, which is creating high-potential growth opportunities for gemstones market players. The report suggests that a number of manufacturers and designers are exclusively focussed on the development of innovative, customised gemstone jewellery designs by using cutting-edge technologies such as rapid prototyping (“RP”) and computer-aided design (“CAD”). Further, given that the supply remains fragmented and more players are producing a wide range of goods, FMI envisages that market leaders, with defined geological resources, will be able to command a premium. This is very visible in the diamond industry and Gemfields’ position is getting strengthened with improved production for both emeralds and rubies.

Based on 2019 price data obtained from Gemval, it can be seen from the graph (Figure 1) that in 2019 the coloured gemstone market continued to improve through the year. Gemval has tracked aggregate prices of 26 different standard specimens of

gemstone since 2005 and is a good indicator of overall price trends, which seemed to be relatively stable over 2019. This is reflected in the improved demand levels and price attained in Gemfields’ rough emerald and ruby auctions which align with Gemval’s Aggregate Index (“GVA”) for emerald, ruby and sapphires.

We believe that, with our improved supply of high-quality gemstones and drive for consumer awareness of coloured gemstones across the globe, and consumers realising the true value and rarity of emeralds and rubies, the medium to long-term outlook for coloured gemstones remains vibrant. However, the outbreak of COVID-19 brings a material adverse impact on our industry during 2020 given the related travel restrictions, city lockdowns and economic consequences. Prior to the outbreak our market was showing particularly positive trends, partly as a result of millennials’ improved understanding of coloured gemstones and their discovery of the natural and inherent beauty of colour, leading to increased demand for coloured gemstones that will result in significant value to industry stakeholders in years to come.



Operational Review

ZAMBIA



Operations in Zambia comprise the following:

- **Kagem Mining Limited (“Kagem”)**, the world’s single-largest producing emerald mining company, accounts for approximately 25% of global emerald production. The 42.37 square kilometres licence area is located in the Ndola Rural Emerald Restricted Area (“NRERA”) and lies south of Kitwe and west of Ndola, in Zambia’s Copperbelt Province. It is 75% owned by Gemfields and 25% owned by the Industrial Development Corporation of Zambia. Kagem operations comprise three open pits:
 - » Chama, our flagship operation, an open-pit mine extending over 2.2 km of strike length which contributes to about 75 to 80% of our gemstone production;
 - » Mbuva-Chibolele (“Chibolele”), located on the prolific Fawya-Fawya – Pirala Belt in the NRERA within the Kafubu area of the Copperbelt Province of Zambia, is an upcoming open-pit mine. This pit was recently acquired by Kagem from Gemfields Mining Limited (a 100% subsidiary of the Group). It extends to about 450m in strike length and is under expansion. In future, it is estimated that this pit will be a major contributor to growth; and
 - » Fibolele, another open-pit mine with 600 metres of strike length which has been under active production for over six years.
- On 17 October 2019, in accordance with the Licence Transfer Agreement between Gemfields Mining Limited and Kagem, the Chibolele, Kamakanga and Arinus licences held by Gemfields Mining Limited were transferred to Kagem. The transfer was approved by the Ministry of Mines and Mineral Development. In February 2020, the remaining eight licences included under the same Licence Transfer Agreement were approved by the Ministry of Mines and Mineral Developments and transferred.

ZAMBIA

Location	Copperbelt Province, Zambia
Acquisition by Gemfields	November 2007
Ownership structure	75% Gemfields 25% Government of Zambia
Gemstones	Emerald and beryl
Mining method	Open-pit
Potential mine life	23 years (CPR 2020)

KAGEM

Auction results

Kagem held two higher-quality auctions in Singapore in the year, one in May 2019 and the other in November 2019. These auctions together generated USD49.6 million in revenue at an average price of USD78.63 per carat. The two commercial-quality auctions held in Lusaka, Zambia in February and August 2019 realised revenue of USD29.4 million at an average price of USD4.61 per carat. Total revenue generated by Kagem for the year ended 31 December 2019 was USD83.0 million, with USD79.0 million coming from auctions and USD4.0 million from direct sales of lower grade material and beryl. The total revenue is higher than the USD60.3 million achieved in 2018 as 2018 was adversely impacted by the challenges faced by the economy in India where most of the emerald customers are from.

Kagem's key operational parameters for the year ended 31 December 2019 are summarised in the table below.

Kagem production summary

	12 months to 31 December 2019	12 months to 30 June 2018
Gemstone production (premium emerald) in thousand carats	204.6	224.0
Gemstone production (emerald and beryl) in million carats	36.3	35.5
Ore production (reaction zone) in thousand tonnes	159.0	173.9
Grade (emerald and beryl/reaction zone) in carats/tonnes	228.0	205.0
Waste mined in million tonnes	12.5	11.7
Total rock handling in million tonnes	12.6	11.9
Stripping ratio	77.0	67.0

The table above is inclusive of Chibolele production metrics from 1 November 2019 – 31 December 2019. Chibolele's production summary for the ten months to 31 October 2019 is included on a standalone basis in the Chibolele production summary table within the Chibolele operational update section.

Mining

The Chama open-pit mine is supported by a JORC-compliant Resources and Reserves Statement produced by SRK Consulting (UK) Limited ("SRK") as at 31 July 2019. The CPR supports the reporting of Mineral Resource and Ore Reserve estimates in accordance with the 2012 edition of JORC. The present CPR forms part of the requirements, of the Group, for a dual-listing on the Alternative Investment Market ("AIM") of the London Stock Exchange ("LSE") and confirms a 23-year open-pit Life of Mine Plan ("LoMP") with 755 Mct of reserves of gemstone indicating that the mine is well positioned for growth in production.

During the year, Kagem continued work in three sectors of the Chama pit (F10, Chama and FF-Mboyonga) exposing the emerald bearing rock for mining. In addition, certain sections of the pit were further cleared and deramped, allowing a consistent production profile at the main pit. The efficiencies achieved from redesigning the pit have continued, with a larger, more efficient fleet being deployed in the pit.

Fibolele continued to provide an additional source of production and the extension of the strike length to 600 metres during the year exposed more emerald and beryl-yielding contacts. Fibolele has produced 15.6 Mct since 2012 with 3.08 Mct being recovered in 2019.

Total rock handling in respect of all pits (Chama, Fibolele and Chibolele since acquisition) was 12.6 million tonnes for the year, despite the challenges of increased hauling and handling of hard rock from deeper parts of the mine as adoption and roll out of several best-practice techniques in drilling, blasting and machinery usage continued to reap the benefits. During the business year, Centric – mining performance management software – was successfully implemented giving us an edge in monitoring fleet optimisation and real-time review of resource deployment.

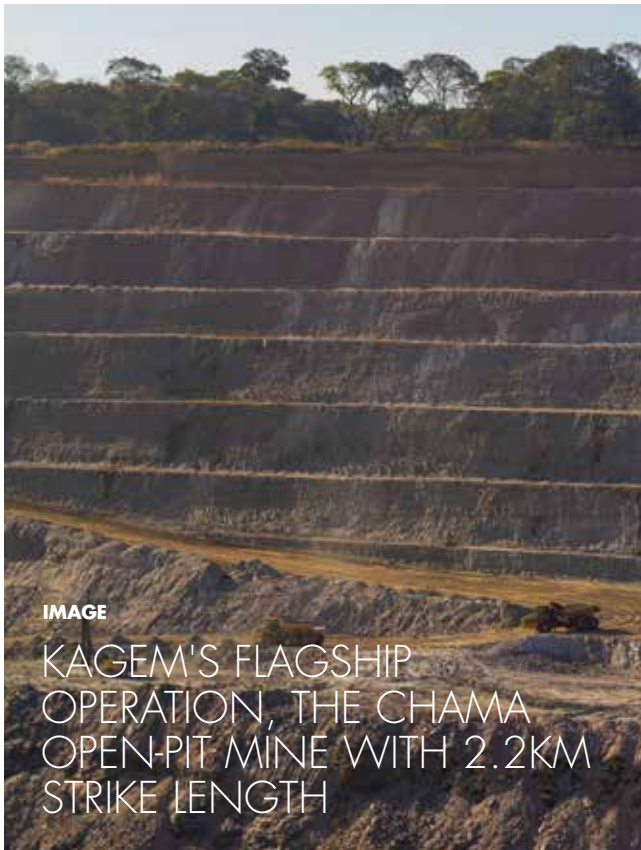
Production

The Chama pit extension, which led to the opening of new areas and greater space in which to operate a larger fleet, resulted in improvements in gemstone production, both in size, quantity and quality of the gems picked.

Gemstone production for the year was 36.3 Mct of emerald and beryl, with 204,630 carats of premium emerald. This is a slight fall from the prior year and is partially due to a drop in the grade of ore available at the wash plant which fell from 235 gm/tonne in 2018 to 173 gm/tonne in 2019. Overall, the Chama pit, on a standalone basis, shown significant improvement in grade from 194 carats/tonne ("ct/t") in 2018 to 226 ct/t 2019, as the hanging walls of F10 North, F10 East and F10 junction areas exposed more productive ore veins. Of the total production, the Chama pit contributed 31.1 Mct, the bulk sampling project, Fibolele, contributed 3.08 Mct and Chibolele contributed 2.16 Mct since acquisition. Despite considerable technological advances, the difficulty in predicting the distribution of minerals necessary for emerald formation remains.

Processing

Various measures have been implemented at the wash plant during the year to bring about process improvements. Some of the steps which have made a significant impact are the mounting of the anti-rollback rollers on the feeder conveyor belts resulting in low material spillage whenever there is power outage, the installation of an improved and effective lighting system in picking areas to increase light intensity contributing to better visibility and optimised product picking, the commissioning of an automatic lubrication system on critical equipment which has reduced the time to repair from 3.2 hours to 2.8 hours and increased the time between failures from 30.4 hours to 32.5 hours for the plant. By maintaining a feed rate in the range of 44–47 tonnes per hour ("tph") for two consecutive years, the product recovery through optimised feed split and laminar flow has continued.



Operating costs

Total operating cost for the year was USD45.6 million (December 2018: USD42.2 million), with a unit operating cost of USD3.60 per tonne of rock handled which is consistent with 2018. Cash rock handling unit cost (defined as total cash operating costs divided by total rock handled) was USD3.07 per tonne for the year, with a total cash cost of USD38.9 million compared to USD35.5 million and USD2.97 per tonne in 2018, as Zambian inflation on fuel, labour and spare parts put upward pressure on costs.

Total operating cost includes mining and production cost, selling, general and administrative expenses, and depreciation and amortisation, but excludes capitalised costs and mineral royalties. Cash operating costs include mining and production costs, capitalised costs, selling, general and administrative expenses, and exclude marketing, management and auction costs, property, plant and equipment capital expenditure, depreciation, amortisation, and mineral royalties.

Tax regime

Kagem was subject to a 15% export duty on all gemstone sold effective from 1 January 2019, following its introduction by the Government of Zambia (“GRZ”). In addition to the export duty, the 6% mineral royalty was subject to corporate tax as it was no longer considered to be deductible for tax purposes.

The total export duty levied as 15% on all revenues in the year amounted to USD12.4 million, which ultimately reduced Kagem’s cash flow and ability to invest in expanding its licence footprint and production levels during the year.

The implementation of the 15% export levy was expected to adversely impact the outlook for Kagem in 2018 with its cash generation being considerably reduced. Therefore, as required by accounting standards, an impairment review was conducted as at 31 December 2018 resulting in a charge being recognised of USD22.6 million. On 13 December 2019, the GRZ issued a Statutory Instrument (SI 82 of 2019) which indefinitely suspended the export duty from 1 January 2020. Consequently, at 31 December 2019, Kagem’s value was revisited and concluded to have increased such that USD21.6 million of the previous impairment charge has been reversed. The Group welcomes this development as it allows Kagem to revive its long-term vision of expanding and developing the Zambian emerald footprint.

Capital expenditure

During the year, USD4.3 million was invested in the replacement of mining and ancillary equipment as well as in infrastructure improvements. The capital investment was significantly below the USD11.8 million made in 2018 as Kagem adapted its spending profile to accommodate the 15% export duty.

Geology and exploration

During the year, the geological understanding of the ore body and mineralisation was further advanced by using the 2017 Resources and Reserves Statement and the LoMP produced by SRK. Continuous review of the geological modelling was supported by face mapping, geophysics and geochemistry data, allowing the creation of an updated geological model which now includes detailed block modelling. With an updated block model, the geologists and miners have more accurate data to increase the efficiency of production.

Continued assessment of the bulk sampling projects in the Libwente sector involved desktop evaluation to support a better understanding of the geology and to determine the viability of development into a larger-scale mine. Exploration efforts are being made to develop both the Fibolele and Libwente sectors in order to gain further high-level geological understanding.

Protection services

In addition to the steps taken to upgrade the security system in and around the pits in the previous years, in 2019 high-resolution digital surveillance CCTV cameras were installed, radio communications were improved, and permanent patrol teams were formed and deployed. The main emphasis this year was on sustaining the efforts taken earlier and also on improving the protection of the sort house by commissioning a new palisade fence to enhance security.

The previous patrolling patterns on all dump sites were redesigned to improve security and reduce familiarity in the detection and deterrence of artisanal miners. Polygraph tests were carried out as and when required, especially when any serious incident occurred. With the help of an international human resource and security consultant, protection services achieved compliance to Voluntary Principles on Security and Human Rights (“VPSHR”) due to continued training on human rights, conflict of interest, first aid and new techniques of fields patrols.

Health, safety and environment

With increased production during the year, health and safety risk and environmental degradation have also increased. However, this has been well managed with a constant focus on hazard identification and risk assessment for various tasks being undertaken. Kagem maintained its ability to conduct mining in a responsible, transparent and safe manner with minimal impact on the natural environment. Kagem continues to aim for a zero-harm (injury-free) culture where health and safety are not only considered

IMAGE

TRAINED EMPLOYEES SEEK EMERALDS
IN KAGEM'S CHAMA PIT, WHICH
CONTRIBUTES 75-80% OF
GEMFIELDS' EMERALD PRODUCTION



critical to the operation but are also ultimately the responsibility of each individual employee.

Training of employees in various safe work practices continued to be rolled out during the year with full-day sessions being conducted for each employee of the company, to bring them up to speed with all safety requirements. A total of 922 employees and contractors attended these sessions during the period. Other training over the year included internal auditor training for heads of department and first-aid training for safety-critical personnel. Towards the end of the year, Kagem relaunched the implementation of the Integrated Management Systems, which is focussed on certification to ISO 9001, ISO 14001 and ISO 45001 standards. The aim is for this integrated system to be certificated by the coming year-end. Kagem recorded three lost-time injuries during the period, an improvement from last year's seven.

Monitoring of water quality and volumes discharged from our operations continued with bi-annual returns being submitted to the Zambia Environmental Management Agency in compliance with the discharge licence conditions issued.

Sustainability and corporate responsibility

Due to the reduced cash flows available for community projects in the recent past, sustainability and corporate responsibility ("SCR") continued to be unavoidably scaled back during the year. Kagem's Community Development Strategy ("CDS") maintained engagement within the two chiefdom areas, but actual expenditure on community projects was limited.

Kagem completed the construction of new toilet blocks for a local community school, Kapila, and at the end of the period, Kagem commissioned the construction of a local community school. No other major health, agricultural or educational projects were undertaken this year in view of the cash constraints facing the business.

Human resources

During the year, a total of 45 new employees were added to the workforce, filling both new and replacement posts. This took the total number of people directly employed by Kagem to 779. The total headcount, including contracted employees, at the end of the year, stood at 1,103 against 1,034 in the prior year.

Staff welfare activities have focussed on improving social amenities around the workplace and employee housing. Annual interdepartmental football tournaments were held on-site and several social soccer games with teams from other corporate entities were played at various outside venues. These events provided an atmosphere for social interaction among the workforce and beyond.

During the year, staff members were trained in various fields, including safety, health, environment and quality; medical; human resources; management development and team building; engineering; finance; IT; and mining. Training was conducted by both external

and in-house trainers, with 98% of the workforce being trained at the mine site, and 2% being trained off-site in Zambia. A total of 13 Zambian students completed their internships at Kagem in various departments such as finance, materials, MIS, engineering, geology and mining.

Kagem pledged scholarships for students in the Schools of Engineering and Mining at the University of Zambia and Copperbelt University in order to develop more coloured gemstone industry-oriented graduates with good technical and practical knowledge. The total number of sponsored students at both institutions by the end of 2019 was four. Kagem also witnessed the first graduation of our UNZA sponsored-student, Nicolous Simukoko, in Geology. He has since joined Kagem as per the memorandum of understanding.

CHIBOLELE

The Chibolele licence, which transferred to Kagem effective 17 October 2019, is located on the Fwaya-Fwaya – Piralá Belt in the NRERA within the Kafubu area of the Copperbelt Province of Zambia, on the southern banks of the Kafubu River. It lies along the west-southwest strike from the nearby Fwaya-Fwaya emerald mining zone adjacent to the Kagem licence area. This pit was under care and maintenance from 2007 onwards, as the Group's strategy was to focus on operations at Kagem.

Exploration and bulk sampling

Bulk sampling commenced in August 2017, with mining within the existing pit boundaries based on new parameters in order to facilitate mechanised mining operations. The rehabilitation of the pit was completed by the first quarter of the year and the second production point was started on a consistent basis with a fleet of two excavators and five dump trucks. The operation has dedicated mining and geology teams. Appropriate security arrangements have been put in place to ensure the safety and security of product and premises.

Geology

With knowledge and experience from past operations in the area, there is a good understanding of the nature and overall geometry of the host rock and mineralisation. The currently defined beryl and emerald deposit can be described (from bottom to top) in terms of footwall mica schist, overlain by talc-magnetite schist ("TMS"), amphibolite and quartz-mica schist. Emerald mineralisation in the Kafubu area, including the Chibolele deposit, belongs to a group referred to as "schist-hosted emeralds" resulting from the interaction of beryl-bearing fluids related to pegmatite dykes or granitic rocks, with chromium-rich mafic and ultramafic schists.

Mining

During the year, 932,000 tonnes of rock was mined by in-house resources, resulting in a total of 55,920 tonnes of ore. Gemstone production was 6.13 Mct of emerald and beryl, with 3,905 carats of premium emerald and 1,246,040 carats of emerald.

Production

Chibolele 2019 production summary

	10 months to 31 October 2019	12 months to 31 December 2018
Gemstone production (premium emerald) in thousand carats	3.90	1.27
Gemstone production (emerald and beryl) in million carats	6.1	5.5
Ore production (reaction zone) in thousand tonnes	55.9	42.7
Grade (emerald and beryl/reaction zone) in carats/tonnes	110	128
Waste mined in million tonnes	0.87	1.56
Total rock handling in million tonnes	0.93	1.6
Stripping ratio	15	34

The table above details the production summary for the Chibolele deposit for the 10 months to 31 October 2019 prior to its licence transfer to Kagem. From 1 November 2019 – 31 December 2019, Chibolele production metrics are included within the Kagem operational update section.

Mineral Resources and Ore Reserves

The most recent Competent Person's Report undertaken for Chibolele was dated February 2016 with mineral resources and ore reserves accurate as at 31 May 2015.

Chibolele have since depleted all the indicated resource and probable reserve with only inferred resources as the remaining resource as per the February 2016 CPR. The current production and mining operations are based on the 2018 and 2019 production and the exposed ore along dip side, which supports the short- to medium-term mine plan. However, for LoMP, exploration for infill drilling and additional block boundary drilling is recommended to be carried out for enhancement and upgrade of the current inferred resource and grade.

Kagem's Mineral Resources and Ore Reserves Statement within this report excludes any inferred resources related to the Chibolele licence as at 31 December 2019.

Events after balance sheet date

The wellbeing of Gemfields' employees and communities remains the overriding priority of the wider group. As such, on 30 March 2020, Gemfields' principal mining operations at the Kagem emerald mine in Zambia were temporarily suspended for at least a month in order to aid social distancing and other preventative measures regarding Covid-19. A skeleton staff will remain in place to continue critical services and will be better placed to observe social distancing measures and to protect Kagem's assets. Gemfields' operations in Mozambique, including the Montepuez Ruby Mine,

are poised to implement similar suspensions should developments so require.

Gemfields is continually adapting its approach, policies and controls as the circumstances develop and is ensuring the timely dissemination of information to its team members operating in nine countries. Alongside host nation government direction, this includes but is not limited to the commonly deployed measures of increased sanitisation, education and training, social distancing practices and travel/visitor restrictions.



IMAGE

RECOVERED ZAMBIAN EMERALDS
ARE RETURNED TO KAGEM'S
SORT HOUSE FOR SORTING
AND GRADING

Operational Review

MOZAMBIQUE



Ruby operations in Mozambique comprise the following:

- **Montepuez Ruby Mining Limitada (“MRM”).** The Montepuez ruby deposit, which is located in the northeast of Mozambique within the Cabo Delgado Province, is believed to be the most significant recently discovered ruby deposit in the world and covers an area of 349 square kilometres. MRM is 75% owned by Gemfields and 25% owned by local Mozambican minority partner, Mwiriti Limitada.
- **Megaruma Mining Limitada (“MML”).** MML is registered in Mozambique. Gemfields holds a 75% interest in two licence areas located in the Montepuez district of Mozambique, with each sharing a boundary with the existing MRM deposit and covering approximately 190 and 150 square kilometres of area, respectively.
- **Eastern Ruby Mining Limitada (“ERM”).** The company is registered in Mozambique, with Gemfields holding a 75% interest. The mining area covers 116 square kilometres and shares its western boundary with the southern licence of MML.
- **Campos de Joia Limitada (“CDJ”).** CDJ is a Gemfields holding company in Mozambique which has four licences at present, totalling an area of 452 square kilometres.

MONTEPUEZ RUBY MINING (“MRM”)

Auction results

MRM held two mixed-quality auctions in Singapore during the year, one in June 2019 and the other in December 2019, where revenues of USD50.0 million and USD71.5 million were achieved, resulting in a total of USD121.5 million. The auctions realised average prices per carat of USD51.99 and USD77.12, respectively. The prior year saw total revenues of USD127.1 million as higher prices per carat were realised with more premium offered than at the 2019 auctions.

Mining

The Montepuez ruby deposit was reviewed and all technical information was updated as of 1 July 2019 to support a dual listing on the AIM market of the London Stock Exchange-compliant

MOZAMBIQUE	
Location	Cabo Delgado Province, Mozambique
Acquisition by Gemfields	November 2011
Ownership structure	75% Gemfields 25% Mwiriti
Gemstones	Ruby and corundum
Mining method	Open-pit
Potential mine life	15 years (CPR 2020)

Resources and Reserves Statement produced by SRK as at 31 December 2019, which confirms a 15-year open-pit MRM LoMP and that the mine is well positioned for growth in production.

The mining operations at MRM comprise several shallow, open-pit pits split between three main operating areas: the Mugloto Block, the Maninge Nice Block and the Glass Block. Mining is carried out as a conventional open-pit operation utilising excavators, loaders and articulated dump trucks. Loaded trucks haul ore to stockpiles adjacent to the processing plant, while waste is backfilled into mined-out areas, thereby returning the area to its natural aesthetic.

Total rock handling for the year averaged 596,000 tonnes per month, an increase of 55% from the 385,000 tonnes achieved during the previous year. Intensive mining in the bulk sampling pits of Mugloto produced encouraging results, with the view of

expanding the number of pits in operation. Furthermore, in an effort to improve the product mix output, the strategy designed to optimise mining operations will see the balancing of primary (low-quality and high-incidence) and secondary (high-quality and low-incidence) ores being continued. Total rock handling during the year equated to 7.2 million tonnes, comprising 1.1 million tonnes of ore and 5.3 million tonnes of waste material at an overall stripping ratio of 4.9. In addition to the production, 0.8 million tonnes of other material were handled, which includes slimes handling, waste dump re-handling and road improvements. As with the previous year, production was primarily focussed on the Mugloto Block (69%) in order to extract higher-quality ruby-bearing ore, with the remainder coming from the Maninge Nice Block (13%), Glass Block (7%) and Other Materials Handling (OMH) (11%).

Production

A total of 2.2 Mct of ruby and corundum were produced during the year, with a focus on high-quality, low-occurrence deposits which provide premium rubies.

Of the 2.2 Mct of production for the year, 0.9 Mct were recovered from Mugloto secondary ore, 0.5 Mct from Maninge Nice primary ore, 0.2 Mct from Maninge Nice secondary ore and 0.7 Mct from the fines (-4.6 mm material). MRM's key operational parameters for the 12-month period to 31 December 2019 are summarised in the table below.

Processing

During the year, 1,071,600 tonnes of ore were primarily mined from three different blocks, namely Mugloto, Maninge Nice and Glass, with 845,700 tonnes processed. Of this total processed, 842,400 tonnes were washed by the main processing plant and 3,300 tonnes by the exploration processing plant. The slightly improved processing was partly facilitated by the commissioning of a new 30m diameter thickener and processing more pre-screened material resulted in an increased overall throughput rate – which stands at 142 tph during the year compared with 132 tph in the previous period.

Montepuez production summary

	12 months to 31 December 2019	12 months to 31 December 2018
Gemstone production (premium ruby) in thousand carats	81.3	92.2
Gemstone production (ruby and corundum) in million carats	2.2	2.9
Ore mined (primary and secondary) in thousand tonnes	1,071.6	747.9
Ore processed (primary and secondary) in thousand tonnes	845.7	842.2
Grade (ruby and corundum/ore processed) in carats/tonnes	2.6	3.4
Waste mined in thousand tonnes	6,080.4	3,873.6
Total rock handling in thousand tonnes	7,152.0	4,621.6
Stripping ratio	4.9	4.4

A change in production strategy in order to focus on the processing of a greater proportion of lower-incidence and higher-quality secondary ore was reflected in the overall ore grade realised during the period – 2.6 carats per tonne compared with 3.4 carats per tonne in the year to December 2018.

Operating costs

Total cash operating costs were USD32.8 million (2018: USD33.3 million) with unit operating costs of USD5.9 per tonne or USD18.6 per carat (2018: USD7.21 per tonne or USD11.58 per carat). Cash operating costs include mining and production costs, capitalised costs, selling, general and administrative expenses, and exclude marketing, management and auction costs, property, plant and equipment capital expenditure, depreciation, amortisation and mineral royalties.

Capital expenditure

Total cash capital expenditure for the year was USD20.5 million, comprising USD13.2 million invested in expansion and exploration, USD2.7 million in existing mining and ancillary equipment replacements, and USD4.6 million associated with the RAP.

The RAP costs were covered by the provision previously set up for this purpose. MRM has an obligation to compensate the households and other land users who are physically or economically displaced by the proposed mining in its concession area, in accordance with the local legislative requirements, and to construct new facilities. A provision is recognised for the present value of such costs, based on management's best estimate of the obligations incurred, and is depreciated based on the ratio of ore mined during the period to the total volume of ore to be mined in the future, based on the estimated reserves.

Geology and exploration

The Montepuez concession is located within the wedge-shaped Montepuez Complex, a junction between the north-south trending Mozambique Belt and the east-west trending Zambezi Belt. Both belts are known to be "treasure-bearing" and date from the Neoproterozoic Pan-African tectonic event.



IMAGE

RED SOILS OF THE OPEN-PIT MINES AT MONTEPUEZ RUBY MINING

Rubies from Montepuez differ geologically from many of the Asian rubies available on the international market with respect to the primary host rock being amphibole-related, rather than marble or basalt-related. The rubies around Montepuez are found in two types of deposits: primary mineralisation hosted within amphibolites or secondary placer type found in gravel beds.

Primary rubies from the amphibolitic source (and also secondary rubies in the associated overlying gravel bed) at Maninge Nice are typically tabular and hexagonal crystals, with strong basal planes. These gemstones are highly fractured and included. Typically, the production from primary mineralisation is a lighter-pink colour and is often classified as sapphires. These sources provide a large volume of stones and are therefore considered a high-incidence but lower-quality deposit. In contrast, the production from secondary gravel bed deposits at the Mugloto and Glass pits is tumbled, deep red in colour, more transparent and contains fewer inclusions. However, as these secondary deposits provide fewer gemstones than the primary deposit, they are considered low-incidence but high-quality deposits.

During the year, exploration was mainly focussed in the Mugloto Block and continues towards the north of Northern Shear to explore the source of the Mugloto premium rubies. The block was

identified based on previous inclined/vertical drilling, airborne geophysics and interpretation of a secondary deposit. The drilling continued to the north of Northern Shear along section on a closed space of 200m X 100m to confirm mineralisation which resulted in a successful delineation of lenses of primary mineralisation with low-quality ruby. A total of 11,418 meters of core drilling was completed during the year (31 December 2018: 9,756 meters). A total of 100 geochemical samples was selected from different geographical locations drilled up to now in Mugloto Block to analyse by inductively coupled plasma mass spectrometry (“ICPMS”) for REE in a second phase. The geochemistry from different locations reveals that amphibolites are chemically most comparable to hornblende gneiss and impure carbonate. This chemical signature is most likely attributed to the hornblende content. Impure carbonates that are most comparable to amphibolite could be transition zones between amphibolite and carbonate formed through metasomatism. Geochemical variations exist in major oxide, trace and rare earth element contents across the MRM concession in support of ongoing exploratory activities.

During the year, a new bulk sampling pit was opened, called Mugloto Pit 10. The work to date has produced encouraging results and the quality of the rubies is similar to that in Mugloto Pit 3, potentially adding another significant source of high-quality rubies.

An exploratory processing plant was commissioned in April 2018 with the objective of understanding the ore characteristics and grade of the area explored by auger drilling covering 77 square kilometres. The actual ruby grade and quality in the secondary deposits are more difficult to predict owing to the sporadic distribution of rubies in pockets/traps within the gravel horizon; hence they can only be determined after processing a considerable amount of ore.

A total of 8,527 tonnes of ore was processed in the exploration plant since its inception.

Infrastructure

Enhancement of the production facilities continued with the commissioning of a new, state-of-the-art sort house during February 2019. A new 30m meter diameter thickener was also commissioned during December 2019 and it is expected that this will enhance processing capacity during 2020.

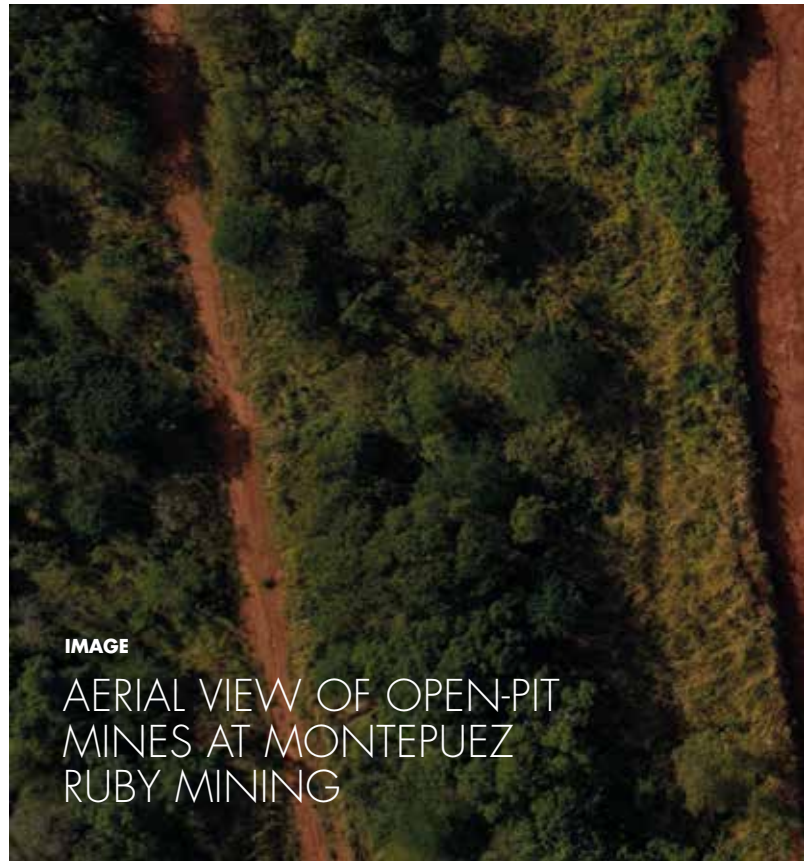
The Namanhumbir residential camp, popularly known as MRM Village, has a clinic, a newly upgraded gymnasium, recreational facilities and various outdoor sports facilities (including volleyball, tennis, futsal, badminton and cricket) providing improved living conditions at the camp. A total of 28 new residential units were constructed during the year to house the fresh recruits.

Protection services

Security operations continue to make good progress in registering a significant decline in artisanal mining activity within and around the concession area. Incorporation of supportive security-enhancement equipment, including lighting towers and wireless cameras, has improved surveillance across the site. Patrol teams are using body cameras, which has resulted in improved monitoring of the MRM concession and adherence to the Voluntary Principles on Security and Human Rights. Training also continued regarding social media awareness, conflict resolution and juveniles in artisanal mining. The training was delivered by reputable third-party trainers to MRM employees. The Security Department is continuing with various enhancement projects to ensure the safety of our people, product, equipment, reputation and information.

Health, safety and environment

Health and safety policies and procedures continue to evolve and improve across the operation in order to create a safer and healthier working environment at MRM. Safety training has focussed on toolbox talks, risk-assessing work environments and improving the culture associated with near-miss reporting. No lost-time injuries occurred during the period. From the perspective of reducing the frequency rate of injuries, a series of internal and external health and safety training modules were incorporated in the health, safety and environment programme, with the focus being on first aid, firefighting and safe driving.



IMAGE

AERIAL VIEW OF OPEN-PIT
MINES AT MONTEPUEZ
RUBY MINING

MRM made good progress in post-mining environmental rehabilitation, with a total of more than 270 locally grown saplings replanted over an area of 9,720 square metres of backfilled area. A senior industry professional was appointed as the Head of Department of Health, Safety and Environment at the end of the period to push forward standards, policies and procedures and to drive forward the implementation of an integrated management system ("IMS"). This IMS project, comprising of ISO 9001 (quality), ISO 14001 (environment) and ISO 45001 (health and safety), is at 25% implementation completion. MRM also made progress in 2019 regarding its mitigation of biodiversity impacts by conducting a biodiversity assessment across the concession.

In February 2020, MRM experienced a coordinated incursion by approximately 800 artisanal miners, vastly outnumbering the MRM security personnel and Mozambican police present at that location at the time. These artisanal miners were seeking ruby-bearing gravels and, despite repeated warnings from MRM personnel, commenced undercutting the outer edge of the mining pit. This led to several ground collapse incidents in which 11 artisanal miners died. MRM personnel provided humanitarian assistance, where possible. In addition to notifying the authorities, Gemfields invited members of the Mozambican press and media to visit MRM and its surrounding villages to provide first-hand



coverage of the activity and to report on the strikingly coordinated nature of the influx and its possible causes.

In a subsequent press conference held by the Inspector General of the Ministry of Minerals, Resources and Energy (“MIREM”), the involvement of organised networks in ruby smuggling was noted. Mozambican newspaper articles have since cited artisanal miners who claim to have made payments to factions within the Mozambican police in order to gain access to MRM.

Greater presence of the media and of Mozambican authorities at the mine and in surrounding areas and villages has resulted in MRM’s mining pits, including Maninge Nice 3, presently being clear of artisanal miners and as such day-to-day operations remain unaffected.

MRM continues to work closely with Mozambican authorities to raise awareness among local communities of the dangers of artisanal mining and to assist in tackling ruby smuggling and reduce the risk to, and exploitation of, vulnerable groups by well-organised syndicates.

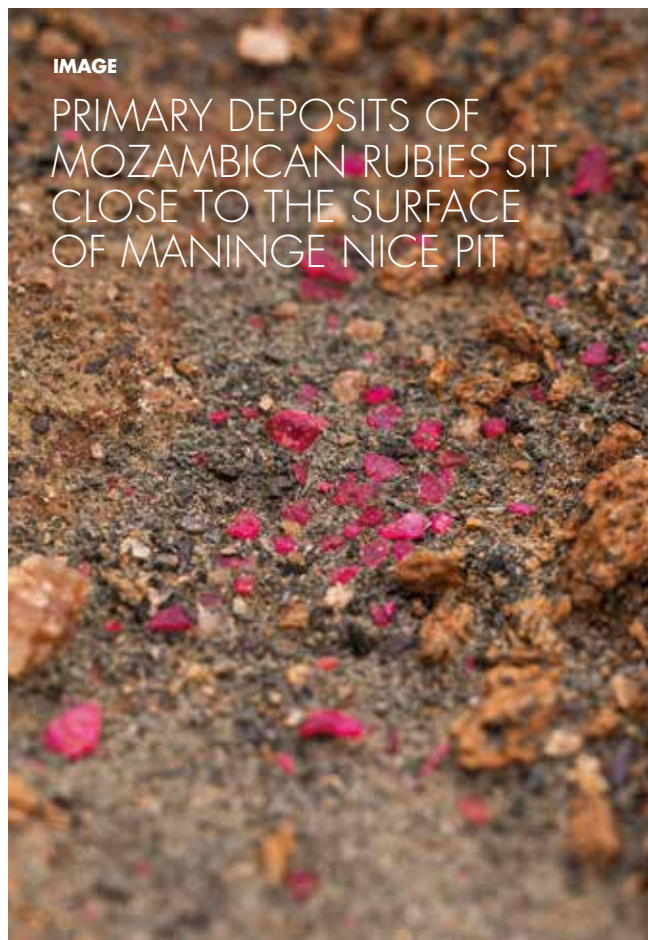
MRM has a series of different mining pits which are variously activated depending on operating conditions and the ore types

required. MRM has not been mining Maninge Nice 3 for some months. The pit, which generally contains smaller, flatter, pink-coloured rubies of lower value, accounts for less than 10% of the total ruby value sold by MRM to date.

Sustainability and corporate responsibility

MRM’s community engagement and project activities are aligned with the policies of the Government of Mozambique and supplement the government’s efforts in improving the quality of life of the community. Through its community engagement process, the key focus for the community team during this period has been the continuation of existing health and livelihoods projects, as well as the implementation of a number of new projects. These include egg production trials to go alongside chicken-farming co-operatives; improvements and scaling-up of community conservation farming; the provision of sports equipment and kit to local school children; and opening up the operation’s sports grounds for the local school children to use over the weekends.

A key focus for the team has been the ongoing completion of the RAP. By the end of the period all 105 houses had been completed and the overall project was more than 80% complete with beneficiaries expected to move into their new homes on schedule in mid-2020. Additionally, MRM inaugurated a vocational training



centre (“VTC”), entering an agreement with the Government’s official training institute. While 100 individuals had already been trained through the VTC, by the end of the period, a further 40 had started their training – with the aim of an additional 250 being trained by the end of 2020.

Legal

As stated in the 2018 Annual Report, in February 2018 a UK-based law firm, Leigh Day, filed a claim against Gemfields on behalf of individuals living in the vicinity of the MRM mining concession, alleging human rights abuses perpetrated by employees of MRM and the state security forces.

Following a mediation between the parties in December 2018, Gemfields agreed, on a no-admission-of-liability basis, on a settlement of all claims brought by Leigh Day in relation to the alleged abuses. The settlement amount was GBP5.8 million (USD7.4 million), comprising the sum to be distributed to the claimants by Leigh Day and their legal expenses.

Gemfields still maintains that it is not liable for the alleged abuses set out in the claims, but took the view that the agreed settlement

best balanced the interests of the various stakeholders and avoided tainting MRM’s relationship with sections of the local community. Had Gemfields prevailed at trial (which it fully expected to do), none of its own, and likely very substantial, legal costs would have been recoverable from the claimants or from Leigh Day.

In order to further its ongoing commitment to transparency and support for the local community, Gemfields agreed to establish a new and independent operational grievance mechanism (“OGM”) in keeping with industry best practice and as advocated by the UN Guiding Principles on Business and Human Rights. Great strides have been made towards this goal and the OGM is very near completion, but operationalisation remains subject to consent from the relevant Mozambican government authorities.

Under the terms of the settlement, and provided that Gemfields fulfils its commitment to establish the OGM, Leigh Day will not bring, or support, any future claims in relation to MRM where they arise prior to the date of the settlement agreement. Gemfields has also created a new agricultural development and training fund of at least GBP500,000 in order to provide long-term sustainable benefits, including skills training to foster economic activity and employment for the Ntoro/Namucho community. The implementation of agricultural development is advanced but remains subject to the consent of the majority of the relevant beneficiaries. Negotiations in this regard are ongoing. The fund is additional to the settlement amount and sits alongside Gemfields’ existing direct investment in, and establishment of, collaborative community projects in the area.

Human resources

As at 31 December 2019, 1,472 people were employed by MRM, of which 653 were directly employed and 819 were employed through contractors. During the calendar year, various internal and external training programmes were attended, including training programmes on human rights, managerial skills, health and safety, finance, security and specialised software. Local students also took part in internships at the operations.

MEGARUMA MINING LIMITADA (“MML”)

MML holds two ruby-mining titles, 7049C and 7057C, located in the Montepuez District of Mozambique. These titles each share a boundary with the existing MRM deposit to the south and to the west and cover an area of approximately 190 square kilometres and 150 square kilometres, respectively.

As regards Concession 7057C, exploration activities, such as auger drilling totalling 2,177 metres in 400 boreholes, have been completed. The gravel bed samples recovered from auger drilling were washed and sorted for rubies.

Based on the findings of auger drilling done during 2017, four potential bulk sampling locations were identified. A total of

541,000 tonnes of rock was handled during the year, including 42,500 tonnes of ore. The wash plant processed and treated 40,300 tonnes of ore during 2019, with 82 carats of varying-grade rubies recovered.

An application for authorisation to use the land (“DUAT”) for the licence 7057C was submitted in 2019 and expected to be obtained by the first quarter of 2020.

With regards to Concession 7049C, exploration activities were deferred due to Force Majeure conditions. All possible efforts are being made to complete the statutory requirements in 7049C, being the licence boundary demarcation and fixing of control points. The Environmental Licence (Category B Certificate), was obtained in March 2019. To initiate the developmental activities in the licence area, an exploration licence has been obtained and is valid until March 2021.

EASTERN MINING LIMITADA (“ERM”)

The exploration licence 5061L held by ERM, a joint venture company registered in Mozambique, with Gemfields holding a 75% interest, was converted and issued in November 2016 by the Ministry of Mines as a mining title with identification number 8277C, valid for 25 years. The licence covers an area of 116 square kilometres and shares its western boundary with the southern licence of MML (7049C).

The Environmental Licence (Category B Certificate) was awarded by the Ministry of Land, Environment and Rural Development

(“DPTADER”) in favour of ERM to commence exploration and bulk sampling activities on 8277C (valid for five years until December 2024). The demarcation of boundary and ground control points work is under progress. The DUAT application was filed in November 2019 and the public consultation meetings were completed. Bulk sampling is expected to commence in the first quarter of 2020.

CAMPOS DE JOIA (“CDJ”)

CDJ is a Gemfields holding company in Mozambique and has four licences at present, 7427C, 6114L, 9059L and 9060L, totalling an area of 452 square kilometres. The first one is a mining title and is located 10 km to the north-east of MRM, and the remaining three are exploration licences located immediately to the south of southern MML concession.

Due diligence studies and airborne surveys have been completed and exploration activities commenced in 2019.

The first phase of auger drilling (2,500m) was completed within the 7427C licence area. Two exploration bushman jigs were commissioned, and processing of gravel-bed samples is in progress. The Environmental Licence (Category B Certificate) was awarded by DPTADER on 9 July 2019 in favour of Campos de Joia (CDJ, 7427C) to commence exploration and bulk sampling activities in the area and is valid for five years until July 2024. The demarcation of boundary and ground control points was completed during 2019 and accommodation facilities are being established for employees and contractors as work ramps up.

IMAGE

MONTEPUEZ RUBY MINING'S
WASHPLANT PROCESSED 845,700
TONNES OF ORE IN 2019



Operational Review

FABERGÉ LIMITED



IMAGE

CRAFTSMANSHIP AT
FABERGÉ REQUIRES THE
MOST EXPERIENCED
WORKMASTERS

Fabergé is one of the world's most recognised luxury brand names, underscored by a well-documented and globally respected heritage. As a wholly-owned subsidiary of Gemfields, Fabergé provides direct access to the end consumer of coloured gemstones through directly operated boutiques and international wholesale partners, as well as boosting the international presence and perception of coloured gemstones through its consumer focussed marketing campaigns.

POINTS OF SALE

For the year to 31 December 2019, Fabergé directly operated three points of sale: a by-appointment boutique at group HQ in London; a concession in Harrods Fine Jewellery Room, London; and a stand-alone boutique located in The Galleria Mall, Houston, Texas, United States of America ("USA"), the state's premier retail destination.

In addition to its directly operated stores, Fabergé also has partner operated standalone boutiques located at: The Dubai Mall, UAE; Kiev, Ukraine; and Heydar Aliyev International Airport, Baku, Azerbaijan. Fabergé also continued to expand its global presence during the period via new agreements with multi-brand retail partners. At the end of the year, Fabergé products were available in Australia, Austria, Abu Dhabi, Andorra, Azerbaijan, Bahrain, Belgium, Canada, Czech Republic, Dubai, Finland, France, Germany, Greece, Holland, India, Italy, Jordan, Japan, Kuwait, Malta, Moldova, the Netherlands, Norway, Qatar, Romania, Saudi Arabia, South Africa, Switzerland, Thailand, UK, Ukraine and the USA. The total number of Fabergé points of sale increased from 65 to 75 during the period.

FINANCIAL PERFORMANCE

Fabergé achieved revenues of USD10.5 million in the year to 31 December 2019 (2018: USD13.4 million). During the same period, Fabergé recorded an EBITDA loss of USD6.5 million (2018: USD4.6 million) with average monthly operating expenses of USD0.8 million (2018: USD0.8 million) and a sales margin of 44% (2018: 40%) before any inventory provisions.

IMAGE

GUILLOCHE ENAMELLING
AND COLOURED
GEMSTONES INVITE CLIENTS
TO LIVE A LIFE IN COLOUR



EXHIBITIONS AND PRODUCT DEVELOPMENTS

2019 saw two new Fabergé egg objets d'art produced and sold to a client in the Middle East. Fabergé also expanded its Colours of Love collection which features Gemfields rubies and emeralds, proudly supporting the wider group's "mine and market" vision.

During the period Fabergé returned to the Doha Jewellery and Watch exhibition, Doha, Qatar for its eighth consecutive year, operated a third consecutive, successful trunk show in Singapore and a coloured gemstone focused event with the high-status department store Wako which is located in Ginza, Tokyo, Japan.

Fabergé also secured its participation at the exclusive Watches and Wonders Exhibition 2020 (formerly known as the Salon International de la Haute Horlogerie) – a tremendous and exciting achievement to have been invited to participate in the industry's most exclusive and elite tradeshow.

EVENTS AFTER BALANCE SHEET DATE

As a result of COVID-19, Fabergé's directly operated retail operations at Harrods in London and the Galleria Mall in Houston are closed. The mono-brand Fabergé boutiques operated by partners in the Dubai Mall and Kiev in the Ukraine are also closed. In addition, approximately 80% of the multi-brand retailers that Fabergé sells to are presently closed. Similarly, some 80% of the workshops that supply Fabergé are closed, including Fabergé's own timepieces workshop in Geneva.



IMAGE

EXQUISITE EXAMPLES OF
FABERGÉ JEWELLERY ON DISPLAY
IN HARRODS, KNIGHTSBRIDGE

Operational Review

NEW PROJECTS AND OTHER ASSETS



ETHIOPIA

Gemfields owns 75% of Web Gemstone Mining plc (“WGM”), a company that holds a 148.6 square kilometre emerald exploration licence in southern Ethiopia. Exploration activity began in June 2015 in an area in the northern part of the licence, called the Dogogo Block. The area was selected based on favourable geological settings and evidence of past artisanal activity. The licence area was evacuated in June 2018 after it was raided by an armed mob. Gemfields has not yet returned to the licence area due to on-going security risks and widespread political and ethnic unrest.

Geopolitical and community relations

The political and security situation in Ethiopia remains unsettled and is likely to remain so until the general elections, which were scheduled for May 2020 but have since been delayed until August 2020. There was an attempted coup in June 2019, continued separatist attacks in the locality of the licence area, and widespread protests have been reported across the country which resulted in clashes with the state security forces. Prime Minister Abiy requires the elections to give his government (and reformist agenda) a mandate, however, organised opposition is threatening to boycott the elections under the guise of protesting over electoral reform. The security situation had shown some signs of improving – Oromia Regional Government has made significant efforts to neutralise the threats posed by rebel groups by engaging in discourse and imposing a three-line whip on all levels of administration to stem the outflow of foreign investment from the region. Prime Minister Abiy was even awarded the Nobel Peace Prize for his efforts in bringing the long-running war with Eritrea to an end. Unfortunately, however, the reprieve appears to have been short-lived as protests are still ongoing and rebel groups are active in many parts of Oromia, although reportedly the Borona Zone around the licence area is relatively secure for the time being.

WGM has not had access to the licence area in an operational capacity since the licence invasion but has regularly engaged with key stakeholders and members of the community as part of its Return To Work (“RTW”) strategy. The licence area was initially occupied by up to 1,000 people, predominantly at the ore stockpile and at the bulk sampling pit where they were actively mining for



IMAGE

EXPLORATION DRILLING
INFORMS GEOLOGIST SURVEYS
AND FURTHER EXPLORATION
FOR GEMSTONES

IMAGE

RUBIES FROM DIFFERENT ORIGINS TEND TO EACH HAVE THEIR OWN DISTINCTIVE HUE, BUT THOSE FOUND IN MOZAMBIQUE COVER ALL OF THE KNOWN COLOUR RANGES, INCLUDING THE RAREST PURE FLUORESCENT REDS



emerald. The number has since fallen significantly to less than 30. On a recent site visit in August 2019, to carry out a round of stakeholder engagement, Gemfields' social risk consultant visited the bulk sampling pit. None of the illegally operated shafts appeared to be active, and none of the people present in the pit reported any production. The recent site visit confirmed the presence of three copper mining cooperatives within the WGM licence area (Karlo Kora Block). They are likely to remain active until WGM returns to the licence area.

Bulk sampling exercise

The bulk sampling exercise remains suspended because of the licence invasion and on-going political unrest. The bulk sampling exercise will need to be redone to generate enough data for a prefeasibility study and licence conversion. The time required to repeat the exercise is likely to be less than before because of the understanding of the geology gained from the first attempt, and due to wider exposure of ore in the pit. The objective of the bulk sampling exercise will be to redo the 500,000 tons rock handling that had been completed at the time of the licence invasion in order to generate enough data for resource estimation, prefeasibility and licence conversion.

Stakeholder developments

A long-planned round of stakeholder engagement finally occurred in August. It was originally planned for May but had been postponed multiple times due to security concerns. A team from the social risk consultancy firm Trubshaw Cumberlege deployed to the Borana Zone from 7 to 11 August 2019 to update new and existing stakeholders about WGM's short-term RTW intentions. Feedback was largely positive, with a majority of local communities and

authorities fully supportive of WGM resuming the project, though it is still unclear when sustainable, stable conditions would return to the area.

MADAGASCAR

Oriental Mining SARL, a 100% subsidiary of Gemfields, holds a number of concessions for a range of minerals, including emerald and sapphire, which have been in compliance with all statutory and regulatory obligations. Gemfields is planning to commence preliminary investigations with regard to several permits once there is some certainty regarding the impact of COVID-19 and any associated social restrictions that may be enforced.

MOZAMBIQUE

Nairoto Resources Limitada ("NRL") is registered in Mozambique with Gemfields holding a 75% interest and Mwiriti 25% – the Group's 25% existing partner in MRM. The company is in the process of obtaining control of six mining and six exploration titles totalling 1,960 square kilometres of area. The licences are located about 30 km to the north of MRM concession and hold exploration potential for gold, ruby and allied minerals.

EVENTS AFTER BALANCE SHEET DATE

As discussed in the Chairman's and CEO's statements, given the delayed auction schedule arising from the outbreak of COVID-19, the Group has suspended all significant spend on new projects to preserve cash.

Financial Review

A summary of the key financial indicators of the Group for the year ended 31 December 2019 are shown in the table below.

in thousands of USD	2019	2018
Revenue	216,233	206,090
EBITDA ¹	80,892	58,864
Profit after tax	39,131	(60,431)
Cash flow from operating activities	36,688	5,109
Free cash flow ² before working capital movements	31,100	26,870
Net cash/(debt)	25,391	9,817

The Group's primary financial KPIs are revenue, free cash flow and net cash/(debt).

Revenue

in thousands of USD	2019	2018
Kagem	78,965	60,319
MRM	121,524	127,115
Fabergé	10,517	13,392
Other	5,227	5,264
Total	216,233	206,090

¹ Earnings before interest, taxation, depreciation and amortisation.

² Free cash flow is calculated as cash flow from operating activities less capital expenditure excluding any working capital movements.

The Group achieved record revenues for the year of USD216.2 million (2018: USD206.1 million), following four rough emerald auctions – two commercial-quality (“CQ”) and two higher-quality (“HQ”) – and two mixed-quality rough ruby auctions. The two ruby auctions generated USD121.5 million, while the four emerald auctions made USD79.0 million for the year.

The HQ and CQ emerald auctions realised higher average prices per carat at USD78.63 and USD4.61, respectively (2018: USD65.55 and USD3.54 per carat respectively), the second-best calendar year performance since the auction system was introduced a decade ago. The recovery being experienced by auction customers, therefore, appears to have solid foundations, as was further evidenced by a record number of companies placing bids at the November auction. While November's auction saw a record overall price, each auction has a slightly different composition and, as such, should not be directly compared. This year also saw the



David Lovett
Chief Financial Officer



IMAGE

MRM'S INDUSTRY LEADING
STATE-OF-THE-ART SORT HOUSE,
OPENED IN 2019, USES
UV-LIGHT TO RECOVER RUBIES

traditionally Indian-dominated emerald customer base expand with Thai and Chinese customers winning significant lots across all the HQ and CQ auctions.

MRM recognised auction revenues of USD121.5 million for the year from two mixed-quality auctions held in Singapore in June 2019 and December 2019 – USD50.0 million and USD71.5 million at average realised prices of the USD51.99 and USD77.12 per carat, respectively. The prior year saw total revenues of USD127.1 million as higher prices per carat were realised as more premium category rubies were offered than at the 2019 auctions. The specific auction mix and quality composition of the lots offered at each auction vary in characteristics such as size, colour and clarity on account of variations in mined production and market demand. Therefore, the results of each auction are not always directly comparable. On an average quality-for-quality basis, however, the per carat prices demonstrated continuing strong demand and price growth.

Wholly-owned Fabergé generated revenues of USD10.5 million, underpinned by USD5.8 million from wholesale sales; retail and by appointment sales of USD4.4 million; and USD0.3 million from other channels.

Other revenue principally represents the sale of historically purchased cut and polished inventory as well as the direct sales of low-quality emeralds and beryl in India.

COSTS

Total mining and production costs (excluding mineral royalties, production taxes, export duty and impairment charges and reversals) were USD63.4 million, 12% higher than USD55.8 million in 2018, driven by expansion in mining at both MRM and Kagem and the related increases in labour, fuel, and repairs and maintenance. Labour costs of USD24.8 million and repairs and maintenance costs of USD10.5 million were impacted by inflationary pressures which necessitated pay increases across the Group and saw a rise in the cost of spare parts. With longer haulage distances at Kagem, larger fleet and inflation at both mines, fuel costs of USD13.2 million were higher than 2018. However, these were partially offset by a reduction in third-party mining costs at Chibolele as mining was brought in-house in late 2018, and cost optimisation programmes across the Group during the year.

Mineral royalties and production tax which were USD17.1 million (2018: USD16.5 million) are calculated as 10% on all ruby revenues in Mozambique and 6% on all emerald sales in Zambia (including intercompany transfers). The higher revenues in Zambia have seen a rise in the amounts paid, which are not completely offset by the fall in Mozambique.

Following the implementation of the 15% export duty, Kagem incurred a USD12.4 million charge for the year on all revenues



IMAGE

SORTING ZAMBIAN EMERALDS AT THE KAGEM MINE BEFORE AUCTION

including intercompany sales. In December 2019, the Government of Zambia (“GRZ”) suspended the export duty indefinitely effective 1 January 2020.

On the acquisition of Gemfields plc (now Gemfields Ltd) in 2017, the purchase price allocation resulted in an uplift to the mining assets at Kagem and MRM, representing the excess purchase consideration. The significantly larger mining assets are amortised on the unit of production basis, resulting in higher depreciation and amortisation costs of USD34.8 million (2018: USD30.6 million). Following the SRK Competent Person’s Report for Kagem and MRM (effective 1 July 2019), the rate of amortisation has been amended to reflect the updated proven and probable ore reserves. Depreciation on property, plant and equipment during the year, excluding these mine assets, was USD18.8 million.

Selling, general and administrative expenses (“SG&A”), excluding impairment charges, of USD54.6 million were significantly below the USD61.7 million in the prior year, primarily reflecting the professional fees incurred in the resolution of the Leigh Day claims of USD9.2 million. The Leigh Day claims consisted of a USD7.4 million settlement figure, comprising the sum to be distributed to the claimants by Leigh Day and their legal expenses, and USD1.8 million in legal fees paid for the Group’s defence. Other key drivers of the SG&A costs are represented by labour costs of USD15.8 million; selling, marketing and advertising costs of USD13.7 million, which included the latest Gemfields media campaign; professional fees of USD8.4 million; and rent and rates of USD4.6 million. Excluding the Leigh Day exceptional costs, the overall SG&A costs were flat when compared with 2018 as higher marketing and selling costs, insurance costs and the extended corporate social responsibility activities were offset by lower labour costs.

The Group’s strategy for growing demand through the education and understanding of coloured gemstones continues to necessitate spend on marketing and advertising costs.

The cost base of the Group in the current year has been impacted by fluctuations in foreign currency exchange rates in our key operating locations. The US dollar (“USD”) average rate over the year has strengthened by 2% against the Mozambican metical (“MZN”) and 22% against the Zambian kwacha (“ZMW”) while strengthening by 4% against pound sterling (“GBP”). These fluctuations have had a favourable impact on costs in Zambia and Mozambique, and an adverse effect on costs in the United Kingdom.

Total operating costs at Fabergé were at their lowest level since the acquisition by Gemfields of USD9.6 million and were consistent with the USD9.9 million incurred in 2018, reflecting the continued benefit of the cost optimisation and focus on improved efficiencies implemented and cost reduction.

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (“EBITDA”)

EBITDA of USD80.9 million is 37% higher than the USD58.9 million achieved in 2018 reflecting the improved margins; in particular, at Kagem with stronger HQ emerald results and sales of non-auction material when compared to 2018. HQ emerald auctions generate significantly higher margins than CQ auctions due to cost of sales being based on average cost of production. This resulted in an EBITDA margin of 37% compared to 29% in 2018.

IMPAIRMENT CHARGES AND WRITE-OFFS

In 2018, the introduction of the 15% export levy in Zambia was deemed to be an impairment indicator. Consequently, as required by accounting standards, an impairment review was performed factoring in the export levy, which led to a charge of USD22.6 million being recognised at 31 December 2018.

In December 2019, the GRZ enacted into law an indefinite suspension of the 15% export duty effective from 1 January 2020. Given this suspension, the recoverable amount of Kagem has been reassessed to USD335.8 million which is well in excess of the carrying value resulting in an impairment reversal of USD21.6 million. The difference between the impairment taken in 2018 and the reversal in the current year relates to the related amortisation which would have been accounted for if the impairment had not taken place. Kagem’s carrying value at 31 December 2019 is USD208.7 million, which when compared to the recoverable value of USD335.8 million demonstrates significant headroom.

The impairment charges recognised during the year amount to USD8.4 million comprising mainly slow-moving inventory at

Fabergé and the mines and long-outstanding other project-related receivables.

In the prior year, the Group recognised impairment charges of USD26.6 million primarily relating to the USD22.6 million for Kagem and inventory impairments of USD2.6 million.

FAIR VALUE AND OTHER GAINS AND LOSSES

Fair value and other gains and losses arise from the transactions in respect of the Group's investment in Jupiter Mines Limited ("Jupiter"), an Australian-listed company whose main asset is a 49.9% interest in the Tshipi é Ntle manganese mine, and Sedibelo Platinum Mines Limited ("Sedibelo"), a South African platinum mine.

The fair value gains relating to Jupiter amount to USD4.6 million and arise on the remeasurement at disposal driven by exchange rate movements between the AUD/USD exchange rate and share price movements.

The Sedibelo valuation as at 31 December 2019 of USD57.5 million is USD7.1 million higher than the previous valuation of USD50.4 million, resulting in a fair value gain begin recognised. In considering the valuation of the Sedibelo stake, the directors have taken into account the impact of GGL's desire to seek an orderly disposal of its minority holding and have adopted a market-multiple valuation approach to Sedibelo's reserves and resources.

FINANCE INCOME, EXPENSES AND FOREIGN EXCHANGE DIFFERENCES

The net finance expenses (exclusive of exchange differences) were USD3.3 million compared to USD6.6 million in 2018. The prior year included interest on the USD25 million facility at Fabergé, the Kagem Barclays facility, and the overdraft facilities at MRM, which were offset by interest earning on cash balances across the Group. Interest on the Kagem and MRM facilities remains consistent; however, the Fabergé loan was repaid saving USD3.7 million of interest.

The net foreign exchange loss of USD1.2 million (2018: USD2.2 million) reflects the movement of the USD against the GBP, the MZN and the ZMW.

TAXATION

The tax charge for the year was USD28.2 million (2018: USD6.5 million), calculated on a profit before tax of USD67.4 million (2018: loss of USD53.9 million), resulting in an effective tax rate of 41.9% (2018: -12.0%). The tax charge for the year consisted of a current tax charge of USD24.6 million and a deferred tax charge of USD3.6 million. In the prior year, the negative tax rate arises as the Group incurred a tax charge

on a net loss before taxation primarily as a result of impairment losses, non-deductible settlement costs and taxes withheld on dividends paid by MRM. The current income tax charge primarily consists of the MRM tax charge of USD18.0 million and the Kagem tax charge of USD5.8 million. MRM's effective tax rate during the year was 33%, the UK 1% and Kagem 55%.

The effective tax rate of 41.9% arises as a result of non-deductible Mineral Royalty Tax at Kagem and the non-recognition of tax losses including those incurred in Zambia and at Fabergé. These factors all applied upward pressure on the tax rate.

The rate, when normalised for the effect of impairments charges and reversals and fair value movements, was 51% (2018: 35%).

The deferred tax charge principally originates from the tax effect of tax losses utilised by Kagem and Gemfields UK, as well as the revaluation of the Kagem mine asset. The total deferred tax charge was partially reduced by the tax credit originating from the tax effect of mining assets and inventory recognised on the acquisition of Gemfields.

Statutory corporate tax rates in other major operational countries remained broadly similar in the year.

in thousands of USD, unless otherwise stated	2019	2018
Profit/(loss) before taxation	67,373	(53,948)
Income tax expense	28,242	6,483
Effective tax rate %	42%	(12%)
Cash tax paid	9,692	24,378

The tax paid of USD9.7 million is significantly lower than the USD28.2 million charge for the year largely due to the timing of tax payments in Mozambique, following the change in the financial year from June to December.

NET PROFIT AFTER TAXATION

The Group made a profit after tax for the year of USD39.1 million compared to a loss of USD60.4 million, as both periods were heavily impacted by the impairment adjustments on Kagem and the fair value movements on Sedibelo. In the current year, the Group recognised an impairment reversal of USD21.6 million against Kagem, fair value gains of USD7.1 million and inventory provisions of USD7.4 million compared with an impairment charge of USD22.6 million and fair value loss of USD47.6 million respectively in 2018.

On a normalised basis, i.e. after removing impairment charges and reversals, fair value gains on Sedibelo and Jupiter, Leigh Day costs and the once-off 15% export duty in Zambia, the net profit for

2019 would be USD25.5 million compared to USD19.8 million in 2018 as the improved operating profit for the year was offset by a significantly higher tax charge as discussed above.

Earnings per share for the year ended 31 December 2019 were USD0.02 compared with a loss of USD0.05 in 2018, reflecting the profit for the year compared with the large loss in 2018 as discussed above and a fall in the weighted average number of shares in issue. Normalised earnings per share for the year (excluding impairments reversals and charges, export duty and extraordinary legal claims and fees) would be a profit of USD0.02.

Headline earnings per share were USD0.01 compared with a headline loss per share in 2018 of USD0.03.

CAPITAL EXPENDITURE

Capital expenditure, including intangibles, in the year, was USD30.8 million (2018: USD31.3 million). The majority, that is, USD20.5 million, was spent at MRM, comprising USD13.2 million invested in expansion and exploration, as well as improvements to the existing wash plant, USD2.7 million in existing mining and ancillary equipment replacements, and USD4.6 million associated with the RAP. At Kagem, USD4.3 million was invested in replacement mining and ancillary equipment, particularly yellow goods and infrastructure improvements.

The remainder, that is, USD6.0 million, was spent at Gemfields Ltd and on new projects, mainly in Ethiopia and Mozambique.

CASH FLOWS

Net cash and cash equivalents increased by USD15.2 million to USD78.2 million during the year.

The Group generated USD46.4 million from operations during the current financial year, following the higher EBITDA. From this, USD9.7 million was paid in taxes, primarily USD7.8 million at MRM and USD1.9 million at Kagem, such that net cash flow from operating activities was USD36.7 million.

Capital expenditure was USD30.8 million, as discussed above. In 2018, MRM invested in the new sort house and the RAP, while Kagem spent on replenishing its ageing fleet.

Resulting from the higher EBITDA and lower tax payments, because of a change in tax year-end for MRM, Free Cash Flow before working capital movements rose USD4.2 million to USD31.1 million – excluding the 15% export duty this would have been USD43.5 million. Working capital movements of USD25.3 million largely relate to higher auction receivables following the November emerald and December ruby auctions.

Cash flows

in thousands of USD	2019	2018
EBITDA	80,892	58,864
Add back: Change in inventory	(9,255)	18,106
Taxation (excluding mineral royalties and export duty)	(9,692)	(24,378)
Capital expenditure	(30,845)	(31,302)
VAT refunds	–	5,580
Free cash flow before working capital movements	31,100	26,870

During the financial year, the Group utilised USD1.9 million in investing activities with proceeds of USD30.4 million from the Jupiter sale, USD2.6 million from Jupiter dividends and USD2.3 million from the sale of Kariba Minerals offset by the capital expenditure of USD30.8 million (as discussed above) and USD7.1 million advanced to related parties.

The Group's financing activities saw the re-financing of Kagem's USD35 million Barclays facilities with new USD30.0 million facilities along with the utilisation of USD4.7 million of the MRM overdrafts, interest payments of USD4.1 million and USD14.4 million spent on the Group's share buy-back programme.

FINANCIAL POSITION

The Group's balance sheet is summarised below:

in thousands of USD	2019	2018
Non-current assets	507,397	509,699
Current assets	276,756	224,369
Total assets	784,153	734,068
Non-current liabilities	(130,059)	(123,377)
Current liabilities	(75,151)	(60,576)
Total liabilities	(205,210)	(183,953)
Net assets	578,943	550,115

Assets

in thousands of USD	2019	2018
Mining asset	306,967	303,315
Property, plant and equipment, and intangibles	125,146	114,027
Listed, unlisted and other investments	58,955	77,634
Inventory	110,694	99,237
Auction receivables	56,654	41,137
Cash and cash equivalents	78,218	62,988
Other assets, including deferred taxation	47,519	35,730
Total assets	784,153	734,068

MINING ASSETS

The mining asset primarily relates to the recognition of the fair values of Kagem and MRM at the date that GGL acquired Gemfields in July 2017 and represents the allocation of the value of the consideration paid to Gemfields shareholders. These assets are amortised on the unit-of-production basis over the life of the mine. At 31 December 2019, these were USD141.9 million at Kagem and USD151.5 million at MRM. At 31 December 2019, the previously recognised impairment on the Kagem mine asset with MML and other exploration assets made up the remainder of the USD307.0 million.

LISTED AND UNLISTED INVESTMENTS

At 31 December 2018, the Group's listed investment represented the 7.44% holding in Jupiter and was valued at its share price at the balance sheet date. During the year the Group sold the entire shareholding for USD30.4 million.

The Group holds an equity interest in Sedibelo, a producer of platinum group metals ("PGMs") with interests in the Bushveld Complex in South Africa. The Sedibelo valuation as at 31 December 2019 of USD57.5 million is after a fair value gain of USD7.1 million. In considering the valuation of the Sedibelo stake, the Directors have taken into account the impact of GGLs desire to seek an orderly disposal of its minority holding. Consequently, the most appropriate valuation methodology to apply is a market comparable analysis comparing the Enterprise Values of Sedibelo's peer group with their total average mineral resources base and production metrics and then applying this to Sedibelo's estimated mineral

resources (price per 4E ounce) and production to arrive at an estimated valuation of Sedibelo.

INVENTORY

in thousands of USD	2019	2018
Rough emeralds and beryl	45,525	36,273
Rough rubies and corundum	22,259	15,877
Fabergé jewellery and watches	30,743	35,030
Cut and polished product	5,409	5,916
Spares and consumables	6,758	6,141
Total	110,694	99,237

Inventory increased by USD11.4 million to USD110.7 million driven by higher rough gemstone inventory as production exceeded sales for the year and production costs rose. Jewellery and watches inventory at Fabergé saw a fall of USD4.3 million, reflecting sales in the year and an impairment provision of USD6.2 million following a review of the net realisable value of older legacy inventory. The fall in cut and polished inventory reflected sales in the UK and RSA.

AUCTION RECEIVABLES

The auction receivables outstanding related principally to the December ruby auction and November emerald auctions. The November emerald amounts were all received by 31 January 2020; and of the December ruby auction, 96% of the outstanding amounts had been received by 31 March 2020.



NET DEBT

in thousands of USD	2019	2018
Cash and cash equivalents	78,218	62,988
Current borrowings	(24,827)	(23,171)
Non-current borrowings	(28,000)	(30,000)
Net cash	25,391	9,817

Cash and cash equivalents of USD78.2 million have increased by USD15.2 million following record revenues, a higher EBITDA and the proceeds from the sale of the Jupiter investment.

The financing facilities used to support the working capital and other funding requirements of the Group, and to sustain its planned growth and expansion, are discussed below.

During 2019, Kagem renegotiated its facilities with Barclays for a five-year period. The facility consists of a USD20.0 million five-year term loan and USD10.0 million revolving credit facility which has an initial three-year term but is extendable for an additional two years upon agreement by both parties. Both facilities bear interest at three-month US LIBOR plus 5.5% per annum. The facility was fully drawn at 31 December 2019 at USD30.0 million with USD2.0 million payable in December 2020.

MRM has the following facilities:

- A USD15.0 million unsecured overdraft facility entered into with Barclays Bank Mozambique S.A. in April 2016. The facility has an interest rate of three-month US LIBOR plus 4.0% per annum. At 31 December 2019, USD12.9 million (2018: USD14.5 million) was drawn.
- A USD15.0 million overdraft facility entered into with Banco Comercial E De Investimentos, S.A. ("BCI") in June 2016. This facility is valid for 12 months and is renewable. The facility has an interest rate of three-month US LIBOR plus 3.75% per annum. At 31 December 2019, USD9.9 million (2018: USD3.7 million) was drawn.
- A USD15.0 million finance leasing facility entered into by MRM with BCI in June 2016. This is a renewable committed facility with a drawdown period of 12 months, and the amounts drawn down are repayable over a maximum period of 48 months. The committed facility has an interest rate of three-month US LIBOR plus 3.75% per annum. At 31 December 2019, the outstanding balance was USD Nil.

For an analysis of the outstanding facility liabilities at year-end, please see Note 18: *Borrowings* of the Consolidated Financial Statements.

GOING CONCERN

Like many businesses, the potential financial impact of COVID-19 has been given significant consideration when assessing the going

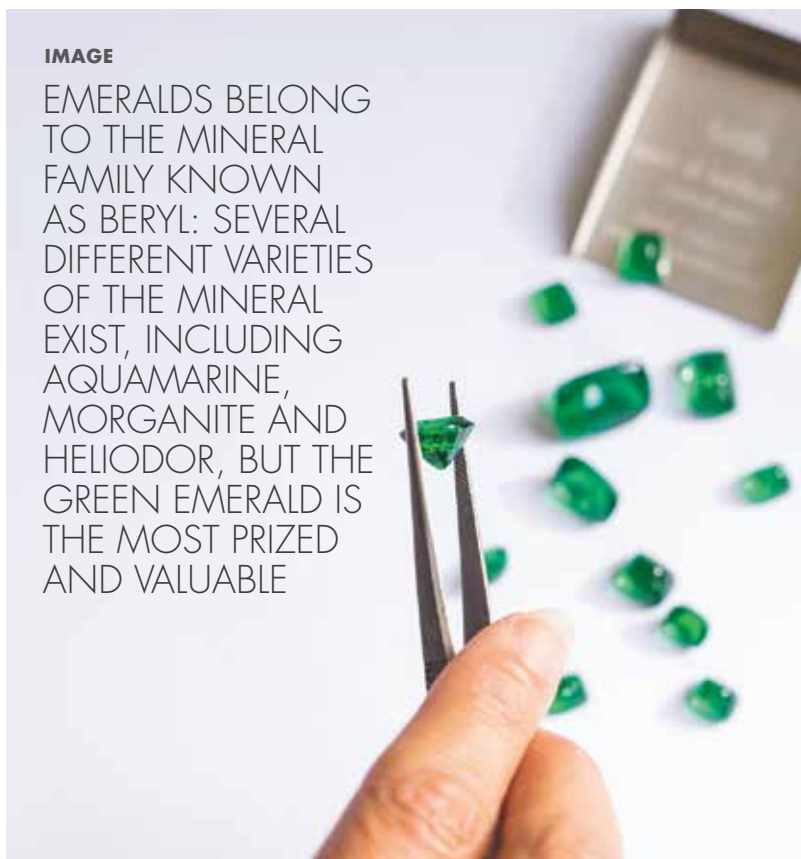
concern assumption. The situation unfolding across the globe is changing daily. It is clear that the pandemic will have an adverse impact on the Group's operations, customers and suppliers. The Group's production, revenue and cash position will also be affected. The critical assumption for the Group is the timing of cash inflows from its emerald and ruby auctions, combined with the ability to reduce expenditure to compensate for the delays in revenue. If the Group can recommence its auctions in final quarter of 2020, then the curtailment of non-committed and discretionary spend at all operations will be sufficient for the Group to continue as a going concern.

However, as disclosed in Note 1 of the financial statements, there is a risk that the auctions planned for the end of 2020 are further delayed should COVID-19 continue to prevent the hosting of gemstone auctions. In this case, without significant further cost cutting measures, the Group's cash position would move into deficit. The timing of the auctions therefore creates a material uncertainty. Despite this, and given our ability to manage discretionary and non-committed expenditure, it remains appropriate to present the financial statements on a going concern basis.

David Lovett
Chief Financial Officer
4 April 2020

IMAGE

EMERALDS BELONG TO THE MINERAL FAMILY KNOWN AS BERYL: SEVERAL DIFFERENT VARIETIES OF THE MINERAL EXIST, INCLUDING AQUAMARINE, MORGANITE AND HELIODOR, BUT THE GREEN EMERALD IS THE MOST PRIZED AND VALUABLE



Mineral Resources and Ore Reserves Summary

Gemfields Group Limited (“GGL”), through its wholly-owned subsidiary, Gemfields Ltd (“Gemfields”), holds 75% attributable interests in Kagem Emerald Mine (“Kagem”) in Zambia, and in Montepuez Ruby Mining (“MRM”) in Mozambique.

This section is a condensed overview of GGL’s Mineral Resources and Ore Reserves Report 2019, which contains a comprehensive review of the Mineral Resources and Ore Reserves for Kagem and MRM as at 31 December 2019 and details the location, geology, mining, processing and operational statistics at Kagem and MRM. The complete Mineral Resources and Ore Reserves Report 2019 and the Competent Person’s Report (“CPR”) for Kagem and MRM, from which the 2019 Report was compiled, are available online at www.gemfieldsgroup.com.

GGL’s attributable Mineral Resources and Ore Reserves are reported according to, and in compliance with, the JORC Code (2012 edition).

As at 31 December 2019, GGL had total attributable mineral resources of 1,022 million carats (“Mct”) of combined emerald and beryl at an average value of USD5.92/ct, and 494 Mct of ruby and corundum at an average value of US17.68/ct.

All mineral resources are inclusive of the mineral reserves. Rounding-off of figures in this report may result in minor computational discrepancies. Where these occur, they are not deemed significant.

COMPETENT PERSONS AND CONSENT

The Competent Persons (“CPs”) in terms of JORC who take responsibility for the reporting of Mineral Resources and Ore Reserves for Kagem and MRM in this report are respectively:

- Anirudh Krishna Sharma, MAusIMM (CP), Head of Production, Planning and exploration with Kagem Mining Limited, is a Chartered Professional (CP Geology) member of the Australasian Institute of Mining and Metallurgy (“AusIMM”) and is the Competent Person responsible for the reporting of the Mineral Resources and Ore Reserves at Kagem in this report. Anirudh

has more than five years’ relevant experience in this style of mineralisation.

The Competent Person’s address is Kagem Mining Ltd, PO Box 21657, Plot 6374, Corner Dr Agrey and Kariba Roads, Light Industrial Area, Kitwe, Zambia.

- Hemant Azad, MSc (Applied Geology), MAusIMM, Head of Geology with Montepuez Ruby Mining Limitada is the Competent Person responsible for reporting of Mineral Resources and Ore Reserves at MRM in this report. Hemant has more than five years’ relevant experience in this style of mineralisation.

The Competent Person’s address is Montepuez Ruby Mining LDA, Avenida Eduardo Mondlane No 178, Edificio Cruz Vermelha, Cidade de Pemba, Cabo Delgado, Mozambique.

The CPs have confirmed to GGL in writing that the contents of this report are consistent with the CPR for Kagem and MRM and production records for the period 1 July to 31 December 2019. GGL’s attributable Mineral Resources and Ore Reserves are reported according to and in compliance with the JORC Code (2012 edition). GGL confirms that JORC is an approved code for the JSE Limited and that reporting of Mineral Resources and Ore Reserves according to JORC is consistent with the requirements of the SAMREC Code (2016 edition).

Abridged review per operation

KAGEM

Kagem is in the Ndola Rural Emerald Restricted Area (“NRERA”) within the Kafubu area of the Zambian Copperbelt Province. Kagem operates in terms of a large-scale gemstone licence 14105HQ LSGL over an area of 42.4 square kilometres issued on 27 April 2010. The licence was renewed on 10 December 2019 for a further 25 years, which is then valid until 26 April 2045.

The emerald deposits are hosted by talc-magnetite schists (“TMS”) of the Muva Supergroup. The Mineral Resources are reported

within an optimised pit shell using the same input parameters as those in the mining study, but with a 30% mark-up on the anticipated prices to reflect an optimistic view. All grades quoted reflect beryl and emerald, expressed as carats per tonne.

Conventional open-pit mining using drill-blast-load-haul methods is done with Kagem-owned in-house fleet and contractor provided labour.

The steeply dipping reaction zones (“RZs”) are mined using manually-intensive methods with the assistance of hydraulic excavators under close supervision and only during daylight hours. All large and high-quality coloured gemstones are hand-sorted at the mining face and are placed in a drop safe container that is numbered, tagged and closed with security-controlled locks. The remaining RZ material is loaded into trucks and transported directly to the processing facility.

Open-pit optimisations determined the economic pit shells, which were used for mine design and production scheduling. The practical pit design for the Chama pit uses five sequential cutbacks which aim to provide flexibility in mining locations and balance high strip ratio – higher confidence ore with lower strip ratio – lower confidence ore.

The processing plant processes RZ material mined directly from the open pit through a simple series of comminution, screening, washing and sorting facilities. All product is essentially hand-sorted in a secure sort-house facility where gemstones are upgraded using manual methods to produce emerald (subdivided into premium emerald and emerald) and beryl (subdivided into beryl-1, beryl-2, specimen and fines categories).

The auctions in 2019 realised USD79.0 million from the sale of 4.55 Mct of high- and commercial-quality emeralds.

Kagem has obtained the necessary environmental licences in terms of the Environmental Management Regulations (SI 112 of 2013). Bi-annual reports on noise and water monitoring and waste management are submitted to the Zambian Environmental Management Agency (“ZEMA”). The annual update of the environmental management plan (“EMP”) includes a section on closure cost, which is required as part of the audit to assess the annual cash contribution Kagem needs to pay to the Environmental Protection Fund (“EPF”) (per the Mines and Minerals Act).

The current calculated closure cost is approximately USD1.1 million. As Kagem is deemed to be largely compliant with its obligations, it receives a 95% discount on the full value of the calculated liability. Kagem therefore only contributes 5% of the closure cost to the EPF in any one year. Kagem currently has a Payment Guarantee (No. 339020015174) with Standard Chartered Bank for USD349,238 based on the 2015 EPF audit as per Liability Assessment no. MSD/20/1/17.

For the year ended 31 December 2019, Kagem recovered 36.3 Mct from 145 thousand tonnes (“kt”) of RZ ore at a grade of 228 ct/t. The unit operating cost for 2019 of USD3.07/t (against a budget of USD3.23/t) was a slight improvement on the unit cost for 2018 of USD3.09/t (budget USD3.25/t).

IMAGE

ZAMBIAN EMERALDS WERE FORMED OVER 500 MILLION YEARS AGO BY A RARE COMBINATION OF MINERALS AND HEAT FROM DEEP IN THE EARTH'S CRUST



Kagem mineral resources and ore reserves

The Kagem Mineral Resources and Ore Reserves Statement attributable to GGL (75% basis) at 31 December 2019 is set out in the table below. Mineral Resources are reported at a bottom screen cut-off of 3 mm and are inclusive of the Ore Reserves.

No inferred resources are included in the LoM plans, which support the Ore Reserve declaration.

Kagem Attributable Mineral Resource and Ore Reserve Statement at 31 December 2019:

Mineral resource (Attributable to GGL)	Tonnage (kt)	B+E grade (ct/t)	Contained B+E (Mct)	Ore reserves (Attributable to GGL)	Tonnage (kt)	B+E grade (ct/t)	Contained B+E (Mct)
Chama				Chama			
Measured	307	250	79	Proved	236	203	48
Indicated	2,783	270	746	Probable	2,130	218	465
Total measured + indicated	3,090	270	825	Total ore reserve	2,366	217	513
Inferred	–	–	–				
Fibolele				Fibolele			
Measured	–	–	–	Proved	–	–	–
Indicated	95	160	14	Probable	72	135	10
Total measured + indicated	95	160	14	Total ore reserve	72	135	10
Inferred	900	160	144				
Libwente							
Measured	–	–	–				
Indicated	–	–	–				
Total measured + indicated	–	–	–				
Inferred	150	46	7				
Stockpiles				Stockpiles			
Measured	225	139	32	Proved	225	139	32
Indicated	–	–	–	Probable	–	–	–
Total Measured + Indicated	225	139	32	Total ore reserve	225	139	32
Inferred	–	–	–				
Total M+I mineral resources	3,410	260	871	Total ore reserves	2,663	208	555
Total inferred mineral resources	1,050	145	151				

Gemstone mineral resource Grade and value	Chama	Recovered grade (ct/t) Fibolele	Libwente	2019 Parcel value (USD/ct)
Premium emerald	1.43	0.07	–	64.63
Emerald	72.53	57.99	–	4.19
Beryl-1	84.86	108.68	–	0.11
Beryl-2	67.05	117.33	–	0.01

The comparative Kagem Mineral Resource and Ore Reserve statement attributable to GGL (75% basis) at 31 December 2018 is set out below. The key differences between the 2018 and 2019 Mineral Resource and Ore Reserve estimates are explained as follows:

- **Mineral Resources:**

- » A stockpile of mined ore is now included in the 2019 Mineral Resource estimate;
- » Recent production results at Chama resulted in the average grade being adjusted downwards, reducing the quantity of contained gemstones; and
- » Part of the Inferred Resources at Fibolele has been restated into an Indicated category. Recent production results resulted in the average grade for Fibolele being adjusted upwards, increasing the quantity of contained gemstones.

- **Ore Reserves:**

- » An ore stockpiling strategy was introduced during 2019 to manage the expected variability in the gemstone grading distribution, the impacts of the wet season on productivity and ensure a constant plant feed;
- » A stockpile of mined ore is now included in the 2019 Ore Reserve estimate;
- » Recent production results at Chama resulted in the average grade being adjusted downwards, reducing the quantity of contained gemstones;
- » Improved gemstone prices allowed more material at Chama to be included in the economic pit shell, with an increase in Probable Reserve tonnages; and
- » Recent production results resulted in the average grade for Fibolele being adjusted upwards, increasing the quantity of contained gemstones.

Kagem Attributable Mineral Resource and Ore Reserve Statement at 31 December 2018:

Mineral resource (Attributable to GGL)	Tonnage (kt)	B+E grade (ct/t)	Contained B+E (Mct)	Ore reserves (Attributable to GGL)	Tonnage (kt)	B+E grade (ct/t)	Contained B+E (Mct)
Chama				Chama			
Measured	363	322	117	Proved	400	273	109
Indicated	2,775	304	843	Probable	1,953	256	504
Total measured + indicated	3,138	306	960	Total ore reserve	2,353	260	612
Inferred	–	–	–				
Fibolele				Fibolele			
Measured	–	–	–	Proved	–	–	–
Indicated	93	90	8	Probable	96	74	7
Total measured + indicated	93	90	8	Total ore reserve	96	74	7
Inferred	1,065	119	127				
Libwente							
Measured	–	–	–				
Indicated	–	–	–				
Total measured + indicated	–	–	–				
Inferred	150	46	6.8				
Total M+I mineral resources	3,231	300	968	Total ore reserves	2,449	253	619
Total inferred mineral resources	1,215	110	134				

Gemstone mineral resource Grade and value	Recovered grade (ct/t)			2018 Parcel value (USD/ct)
	Chama	Fibolele	Libwente	
Premium emerald	3.36	0.07	0.05	64.63
Emerald	80.6	21.83	9.39	4.19
Beryl-1	139.8	32.14	16.58	0.11
Beryl-2	82.21	35.95	19.96	0.01



MONTEPUEZ

Montepuez Ruby Mining is located in Cabo Delgado Province in north-eastern Mozambique, approximately 170 km west of Pemba. The single mining licence 4703C Ref. 1588/CM/INAMI/2015 covers an area of 34,996 hectares and is valid until 11 November 2036.

The Montepuez ruby deposit is hosted by the Montepuez Complex, a strongly ductile-deformed, wedge-shaped, metamorphic terrane. Ruby and corundum mineralisation is found in two styles: primary amphibolite; and a secondary gravel bed. The latter is the main source of rubies and corundum mineralisation. The gravel bed horizon is generally less than two metres thick, with an average thickness of 0.45 metres.

The current LoMP production requires a ramp-up from the 2018 annualised 4.4 million tonnes per annum (“Mtpa”) total to 7.5 Mtpa by 2021, with ore mining increasing from 800 thousand tonnes per annum (“ktpa”) to 1.5 Mtpa by 2021, and is projected to extend to 2030 (with an LoM of 12 years). The expected average stripping ratio for the LoM is 4.0 tonne per tonne (“t/t”).

An owner-operated fleet undertakes all material movement. Grade control is constrained to visual inspection and mining of the mineralised zones is only undertaken during daylight hours.

All run of mine (“RoM”) ore is stockpiled at the wash plant and a RoM stockpile with a minimum capacity of six months’ of processing plant feed is kept at all times.

A new, upgraded processing plant, including a scrubber, rated at 200 tph of RoM feed, and a dense medium separation plant

(“DMS”), rated at 83 tph of washed -25 mm+1.6 mm material, was commissioned in December 2016. The wash plant flowsheet incorporates wet scrubber screening to remove -1.6 mm solids, followed by a log washer to break up clay balls and a double-deck, wet screen to remove +25 mm stone fraction and -1.6 mm fines.

After washing and separation in the plant, the resulting gravity concentrate is sorted by hand in the high-security area under strict supervision. MRM commissioned a new recovery house in February 2019 incorporating automatic colour sorting machines. After removal of fines, the remaining gemstones are then subdivided into five broad quality categories.

The auctions in 2019 realised USD121.5 million from the sale of 1.89 Mct of higher-, medium- and commercial-quality rubies.

MRM holds a valid approval for its RAP, a DUAT valid until 2036, and a Category A Environmental Licence for the mine site and an industrial park in Maputo valid until August 2024 and April 2023 respectively.

The costs of ongoing rehabilitation for mined-out areas are included in the financial model projections for Montepuez. In addition, MRM has created a provision of USD25 million for closure.

For the year ended 31 December 2019, MRM recovered 2.3 Mct from 851 kt ore at an average grade of 2.7 ct/t. The unit cash operating cost per total rock handled was USD4.58/t in 2019 (2018: USD7.21/t) due to increased waste stripping. The higher unit operating cost of USD18.64/ct in 2019 (2018: USD14.10/ct) arises from the settlement agreement reached with Leigh Day regarding alleged human rights abuses.

MRM MINERAL RESOURCES AND ORE RESERVES

The MRM Mineral Resources and Ore Reserves statement attributable to GGL (75% basis) at 31 December 2019 is set out below. Mineral Resource grades are quoted with a bottom cut-off stone size of 1.6 mm and are inclusive of Ore Reserves.

No Inferred Resources are included in the LoMPs which support the Ore Reserve declaration.

MRM Attributable Mineral Resource and Ore Reserve Statement at 31 December 2019:

Mineral resource (Attributable to GGL)	Tonnage (kt)	Grade (ct/t)	Contained (Mct)	Ore reserves (Attributable to GGL)	Tonnage (kt)	Grade (ct/t)	Contained (Mct)
Maninge Nice				Maninge Nice			
Indicated – primary	855	96.1	82.1	Probable – primary	843	97.7	82.3
Indicated – secondary	373	50.3	18.7	Probable – secondary	392	50.1	19.6
Total indicated	1,228	82.2	100.9	Total probable reserve	1,235	82.6	102.0
Inferred – primary	180	97.8	17.6				
Inferred – secondary	10,050	12.7	127.8				
Inferred – total	10,230	14.2	145.4				
Mugloto				Mugloto			
Indicated – primary	0	0	0	Probable – primary	0	0	0
Indicated – secondary	9,346	2.9	27.3	Probable – secondary	9,253	2.8	26.1
Total indicated	9,346	2.9	27.3	Total probable reserve	9,253	2.8	26.1
Inferred – secondary	13,800	14.8	203.6				
Glass				Glass			
Indicated – secondary	4,725	2.4	11.3	Probable – secondary	4,756	2.2	10.5
Total indicated	4,725	2.4	11.3	Total probable reserve	4,756	2.2	10.5
Inferred – secondary	6,075	0.9	5.4				
Total indicated mineral resources	15,298	9.1	139.4	Total ore reserves	15,244	9.1	138.5
Measured resource	30,105	11.8	354.5				

Gemstone mineral resource grade and value	Recovered grade (ct/t)			Jun'19 Parcel value (USD/ct)	Dec'19 Parcel value (USD/ct)
	Maninge Nice	Mugloto	Glass ¹		
Maninge Nice					
Premium ruby	0.049	0.098	–	1,383	1,391
Low premium ruby + ruby	0.356	0.477	–	74	74
Low ruby	2.619	0.101	–	3	2
Corundum	1.063	0.070	–	3	2
Sapphire	0.275	0.034	–	–	–
Low sapphire	4.883	0.321	–	–	–
–4.6mm	8.001	0.768	–	–	–
Reject with some low sapphire	n/r	n/r	–	–	–

(1) No production from Glass during 2019.
n/r = not recorded.

The comparative MRM Mineral Resource and Ore Reserve statement attributable to GGL (75% basis) at 31 August 2018 is set out in the following table. The key differences between the 2018 and 2019 Mineral Resource and Ore Reserve estimates are explained as follows:

- **Mineral Resources:**
 - » A 960 kt reduction in material classified as Indicated is due to mining depletion;
 - » There is no material change in tonnage for the Inferred Resources;
 - » The significant increase in total grade of the Inferred Resource is attributed to the results of the Maninge Nice East Pit 1, where a new estimation domain, Maninge Nice East Domain, has been introduced to constrain the impact of high grades associated with this pit; and
 - » There is a reduction in grade for the Indicated Resources at Maninge Nice and Mugloto grade.
- **Ore Reserves:**
 - » During the period 1 September 2018 to 31 December 2019, 979 kt of ore was processed from which gemstones of 9.3 Mct were recovered;
 - » Primary ore represented 5.3% of the total ore processed;
 - » The Ore Reserve grades at the various pits have reduced slightly since August 2018, although the average grade for the total declared Ore Reserves remains unchanged; and
 - » The achieved prices for premium ruby show steady improvement since August 2018, whereas the prices for low-premium ruby/ruby have dropped by approximately 25%.

MRM Attributable Mineral Resource and Ore Reserve Statement at 31 August 2018:

Mineral resource (Attributable to GGL)	Tonnage (kt)	Grade (ct/t)	Contained (Mct)	Ore reserves (Attributable to GGL)	Tonnage (kt)	Grade (ct/t)	Contained (Mct)
Maninge Nice				Maninge Nice			
Indicated – primary	825	97.9	80.8	Probable – primary	848	97.9	83.0
Indicated – secondary	375	55.0	19.4	Probable – secondary	395	56.5	22.3
Total indicated	1,235	83.8	103.6	Total probable reserve	1 243	84.8	105.3
Inferred – primary	180	97.9	17.6				
Inferred – secondary	9,975	0.9	8.6				
Inferred – total	10,155	2.6	26.2				
Mugloto				Mugloto			
Indicated – secondary	9,450	3.0	28.3	Probable – primary	0	0	0
Indicated – secondary	701	7.3	5.1	Probable – secondary	9,794	3.0	29.7
Total indicated	10,151	3.3	33.4	Total probable reserve	9,794	3.0	29.7
Inferred – secondary	13,800	14.8	203.7				
Glass				Glass			
Indicated – secondary	4,875	2.4	11.6	Probable – secondary	5,186	2.5	12.7
Total indicated	4,875	2.4	11.6	Total indicated	5,186	2.5	12.7
Inferred – secondary	6,075	0.9	5.4				
Total indicated mineral resources	16,262	9.1	148.6	Total ore reserves	16,223	9.1	147.8
Total inferred mineral resources	30,030	2.6	235.2				

Gemstone mineral resource grade and value	Recovered grade (ct/t)			2017 Parcel value (USD/ct)	H1-2018 Parcel value (USD/ct)
	Maninge Nice	Mugloto	Glass		
Maninge Nice					
Premium ruby	0.018	0.15	0.033	791.00	1 377.04
Low premium ruby + ruby	0.518	0.46	0.203	35.00	109.73
Low ruby	2.725	2.321	0.337	8.32	1.93
Corundum	2.080	1.772	0.258	2.08	n/r
Sapphire	0.890	0.758	0.110	0.67	n/r
Low sapphire	5.187	4.418	0.642	0.15	n/r
–4.6mm	0.046	0.039	0.006	9.06	n/r
Reject with some low sapphire	n/r	n/r	n/r	0.05	n/r

n/r = not recorded.

IMAGE

RUBIES VARY IN COLOUR MORE THAN YOU MIGHT EXPECT, FROM PURPLISH-RED TO ORANGEY-RED. A RUBY'S PRIMARY HUE MUST BE RED – THE MORE VIVID, THE BETTER



About the Group	62
Sustainability and Corporate Responsibility.....	64
Principal Risks	71
Directors' Report	78
Corporate Governance Report	81
Audit Committee Report	84
Remuneration Committee Report.....	86
Nomination Committee Report	93

03 GOVERNANCE

About the Group



STRUCTURE

Gemfields Group Limited (“Gemfields”, the “Company”, “GGL” or the “Group”) is incorporated in Guernsey under company registration number 47656 and is subject to the Companies (Guernsey) Law 2008. The Company changed its name from Pallinghurst Resources Limited by Special Resolution effective 26 June 2018. The “Group” is Gemfields Group Limited, all entities controlled by the Company (its subsidiaries), and any associates or joint ventures. Gemfields’ primary listing is on the JSE, and its secondary listings are on the AIM of the LSE and the Bermuda Stock Exchange (“BSX”). The Company is in the process of reviewing its BSX listing. The Company’s main objective is to carry on the business of an operating mining company.

REPORT AND FINANCIAL STATEMENTS

This Annual Report is for the year ended 31 December 2019 (the “Annual Report”) and covers the Group. The annual financial statements contained within the Annual Report also cover the Group and are for the year ended 31 December 2019 (the “Financial Statements”).

IMAGE / LEFT

ZAMBIAN EMERALDS
SURROUND FABERGÉ’S
IMPÉRATRICE EMERALD
TASSEL PENDANT

IMAGE / RIGHT

CARVED GEMSTONES
DEPICTING ROSES FEATURE
IN FABERGÉ JEWELLERY

SHAREHOLDERS

Gemfields has no single controlling shareholder; the largest shareholder is Dr Christo Wiese(1), a Director of the Company who holds an interest of 12.65%. Gemfields' shareholder base, as at 31 December 2019, is set out in the table below:

Directors of the Company ¹	14.14%
Fidelity International Limited	10.96%
Ophorst Van Marwijk Kooy Vermogensbeheer N.V.	7.85%
Gemfields Group Limited	7.60%
Oasis ²	7.48%
Old Mutual Limited ³	5.97%
Investec Asset Management	5.39%
Solway Finance Limited	5.32%
Other shareholders	35.29%

¹ The Directors and management category includes shareholdings of Executive Directors and Non-Executive Directors and their associates. It also includes certain shares held by family members of Dr Wiese.

² The Oasis shareholding includes interests held by Oasis Asset Management and Oasis Crescent Capital.

³ The Old Mutual shareholding includes interests held by Old Mutual Investment Group (South Africa) and Old Mutual Customised Solutions.

RECENT CORPORATE CHANGES

Erich Clarke resigned as a non-executive director on 7 January 2019 and was replaced by Carel Malan on 9 January 2019. Subsequently, Brian Gilbertson resigned as non-executive chairman of Gemfields on 25 November 2019 and was replaced by Martin Tolcher, who was previously a non-executive director of Gemfields. This change of chairman was, in part, to satisfy certain corporate governance requirements arising in connection with the Company's dual listing on AIM. Carel Malan replaced Martin Tolcher as chair of the Audit Committee, with Martin Tolcher remaining a member for the time being.

The Company was admitted to trading on AIM on 14 February 2020.

On 28 February 2020, the Company cancelled, and de-listed from the JSE, 96,276,146 ordinary shares of the Company. These shares were held by The Gemfields Resources Fund L.P. (formerly called The Pallinghurst Resources Fund L.P.), being a wholly-owned subsidiary of Gemfields.



(1) Dr Wiese holds indirect interests in GGL shares via various entities, totalling 12.65%. In addition, certain shares are held by members of Dr Wiese's immediate family, totalling a further 0.17%.

Sustainability and Corporate Responsibility



IMAGE

LADIES OF THE LOCAL COMMUNITY EARN A LIVELIHOOD THROUGH MRM'S PROJECTS, CARING FOR POULTRY OR CONSERVATION FARMING

The Company's approach to sustainability and corporate responsibility ("SCR") is one in which overarching strategy is set by the Group and then implemented locally by dedicated teams on the ground. The Company prides itself on being a responsible and recognised leader regarding legitimacy, transparency and integrity within the coloured gemstone mining sector and beyond that into the downstream supply chain. The Company's SCR programme of work extends well beyond just operational matters relating to the community, conservation, and health, safety and environment ("HSE") but covers a range of associated issues – from human rights and security, product disclosure, government or industry relations to policies, procedures, and risk management.

RESPONSIBLE BUSINESS VALUES

The focus of SCR remained unchanged in the period under review. The strategic approach and operational implementation are still concerned with addressing the main social, environmental, health and safety impacts at our mining operations. But we also continue

to act as a champion, bringing greater legitimacy, transparency and integrity to the downstream coloured gemstone supply chain and ultimately supporting efforts to communicate with consumers of jewellery and other luxury products that use our gemstones. Our approach is summarised by these three pillars:

Legitimacy: We go over and above accepted practices

We operate in a way that not only meets international and national laws, but that also challenges the sector by setting new benchmarks around sustainability.

Transparency: To lead we must be transparent

As well as leading with our own standards and initiatives through

our downstream supply chain, we are working with partners to standardise strong, transparent practices across the industry.

Integrity: *We are committed to embedding tangible operational actions* We take this approach from the mines onwards, to support sales and marketing of our product. Our proprietary grading system provides our partners with trusted evaluation and declaration of treatment.

ENGAGEMENT AND MATERIALITY

The development of our approach was informed by establishing materiality. We started by engaging stakeholders at a local level.

Our principal stakeholders are, of course, our workers, of whom we have many at our mining operations. These stakeholders are informally canvassed for their opinions on the business in preparation for formal meetings with unions and management.

The nature of our operations means that we have formed close relationships with local government representatives, national and regional union representatives, joint venture partners, and local chiefs or leaders. We also carry out extensive community consultations as a requirement of our licences. All these stakeholders provide us with views about the conduct of the business, and these views are taken on board in underpinning our responsibility agenda.

At a Group level, we have dialogue with international non-governmental organisations (“NGOs”), standard setters, auction customers, jewellery partners, mining peers, and the media. Together, these conversations inform our approach and keep us abreast of the most material issues to focus on.

Our long-term approach to SCR is dependent on the identification of the most important social, environmental and commercial risks facing the business in terms of responsible business practices. We identified early on that there are approximately 50 material risks, and these have been ranked in terms of their importance to our stakeholders and their importance to our business. Fourteen of these material risks have been assigned the highest priority as the most high risk, or as having the potential to cause the most reputational harm. These are:

- Artisanal and illegal mining
- Biodiversity
- Business conduct and ethics
- Creating local employment
- Economic performance
- Employee health, safety and well-being
- Environmental compliance
- Involuntary resettlement
- Labour rights and collective bargaining
- Local livelihoods
- Modern slavery and forced labour



- Product transparency
- Rehabilitating the environment
- Security practices and human rights

GOVERNANCE AND DELIVERY

HSE and community risks are ultimately overseen by the Board. Strategic direction-setting, management of policies, and guidance on delivery are actioned through a dedicated director at Gemfields who works closely between the corporate office, the operations and across business units. Each fully functional operation has its own dedicated HSE and community teams. Their responsibility is to implement community plans in collaboration with stakeholders in order to enhance our operational viability and social licence to operate and to ensure that Group strategy and policies are adhered to.

Other systems of governance and delivery across the business include the local operational board of directors, the group-wide risk management system, formal relationships with trade unions, and memorandums of understanding (“MoUs”) with key local stakeholders such as NGOs, traditional chiefs and/or village-level leadership groups.

GEMFIELDS FOUNDATION

An additional system of governance and delivery of SCR projects is the newly created Gemfields Foundation. By the end of the period, the Gemfields Foundation had been established in the United Kingdom as a charitable company funded by Gemfields Ltd. The Foundation is independent of Gemfields Ltd with a Board of Trustees made up of a majority of individuals independent of the Company. The charitable purpose of the Gemfields Foundation is to address poverty in developing countries and support conservation

projects. The Gemfields Foundation will be part-funded by Gemfields Ltd and can also accept donations from external bodies or individuals. The funds can be used to create new community projects or support those that the Group's subsidiaries are already undertaking. The Gemfields Foundation will be required to submit a separate annual report to the UK Charity Commission and have its accounts independently verified each year.

OVERARCHING STRATEGY AND LEGACY

Before we start full mining operations, we work with the relevant authorities in carrying out social and environmental risk assessments, as well as mapping and conducting initial engagement with the community as to our plans. We recognise that we are only able to operate year-on-year for the full life of the mine by securing a social licence to operate and that this means maintaining positive community relations. To guide us so that we operate at the highest standards in this regard, and to contribute to global development, we align our approach to the broader strategic aims of the United Nations ("UN") Sustainable Development Goals ("SDGs"), including but not limited to:

SDG 2: Zero hunger – recognising that we have a role to play in assisting local communities to address food security issues, we can contribute to training and development for more resilient agricultural production around our concessions.

SDG 3: Good health and well-being – recognising that, through our health projects, we can contribute to reducing mortality and infant deaths and can provide awareness regarding sexual health and preventable diseases.

SDG 4: Quality education – recognising that we operate in areas with very low literacy and numeracy levels, we can contribute to improving educational access and address gender disparities by opening access to both boys and girls.

SDG 5: Achieve gender equality – recognising that women and girls play an important role in our community and organisation and that we can contribute to their empowerment through employment and active participation in collaborative projects.

SDG 15: Life on land – we can contribute to the conservation, restoration and use of land, as well as help others seeking to address the challenges of wildlife poaching and trafficking.

Alignment of the strategy to the SDGs is an important chapter in the development of our approach, however, we are aware that best practice is to track the impact our actions have in helping to meet the individual goals. We do periodically measure agricultural yields, the number of patients visiting health care facilities, or the impact our philanthropy has on conservation efforts; however, this is an area of work that we do not have the capacity to pursue more comprehensively.

APPROACH TO DELIVERING SUSTAINABLE COMMUNITY DEVELOPMENT PROJECTS

We take a grass-roots approach to sustainable development in our countries of operation. We are reliant on the government licensing process to secure the legal rights to explore and mine, but it is also critical that we recognise customary and cultural rights over land and resources, and that there can be different expectations about a mining company. Therefore, managing our relationship with communities in a free, open and inclusive way is a priority. When we arrive at a mining location to start our operations, we firstly engage the local community. Our dedicated community teams at the operations liaise and cooperate with the local communities who assist in the selection and successful implementation of community projects.

At each operation, locally developed community engagement and project strategies reflect the overall Gemfields approach to SCR and are tailored to the needs of the community. Each community strategy follows a consistent approach so as to share the benefits of our business. Our focus is on rural health access, education, and income-generating livelihoods – these are consistently cited as the most significant indicators of poverty, they underpin economic development in the developing world, and they are the areas that our communities tell us are most in need of investment.

Our aim is to create a legacy of long-term community development so that, throughout the mining life cycle and afterwards, the communities can benefit from projects that will be sustainable long after we are gone. Our approach for infrastructure projects, where the role of the state is limited, is to build schools and clinics or upgrade basic facilities, including utilities, roads and bridges, but to hand these over to the state after developing a clear MoU with the government. For income-generating livelihood projects, we use start-up funds, provide training, help to set up farming associations, offer project and financial management expertise, and facilitate other expert support to ensure that projects contribute to economic development and that communities benefit from new sources of income in the short, medium and long term.

Healthcare access

Addressing health impacts in the developing world is a serious challenge. The prevalence of chronic diseases such as typhoid, dysentery, HIV/AIDS and malaria can affect the long-term health of any community.

We are proud of our track record in improving access to basic health services in the remote areas in which we operate. In more remote locations, the state often cannot provide the services, transport or reliable infrastructure to give people access to healthcare. Our primary focus, therefore, is on improving healthcare access through infrastructure provision, either by rehabilitating existing clinics or building new ones with the support of the local government. We have also launched innovative services such as

IMAGE

MRM'S MOBILE CLINICS PROVIDE A LIFELINE TO REMOTE COMMUNITY MEMBERS



mobile health clinics which can reach parts of the community that are far from traditional clinic facilities.

Case study: Mobile health clinics

The communities surrounding MRM are scattered with small settlements, most of which are located on the banks of the road that connects the city of Pemba with the town of Montepuez. Many of these communities are located far from the only local health clinic. Because of the distance, many members of these communities are unable to access the facilities. With two mobile health clinics now operating six days a week across ten communities, the mobile health program provided over 40,000 consultations in 2019. Of these, nearly half were related to a National Vaccination Program, one third related to maternal and child health and the remainder related to outpatients.

Educational opportunities

We operate in countries that can have exceptionally low levels of basic literacy and numeracy. Provision of education for children is fundamental to development, but many children leave school because of the distances that need to be travelled, the quality of the teaching, the lack of infrastructure, and the cost of attendance. We have successfully built a number of schools and improved existing community schools – we were directly responsible for these projects, in addition to receiving welcome donations from external partners. We are also conscious that adult learning is an important factor in rural economic development and have therefore helped groups to gain access to school infrastructure for after-school classes. In addition to infrastructure, providing educational opportunities for exceptional students to further their education through scholarships is another important aspect of our education programme.

Case study: Motivating school children in Mozambique

For the year 2019, the team's focus on education was on motivational factors for school children. The company invested in school sports equipment for five schools in the local communities. The equipment list included uniforms, soccer balls, volleyballs, and volleyball nets. In addition, the company provided material to the other district school locations through the Montepuez District Directorate for Education, Youth and Technology (SDEJT). During this period, a volunteer group established by MRM workers developed an initiative to support the education of local children through the practice of sport. Every Sunday is now an "Open Day" at MRM and children can participate in sports such as volleyball, basketball, tennis and football. In addition to helping employees to develop connections with the communities, this initiative helps the Company and government efforts to combat the exploitation of children for illegal mining.

Sustainable livelihoods

In the areas in which we operate, communities often lack any form of steady income to take them out of poverty. In remoter areas, subsistence farming is the norm, but unsustainable in the long term. Farmers are only able to provide food for themselves and sell what little is left in a piecemeal way. Our approach is to support high-impact livelihood projects, in particular with farming associations, that produce year-round food crops and animal rearing as a form of income.

By collaborating with an association, we can negotiate fairly and transparently and assist by providing training for all members. Each of our local mining operations is a ready market for buying the produce, whether it is vegetables or chickens, and we encourage



IMAGE

FUNDED BY KAGEM, STUDENTS OF ZAMBIA'S CHAPULA SECONDARY SCHOOL ACHIEVE SOME OF THE HIGHEST GRADES IN THE COUNTRY



our farmers to diversify their crops based on the needs of each mining operation. With each livelihood project, after a period of investment and educational support, we hand it over for full ownership by the community, and, while we will continue to provide help should it be needed, the intention is that the community should recognise the long-term benefit of the project and manage it themselves. We are also particularly conscious of the importance of economic inclusion and actively seek out ways to cooperate with women's and youth groups and find ways to create local employment and training opportunities in readiness for when the Cabo Delgado Province benefits from the boom associated with oil and gas production.

Case study: Chicken and egg production

Four associations from the communities of Namanhumbir, Nanune, Nthoro and Nanhupo A, which are all close to MRM, continue to be supported for chicken production. Total chicken production from the four associations in 2019 was about 15,000 units, resulting in sales of just over USD60,000. Of this, 36% of the association's revenue came from sales to MRM and the remaining 64% to community members. In June 2019, MRM started a pilot project on egg production, starting with just 100 laying hens. By the end of December, around 16,000 eggs had been produced, a third of which were sold to MRM. With the income obtained from the sale of chickens and eggs, the associations report that they have invested in the education of their children, improving their houses, feeding their families and even opening their own businesses.



IMAGE / TOP

AN AERIAL VIEW OF FARMERS UNDERTAKING CONSERVATION FARMING

IMAGE / BOTTOM

CHICKEN PRODUCTION CONTINUES TO SUPPORT LOCAL LADIES IN MOZAMBIQUE

Resettlement

Within MRM's 340 square kilometre concession, there are five communities, a number of which are located on or near the mineralised area. Access to the mineralised area resulted in studies being carried out in 2014 and it was determined there was a need to involuntarily resettle communities. This RAP process not only complied with national law but also adhered to international best practice, including Performance Standard 5 (Land Acquisition and Involuntary Resettlement) of the International Finance Corporation's Performance Standards on Environmental and Social Sustainability, as well as the principles of Free, Prior and Informed Consent. It was established that MRM would be able to avoid disruptive resettlement of all five communities and that only one, Nthoro, located in the most viable mineralised area, would need to be resettled.

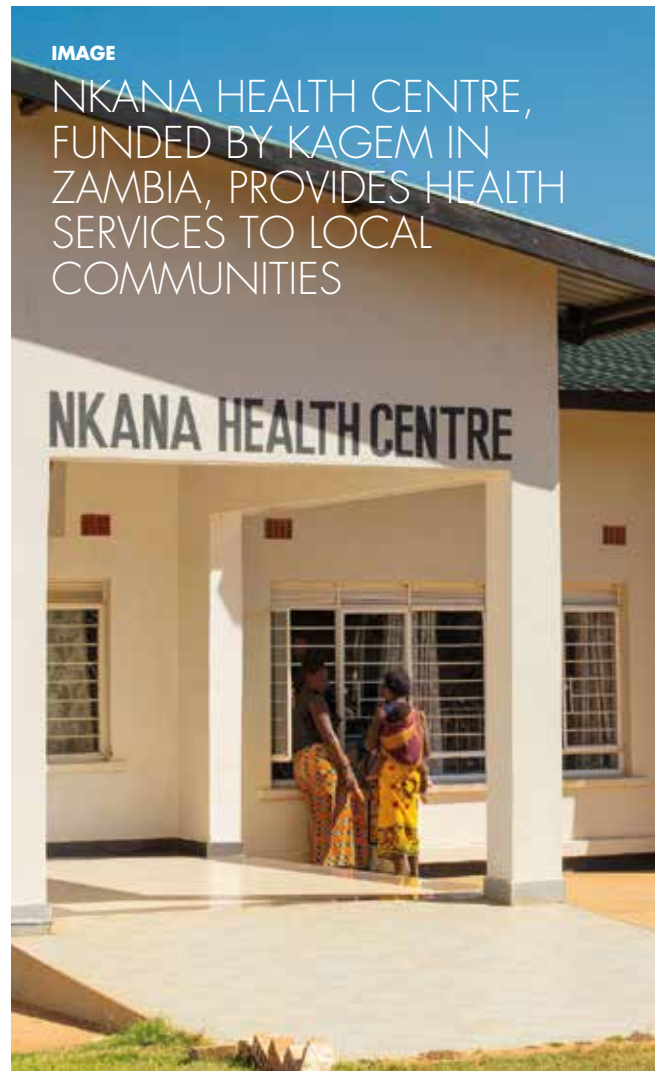
During the 2019 calendar year, all 105 residential houses were completed, seven weeks ahead of schedule. The public buildings were 90% complete and will be finished by the end of March 2020. It is anticipated that inauguration by the Government of Mozambique will be sought in April 2020 and MRM expects the to-be-resettled community to move into their new houses in June 2020.

HEALTH, SAFETY, AND ENVIRONMENTAL REHABILITATION

We aim to minimise lost-time injuries and drive a zero-harm culture. We operate on the basis that our operations must continuously improve both in the identification of hazards through near-miss reporting, as well as the full investigation of health and safety incidents should they occur. It is our aim for all our wholly owned operations to meet international standards such as OHSAS18001. At both Kagem and MRM, the operations are progressing towards achieving these certifications, with the aim of completing certification in the coming year. As a result of improved, centralised reporting throughout 2019, there has been a considerable increase in the incidents, accidents and near misses ("IANM") reported at site-level.

A summary of this period's HSE performance for each of the main Group entities is presented below:

Entity	Total IANM reported	Near misses reported	Lost-time injuries	Fatalities
Gemfields Mining	3	0	0	0
Gemfields Group	2	0	0	0
Kagem	584	19	3	0
MML	13	1	0	0
MRM	768	9	0	0
NRL	3	0	0	0
WGM	0	0	0	0



Protection and rehabilitation of the environment are central to the way we carry out our mining practices. We are realistic and open about the impact of a mining operation on the environment. Before starting an operation, we carry out environmental studies to guide us in managing the impact of our sites in a way that not only meets but, where possible, exceeds national and international requirements. It is our aim for all our wholly owned operations to be operating to international standards, such as ISO14001, to help the continuous-improvement process.

Beyond the legal requirements that come with our licences, in the short term, we strive to minimise any unnecessary impact on biodiversity by planning our day-to-day mining activities with environmental rehabilitation in mind. For example, before we mine an area, we collect seeds of the indigenous plants and trees from the topsoil and create a seed bank. We then grow the seeds in a nursery on site for replanting once we complete mining activity in each area.

In addition, beyond our statutory requirements to rehabilitate the environment in accordance with the mine plans, we support conservation organisations in Zambia and Mozambique and make annual contributions to enable them to continue their important research. In Zambia, Kagem's partner of choice is the Zambia Carnivore Programme. In Mozambique, MRM partners with the Niassa Lion Project and the Quirimbas National Park.

COLLABORATIVE INDUSTRY INITIATIVES AND LEADERSHIP

Jewellery industry improvements

Gemfields is uniquely placed to champion the development of standards because, as both a miner and supplier of cut and polished stones, we have experience of almost the entire supply chain. Gemfields is taking a leading role in the coloured gemstone industry in order to raise the bar with regard to responsible sourcing and traceability across the industry as a whole. In 2019, Gemfields continued to be heavily involved in one particular initiative, known as the Coloured Gemstones Working Group ("CGWG").

Three years ago, this unique alliance between eight of the world's leading luxury-jewellery brands and large-scale mining companies was forged. Richmond, Kering, Gemfields, Muzo Mines, LVMH, Tiffany & Co., Swarovski Gems and Chopard together comprise the CGWG. The CGWG is united by a deep commitment to catalyse positive change in the responsible sourcing of coloured gemstones. The first step towards achieving this goal was to gain a thorough understanding of the many and complex issues and risks within the supply chain, along with the opportunities for progressive social and environmental impact.

Members of the CGWG, including Gemfields, have contributed considerable time and resources working towards achieving a more accountable and transparent industry. The result is a collaborative development of robust and practical due diligence tools, compliance and transparency initiatives, frameworks and guidance. The work of the CGWG has been largely carried out confidentially, by pioneering due diligence in the supply chain, but, in 2019, the group was more open and consulted publicly with key industry bodies, NGOs and other businesses. Much of the technical work of the CGWG is nearing completion. However, it is anticipated that its efforts will be recognised by the Responsible Jewellery Council ("RJC"), which has shown a keen interest in its work and is seeking ways to collaborate and to harmonise the work with its own industry standards.

More information can be found at
www.thedragonflyinitiative/thecgwg

Fabergé's certified membership of the responsible jewellery council

In 2018, Gemfields made an application for Fabergé to join the RJC. The RJC is the pre-eminent NGO responsible for helping

companies in the mining and jewellery sector improve their supply chain operations. The RJC's current focus is on jewellery brands using diamonds, gold and platinum group metals, as well as companies mining these commodities. To become a fully certified member, Fabergé completed a self-assessment due diligence exercise which required the company to disclose its working practices, policies and business processes. In late 2019, Fabergé engaged an auditor to verify the self-assessment against the evidence presented and to visit Fabergé's office and sites. At the end of 2019, having identified a number of minor gaps, the auditor recommended that Fabergé had attained a three-year certification and it would host a follow-up audit in 2020 or 2021.

More information can be found at
www.responsiblejewellery.com

Voluntary principles on security and human rights

While Gemfields has always included human rights issues within our project risk assessments, and approached human rights risk mitigation through the lenses of community engagement, livelihood initiatives, security, and wider stakeholder dialogue, in early 2015 we recognised that these steps were not robust enough to properly mitigate human rights risks. Furthermore, the human rights situations in the countries where Gemfields primarily operates – Mozambique, Zambia and Ethiopia – are poor, and have worsened to some extent.

From 2015, we began to make concerted efforts to align our business practices with the UN Guiding Principles on Business and Human Rights and the extractive industry's multi-stakeholder initiative known as the Voluntary Principles on Security and Human Rights ("VPSHR"). This internal examination was part of a longer-term improvement plan to more stringently implement human rights considerations across the business to meet the requirements of the VPSHR.

This included extensive training of internal, external and state security forces, creating robust grievance mechanisms, and reviewing our policies and procedures, particularly those relating to our security apparatus. During the 2019 calendar year, over 1,000 employees, contractors and public security force personnel were given human rights and refresher training. The scope of this training included the Gemfields management team, business partners, and all Head Office staff in London. By the end of 2019, Gemfields had been formally recognised as having met the requirements in order to join the VPSHR initiative as a corporate member and has been recognised as the first and only pure gemstone company to have achieved this.

More information can be found at
www.voluntaryprinciples.org

Principal Risks

Before investing in the Group, prospective investors should consider the following risks and uncertainties carefully. This list is intended to describe only the major risks and uncertainties that could have a material impact on the Group and is not intended to be a comprehensive list. The Board is collectively responsible for the Group's risk management and delegates responsibility to the Directors at a strategic level. Operationally, the responsibility lies with key individuals within the subsidiary structure. Other systems of governance are in place and are described above.

The Group's main operating activity is its mining interests in Zambia and Mozambique with exploration licences in other countries. The performance of the Group's investments is critical to the Group's prospects.

STRATEGIC RISKS TO THE GROUP

Macroeconomic risks

Macroeconomic risk, in particular the demand for hard luxury goods, in turn, affects the market prices for gemstones which are highly subjective and can fluctuate widely. These fluctuations are caused by numerous factors beyond the Group's control, including: speculative positions taken by investors or traders in gemstones; changes in the demand for gemstone use in jewellery and for investment; changes in the supply of gemstones from production; changes in sentiment; financial market expectations regarding the rate of inflation; the strength of the US dollar (the currency in which the price of gemstones is denominated) relative to other currencies; changes in interest rates; global or regional political or economic events; and costs of gemstone production in major gemstone-producing nations. If revenue from gemstone sales falls below the cost of production for an extended period, the Group will experience losses and may be forced to curtail or suspend some or all of its capital projects and/or operations. In addition, the Group would have to assess the economic impact of low gemstone prices on its ability to recover any losses it may incur during that period and on its ability to maintain adequate cash and accounting reserves.

Political and regulatory risk

The Group holds investments which operate in countries including Zambia, Mozambique, Ethiopia and Madagascar. Relevant risks

associated with these countries and other countries in which the Group's investments might operate include regulatory and tax risks, political risk, foreign exchange fluctuations, inflation, industrial relations problems, and other local economic conditions. The Group's current exploration and mining operations are dependent upon the grant, renewal or continuance in force of appropriate surface and/or subsurface use contracts, licences, permits, regulatory approvals and consents which may only be valid for a defined time period, may be subject to limitations, and may provide for withdrawal in certain circumstances. There can be no assurance that such surface and/or subsurface use contracts, licences, permits, regulatory approvals or consents would be granted, renewed or continue in force, or, if so, on what terms. The Group's surface and/or subsurface use contracts and related working programmes contain a range of obligations on the Group, and there may be adverse consequences of breach of these obligations, ranging from penalties to, in extreme cases, suspension or termination of the Group's surface and/or subsurface use licences and/or contracts.

Withdrawal of licences, termination of surface and/or subsurface use contracts, failure to secure requisite licences, or the cessation of requisite licences or surface and/or subsurface use contracts in respect of any of the Group's operations may have a material adverse impact on the Group's business, operating results and financial condition.

Mining sector risks

The Group's operations and investments are focussed on the resources sector and have associated performance, political, economic, legal and similar risks as described above. These risks could affect all of the Group's operations and investments simultaneously. The development, mining and processing of mineral deposits give rise to significant uncertainties, and operations are subject to all of the hazards and risks normally encountered in such activities. Mining rights and permits may not ever be granted or may be revoked. Exploration activities are generally speculative in nature and there can be no assurance that any mineral deposits will be discovered, successfully extracted or processed.

As mining investments move into production, the associated risks may change significantly. Costs may become difficult to predict and control. Safety, sustainable development and energy security are all likely to become more significant. Maintaining good relationships between management, employees, government and unions can be critically important. Strikes by employees may significantly affect the operating performance of an investment. Other specific mining risks include “resource nationalism”, which could see the sequestration of mining assets or punitive taxation by national governments.

Mining activities are subject to environmental and safety laws, and to labour and occupational health legislation. A breach of environmental or safety laws and regulations could result in the imposition of fines, or the closure of operations on a temporary or permanent basis. Any environmental damage could create negative publicity for the Group and its investments. Such breaches could also affect any future mining licence applications by the Group’s investments. Damage to, or destruction of, an investment’s facilities or property, environmental damage or pollution, and potential legal liability could have a material, adverse impact on an investment’s business, operations and financial performance. In addition, the cost of loss of a social licence to operate brought to bear on the Company, as a result of poorly managed or poorly perceived community relations, can significantly and adversely affect the Company’s ability to operate. While there are limited laws and regulations governing social risk, impacts on the community must be mitigated to avoid the possibility of litigation, compensation, land-use disputes and involuntary resettlement – each of which can carry significant costs.

Financial statement estimates

Preparation of consolidated financial statements requires the Group to use estimates and assumptions. Accounting for estimates requires the Group to use its judgement to determine the amount to be recorded in its financial statements in connection with these estimates. The Group’s accounting policies regarding exploration and evaluation require management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of ore reserves or mineral resources have been found. In addition, the carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. If the estimates and assumptions are inaccurate, the Group could be required to write down the value of certain assets. On an ongoing

IMAGE

MOZAMBICAN RUBIES
SURROUND FABERGÉ’S MOSAIC
MULTI-COLOURED PENDANT



basis, the Group re-evaluates its estimates and assumptions. However, the actual amounts could differ from those based on estimates and assumptions.

Dividend restrictions

The Company's operating results and its financial condition are dependent on the trading performance of members of the Group. The Company's ability to pay dividends will depend on the level of distributions, if any, received from the Company's subsidiaries. The Group's members may, from time to time, be subject to restrictions on their ability to make distributions to the Company, as a result of factors such as restrictive covenants contained within loan agreements, foreign exchange limitations, and regulatory or fiscal restrictions. There can be no assurance that such restrictions will not have a material adverse effect on the Group's business, operating results and financial condition.

Lack of insurances

It is not always possible to obtain insurance against all risks facing the Group and the Group may decide not to insure against certain risks because of high premiums or other reasons. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Group or to other companies in the mining industry on acceptable terms. Although the Group maintains insurance to protect against certain risks in such amounts as it considers reasonable, its insurance will not cover all potential risks associated with its operations and insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Should such liabilities arise, they could reduce or eliminate any further profitability and result in increased costs and a decline in the value of the Ordinary Shares.

Working capital

The Company may need to raise additional funds in the future in order to develop further exploration and development programmes. Whether as a result of fluctuating market conditions, lack of market interest in the Company's industry sector or otherwise, this additional financing may not be available to the Company on acceptable terms. Additional equity financing may be dilutive to Shareholders and could contain rights and preferences superior to those of the Ordinary Shares, while debt financing may involve restrictions on the Company's financing and operating activities, or may not be available at a reasonable cost. If the Company is unable to raise additional funds as needed, the scope of its operations may be reduced and/or its interest in concessions may be diluted or may expire and, as a result, the Company may be unable to fulfil its medium to long-term exploration and development programme.

Currency fluctuations

Currency fluctuations may affect the Group's revenue from its operations. The Group's revenue from gemstone sales and other financing activities will be received in pounds sterling and US

dollars, while a significant portion of its operating expenses will be incurred in other currencies, particularly those of the countries in which it operates, namely Zambia, Mozambique, Madagascar and Ethiopia. Accordingly, foreign currency fluctuations may adversely affect the Group's financial position and operation results.

Exchange control regulations

Some of the territories in which the Group operates employ, or may employ in the future, exchange control regulations which may adversely affect the Group's ability to transfer funds in and from such territories, and therefore the Group's ability to carry on its operations in such territories.

Unionisation

As at the date of this document, the Group's employees are members of certain recognised labour unions and the Group is subjected to collective agreements with such labour unions.

Key personnel

The Group's prospects depend in part on the ability of its executive officers, senior management and key consultants to operate effectively, both independently and as a group. To manage its growth, the Group must attract and retain additional highly qualified management and technical personnel, and continue to implement and improve operational, financial and management information systems. Investors must be willing to rely to a significant extent on management's discretion and judgement, as well as the expertise and competence of outside contractors.

Competition

The gemstone exploration and mining business is competitive in all of its phases. The Group will compete with numerous other companies and individuals, including competitors with greater financial, technical and other resources than the Group, in the search for and acquisition of exploration and development rights on attractive gemstone properties. The Group's ability to acquire exploration and development rights on properties in the future will depend not only on its ability to develop the properties on which it currently has exploration and development rights but also on its ability to select and acquire exploration and development rights on suitable properties for exploration and development. There is no assurance that the Group will be able to compete successfully with its competitors in acquiring exploration and development rights on such properties.

Bribery and corruption

The Group's exposure to bribery and corruption risk in the countries of operation is high. In terms of the UK Bribery Act of 2010 (the "Bribery Act"), failure to prevent bribery is now a corporate offence. Mining and resources are a relatively high-risk industry when it comes to issues such as bribery, extortion or blackmail. Any such incidents could result in restricted activities, reputational damage, and financial penalties, and, even if entirely unfounded and unproven, any allegations of corruption/bribery

IMAGE

LIGHT PASSING THROUGH
A NEWLY DISCOVERED
ZAMBIAN EMERALD FOR
THE VERY FIRST TIME



could lead to significant reputational damage for the Group or one of the investments.

Litigation

While the Group currently has no material outstanding litigation or dispute not already disclosed, there can be no guarantee that the current or future actions of the Group will not result in litigation since there have been a number of cases where the rights and privileges of mining companies have been the subject of litigation. The mining industry, as with all industries, may be subject to legal claims, both with and without merit, from time to time. The Directors cannot preclude that such litigation may be brought against the Group in the future. Defence and settlement costs can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, there can be no assurance that the resolution of any particular legal proceeding will not have a material adverse effect on the Group's financial position, results or operations. The Group's business may be materially adversely affected if the Group and/or its employees or agents are found not to have met the appropriate standard of care, or not exercised their discretion or authority in a prudent or appropriate manner in accordance with accepted standards.

Mineral reserves

The Group's reported mineral resources and mineral reserves are reported in accordance with the JORC Code. There are numerous uncertainties inherent in estimating mineral resources, including factors beyond the control of the Group. Results of drilling, testing, production, evaluation of mine plans and exploration activities subsequent to the date of any estimate may justify revision (up or down) of such estimates. There is no assurance that mineral resources can be economically mined. The volume and grade of the ore the Group recovers may not conform to current expectations. Lower market prices, increased production costs, reduced recovery rates and other factors may render the Group's mineral resources and reserves uneconomic to exploit and may result in the revision of its ore reserve estimates from time to time. Ore reserve data is not necessarily indicative of future results of operations. If the Group's actual ore reserves are less than current estimates, the Group's results of operations and financial condition may be materially impaired.

The failure of the Group to achieve its production estimates is likely to have a material and adverse effect on any or all of its future cash flows, profitability, results of operations and financial condition. These production estimates are dependent on, among other things, the accuracy of ore mineral resource and reserve estimates, the accuracy of assumptions regarding mineral grades and recovery rates, ground conditions (including hydrogeology and geotechnics), physical characteristics of ores, such as hardness, the presence or absence of particular characteristics and the accuracy of estimated rates and costs of mining, ore haulage and processing. Changes in the Group's capital costs and operating costs are likely to have a significant impact on its profitability.

Emerging market legal governance

Many emerging market countries have a less developed legal system than more established economies, particularly with respect to mining operations, which may result in risks such as: potential difficulties in obtaining effective legal redress in their courts, whether in respect of a breach of law or regulation or in an ownership dispute; a higher degree of discretion on the part of Governmental authorities; the lack of judicial or administrative guidance when interpreting applicable rules and regulations; inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or the relative inexperience of the judiciary and courts in such matters. In addition, the commitment of local business people, government officials and agencies, and the judicial system to abide by legal requirements and negotiated agreements may be uncertain, creating particular concerns with respect to licences and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. Any difficulties faced by the Group arising from these uncertainties could have an adverse effect on the Group's business and financial condition and prospects.

Third-party service providers

The Group contracts or leases services and capital equipment from third-party providers. Such equipment and services can be scarce and may not be readily available at times and places required. In addition, the costs of third-party services and equipment have increased significantly over recent years and may continue to rise. Scarcity of equipment and services and increased prices may in particular result from any significant increase in exploration and

development activities on a region by region basis which might be driven by high demand for gemstones or other minerals. In some of the regions in which the Group operates there is significant demand for capital equipment and services. The unavailability of, or high costs incurred to obtain, such services and equipment could result in a delay or restriction in the Group's projects and adversely affect the feasibility and profitability of such projects and therefore have an adverse effect on the Group's business, financial condition, results of operations and prospects.

Security

Theft, as a result of both internal collusion and illegal mining, is an inherent risk factor in the gemstone industry. This risk is significant, particularly at the Montepuez Ruby Mine. Owing to its size, it cannot be completely fenced off; therefore, artisanal miners ("ASM") frequently enter the licence area. ASMs operate without licences and illegally extract gemstones which would otherwise be retrieved and sold by the Company. This loss of gemstones from the licence area consequently impacts the profitability of the Company. Furthermore, the presence of security forces (contracted or otherwise) can have an impact on reputation and community relations. As previously indicated, in Mozambique, allegations of human rights abuses can be raised alongside other grievances, and this can affect reputation. The presence of security contractors to protect the assets, local administrative requirements, the presence of police/state forces, and government interference, especially close to election periods, can exacerbate racial, ethnic and economic tensions.



IMAGE

GEMFIELDS' MOZAMBICAN RUBIES
 DISPLAY THE MOST SOUGHT-AFTER
 CHARACTERISTICS THAT MAKE
 A RUBY DESIRABLE, WITH
 FLUORESCENCE, COLOUR AND
 CLARITY PERFECTION



National or regional instability

Ongoing terrorist activity and armed conflicts in Africa, the Middle East and elsewhere have had a significant effect on international finance and commodity markets. Any future national or international acts of terrorism or armed conflicts in countries where the Group has operations or assets, or in neighbouring countries, or other parts of the world could have an adverse effect on the Group's operations, financial and commodities markets, and the wider global economy – and could adversely affect the Group's business and financial condition.

Remote access to utilities and infrastructure

The Group's mining operations are dependent on electrical power generated by local power companies. Back-up power is sourced from diesel generators. Historically, the incidence of power outages has resulted in mining companies being required to reduce power consumption at operations to minimise the load on that country's power grid, leading to notable losses in production across the mining industry. The Company cannot give assurance as to a resumption of rolling power outages, voltage imbalances or reductions in availability that may impact future operations. In addition, the Group's mining operations require significant amounts of water. The Group procures water from boreholes. The Group is dependent on the availability of water in its areas of operations. If the local authorities take action to reduce access to water or there

is a drought, the Group could suffer from a reduction in its operating capacity and significantly higher production costs.

Social licence to operate

Mining requires the acceptance and support of a wide range of local community stakeholders and of the workforce itself. The remote locations in which Gemfields works are bordered by villages and habitations in Zambia, Mozambique and Ethiopia. Failure to share the benefits of the operations with local communities, such as the creation of jobs, local procurement, or community investment activities, may cause delays or disruptions to our operations and may undermine our social licence to operate. Thus, despite the legal title to operate a mine, mining operators must be aware that the social licence to operate is as crucial as the legal licence to operate.

Health, safety, environment and social expenditure

HSE risks are inherent to the mining industry. Failure to maintain adequate health and safety standards may result in a significant incident or the deterioration in safety performance. This may result in loss of life, loss of time, disruption to the mining operations, a fine, or loss of licence. Mining is an environmentally disruptive process for the majority of a mine's life cycle. Consideration of the impact of mining on the environment is therefore very important in existing and future operations. Breaches

can harm reputation and impact revenue. Sufficient expenditure is required to mitigate the HSE risks of mining, as well as the social licence to operate. Gemfields estimates and sets budget to ensure compliance and best practice to minimise the likelihood and impact on workers and the community. There is also a risk that actual costs will exceed estimates.

Global pandemic or “acts of God”

The sudden outbreak of the global pandemic caused by a virus (such as COVID-19) has the potential to create considerable negative sentiment and uncertainty in global markets and disrupt the Group’s revenues given that buyers may be unable or unwilling to travel to auctions and/or demand from our buyers’ own customers may be negatively affected. Such an act of God is beyond the direct control of the Group. However, in the event that auctions are postponed, the Group has sufficient cash reserves and ability to mitigate the short- to medium-term impact by suspending or ceasing any discretionary capital expenditure and distributions. A global pandemic or act of God can also impact the availability and cost of imported goods required for mining operations as supply chains become restricted. In addition, there is a likely impact on employees who are directly affected by a virus, which may cause temporary absences from the workplace and/or restrictions on travel. In the event of a national and/or international containment or delaying strategy, different working practices (such as working from home) may be enforced which may negatively affect the Group’s operations. The Group will follow respective country guidance on any such pandemics and will give guidance to staff on good health practices.

Reputation and brand

Gemfields has a distinct brand identity built on its role as a champion of coloured gemstones and as a responsible mining company. As the Company expands its operations into new countries and new markets, it must uphold that brand identity by ensuring that it continues to play a leadership role in the sector as well as maintaining credibility and integrity regarding the mining claims for which it is responsible. Any incident that undermines the brand may result in a loss of trust in the wider coloured gemstone and downstream industry and potentially harm commercial relationships.

Fabergé

There are a number of risks relating to Fabergé. Fabergé’s existing working capital levels are insufficient to meet Fabergé’s long-term working capital requirements and the Group will be required to contribute further working capital to the business. This will reduce the available working capital of the Group as a whole and the short-term profitability of the Group which may have an effect on ongoing profits and the Group’s ability to raise external funds.

Fabergé and the Group must be able to respond to industry change in order to remain competitive. Fabergé operates in market sectors which are characterised by a high level of competition. Competitors may be able to respond more quickly to new or emerging technologies

and changes in customer requirements or devote greater resources than Fabergé (and the Group) to the development, promotion and sale of new product and service offerings. Fabergé (and the Group) must continue to respond promptly and effectively to industry changes, customer demand and competitors in order to be successful. No assurance can be given that Fabergé and the Group will continue to be able to respond to changes in the industry and correspondingly develop the products required by customers or that competition will not have a material adverse effect on Fabergé’s (and the Group’s) business, results of operations or financial condition.



IMAGE

MOZAMBICAN RUBIES
SURROUND FABERGÉ
COLOURS OF LOVE RINGS,
FEATURING ZAMBIAN
EMERALDS AND
MOZAMBICAN RUBIES

Directors' Report

The Directors are pleased to present the Group's Annual Report and Financial Statements for the year ended 31 December 2019.

NATURE OF BUSINESS

Gemfields was incorporated in Guernsey on 7 September 2007 and was listed on the BSX on 26 September 2007. The Group subsequently listed on the JSE (as a primary listing) on 20 August 2008, followed by a dual listing on AIM (as a secondary listing) on 14 February 2020. The Company changed its name from "Pallinghurst Resources Limited" to "Gemfields Group Limited" on 26 June 2018.

The Company is an operating mining company and has prepared its financial statements as an operating mining company. The Company is listed on the "Mining" sector of both the JSE Main Board and the London AIM market.

The Directors, and their respective designations and appointment dates, are detailed in the below table.

BOARD COMPOSITION

Director	Designation	Appointment date
Mr Martin Tolcher	Independent Non-Executive Director – Chairman	25 November 2008 (made Chairman on 25 November 2019)
Mr David Lovett	Executive Director – Chief Financial Officer	31 March 2018
Mr Sean Gilbertson	Executive Director – Chief Executive Officer	17 July 2017 (made CEO on 31 March 2018)
Dr Christo Wiese	Non-Executive Director	11 February 2013
Mr Lumkile Mondli	Lead Independent Non-Executive Director	29 October 2015
Mr Kwape Mmela	Independent Non-Executive Director	31 July 2017
Mr Carel Malan	Independent Non-Executive Director	9 January 2019

DIRECTORS WHO RETIRED DURING THE YEAR

Director	Designation	Appointment date
Mr Brian Gilbertson ¹	Non-Executive Director – Chairman	4 September 2007
Mr Erich Clarke ²	Independent Non-Executive Director	31 July 2017

¹ Mr Brian Gilbertson resigned from the Board effective 25 November 2019.

² Mr Erich Clarke resigned from the Board effective 7 January 2019.

CORPORATE GOVERNANCE

The Group subscribes to the King Code of Governance Principles and the King Report on Governance ("King IV"). The Company publishes an annual statement on its compliance with King IV on an "apply-and-explain" basis. The Directors carried out a detailed assessment of the principles and recommendations of King IV during the year and fully support its implementation across the Group.

FINANCIAL RESULTS

The results for the year are shown in the Consolidated Statement of Comprehensive Income. The Directors do not recommend the payment of a dividend.

RETIREMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Company's Articles of Incorporation, Martin Tolcher and Lumkile Mondli will offer themselves for re-election at the Annual General Meeting ("AGM") to be held on 24 June 2020.

SHAREHOLDER MEETINGS

An AGM was held on 10 May 2019. The following resolutions were passed:

Special resolutions:

1. General authority to acquire (repurchase) ordinary shares.
2. General authority to cancel shares.

Ordinary resolutions:

1. The adoption of the Company's Annual Report and Financial Statements for the year ended 31 December 2018.
2. To re-elect Carel Malan, as a Director of the Company.
3. To re-elect Brian Gilbertson, who retired by rotation, as a Director of the Company.
4. To elect each of Martin Tolcher, Lumkile Mondi and Carel Malan (subject to his re-election as a Director pursuant to Ordinary Resolution 2) to the Company's Audit Committee.
5. To reappoint BDO LLP ("BDO") as the Company's auditor (until the conclusion of the 2020 Annual General Meeting) and to authorise the Directors to fix BDO's remuneration.
6. General authority to issue shares for cash.

Non-binding advisory votes:

1. To endorse the Company's Remuneration Policy (as set out within the Remuneration Committee Report).
2. To endorse the Company's Remuneration Implementation Report (as set out within the Remuneration Committee Report).

As more than 25% of shareholders voted against the non-binding advisory votes, the resolutions did not pass and the Company engaged with available shareholders in accordance with the principles of King IV.

The Group's next AGM is scheduled for 24 June 2020. Full details will be set out in the Notice of Annual General Meeting and will be distributed to shareholders accordingly. The Directors consider that passing the resolutions to be proposed at the AGM will be in the best interests of the Company and shareholders as a whole, and unanimously recommend that shareholders vote in favour of each of them, as they intend to do in respect of their own holdings.

An extraordinary general meeting ("EGM") was also held on 4 December 2019. The EGM was held to seek shareholder approval to increase the number of shares that may be repurchased during the 2019 calendar year and thereafter up to the date of the 2020 AGM. The following resolutions were passed as special resolutions:

1. General authority to acquire (repurchase) ordinary shares.
2. General authority to cancel shares.

INDEPENDENT AUDITOR

BDO was re-elected as Company auditor at the AGM on 10 May 2019.

The Audit Committee has recommended to the Board that BDO should be reappointed as the Company auditor. The Board agreed with this recommendation and, accordingly, an ordinary resolution has been proposed for the forthcoming AGM for the reappointment of BDO as independent auditors, and to authorise the Directors to agree their level of remuneration.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company holds Directors' and Officers' liability insurance. The level of cover and cost of the insurance are reviewed on an annual basis.

GOING CONCERN

The potential impact of the recent COVID-19 outbreak has been considered as part of the assessment made. The most important factor behind the Group's successful survival over the period of uncertainty with COVID-19 is the ability to hold successful emerald and ruby auctions and generate revenue without negatively impacting long-term prices.

As a result of the assessment made, the Directors believe that the Group has sufficient cash to meet its obligations as they fall due and consequently, the Financial Statements have therefore been prepared on the going-concern basis.

Notwithstanding this, the Directors recognise that there is inherent uncertainty over the likely cash flows as a result of COVID-19, in particular, the timing of the resumption of auctions, and consider that this indicates the existence of material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. Further detail is set out in Note 1: *Accounting policies* to the Financial Statements.

OMISSION OF COMPANY-ONLY FINANCIAL INFORMATION FROM THE FINANCIAL STATEMENTS

The Financial Statements are presented on a consolidated basis as required by the International Financial Reporting Standards ("IFRS"). The Directors believe that the Group's results as presented provide all material and relevant information for users of the Financial Statements and are satisfied that the provision of Company-only financial information would not contain any significant additional information which would be of interest. Accordingly, Company-only financial information has been omitted from the Financial Statements, as permitted by Section 244 of the Companies (Guernsey) Law, 2008, and Sections 8.62(a) and 8.62(d) of the JSE Listings Requirements.



DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors are responsible for the preparation, fair presentation and integrity of the Annual Report and Financial Statements, in accordance with the IFRS, the financial reporting guides issued by the Accounting Practices Committee of the South African Institute of Chartered Accountants (the "SAICA Reporting Guides"), the financial reporting pronouncements issued by the Financial Reporting Standards Council of South Africa (the "FRSC Pronouncements"), the JSE Listings Requirements, the AIM Rules for Companies, the BSX Listing Regulations and the Companies (Guernsey) Law, 2008.

The Directors are responsible for the following:

- Maintaining adequate accounting records and an effective system of risk management;
- The consistent selection and application of appropriate accounting policies;
- Making reasonable accounting judgements and estimates;
- Safeguarding shareholders' investments and the assets of the Group;
- The presentation of information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- The provision of additional disclosures when compliance with the specific requirements of the IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Preparing the consolidated financial statements on a going-concern basis unless it is inappropriate to presume that the Company will continue in business.

The Audit Report is set out in the Annual Financial Statements section of this document. The auditors have unrestricted access to all accounting records and to the Audit Committee.

Having considered the Group's current financial position, risks and opportunities, the Directors consider it appropriate that the Annual Financial Statements be prepared on the going-concern basis.

AUDITOR CONFIRMATION

Each of the Directors, at the date of approval of the Financial Statements, confirms that:

1. So far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
2. Each Director has taken all steps he ought to have taken to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 249 of the Companies (Guernsey) Law of 2008.

APPROVAL OF ANNUAL REPORT AND FINANCIAL STATEMENTS

The Annual Report and Financial Statements for the year ended 31 December 2019 were approved by the Directors on 4 April 2020 and will be presented to shareholders at the AGM on 24 June 2020. The Financial Statements are signed on the Directors' behalf by:

David Lovett
Director
4 April 2020

Sean Gilbertson
Director
4 April 2020

Corporate Governance Report

APPROACH TO CORPORATE GOVERNANCE

The Board is the focal point of the Group's corporate governance and is ultimately accountable and responsible for the affairs of the Group. The JSE Listings Requirements and the AIM Rules for Companies include certain mandatory requirements relating to corporate governance. This Corporate Governance Report explains how the Group adheres to these requirements. In addition, the Group adheres to the principles of King IV on an "apply-and-explain" basis. A register of how the Group complies with the principles of King IV (the "King IV Register") is maintained on the Company's website, www.gemfieldsgroup.com. This details how compliance with each separate principle has been achieved. The Board is satisfied that the Group predominantly complies with the principles and recommendations of King IV.

BOARD RESPONSIBILITIES

The Board's responsibilities include providing strategic direction and overseeing the performance of the Group. This includes reviewing the performance of the Group and evaluating potential acquisitions and divestments. The Board is also responsible for determining policies and processes which seek to ensure the integrity of the Group's risk management and internal controls, for implementing and maintaining the Group's communication strategy, and for ensuring the integrity and effectiveness of the Group's governance processes.

BOARD COMPOSITION

King IV recommends that a Board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively. There are seven Directors on the Board, of which five are Non-Executive Directors. Four of the Non-Executive Directors are independent. Mr Tolcher has served on the Board for a tenure of more than nine years and, as per the recommendations of King IV, the Board is required to review his independence. As Mr Tolcher has no significant interests in the Company and his remuneration is non-material, the Board has concluded that his independent classification should remain for the foreseeable

future. A further review of the independence of the Non-Executive Directors will be undertaken each year by the Board. Dr Christo Wiese is not considered independent in the context of King IV as a result of his shareholding in the Company (which is above 5%).

The roles of the Chairman and the Chief Executive Officer are formalised, separate and clearly defined. This creates a balance of power and authority and means that no individual is able to exercise unrestricted power. King IV recommends that the Board should be led by an independent non-executive chairman who should not be the Chief Executive Officer of the Company. The offices of Chairman and Chief Executive Officer are separate. The Chairman of GGL, Martin Tolcher, became Non-Executive Chairman effective 25 November 2019 in order to further align the Company with the principles of King IV.

The other members of the Board believe that the Chairman's wealth of knowledge and experience means that he is best placed to provide overall leadership to the Board.

Mr Mondy is the Company's Lead Independent Non-Executive Director ("LID") and his main responsibilities are to chair any meeting in which the Chairman has a conflict of interest and to give stakeholders a point of contact separate from the Executive Directors.

DIVERSITY POLICY

When considering the balance of the Board or the nomination of new members or the appointment of senior executives, the range of skills, knowledge, experience and diversity of existing incumbents is taken into account, including gender and race. The Company seeks to promote diversity at Board level, although it does not set targets in respect of race, age, sexual orientation or gender when making appointments to the Board. The key factors considered are those which will result in the appointment of the best-qualified individuals who can best serve the interests of all the stakeholders of the Company. The Nomination Committee seeks to ensure that the Board has the right balance necessary to carry out its responsibilities in keeping with robust standards of governance.

EXECUTIVE DIRECTORS

The Executive Directors, Sean Gilbertson (CEO) and David Lovett (CFO) are responsible for the Group's strategic direction and everyday management. The Executive Directors often act as Directors of the Group's subsidiaries, for example, Sean Gilbertson and David Lovett are Executive Directors of Gemfields and Fabergé and a number of other subsidiaries in the Group. The Executive Directors attend each of the Company's Board meetings.

BOARD MEETINGS

Board meetings are scheduled on a quarterly basis each year in order to consider the Group's strategy, performance, operations and other issues. Additional Board meetings may be convened on an ad hoc basis. Directors endeavour to be present at Board meetings and to participate fully, frankly and constructively. Matters are decided at Board meetings by a majority of votes. In the case of an equality of votes, the Chair does not have a second or casting vote. Six Board meetings were held during 2019.

ATTENDANCE AT BOARD MEETINGS

Below is a list of the Directors and their attendance record in respect of the scheduled meetings of the Board and, where they were members thereof, its committees during 2019:

	Board	Audit	Remuneration	Nomination
Mr Martin Tolcher	6/6	2/2	1/1	2/2
Mr David Lovett	6/6	n/a	n/a	n/a
Mr Sean Gilbertson	6/6	n/a	n/a	n/a
Dr Christo Wiese	3/6	n/a	n/a	n/a
Mr Lumkile Mondli	6/6	2/2	1/1	2/2
Mr Kwape Mmela	6/6	2/2	1/1	2/2
Mr Carel Malan ¹	5/6	2/2	n/a	n/a
Mr Brian Gilbertson ²	5/6	n/a	n/a	n/a
Mr Erich Clarke ³	n/a	n/a	n/a	n/a

¹ Appointed to the Board and the Audit Committee on 10 January 2019.

² Resigned from the Board on 25 November 2019, before the final Board meeting of 2019.

³ Resigned from the Board on 7 January 2019 (no scheduled meetings were held in 2019 before this date).

Attendances set out above include attendance in person or by telephone. Dr Wiese makes every effort to attend the Board meetings of the Company, but, inevitably, due to his extensive business interests, other commitments have prevented him from being able to be present at all Board meetings. Dr Wiese does, however, contribute to the strategy and running of the business through regular meetings and communication with the Executive Directors.

BOARD COMMITTEES

The Board has established certain committees to assist in discharging its responsibilities. Reports from the Audit Committee, Remuneration Committee and Nomination Committee are included in this Annual Report. Gemfields does not currently have a Social and Ethics Committee as, historically, the nature and size of the Company have made such a committee unnecessary. The relevant activities in practice are carried out by the Audit Committee, and therefore by a majority of Non-Executive Directors in line with the recommendations of King IV. Ethics and Risk are standing agenda items at the quarterly Board meetings.

CHIEF INFORMATION OFFICER

King IV recommends that the Board should govern technology in a way that supports the Company in setting and achieving its strategic objectives. The Board is collectively responsible for information technology ("IT") governance. Mr Dewald Blom was appointed as the Group's Chief Information Officer on 6 December 2018.

ROTATION OF DIRECTORS

The Company's Articles of Incorporation specify that one-third of the Non-Executive Directors shall retire from office at each AGM, by rotation. In addition to these retiring Directors, any Director appointed since the previous AGM also retires from their office. However, a retiring Director can be re-elected at the same AGM and, if re-elected, is deemed not to have vacated their office.

COMPANY SECRETARY

Following Board approval, Mr Toby Hewitt, Group General Counsel, was appointed as Company Secretary of the Company on 27 September 2018. Mr Hewitt is supported by Mourant Governance Services (Guernsey) Limited and the Company's in-house legal and company secretarial team. The Company Secretary and the Board also engage external legal counsel and other advisors as necessary.

The Company Secretary presents the Board with a governance update at each scheduled meeting. The update usually includes corporate and legal issues, such as compliance with the UK Bribery Act, the JSE Listings Requirements and the AIM Rules for Companies. Other issues are raised as appropriate. The Company Secretary also considers non-binding codes, rules and standards, assesses the impact thereof, and recommends a suitable course of action to the Board. The Board takes responsibility for deciding whether to follow the recommendations of the Company Secretary and for ensuring compliance with applicable laws.

The Board is required to consider and satisfy itself on an annual basis of the competence, qualifications and experience of the

Company Secretary (as a consequence of the Company's JSE listing). The Board believes that it is best served by employing Mr Toby Hewitt as Company Secretary, who has access to support from Mourant and external legal counsel and other advisors, as necessary. The Board is satisfied that the Company Secretary has the requisite competence, qualifications and experience to carry out the required responsibilities.

RISK MANAGEMENT

The Directors are responsible for the Group's system of internal controls, which is designed to provide reasonable assurance against material misstatement and loss. The Group's system of internal controls is also designed to provide assurance on the maintenance of proper accounting records, and on the completeness and accuracy of financial information used by the Board for decision-making and provision to shareholders. The internal control system includes the following elements:

- Risk Registers which are monitored on an ongoing basis;
- An organisational structure and division of responsibilities; and
- Policies, procedures and systems for monitoring controls.

On 4 December 2019, the Group's inaugural risk council ("Risk Council") meeting was held. The Risk Council was established as a sub-committee of the Audit Committee. Its principal purpose is to monitor current and emerging strategic, operations and ethics risks and challenges facing the Group. It has its own terms of reference, its members are made up of a cross-section of senior employees across the head office in London and it is chaired by Martin Tolcher. The Risk Council will meet quarterly and its recommendations will be reported to the Audit Committee in advance of its own committee meetings.

INVESTMENT VALUATIONS

The Directors are collectively responsible for the estimation of the fair value of the Group's investments in each reporting period. The valuation of each investment as determined by the Directors has been prepared using a methodology and approach which is reasonable and compliant with the concept of fair value under IFRS.

SUSTAINABILITY REPORTING

The Directors recognise the importance of sustainable development. The Company has integrated sustainability and corporate responsibility strategy and initiatives across the Group. Where possible, the Board also uses its influence on the Group's subsidiaries to ensure that independent assurance is provided on their sustainability reporting, however, a wholly separate public sustainability report is not produced by the Group nor by the Group's subsidiaries.

SHAREHOLDER COMMUNICATION WITH THE BOARD

Shareholders are able to communicate with the Board either by attending the AGM in person or by submitting proxy voting forms. The Directors regularly meet with analysts, shareholders and the media. Gemfields also communicates with its shareholders regarding the Group's financial performance and strategy through the Stock Exchange News Service ("SENS"), the London Stock Exchange Regulatory News Service ("RNS") and via the website, www.gemfieldsgroup.com. The Board communicates with other stakeholders as appropriate. The Company ensures communication with smaller shareholders located in South Africa who lack access to electronic media by way of publishing financial results in a main South African daily newspaper.

INTERNAL AUDIT

King IV recommends that all companies implement an internal audit function that is in-sourced to some degree. Mr Robin Griffiths, an existing senior Group finance employee, was appointed Director Internal Audit on 1 January 2019 and operated Internal Audit as a co-sourced function with a third-party supplier throughout 2019. From January 2020, the internal function has added another employee and will now be run as in-sourced. The Gemfields Internal Audit function reports functionally to the Chairman of the Audit Committee thereby ensuring its independence. The Audit Committee is satisfied that the Group's internal financial controls and the arrangements for internal audit were working effectively during the period, and were predominantly adequate and fit for purpose.

DEALING IN SECURITIES

GGL has a defined policy for the conduct of Directors and employees in relation to dealing in the Company's shares. The JSE Listings Requirements and the European Union Market Abuse Regime ("MAR") define closed periods, which are around the time of the annual results or interim results, or around the release of any other major announcements, or during price-sensitive negotiations, acquisitions or disposals, or pending the release of any other price-sensitive information. Directors (and their close family members), as well as employees who are classified as insiders, are prohibited from trading in the Company's shares during these prohibited periods. Directors and employees can trade in the Company's shares outside of these periods after first obtaining the necessary approval in writing in accordance with the Company's share dealing policy. Any dealings in the Company's shares by Directors, persons discharging managerial responsibilities ("PDMRs") or their closely associated persons are announced via SENS and RNS, published on the Company's website and notified to the UK's Financial Conduct Authority ("FCA").

Audit Committee Report

INTRODUCTION

The Audit Committee is pleased to present its report for the year ended 31 December 2019, as recommended by King IV. The Committee is constituted by the Board, has an independent role, and is accountable both to the Board and to shareholders.

The Committee's mandate is set out in its terms of reference and includes the following responsibilities:

- Monitoring the accuracy and integrity of the Group's financial and other reporting;
- Monitoring the effectiveness of risk management processes and internal controls;
- Recommending the appointment of external auditors to shareholders on an annual basis;
- Reviewing the independence of the external auditor;
- Reviewing the scope, results and cost-effectiveness of independent accounting and valuation services; and
- Reviewing the expertise and experience of the Chief Financial Officer.

COMPOSITION

The Committee comprises the following Independent Non-Executive Directors, who have the requisite skills and experience to fulfil the Committee's duties:

- Mr Malan (Chair)
- Mr Mondl
- Mr Tolcher

Mr Erich Clarke resigned as an Independent Non-Executive Director and from the Audit Committee, with effect from 7 January 2019. Mr Carel Malan was appointed to the Audit Committee on 9 January 2019 as a replacement, following a recommendation from the Nomination Committee and approval by the Board. Subsequently, Mr Martin Tolcher resigned as chairman of the Audit Committee (arising from his appointment as Chairman of the Company) effective 25 November 2019 and was replaced by Mr Carel Malan on the same date. Mr Tolcher remains appointed

as a member of the Audit Committee for the time being although a replacement will be considered in due course in line with King IV. The performance of the members of the Audit Committee is evaluated on an annual basis by the Board.

MEETINGS

In addition to the Committee members, the CFO may attend meetings by invitation. The Chair of the Committee usually meets separately with both the CFO and the external auditor in advance of Committee meetings. The Committee may meet with the external auditor either formally or informally throughout the year; the audit partner has access to the Committee via the Chair. The Chair of the Committee decides whether to convene any ad hoc meetings and who should be invited to such meetings. Two formal Audit Committee meetings were held during 2019.

INTERNAL AUDIT

King IV recommends that all companies implement an internal audit function that is in-sourced to some degree. Mr Robin Griffiths, an existing senior Group finance employee, was appointed Director Internal Audit on 1 January 2019 and operated Internal Audit as a co-sourced function with a third-party supplier throughout 2019. From January 2020, the internal function has added another employee and will now be run as in-sourced. The Gemfields Internal Audit function reports functionally to the Chairman of the Audit Committee thereby ensuring its independence. The Audit Committee is satisfied that the Group's internal financial controls and the arrangements for internal audit were working effectively during the period, and were predominantly adequate and fit for purpose.

RISK COUNCIL

On 4 December 2019, the Group's inaugural risk council ("Risk Council") meeting was held. The Risk Council was established as a sub-committee of the Audit Committee. Its principal purpose is to monitor current and emerging strategic, operations and ethics risks and challenges facing the Group. It has its own terms of reference, its members are made up of a cross-section of senior



IMAGE

SORTING ZAMBIAN EMERALDS AT THE KAGEM MINE BEFORE AUCTION

employees at head office in London and it is chaired by Martin Tolcher. The Risk Council will meet quarterly and its recommendations will be reported to the Audit Committee in advance of its own committee meetings.

DUTIES CARRIED OUT IN 2019

During the year ended 31 December 2019, the Committee carried out its duties as required by King IV and its terms of reference. The Committee performed the following statutory duties:

- Considered the qualifications, independence and objectivity of BDO and approved its terms of engagement;
- Reviewed the performance of the external auditor and confirmed that the external auditor, the partner and the firm, have complied with the suitability requirements of the JSE as detailed in paragraph 22.15(h) of the JSE Listings Requirements;
- Considered the appropriateness of the Group’s going concern assessment – particularly in light of the COVID-19 pandemic;
- Recommended the reappointment of BDO as Company auditor, to the Board;
- Approved the fees paid to BDO during 2019 which were solely for audit services;
- Approved the fees proposed by BDO for their annual audit services for 2020; and
- Ensured that the independence of BDO has not been compromised for any reason.

In addition, the Committee performed the following duties in line with its mandate:

- Reviewed the group annual and interim financial statements for compliance with the IFRS, the JSE Listings Requirements and the Companies (Guernsey) Law, 2008;

- Reviewed significant judgements and unadjusted differences resulting from the audit and interim review;
- Approved the valuation of the Group’s investments;
- Ensured that the Group’s accounting policies are suitable and considered the adoption of new and amended accounting standards;
- Considered the appropriateness of the Group’s going concern assessment – particularly in light of the COVID-19 pandemic;
- Considered the performance of the Group’s accounting function;
- Reviewed the performance of the CFO, and was satisfied that the CFO continues to possess the appropriate expertise and experience to carry out his responsibilities as CFO; and
- Reviewed the Audit Committee Report included in the Company’s previous annual report.

ANNUAL REPORT AND FINANCIAL STATEMENTS

The Committee has reviewed this Annual Report and the Financial Statements and has concluded that they comply, in all material respects, with the IFRS, the JSE Listings Requirements, the AIM Rules for Companies and the Companies (Guernsey) Law, 2008. The Committee has therefore recommended the approval of the Annual Report to the Board.

CONCLUSION

The Committee is satisfied that it has considered and discharged its responsibilities in accordance with its mandate and its terms of reference during 2019. Accordingly, this report was recommended by the Audit Committee and was approved by the Board on 4 April 2020.

Carel Malan
Chair of the Audit Committee

Remuneration Committee Report

INTRODUCTION

The Remuneration Committee is pleased to present its report for the year ended 31 December 2019, as recommended by King IV. The Committee is constituted by the Board, has an independent role, and is accountable both to the Board and to shareholders. The Committee's mandate is set out in its terms of reference and includes the following responsibilities:

- Determining levels of remuneration for each member of the Board;
- Determining levels of remuneration for senior members of management or staff; and
- Monitoring and maintaining the Company's Remuneration Policy.

COMPOSITION

The Committee comprises the following Independent Non-Executive Directors, who have the requisite skills and experience to fulfil the Committee's duties:

- Mr Kwape Mmela (Chair)
- Mr Tolcher
- Mr Mondl

MEETINGS

The Committee meets as often as is required, but not less than once a year. One formal meeting was held during 2019, although the Committee deliberated on matters, as necessary, on an ad hoc basis. Members of the Remuneration Committee do not participate when the level of their personal remuneration is considered.

GEMFIELDS GROUP LIMITED REMUNERATION POLICY

The Board, with input from the Remuneration Committee, has created a comprehensive Remuneration Policy (the "Remuneration Policy").

In designing the Remuneration Policy, there were three key focus areas:

- The policy should function as a strong tool to incentivise the performance of Executive Directors toward the success of GGL, its shareholders and other stakeholders;
- Shareholder consultation and approval are of vital importance to the Board and are key metrics by which the Remuneration Committee will measure the success of the policy; and
- The relevant King IV standards were to be incorporated into the policy.

THE REMUNERATION POLICY

Elements of Executive Director remuneration

Executive Director remuneration was broken down into two key elements: fixed compensation and performance-related awards.

The fixed remunerative elements comprise the base remuneration and employee benefits. The performance-related awards include short- and long-term incentives. These assorted components, along with their objectives, their link to the business strategy, and the governing policy are explained in the table on page 87.

No changes to the governing policies are anticipated in the immediate future based on known factors, beyond the regularly scheduled review of base compensation and the insurance package.

Director remuneration considered in a wider context

Executive Directors

As with the wider employee base of the Group, when setting Executive Director remuneration, market rates and practices are considered. Additionally, the remuneration of the former Gemfields Executive Directors was considered as a helpful benchmarking tool in reviewing and setting the Executive Director base compensation levels.

Non-Executive Directors

A similar benchmarking exercise against market rates was undertaken for the Non-Executive Directors. At the Company's EGM held on 26 June 2017, shareholders resolved that the maximum

	Component	Objective	Link to business strategy	Policy
Elements 1: Guaranteed pay and benefits	Base compensation Akin to a salary, base compensation is received monthly, based on an annual figure decided by the Remuneration Committee.	To engage the best talent at Executive Director level.	Ensures market competitiveness, helps to attract and retain key talent, and provides fair reward for individuals.	Executive Director base compensation was initially determined by former holders of the equivalent office within Gemfields plc, and at prevailing market rates. Future reviews will be based on skill, experience, responsibilities and market rates, with particular emphasis on shareholder engagement.
	Insurance benefits Executive Directors receive life insurance, medical and dental insurance and travel insurance policies for themselves and their families.	The benefits package is comparable with others on the market, the aim being to attract and retain the best talent.	The Company recognises the need for a holistic approach to an Executive Director's guaranteed pay package.	Insurances are comparable with those offered to the wider employee base within the Group, and are reviewed annually.
Element 2: Short- and long-term incentives	Annual bonus At the end of each calendar year, Executive Directors may receive a cash bonus dependent on the success of their work over the previous year, based on the value of their base compensation.	To encourage performance over each one-year operating cycle.	Encourages growth in share price for shareholder benefit. Rewards Executive Directors for a measurable contribution to the Company.	The Adjusted Share Price is the key variable on which an annual bonus depends. Four targeted brackets ensure Executive Directors' efforts are rewarded proportionally.
	Share options At instatement, Executive Directors were granted share options, which they can exercise at set dates over the subsequent four years.	The incentive is twofold: retention of key talent, and incentivising delivery of excellent performance in the long term.	Aligns Executive Director interests with those of shareholders, and with growth in the share price year-on-year. Motivates long-term performance. Rewards Executive Directors for their tangible successes.	Share options are exercisable in set tranches per year, and at a predetermined date.

amount payable as Non-Executive Directors' fees be increased to USD100,000 per Director per annum.

Since the cap on the Non-Executive Director fees had been at the same level since the 2010 AGM, this increase not only brought the Company's remuneration more in line with prevailing market practice but has improved the Company's ability to attract candidates with appropriate qualifications and experience to the Board.

Non-binding advisory votes to endorse the Company's Remuneration Implementation Report and the Company's Remuneration Policy were held at the AGM on 10 May 2019. As more than 25% of shareholders voted against these non-binding advisory votes, the resolutions did not pass and the Company engaged with available shareholders in accordance with the principles of King IV.

Performance measures

Aligning Executive Director remuneration with shareholder returns was considered a fundamental basis for the Remuneration Policy, and therefore the primary measure used to assess the Executive Directors' performance is share price performance. Receipt of variable remuneration (in the form of an annual bonus) is based on this metric.

Adjusted share price is the sum of two figures: the Volume Weighted Average Price ("VWAP") as determined over the last 30 trading days of the calendar year, and the aggregate dividends/distributions per ordinary share declared during the calendar year (the "Adjusted Share Price"). The Adjusted Share Price must have increased by 10% or more compared with the Adjusted Share Price for the previous calendar year before an annual bonus for Executive Directors becomes payable.

The amount of any annual bonus received is based on each Executive Director's annual base compensation. A greater increase in the Adjusted Share Price results in an annual bonus equal to a larger percentage of base compensation, capped at 100% of base compensation. In the event of the Adjusted Share Price for the relevant year increasing by the thresholds below compared with the Adjusted Share Price for the previous calendar year, the following annual bonuses would be awarded to the Executive Directors:

- Increased by 10% or more but less than 15% – annual bonus award of 25%;
- Increased by 15% or more but less than 20% – annual bonus award of 50%;
- Increased by 20% or more but less than 25% – annual bonus award of 75%; and
- Increased by 25% or more – 100% annual bonus awarded.

As an example, a 12% increase in the Adjusted Share Price would unlock an annual bonus equal to 25% of each Executive Director's annual base compensation, and a 17% increase would result in a bonus of 50%.

Complete information on how this performance measure could affect Executive Directors' variable remuneration is expanded upon in this report. The table that follows provides a worked example of the possible effect of the Adjusted Share Price on total Executive Director remuneration, using 2019 compensation levels as an example. An illustrative 17% increase to the Adjusted Share Price has been used as well as the highest- and lowest-case scenarios, that is, the highest being an increase of the Adjusted Share Price by 25% or more and the lowest being the situation where the Adjusted Share Price does not increase by 10% or more.

Adjusted Share Price compared with previous year:	Decreased, unchanged, or increased by less than 10%	Increased by 17%	Increased by 25% or more
Base compensation amount:	100%	100%	100%
	USD	USD	USD
Sean Gilbertson	575,000	575,000	575,000
David Lovett	337,000	337,000	337,000
Subtotal	912,000	912,000	912,000
Annual bonus amount:	No bonus	50% of base compensation	100% of base compensation
Sean Gilbertson	–	287,500	575,000
David Lovett	–	168,500	337,000
Sub-total	–	456,000	912,000
Total cash remuneration	912,000	1,368,000	1,824,000

Executive Director share option plan

On termination of the Investment Management Agreement on 14 September 2017, the Executive Directors at the time were each granted share options equivalent to 2% of the issued ordinary shares of the Company at the time, as approved by shareholders on 26 June 2017. The share options were divided into five equal tranches.

Each of the tranches becomes exercisable or vests at a different date. The first tranche is exercisable from the date the options were granted (14 September 2017), the second from the first anniversary of that date (14 September 2018), the third from the second anniversary (14 September 2019), the fourth from the third anniversary (14 September 2020), and the fifth from the fourth anniversary (14 September 2021).

Further to this, Mr Sean Gilbertson currently holds 27,890,213 share options at an option price of ZAR3.45 cents, representing approximately 2.2% of the Company's issued share capital. Mr Sean Gilbertson was not granted any further share options during 2018 and 2019.

In 2018, Mr David Lovett was granted: (i) 1,184,200 share options on 4 January 2018 at an option price of ZAR2.97 cents; and (ii) 7,000,000 share options on 27 June 2018 at an option price of ZAR2.30 cents, together representing approximately 0.65% of the Company's issued share capital. These share options were granted in five tranches as per the above. Mr David Lovett was not granted any further share options during 2018 and 2019.

Should an Executive Director cease to be employed by the Company, then the manner of their departure and the date any options were granted to them determine how those options are treated.

Executive Directors' contracts of employment

The termination clause in Mr Gilbertson's service contract allows for his services to be terminated by him giving the Company six months' written notice, or by the Company giving him three months' written notice.

If Mr Gilbertson's service contract is terminated, the Company would pay him an amount equal to one year of his base compensation, and any annual bonus which he would have received in the 12 months following the termination date had he remained in the Company's employment.

Should the termination be as a result of death or disability, different arrangements apply. The Company would then pay Mr Gilbertson an amount equivalent to six months' base compensation and any annual bonus which would have been paid to him in the six months following the termination date as if his termination had not occurred.

The termination clause in Mr Lovett's service contract allows for service to be terminated by Mr Lovett giving the Company three months' written notice, or by the Company giving him three months' written notice. If Mr Lovett's service contract is terminated, the Company will pay him an amount equal to his notice period only.

Should the termination be as a result of death or disability, the Company would then pay Mr Lovett an amount equivalent to six months' base compensation and any annual bonus which would have been paid to him in the six months following the termination date as if his termination had not occurred.

Evaluation of whether the Remuneration Policy meets its objectives

When creating the Remuneration Policy, the Remuneration Committee focussed on three key areas:

Performance incentives

The Remuneration Committee is satisfied that the elements of Director remuneration are a good foundation for both the short and long-term success of the Company.

The fixed remunerative elements (base compensation, benefits and Non-Executive Director fees) are competitively set to both attract and retain the key talent required by the Company.

The performance-related elements of variable remuneration (annual bonuses and share options) ensure that the interests of the shareholders are at the forefront of the minds of Executive Directors, all of whom would stand to benefit by short- and long-term growth in the share price.

Shareholder engagement

Shareholder engagement has been key to creating the Remuneration Policy and applying it to Executive Director remuneration, both in

the first year of employment and going forward. Shareholder advisory votes are a key means of shareholder feedback from which the Remuneration Committee can tailor both practical remuneration and the Policy. Consequently, the Company commits to engaging shareholders on the subject of remuneration each financial year. The two votes held during 2019 were important for the Remuneration Committee to collate shareholder feedback following the initial setting of the Policy and the Executive Director remuneration in 2017.

Should any shareholder advisory vote conclude in a result of less than 75% in favour of the remuneration matter under vote, the Remuneration Committee will re-examine the matter. Where possible, the Remuneration Committee will engage in direct discussion with shareholders in order to understand the motivation behind such a vote, that is, to better understand their concerns. However, a number of shares are held anonymously, thus creating an obstacle to shareholder engagement. The Remuneration Committee will consider communicating with shareholders individually, also via the Company's website and via SENS and RNS, encouraging shareholders to come forward should they believe their view is yet to be represented.

Non-binding advisory votes to endorse the Company's Remuneration Implementation Report and the Company's Remuneration Policy were held at the AGM on 10 May 2019. As more than 25% of shareholders voted against these non-binding advisory votes, the resolutions did not pass and the Company engaged with available shareholders in accordance with the principles of King IV.

King IV standard

The Remuneration Committee is satisfied that the Remuneration Policy complies with the King IV Code and that the robust principles of governance encouraged by King IV have been implemented.

Remuneration Policy availability

A link to the GGL Remuneration Policy is available online at www.gemfieldsgroup.com.

REMUNERATION IMPLEMENTATION REPORT

Key decisions made in 2019

Change to Chairman role

In part to satisfy certain corporate governance requirements arising in connection with the Company's dual listing on AIM, Mr Brian Gilbertson elected to resign as Non-Executive Chairman of the Company, effective 25 November 2019. He was replaced on the same date by Mr Martin Tolcher, formerly an Independent Non-Executive Director of the Company. The Company and the Remuneration Committee believe that Mr Tolcher's extensive experience and leadership qualities position him well to chair the Board. This also results in the Company having a more conventional management and governance structure in line with King IV.

As a result of his transition to Non-Executive Chairman, Mr Tolcher was awarded a base compensation of USD100,000 per annum which includes compensation for his membership of Board committees. The fee is capped at a maximum Non-Executive Director fee of USD100,000 per annum. As Non-Executive Chairman, Mr Tolcher will not be eligible for participation in the annual bonus scheme.

Schedule of fees and remuneration

Throughout the 2019 financial year, the Executive Directors' remuneration consisted of their base compensation only. No annual bonuses were paid, nor any share options awarded in 2019. The table below sets out the remuneration of Executive Directors during 2019:

1 January 2019 to 31 December 2019	Base compensation USD'000	Bonus payment USD'000	Total USD'000
Sean Gilbertson	575	201	776
David Lovett	337	118	455
Total	912	319	1,231

The Non-Executive Director fees vary based on the individuals' involvement and role within the various committees of the Company's Board. The fees payable to Non-Executive Directors for the year ended 31 December 2019 are as follows:

1 January 2019 to 31 December 2019	Group Director fees USD'000	Board committees USD'000	Lead Independent Director USD'000	Total USD'000
Brian Gilbertson ¹	90	–	–	90
Martin Tolcher ²	45	17	–	62
Dr Christo Wiese	40	–	–	40
Lumkile Mondli	40	17	3	60
Kwape Mmela	40	13	–	53
Carel Malan ³	39	5	–	44
Erich Clarke ⁴	1	–	–	1
Total	295	52	3	350

¹ This relates to the period 1 January 2019 to 25 November 2019.

² This has been calculated to reflect Mr Tolcher's change of duties as of 25 November 2019.

³ Appointed effective 9 January 2019.

⁴ Resigned effective 7 January 2019.

At the Company's EGM, held on 26 June 2017, shareholders resolved that the maximum amount payable as Non-Executive Director fees be increased to USD100,000 per Director per annum. With effect from 14 September 2017, the fee payable for each Non-Executive Director increased from USD35,000 per annum to USD40,000 per annum. There was no change to this in 2018 and 2019.

Variable remuneration

The Variable Remuneration Scheme for Executive Directors as explained in the Remuneration Policy was established in the 2017 financial year and consists of two elements: annual bonuses and share options.

Annual bonuses

The Adjusted Share Price was measured against a price of ZAR1.87. The Adjusted Share Price at 31 December 2019 was ZAR1.62, and therefore no annual bonuses were payable in relation to the 2019 financial year based on Adjusted Share Price movement. Under the prevailing bonus scheme for Executive Directors, the

Board has the right (but no obligation) to award a discretionary bonus should a bonus not be payable based on Adjusted Share Price. At its meeting on 18 March 2020 and in subsequent discussions, the Committee decided to recommend a discretionary cash bonus of 35% of their respective USD denominated base compensation to the Executive Directors, in recognition of the achievements of the Company during the 2019 financial year.

The Adjusted Share Price at 31 December 2019 of ZAR1.62 will be compared with the Adjusted Share Price at the end of 2020 to determine if any annual bonuses will be payable for the 2020 financial year.

Share options

On 14 September 2017, the then Executive Directors were each granted share options equal to approximately 2% of the issued ordinary shares of the Company at the time. The first of five tranches became exercisable on the date of issue.

In 2018, Mr Lovett was granted: (i) 1,184,200 share options on 4 January 2018 at an option price of ZAR2.97; and (ii) 7,000,000

share options on 27 June 2018 at an option price of ZAR2.30, together representing approximately 0.65% of the Company's issued share capital.

Mr Sean Gilbertson currently holds 27,890,213 share options at an option price of ZAR3.45 cents, representing approximately 2.2% of the Company's issued share capital. No share options were granted to Mr Gilbertson in 2019.

No share options were exercised by the Executive Directors during the year ending 31 December 2019.

The table below illustrates the number of options issued and forfeited during the year in respect of the Executive Directors.

	Options held at 1 January 2019	Options granted during the year	Options forfeited during the year	Options exercised during the year	Options held at 31 December 2019
Sean Gilbertson	27,890,213	–	–	–	27,890,213
David Lovett	8,184,200	–	–	–	8,184,200

Effect of performance measures on variable remuneration

Executive Directors' variable remuneration in the form of annual bonuses is based on the performance of the Adjusted Share Price.

It is not yet possible to gauge the Executive Directors' performance during 2020 with regard to the Adjusted Share Price, as insufficient time has elapsed.

Share options for employees of the wider Group

In 2018, the Group established a Share Option Programme for the employees of the wider Group within the parameters of the scheme approved by shareholders on 26 June 2017. In the same manner that the Company has used share options as a long-term incentive for its Executive Directors, the Board extended this benefit to a wider number of its employees.

A total of 21,601,796 share options were granted to Group employees at ZAR2.97 cents on 4 January 2018. These were granted equally in five tranches, with the first tranche of share options vesting immediately and thereafter on an annual basis.

A total of 44,790,000 share options were granted to Group employees at ZAR2.30 cents on 20 July 2018. These were granted equally in five tranches, with the first tranche of share options vesting immediately and thereafter on an annual basis.

A total of 1,580,000 share options were granted to Group employees at ZAR1.90 cents on 15 March 2019. These were granted equally in five tranches, with the first tranche of share options vesting immediately and thereafter on an annual basis.

No share options have been exercised by Group employees during the year ending 31 December 2019.

Success of the Remuneration Policy throughout 2019

While it is too early to determine whether the Remuneration Policy's long-term objectives have been achieved, the Remuneration Committee is confident that the Remuneration Policy is proving to be robust in practice.

Future focus areas

During 2020, the Board and the Remuneration Committee have two main priorities:

1. To maintain good communication with shareholders. The implementation of the Remuneration Policy and the Executive Director remuneration throughout 2019 has benefitted from shareholder engagement. The Remuneration Committee remains committed to continuing this dialogue to the benefit of all parties.
2. To continue ensuring that employees of the wider Group feel engaged with Gemfields by having their remunerative rewards closely tied to the success of the Company, which in turn, will encourage employees to perform as active stakeholders and have their efforts at work appropriately rewarded. Consequently, the Company and its shareholders can be confident that employees will continue to perform at a superior standard, with all parties focussed on a unified aim.

Approval of the Remuneration Committee Report for 2019

All decisions undertaken in the 2019 financial year were compliant with the Remuneration Policy as determined by the Remuneration Committee. Accordingly, this report was recommended by the Remuneration Committee and was approved by the Board on 4 April 2020.

Kwape Mmela

Chair of the Remuneration Committee



IMAGE

ZAMBIAN EMERALDS
SURROUND FABERGÉ PALAIS
TSARSKOYE SELO LOCKETS
WITH LADYBIRD, CLOVER
AND HEN SURPRISE

Nomination Committee Report

ROLE OF THE NOMINATION COMMITTEE

The Nomination Committee assists the Board in setting and administering the Company's Nominations and Succession Policy. The Committee is constituted by the Board and is accountable both to the Board and to shareholders. The Committee assists the Board in its oversight of the following areas:

- Reviewing the structure, size and composition of the Board on an ongoing basis, with the recommendation of any changes to the Board as necessary;
- Considering diversity, including gender and race, when assessing suitable candidates for appointment to the Board;
- Identifying suitable candidates for appointment to the Board;
- Oversight of the reappointment process in respect of all Directors at the point of their retirement by rotation in accordance with provisions in the Company's Articles of Incorporation; and
- Reviewing the succession planning for Directors, including the identification, mentorship and development of future candidates.

COMPOSITION

The Committee comprises the following Independent Non-Executive Directors, who have the requisite skills and experience to fulfil the Committee's duties:

- Mr Mondl (Chair)
- Mr Mmela
- Mr Tolcher

MEETINGS

The Nomination Committee meets as often as required, but not less than once per year. Two formal meetings were held during 2019 although the Committee deliberated on matters, as necessary, on an ad hoc basis.

DUTIES CARRIED OUT IN 2019

During the year ended 31 December 2019, the Committee carried out its duties as required by King IV and its terms of reference. The Committee performed the following duties:

- Considered the appropriateness of the appointment of Martin Tolcher as Chairman of the Company;
- Confirmed that the reappointment process that was undertaken for the Company's 2019 AGM was in line with the provisions in the Company's Articles of Incorporation;
- Reviewed the Nomination Committee Report included in the Company's previous annual report; and
- Committed to promoting diversity, including gender and race, when considering future recommendations to the Board with regard to new appointments.

MEETINGS

The Committee is satisfied that it considered and discharged its responsibilities in accordance with its mandate and its terms of reference during 2019. Accordingly, this report was recommended by the Nomination Committee and was approved on 4 April 2020.

Lumkile Mondl

Chair of the Nomination Committee

**IMAGE**

WHEN AN EMERALD IS RECOVERED
AT THE KAGEM MINE, IT IS THE
FIRST TIME THAT LIGHT HAS EVER
PASSED THROUGH THE CRYSTAL,
BRINGING IT TO LIFE AFTER HALF
A BILLION YEARS IN DARKNESS

Financial Statements

Consolidated Income Statement	96
Consolidated Statement of Comprehensive Income.....	97
Consolidated Statement of Financial Position	98
Consolidated Statement of Cash Flows.....	99
Consolidated Statement of Changes in Equity	100
Notes to the Consolidated Financial Statements ..	102
Independent Auditor's Report.....	164

Administration

Shareholder Information	172
Company Details	173

04

FINANCIAL STATEMENTS AND ADMINISTRATION

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2019

	Notes	2019 USD'000	2018 USD'000
Revenue	2	216,233	206,090
Cost of sales	3	(124,683)	(123,546)
Gross profit		91,550	82,544
Unrealised fair value gains/(losses)	12	7,053	(59,559)
Other gains and income	4	8,464	17,659
Selling, general and administrative expenses	6	(56,773)	(63,170)
Impairment reversal/(charges)	10	21,559	(22,577)
Profit/(loss) from operations		71,853	(45,103)
Finance income	8	6,985	805
Finance costs	8	(11,465)	(9,650)
Net finance costs		(4,480)	(8,845)
Profit/(loss) before taxation		67,373	(53,948)
Taxation	9	(28,242)	(6,483)
NET PROFIT/(LOSS) AFTER TAXATION		39,131	(60,431)
Profit/(loss) for the year attributable to:			
Owners of the parent		28,369	(62,213)
Non-controlling interest		10,762	1,782
		39,131	(60,431)
Earnings/(loss) per share attributable to the parent:	23		
Basic – USD		0.02	(0.05)
Diluted – USD		0.02	(0.05)

The accompanying notes form part of these Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

	2019 USD'000	2018 USD'000
Profit/(loss) after taxation	39,131	(60,431)
Other comprehensive income/(loss):		
Items that have been/may be reclassified subsequently to profit or loss:		
Exchange gain arising on translation of foreign operations	2,445	209
Total other comprehensive income	2,445	209
TOTAL COMPREHENSIVE INCOME/(LOSS)	41,576	(60,222)
Total comprehensive income/(loss) attributable to:		
Owners of the parent	30,814	(62,004)
Non-controlling interest	10,762	1,782
	41,576	(60,222)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

	Notes	2019 USD'000	2018 USD'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	376,913	365,014
Intangible assets	11	55,200	52,328
Unlisted equity investments	12	57,500	50,447
Listed equity investments	12	–	25,714
Other investments		1,453	1,473
Deferred tax assets	9	7,227	6,381
Other non-current assets	15	9,104	8,342
Total non-current assets		507,397	509,699
Current assets			
Inventory	16	110,694	99,237
Other investments		2	2
Trade and other receivables	17	87,842	62,142
Cash and cash equivalents		78,218	62,988
Total current assets		276,756	224,369
Total assets		784,153	734,068
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	9	92,177	87,805
Borrowings	18	28,000	30,000
Lease liabilities	27	3,570	–
Provisions	19	6,312	5,572
Total non-current liabilities		130,059	123,377
Current liabilities			
Provisions	19	3,111	7,877
Current tax payable		16,282	1,370
Borrowings	18	24,827	23,171
Lease liabilities	27	1,081	–
Trade and other payables	20	29,850	28,158
Total current liabilities		75,151	60,576
Total liabilities		205,210	183,953
Net assets		578,943	550,115
EQUITY			
Share capital	21	12	14
Share premium	21	511,833	531,607
Treasury shares	21	(10)	(5,345)
Reserve for own shares	21	(23,319)	(23,319)
Cumulative translation reserve		1,485	(960)
Option reserve		6,985	5,474
Retained earnings		(2,725)	(31,276)
Attributable to equity holders of the parent		494,261	476,195
Non-controlling interest	14	84,682	73,920
Total equity		578,943	550,115

The Financial Statements were approved and authorised for issue by the Directors on 4 April 2020 and were signed on their behalf by:

David Lovett Sean Gilbertson
Director Director

The accompanying notes form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

	Notes	2019 USD'000	2018 USD'000
Cash flow from operating activities			
Profit/(loss) before taxation		67,373	(53,948)
<i>Adjustments for</i>			
Unrealised fair value (gains)/losses		(7,137)	59,559
Realised fair value gains	4	(4,645)	(11,680)
Dividend income	4	(2,582)	(5,271)
Depreciation and amortisation	3	34,827	30,633
Impairment (reversals)/charges and write-offs	6, 10	(19,411)	26,559
Share-based payments		1,693	4,167
Other		(17)	(49)
Finance income	8	(6,985)	(805)
Finance expense	8	11,465	9,650
Loss on sale of property, plant and equipment		(2)	–
Increase in non-current assets		(2,928)	(125)
Increase in non-current liabilities		423	461
Increase in trade and other receivables		(21,820)	(39,183)
Increase/(decrease) in inventory		(11,457)	8,631
Increase in trade and other payables		7,583	888
Cash generated from operations		46,380	29,487
Tax paid (excluding withholding tax)		(9,692)	(24,378)
Net cash generated from operating activities		36,688	5,109
Cash flows from investing activities			
Purchase of intangible assets		(3,065)	(2,311)
Purchases of property, plant and equipment		(27,780)	(28,991)
Interest received		787	659
Proceeds from Jupiter Initial Public Offering (IPO)		–	64,397
Dividends received from Jupiter		2,582	5,271
Proceeds from Jupiter disposal		30,359	7,726
Investments acquired		–	(101)
Cash advances and loans made to related parties		(7,079)	–
Proceeds from disposal of investment – Kariba Minerals Limited		2,300	–
Net cash (utilised in)/generated from investing activities		(1,896)	46,650
Cash flows from financing activities			
Dividends paid to non-controlling interest of Montepuez Ruby Mining (including withholding tax)		–	(5,850)
Cash paid in Group share buy-back programme		(14,439)	(4,691)
Proceeds from borrowings		52,826	18,110
Repayment of borrowings		(53,170)	(29,959)
Principal elements of lease payments		(696)	–
Interest paid		(4,084)	(5,046)
Release of previously restricted cash at Fabergé		–	1,023
Net cash utilised in financing activities		(19,563)	(26,413)
NET INCREASE IN CASH AND CASH EQUIVALENTS		15,229	25,346
Cash and cash equivalents at the beginning of the year		62,988	37,784
Net foreign exchange gain on cash		1	(142)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		78,218	62,988

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Share capital USD'000	Share premium USD'000	Treasury shares USD'000	Reserve for own shares USD'000	Cumulative translation reserve USD'000	Option reserve USD'000	Retained earnings/ (losses) USD'000	Total attributable to equity holders of the parent USD'000	Non-controlling interest USD'000	Total equity USD'000
Balance at 1 January 2019	14	531,607	(5,345)	(23,319)	(960)	5,474	(31,276)	476,195	73,920	550,115
Profit for the year	–	–	–	–	–	–	28,369	28,369	10,762	39,131
Other comprehensive income	–	–	–	–	2,445	–	–	2,445	–	2,445
Total comprehensive income	–	–	–	–	2,445	–	28,369	30,814	10,762	41,576
Shares bought back during the year, net of transaction costs	–	–	(14,439)	–	–	–	–	(14,439)	–	(14,439)
Shares cancelled during year	(2)	(19,774)	19,774	–	–	–	–	(2)	–	(2)
Share options recognised during the year	–	–	–	–	–	1,693	–	1,693	–	1,693
Share options lapsed/forfeited during the year	–	–	–	–	–	(182)	182	–	–	–
Balance at 31 December 2019	12	511,833	(10)	(23,319)	1,485	6,985	(2,725)	494,261	84,682	578,943

The accompanying notes form part of these Financial Statements.

	Share capital USD'000	Share premium USD'000	Treasury shares USD'000	Reserve for own shares USD'000	Cumulative translation reserve USD'000	Option reserve USD'000	Retained earnings/ (losses) USD'000	Total attributable to equity holders of the parent USD'000	Non- controlling interest USD'000	Total equity USD'000
Balance at 1 January 2018	14	531,607	(654)	(23,319)	(1,169)	2,692	29,552	538,723	78,388	617,111
(Loss)/profit for the year	–	–	–	–	–	–	(62,213)	(62,213)	1,782	(60,431)
Other comprehensive income	–	–	–	–	209	–	–	209	–	209
Total comprehensive income	–	–	–	–	209	–	(62,213)	(62,004)	1,782	(60,222)
Shares bought back during the year, net of transaction costs	–	–	(4,691)	–	–	–	–	(4,691)	–	(4,691)
Share options recognised during the year	–	–	–	–	–	4,167	–	4,167	–	4,167
Share options lapsed/ forfeited during the year	–	–	–	–	–	(1,385)	1,385	–	–	–
Dividends declared to non-controlling interest of Montepuez Ruby Mining	–	–	–	–	–	–	–	–	(6,250)	(6,250)
Balance at 31 December 2018	14	531,607	(5,345)	(23,319)	(960)	5,474	(31,276)	476,195	73,920	550,115

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. ACCOUNTING POLICIES

The Company is incorporated in Guernsey under the Companies (Guernsey) Law, 2008. The Company's registered office address is stated on the final page of the Annual Report entitled "Company Details". The nature of the Group's operations and principal activities are set out on pages 29 to 45.

The Company's accounting policies are the same as those of the Group. Company-only financial information has been omitted from these Financial Statements, as permitted by the Companies (Guernsey) Law, 2008, Section 244, and sections 8.62(a) and 8.62(d) of the JSE Listings Requirements.

Statement of Compliance

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), the financial reporting guides issued by the Accounting Practices Committee of the South African Institute of Chartered Accountants (the "SAICA Reporting Guides") and the financial reporting pronouncements issued by the Financial Reporting Standards Council of South Africa (the "FRSC Pronouncements"). The Financial Statements also comply with the JSE Listings Requirements, the AIM Rules for Companies, the BSX Listing Regulations and the Companies (Guernsey) Law, 2008 and show a true and fair view.

New and amended standards which are effective for these Financial Statements

A number of new and amended standards became mandatory and are effective for annual periods beginning on or after 1 January 2019, of which only IFRS 16 *Leases* had an impact on the Financial Statements which is disclosed below.

The remaining new standards, amendments to standards and interpretations being IFRIC Interpretation 23, Amendments to IFRS 9, Amendments to IAS 28, Amendments to IAS 19, and the Annual Improvements to IFRS Standards 2015–17 Cycle that are mandatory for 31 December 2019 reporting periods, have not had a material impact on the Group's financial statements.

New and amended standards which are not yet effective for these Financial Statements

There are a number of new and amended standards and interpretations that are not mandatory for the 31 December 2019 reporting period and have not been early-adopted by the Group. These will be adopted in the period when they became mandatory unless otherwise indicated. There are Amendments to IFRS 9, IAS 39, and IFRS 7 re Interest Rate Benchmark reform, Amendments to References to the Conceptual Framework in IFRS Standards, Amendments to IFRS 3 – Definition of a Business, Amendments to IAS 1 and IAS 8 Definition of Material, Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, and Amendments to IFRS 17 *Insurance Contracts*. The standards mentioned are not expected to have a material impact on future reporting periods.

Basis of preparation

The Financial Statements are presented in United States dollars ("USD"), which means that the Financial Statements can be compared with those of other similar companies. Amounts have been rounded to the nearest thousand (or million), as appropriate, for ease of presentation.

Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Group made up to 31 December each year. The results of subsidiaries acquired or disposed during the year are included in profit and loss 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 used into line with those used by other Group entities.

All significant inter-company transactions and balances between Group entities are eliminated on consolidation.

1. ACCOUNTING POLICIES/CONTINUED

Basis of accounting

The principal accounting policies applied are consistent with those adopted and disclosed in the Financial Statements, except for those that relate to new standards and interpretations effective for the first time for periods beginning on or after 1 January 2019.

Going Concern

The Group's business activities, together with the factors likely to impact its future growth and operating performance, are set out in the Operational Review on pages 29 to 45. The financial performance and position of the Group, its cash flows and available debt facilities are described in the Financial Review on pages 46 to 52. In addition, Note 24: *Financial Instruments* commencing on page 150 sets out the Group's objectives, policies and processes for managing its capital structure, liquidity position and financial risks arising from exposures to interest rates, foreign exchange and counterparties.

The Group manages liquidity risk by maintaining adequate committed borrowing facilities and working capital funds. The Board monitors the net debt level of the Group taking into consideration the expected outlook of the Group's financial position, cash flows and future capital commitments. The Group adopts a prudent approach in managing its liquidity risk, reflecting the volatility in gemstone mining and prices.

In 2019, the Group completed the disposal of its stake in Jupiter which along with the strong performance of the mining operations has resulted in a significantly strengthened balance sheet with net cash of USD25.4 million and cash and cash equivalents of USD78.2 million. However, the COVID-19 outbreak is expected to have an adverse impact on the Group's operations, customers and suppliers and consequently the Group's production, revenue and cash position in the near term. The Board has reviewed various scenarios and the resulting implications on the ability of the Group to continue as a going concern for the foreseeable future. These scenarios include delaying the Group's emerald and ruby auctions, reducing the revenue generated from these auctions, temporarily placing the mines under care and maintenance, and suspending all non-committed and discretionary expenditure across the Group.

The most important factor behind the Group's successful survival over the period of uncertainty with COVID-19 is the ability to hold successful emerald and ruby auctions and generate revenue without negatively impacting long-term prices. Following wide-ranging consultation with the Group's emerald and ruby customers hailing from India, Thailand, China, Hong Kong and USA, it was determined that the majority of them expected a recovery in the second half of the year, meaning auctions could reasonably be held from July onwards. However, after careful consideration in a bid to ensure that market prices are preserved and customers are given ample time to recover (i.e. not holding auctions too soon into their recovery, potentially impacting prices), the Directors concluded it would be most appropriate to postpone auctions until the fourth quarter of the year. Therefore, the most reasonable auction plan would be to have three auctions in the last quarter of 2020 – one high quality ("HQ") and one commercial quality ("CQ") emerald auction and one mixed quality ruby auction. It is expected that the normal six auction a year schedule would recommence in 2021. The Board believes that this schedule represents a reasonable timetable that would allow the Group to maximise revenues and preserve prices.

The updated auction schedule will see the Group generating materially less revenue compared with the pre-COVID-19 expectation. In order to mitigate this fall in revenues, the Group will take significant cost-cutting measures which may include, but are not limited to, the following areas of non-committed and discretionary spend:

- Delay the second wash plant and other capital expenditure at MRM;
- Delay capital expenditure at Kagem;
- Suspension of international travel across the Group;
- Suspension of the Group's share buy-back programme;
- Reduction in costs relating to exploration and development assets; and
- Reduction in advertising and marketing costs across the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

1. ACCOUNTING POLICIES/CONTINUED

Going Concern (continued)

In addition, the Kagem mine in Zambia will temporarily suspend all critical operations and enter a one month period of care and maintenance as the company looks to safeguard the health of employees, who whilst on the mine are not able to observe appropriate social distancing and other preventative measures. This month, care and maintenance will also reduce variable costs such as fuel, blasting, repairs and maintenance, processing costs and travel.

One of the issues also considered by the Board, although not directly modelled or considered in the base case going concern assessment, was the temporary suspension of operations at MRM for three months and extending the Kagem shut down for a similar period.¹ This scenario would not present the Group with any significant financial challenges and will in fact provide increased cash headroom – albeit at the expense of generating additional on-hand inventory in the short term. Whilst the mines are under care and maintenance, cash savings would be expected across all the variable costs mentioned above. A three-month shut down should not affect the auctions planned for the end of 2020 as the Group already holds sufficient inventory to cover the auctions noted above. Furthermore, both Kagem and MRM have significant ore stockpiles that can be processed in advance of the mines returning to full operational activity. The future production plans are therefore not entirely reliant upon the resumption of mining operations.

As a result of the above analysis, the Board believes that the Group has sufficient cash to meet its obligations. Consequently, the Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis.

Notwithstanding this, the Board have also considered, in line with the above actions, how long the business could operate without an auction (essentially a reverse stress test) and note that if the first auction was delayed beyond October 2020, without other or additional measures, it would result in a cash deficit and/or breaches of covenants against existing borrowing facilities. The Group would look to remedy any potential deficit through either obtaining additional loan funding, raising equity or through even more fundamental operational curtailments and would seek to resolve any covenant breaches through negotiation with the lenders. However, the impact of COVID-19 on the global economy is such that there is uncertainty over the ability to arrange this additional financing and around the ability to renegotiate any future potential covenant breaches.

These conditions and events indicate the existence of material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern and the Group may therefore be unable to realise their assets and discharge their liabilities in the ordinary course of business.

These financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern. The situation is at varying stages of fluidity in each key jurisdiction such that the scenarios disclosed represent what the Board believe to be the most likely outcomes given the facts and circumstances at this time. Should changes arise, the Group will react and respond accordingly.

¹ A shut down period in excess of three months was not modelled by management as this was not considered by the Board to be reasonably possible based on current facts and circumstances.

1. ACCOUNTING POLICIES/CONTINUED

Adoption of New and Revised Standards and Interpretations

New standards impacting the Group which have given rise to changes in the Group's accounting policies are discussed below.

IFRS 16 Leases

The Group has adopted IFRS 16 from 1 January 2019 using the modified retrospective approach. Accordingly, the information for 2018 is not restated because it remains as previously reported under IAS 17 and related interpretations. On initial application, the Group elected to record right-of-use assets based on the corresponding lease liability. A right-of-use asset and lease obligation of USD2.6 million were recorded as of 1 January 2019, with no net impact on retained earnings. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 7.83%.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases and hence these are expensed.
- The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying IAS 17 and IFRIC 4.

Determining whether an arrangement contains a lease

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Until the 2018 financial year, leases of property were operating leases and payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019 leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are properties within the Group and are measured at cost, comprising the following:

- The amount of the initial measurement of the lease liability discounted by the incremental borrowing rate.
- Any lease payment made at or before the commencement date less any lease incentives received.
- Any initial direct costs.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Financial Statements have been prepared on the historical cost basis, except for the valuation of certain investments which have been measured at fair value, not historical cost. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

1. ACCOUNTING POLICIES/CONTINUED

Critical accounting judgements, estimates and assumptions

In the course of preparing these Financial Statements in conformity with IFRS, the Directors make necessary judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Judgements are based on the Directors' best knowledge of the relevant facts and circumstances having regard to prior experience, but actual results may differ from the amounts included in the Consolidated Financial Statements. Estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, but actual results may differ from these estimates.

The estimates and underlying assumptions applied are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgements, key assumptions and sources of estimation uncertainty concerning the future that arise mainly from the nature of the Group's mining operations and which the Directors believe are likely to have the greatest effect on the amounts recognised in the Consolidated Financial Statements. The qualitative disclosures regarding these sources of estimation uncertainty are presented because the Directors consider these to be relevant to the mining industry and useful in understanding the Financial Statements of the Group.

These disclosures go beyond the minimum requirements of IAS 1 *Presentation of Financial Statements* which only requires disclosure of estimation uncertainty where changes in estimates, within a reasonably possible range, could have a significant risk of a material effect, within the next 12 months, on the amounts recognised in the Financial Statements.

(i) Revenue recognition

Significant accounting judgement

The main accounting judgement relates to the identification of the specific performance obligations arising on sales of rough gemstones (from which the Group's revenue is predominantly derived).

Gemstones – revenue from the sale of gemstones is recognised when the performance obligation is met.

The Group has reviewed the terms and conditions of current auction contracts and deemed control to have passed at the point at which the auction has been awarded and goods invoiced. The performance obligation has been determined to be satisfied when the tender has been awarded. Recognition is therefore deemed to be at the point at which the auction is awarded.

Cut and polished gemstones – the performance obligation is met through the supply of goods to the customer and control is determined to have passed at the point of delivery.

Retail, wholesale and web sales – the performance obligation is met through the supply of goods to the customer and control is determined to have passed at the point of delivery.

(ii) Assessment of fair value

Key sources of estimation uncertainty

The Directors use a range of valuation methodologies in accordance with IFRS 13 *Fair Value Measurement* when determining the fair value of the Group's portfolio of investments. The valuation of unlisted equity investments involves judgements, estimates and assumptions by the Directors across a range of key factors which are detailed in Note 12: *Investments*. The Company may use discounted cash flow ("DCF") models which estimate expected future cash flows, are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, such as commodity prices, exchange rates, discount rates, production levels and associated costs, and future capital expenditure. Judgements, estimates and assumptions used are reviewed periodically and the Directors believe that their estimates of fair value are materially accurate. Where the valuation is sufficiently complex, valuation experts are engaged to assist in determining fair value.

1. ACCOUNTING POLICIES/CONTINUED

(iii) *Going-concern basis of accounting*

Key sources of estimation uncertainty

In forming its opinion as a going concern, the Board prepares a working capital forecast based upon its assumptions as to trading as well as taking into account the available borrowing facilities in line with the capital management policies referred to in Note 18: *Borrowings*. The Board also prepares a number of alternative scenarios modelling the business variables and key risks and uncertainties. In the current year, these scenarios modelled have included the significant uncertainty in respect of the world-wide COVID-19 outbreak. Full details of the Going Concern assessment are set out above.

(iv) *Impairment testing of non-current assets*

Significant accounting judgement

The Directors review the carrying value of the Group's assets to determine whether there are any indicators of impairment such that the carrying values of the assets may not be recoverable. The assessment of whether an indicator of impairment or reversal thereof has arisen requires considerable judgement, taking account of future operational and financial plans, commodity prices, market demand and the competitive environment.

Key sources of estimation uncertainty

The determination of fair value less costs to sell and value-in-use requires management to make estimates and assumptions about expected production and sales volumes, gemstone prices (considering current and historical prices, price trends and related factors), reserves, operating costs, closure and rehabilitation costs, the life of mine, future capital expenditure, and the applicable discount rate.

These estimates and assumptions are subject to risk and uncertainty. There is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the Income Statement.

The Directors review the carrying value of the Group's assets to determine whether there are any indicators of impairment such that the carrying values of the assets may not be recoverable. The assessment of whether an indicator of impairment has arisen can require considerable judgement, that is, taking account of future operational and financial plans, commodity prices, sales demand and the competitive environment. Where such indicators exist, the carrying value of the assets of a cash-generating unit is compared with the recoverable amount of those assets, that is, the higher of net realisable value and value-in-use, which is determined on the basis of discounted future cash flows. This involves management estimates of rough emerald and beryl prices, market demand and supply, the development of operating costs, economic and regulatory climates, capital expenditure requirements, long-term mine plans, and other factors. Any subsequent changes to cash flows due to changes in the above-mentioned factors could impact the carrying value of the assets. The Group's asset review has considered the results of the optimisation programme to date, and the potential for future savings, when assessing the future economic outlook for assets.

The imposition of the 15% export duty on precious metals and gemstones applicable from 1 January 2019 had a material adverse impact on the profitability and cash generation of the Kagem cash-generating unit ("CGU") such that an impairment charge was recognised at 31 December 2018 as the recoverable amount of the CGU exceeded its carrying value by USD22.6 million (see Note 10: *Property, plant and equipment*).

Subsequently, on 13 December 2019, the Government of the Republic of Zambia ("GRZ") enacted into law the indefinite suspension of the 15% export duty effective prospectively from 1 January 2020. As a result, the recoverable amount of the Kagem CGU has been recalculated leading to a USD21.6 million reversal of the previously recognised impairment. With a recoverable amount of USD335.8 million there is significant headroom over the carrying value of USD206.7 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

1. ACCOUNTING POLICIES/CONTINUED

(iv) Impairment testing of non-current assets

Key sources of estimation uncertainty (continued)

The calculation of the recoverable amount of the Group's CGUs units for the impairment review at 31 December 2019 provided a range of outcomes, as the calculation is particularly sensitive to changes in emerald and beryl prices as well as the discount rate used. Any changes to the assumptions adopted in the calculation of the value-in-use, individually or in aggregate, would result in a different valuation being determined.

(v) Impairment testing of the Fabergé cash-generating unit ("CGU"), including the Fabergé trademarks

Key sources of estimation uncertainty

The Fabergé trademarks are a significant asset in the Consolidated Statement of Financial Position. The Directors believe that the asset has an indefinite useful life, as it is probable that the future economic benefits that are attributable to the asset will flow to the entity indefinitely, and in accordance with IAS 36 *Impairment of Assets*, have considered the asset for impairment. Given that the valuation is sufficiently complex, valuation experts are engaged to assist in determining fair value. Given that the valuation is sufficiently complex, valuation experts are engaged to assist in determining fair value.

Key estimates relating to the valuation of the Fabergé CGU are disclosed in Note 11: *Intangible assets*.

(vi) Determination of ore reserves

Key sources of estimation uncertainty

The Group estimates its ore reserves and mineral resources based on information, compiled by appropriately qualified people, relating to geological and technical data on the size, depth, shape and grade of the ore body and to suitable production techniques and recovery rates. The estimate of recoverable reserves is based on factors such as gemstone prices, future capital requirements and production costs, along with geological assumptions and judgements made in estimating the size and grade of the ore body.

There are numerous uncertainties inherent in estimating ore reserves and mineral resources. Consequently, assumptions that are valid at the time of estimation may change significantly when new information becomes available.

The ore reserves impact the depreciation of evaluated mining assets being depreciated based on the quantity of ore reserves.

The Mineral Resources and Mineral Reserves Report 2019, which contains a thorough review of the mineral resources and mineral reserves as at 31 December 2019, and details the location, geology, mining, processing, operating statistics, and changes at the applicable mining operating and projects, is available online at www.gemfieldsgroup.com. A condensed version of this report is included on [page 53](#). Competent Person's Reports can also be found at www.gemfieldsgroup.com.

(vii) Useful lives of intangible assets, and of property, plant and equipment

Key sources of estimation uncertainty

Intangible assets with finite useful lives, and property, plant and equipment, are amortised or depreciated over their useful lives. Useful lives are based on management's estimates of the period over which an asset is expected to be available for use by the Group, or the amount of production expected to be obtained from the asset by the Group. The useful lives are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the Income Statement in specific periods.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

1. ACCOUNTING POLICIES/CONTINUED

(viii) Stripping costs

Key sources of estimation uncertainty

Stripping costs incurred in opening up new ore areas are capitalised as part of the cost of developing the pit and are subsequently amortised over the mining of the ore (known as the reaction zone). This is reported under Note 10: *Property, plant and equipment*.

Deferred stripping costs are amortised over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. Specifically, the calculation of amortisation for deferred stripping costs is the ratio of ore mined (reaction zone) to the total ore estimated. Judgement is required to estimate the total ore within the reaction zone. The judgements made are supported by technical data.

Where stripping is undertaken alongside ongoing, continuous mining, the related costs are expensed to the Consolidated Income Statement as mining and production costs during the period in which the costs have been incurred.

(ix) Inventories

Key sources of estimation uncertainty

The Group reviews the net realisable value of, and demand for, its inventory on a quarterly basis in order to provide assurance that recorded inventory is stated at the lower of cost or net realisable value. Factors that could impact estimated demand and selling prices include competitor actions and economic trends. The Directors use their experience, market data and trend analysis when undertaking these reviews.

(x) Inherent uncertainties in interpreting tax legislation

Key sources of estimation uncertainty

The Group is subject to uncertainties relating to the determination of its tax liabilities and the timing of the recovery of tax refunds. Ethiopian, Mozambican and Zambian tax legislation and practice are in a state of continuous development and, therefore, are subject to varying interpretations and changes which may be applied retrospectively. The Directors' interpretation of tax legislation as applied to the transactions and activities of the Group may not coincide with that of the tax authorities. As a result, the tax authorities may challenge transactions and the Group may be assessed with additional taxes, penalties and fines or be refused refunds, which could have a material, adverse effect on the Group's financial performance or position.

Historical tax years relating to various companies within the Group remain open for inspection during a future tax audit. Consequently, the tax figures recorded in the Financial Statements for these years may be subject to change.

The Directors believe that the Group is in substantial compliance with the tax laws promulgated in all the jurisdictions in which it operates, and with any contractual terms entered into that relate to tax which affect its operations, and that, consequently, no additional, material tax liabilities will arise. However, due to the reasons set out above, the risk remains that the relevant tax authorities may take a different position with regard to the interpretation of contractual provisions or tax law (inclusive of corporate income taxes, value-added tax and subsoil-use legislation). The resulting effect of any positions taken by the tax authorities that differ from those of the Directors is that additional tax liabilities may arise, or that the timing of refunds due may take longer than expected or may be refused.

However, due to the range of uncertainties described above in assessing any potential additional tax liabilities and the timing of refunds, it is not practical for the Directors to estimate the financial effect in terms of the amount of additional tax liabilities, if any, together with any associated penalties and charges for which the Group may be liable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

1. ACCOUNTING POLICIES/CONTINUED

(xi) *Inherent uncertainties in respect of any potential and ongoing claims and litigation*

Significant accounting judgement

While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse matters relating to potential claims and litigation, the Group believes that the defences of the Group's companies to all these various claims are meritorious in both law and on the facts, and that a vigorous defence will be made everywhere.

At the balance sheet date in the aggregate, and despite the quality of defences available to the Group, it is not impossible that the Group's results of operations or cash flows in particular annual periods could be materially affected by this and by the final outcome of any particular litigation. Having regard to all these matters, the Group (i) does not consider it appropriate to make any provision in respect of any pending litigation; and (ii) does not believe that the ultimate outcome of this litigation will significantly impair the Group's financial condition.

Significant accounting policies

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purposes of the Group's Financial Statements, the results and financial position of each Group company are expressed in USD, which is the functional currency of the Company and the presentation currency for the Financial Statements.

Transactions entered into by Group companies are recorded in their functional currencies at the exchange rate on the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised in the Income Statement.

On consolidation, all assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the closing net assets at the closing rate at the balance sheet date, and the results of overseas operations at average exchange rates (unless these average rates are not reasonable approximations of the cumulative effect of the prevailing rate transaction dates, in which case actual rates are used), are recognised directly in equity in the Cumulative Translation Reserve Account.

Exchange differences recognised in the Income Statement of the Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the cumulative translation reserve on consolidation.

	2019		2018	
	Spot	Average	Spot	Average
Mozambican metical (MZN)	60.84	61.98	61.95	60.88
UK pound sterling (GBP)	0.76	0.78	0.79	0.75
Zambian kwacha (ZMW)	14.04	12.97	12.01	10.65
South African rand (ZAR)	14.05	14.40	14.44	13.24

1. ACCOUNTING POLICIES/CONTINUED

Subsidiaries

The Company is deemed to control an investee if it has all of the following:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the Group's returns.

Subsidiaries (other than those that formed part of the Investment Portfolio whilst the Company was an investment entity) are consolidated into the Group's Financial Statements on a line-by-line basis. They are deconsolidated from the date on which control ceases.

Non-controlling interests

For business combinations completed on or after 1 January 2010, the Group has the choice, on a transaction by transaction basis, to initially recognise any non-controlling interest in the acquiree which is a present ownership interest and entitles its holders to a proportionate share of the entity's net assets in the event of liquidation at either acquisition date fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. Other components of non-controlling interest such as outstanding share options are generally measured at fair value.

From 1 January 2010, the total comprehensive income of non-wholly-owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests. Before this date, unfunded losses in such subsidiaries were attributed entirely to the Group.

Revenue

The Group recognises revenue under the following categories:

- (i) Gemstones – revenue from the sale of gemstones is recognised when the performance obligations are met.

Rough gemstones sales are made through a competitive auction process and are recognised when the performance obligations have been satisfied, at the time the buyer obtains control of the stone(s), at an amount that the Group expects to be entitled in exchange for the stones.

Each individual customer enters into a sale agreement (the contract) with the Group once a winning bid is awarded. The transaction price is determined as the winning bid price per parcel sold. The performance obligation has been determined to be satisfied when the tender has been awarded. The Group retains no further rights to the gemstones at that stage as it is legally bound by the sale agreement to deliver the goods to the purchaser. Therefore, control is deemed to have passed, and revenue is recognised, at the point at which the tender is awarded and goods invoiced.

For cut and polished gemstones, the performance obligation is met through the supply of goods to the customer and control is determined to have passed at the point of delivery.

- (ii) Retail, wholesale and web sales – the performance obligation is met through the supply of goods to the customer and control is determined to have passed at the point of delivery.

The transaction price is determined as per the individual contracts/agreements, including final winning bid. There is no variable consideration included in the Group's contracts, and payment terms within the Group are less than 120 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

1. ACCOUNTING POLICIES/CONTINUED

Investment income and expenses

- (i) Unrealised fair value gains and losses – these amounts are movements in the carrying value of investments during the period. Foreign exchange gains and losses on investments are included within these fair value gains and losses.
- (ii) Realised gains/losses on transactions – these gains/losses may arise on divestments, acquisitions, equity-for-equity swaps, loan conversions and similar transactions. The gains/losses usually represent the difference between the fair value of the consideration received and the fair value of the assets disposed of as part of the transaction. “Realised” is used to describe gains or losses on transactions where assets are either realised in return for cash or cash equivalents, or for other assets such as new equity interests or similar.
- (iii) Dividends from investments are recognised when the right to receive payment is established.

Mineral royalties and production taxes

The Group recognises mineral royalties and production taxes following the sale of rough gemstones at auction. Mineral royalties and production taxes are based on the fixed percentage of the final sales price achieved at auction applicable at the time.

Taxation

Taxation for the year comprises current and deferred tax. Current and deferred tax is charged or credited to the Consolidated Statement of Comprehensive Income, except to the extent that it relates to items recognised directly in equity, in which case the taxation effect is recognised in equity.

Current taxation

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in countries where the Company operates and generates taxable income.

The current tax expense or credit is the amount of taxes estimated to be payable or recoverable in respect of the taxable profit or loss for a period, as well as adjustments to estimates in respect of previous periods. It is calculated on the basis of the tax laws and rates enacted or substantively enacted as at the end of the reporting period.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on:

- The initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- Investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the temporary differences can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

1. ACCOUNTING POLICIES/CONTINUED

Deferred taxation (continued)

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 companies which intend either 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.

Property, plant and equipment

Property, plant and equipment are stated at historic cost less accumulated depreciation and accumulated impairment losses. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Evaluated mining properties are amortised on the basis of ore mined in the year, set against the total probable ore reserves as detailed in the SRK Resource Statement. Depreciation is provided on all other items of property, plant and equipment to write off the carrying value of items over their expected useful economic lives and is recognised within cost of sales. It is applied at the following rates:

Tangible asset	Useful economic life
Buildings	5% per annum straight-line
Plant, machinery and motor vehicles	20–25% per annum straight-line
Fixtures, fittings and equipment	20–33% per annum straight-line
Evaluated mining properties	Unit of production based on the estimated reserves

The useful lives and residual values (where applicable) of the tangible assets are reviewed annually.

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Any reversal of the impairment is determined using the depreciated historic cost of the specific asset.

Mining assets – evaluated mining properties

Following the determination of the commercial and technical viability of a mining project, the relevant expenditure, including licence acquisition costs, is transferred from unevaluated mining properties within intangible assets to evaluated mining properties within property, plant and equipment. Exploration expenditure transferred to property, plant and equipment is subsequently depreciated using a unit-of-production method. The Group calculates depreciation based on the ratio of ore mined during the period to the total brought-forward ore reserve, based on the proven and probable estimated reserves. Expenditure deemed to be unsuccessful is written off to the Consolidated Income Statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

1. ACCOUNTING POLICIES/CONTINUED

Deferred stripping costs

Stripping costs incurred in the development of a mine or pit before production commences are capitalised as part of the cost of constructing the mine or pit and subsequently amortised over the life of mine on a unit-of-production basis.

Production stripping costs related to accessing an identifiable component of the ore body to realise benefits in the form of improved access to ore to be mined in the future, are capitalised as a separate asset (deferred stripping asset) within property, plant and equipment.

Deferred stripping assets are amortised over the identified component of the ore body that becomes more accessible as a result of the stripping activity. Specifically, the calculation of amortisation for deferred stripping costs is the ratio of ore mined within the reaction zone (the ore body that becomes more accessible as a result of the stripping activity) to the total ore estimated and identified within the reaction zone exposed by the stripping activity.

Intangible assets

Externally acquired intangible assets are initially recognised at the fair value of the consideration paid and subsequently amortised on a straight-line basis over their useful economic life, except for trademarks, which have an indefinite useful economic life and are reviewed for impairment annually. Amortisation is recognised within cost of sales.

An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. The amounts attributed to such intangibles are arrived at using appropriate valuation techniques.

The useful economic lives of significant finite-life intangibles recognised by the Group are as follows:

Intangible asset	Useful economic life
Trademarks	Indefinite
Software	3 years
Fabergé customer list	6 years

The useful lives and residual values (where applicable) of the tangible assets are reviewed annually.

Unevaluated mining properties

Initial exploration and evaluation expenditure incurred in relation to project areas to which the Group's licences and rights relate are capitalised on a project-by-project basis pending determination of the feasibility of the project within intangible assets – unevaluated mining properties. Costs incurred include appropriate technical and administrative expenses, but not general overheads. If a mining development project is successful, the related expenditures are transferred to property, plant and equipment, at which point they are assessed for impairment. Subsequently, costs are amortised over the estimated life of the commercial ore reserves using a unit-of-production method. The calculation is based on proved and probable ore reserves attributable to the specific asset. Where a licence is relinquished or a project is abandoned, or it is considered to be of no further commercial value to the Group, the related costs are written off.

1. ACCOUNTING POLICIES/CONTINUED

Impairment

Impairment tests on intangible assets with indefinite useful economic lives are undertaken on an annual basis.

Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may be different from the recoverable amount. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value-in-use and fair value less costs to sell), the asset is written down. Where the carrying value of an asset is below its recoverable amount, any historic impairment charged in respect of the asset is reversed accordingly.

Investments

The Group accounts for all such equity investments at fair value. If an equity interest held by the Group is under 20%, it is accounted for at fair value in accordance with IFRS 13 through the provisions under IFRS 9.

All equity investments with a holding of less than 20% are recognised initially at their fair value of the consideration given, and subsequent changes in the fair value of the investment were recognised in profit and loss as an unrealised fair value gain or loss.

Dividends are recognised when the entity's right to receive payment is established, it is probable the economic benefits will flow to the entity and the amount can be measured reliably. Dividends are recognised in profit and loss.

Listed equity investments

Listed equity investments in an active market are usually valued at the mid-price on the valuation date.

Unlisted equity investments

The valuation of unlisted equity investments involves judgements, estimates and assumptions by the Directors. A number of different valuation methods can be used for unlisted investments. These include the DCFs or earnings of the underlying investment, a market-based approach by applying comparable company valuation multiples or valuing the investment in line with the price of a recent investment by a third party in an arm's length transaction. Discounts for illiquidity may be applied to valuations where appropriate in accordance with the relevant accounting standards.

Inventory

Inventory relating to rough gemstones has been valued at the lower of cost on the weighted-average basis and net realisable value. Cost includes direct production costs, depreciation of mining equipment and amortisation of the mining asset, and deferred stripping costs. Net realisable value of rough gemstones is the estimated market value based on past auctions, less estimated costs to sell.

During the process of extracting emeralds and rubies, beryl and corundum are also produced. This production is treated as a by-product and is measured at net realisable value. The net realisable value is accounted for as a contribution to the costs of producing emeralds and rubies in the equivalent period. Upon sale of the by-products, the sale is recognised as revenue, with any profit over its previous carrying value being recognised within gross profit in the period of sale.

Cut and polished gemstones, retail inventory and Fabergé inventory are initially recognised at cost, and, subsequently, at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on expected sales price, less estimated costs to sell.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

1. ACCOUNTING POLICIES/CONTINUED

Consignment inventory

The terms of agreements with customers who request the Group to onward-sell their cut and polished gemstones normally note that no legal title to the cut and polished gemstones passes to Gemfields. For each particular arrangement, an analysis of whether all significant risks and rewards of ownership of cut and polished gemstones have passed to the Group is undertaken in order to determine if it is to be recognised as the Group's inventory. If no significant risks and rewards have passed to the Group, then such gemstones are considered to be consignment goods and are not recorded as part of the Group's inventory.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provision for decommissioning and restoration

A provision for decommissioning and restoration costs is recognised at the commencement of mining. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding property, plant and equipment asset of an amount equivalent to the provision is also created, which is subsequently depreciated as part of the cost of production. Any change in the present value of the estimated future expenditure is reflected and adjusted against the provision and evaluated mining property, unless the asset to which the provision relates has been impaired, in which case the reversal of the provision is taken through the Consolidated Income Statement.

Share-based payments

The Company issues equity-settled-based payments in the form of share options to certain Directors. Equity-settled-based payments are measured at fair value at the date of grant. The fair value determined at the date of grant of the equity-settled-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will eventually vest. Fair value is estimated using a Black-Scholes valuation model.

Own shares

Own shares are recognised at cost as a deduction from equity shareholders' funds. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds and the weighted average cost being credited to retained earnings. No gain or loss is recognised in the Financial Statements on transactions in own shares.

Financial instruments

Financial assets

Under IFRS 9, the Group classifies its financial assets into the following categories: those to be held at amortised cost, and those to be measured subsequently at fair value through profit and loss.

Classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of financial assets at initial recognition. The Group's policy with regard to credit risk management is set out in Note 24: *Financial instruments*. The Group's business model is primarily that of "hold to collect" (where assets are held in order to collect contractual cash flows).

Amortised cost: These assets arise principally from the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows, and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

1. ACCOUNTING POLICIES/CONTINUED

Financial assets (continued)

Impairment provisions for trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process, the probability of the non-payment of the trade receivables is assessed. There is no history of any trade receivables not being recovered even when past due. This probability is then multiplied by the amount of the expected loss arising from default in order to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account, with the loss being recognised within operating profit in the Consolidated Statement of Comprehensive Income. Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Impairment provisions for other receivables and loans are recognised on a forward-looking basis, using a provision matrix in the determination of lifetime expected credit losses. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, 12-month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit-impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

Trade and other receivables

Trade and other receivables include prepayments.

The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Trade receivables are measured at their transaction price, i.e. the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. All amounts due from trade receivables have expected terms of less than six months and are therefore classified as current.

Prepayments for goods or services are not financial assets because they are associated with the receipt of goods or services and do not give rise to a present right to receive cash or any other financial asset.

Cash and cash equivalents

Cash and cash equivalents represent cash balances held at bank and on-demand deposits. Cash and cash equivalents are measured at amortised cost.

Fair value through profit and loss: The asset is measured at fair value. Changes in fair value are recognised in profit and loss as they arise. This classification is only relevant for the Group's investments, as discussed in the Investments section above.

Financial liabilities

Financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are initially measured at fair value and subsequently recognised at amortised cost using the effective interest rate method. Note that the initial measurement is discounted to present value where the time value of money is deemed to be significant (which is unlikely for current payables). Generally, on initial recognition, the transaction price giving rise to the liability to be settled in cash is regarded as the fair value; and
- Borrowings, which are measured at inception at fair value, net of directly attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest rate method.

The Group has not classified any financial liabilities as "fair value through profit or loss" financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

1. ACCOUNTING POLICIES/CONTINUED

Trade and other payables

Trade and other payables are stated based on the amounts which are considered to be payable to third parties at the reporting date.

Borrowings

Interest-bearing borrowings are financial liabilities with fixed or determinable payments. Interest-bearing borrowings are initially recognised at fair value, net of directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

A financial liability (in whole or in part) is derecognised when the Group has extinguished its contractual obligations, it expires or is cancelled. Any gain or loss on derecognition is taken to the statement of comprehensive income.

Short-term leases and low-value leases

IFRS 16 eliminates the classification of leases as either operating or finance as is required by IAS 17 and instead, introduces a single lessee accounting model requiring a lessee to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. This new standard applies to annual reporting periods beginning on or after 1 January 2019 and does not apply to leases for the exploration or use of natural resources. Short-term leases and low-value leases are charged to the income statement on a straight-line basis over the lease term in accordance with the standard.

2. SEGMENTAL REPORTING

The Chief Operating Decision Maker ("CODM") is the Executive Management, which measures the performance of each operating segment on a regular basis in order to allocate resources.

The Group's segmental reporting reflects the business focus of the Group. The Group has been organised into geographic and business units based on the products and services and has seven reportable segments as follows:

- Zambia (emerald and beryl mining activities);
- Mozambique (ruby and corundum mining activities);
- PGMs (the Group's investment in Sedibelo Platinum Mines Limited);
- Steel Making Materials (the Group's investment in Jupiter Mines Limited);
- Corporate (sales of cut and polished gemstones, marketing, and technical and administrative services);
- Fabergé (wholesale and retail sales of jewellery and watches); and
- Other (new projects, traded auctions, sales and marketing offices).

The reporting on these assets to management focusses on revenue, operating costs, EBITDA, key balance sheet lines and free cash flow (as defined further below).

2. SEGMENTAL REPORTING/CONTINUED**Income Statement**

1 January 2019 to 31 December 2019	Zambia USD'000	Mozambique USD'000	PGMs USD'000	Steel Making Materials USD'000	Corporate USD'000	Fabergé USD'000	Other USD'000	Total USD'000
Rough gemstones ¹	78,965	121,524	–	–	–	–	3,595	204,084
Jewellery	–	–	–	–	4	10,517	–	10,521
Cut and polished	–	–	–	–	811	–	817	1,628
Revenue ²	78,965	121,524	–	–	815	10,517	4,412	216,233
Mineral royalties and production taxes	(4,982)	(12,123)	–	–	–	–	–	(17,105)
Export duty on Zambian emeralds	(12,440)	–	–	–	–	–	–	(12,440)
Marketing, management and auction costs	(9,870)	(15,069)	–	–	24,939	–	–	–
Change in inventory and cost of sales	8,437	8,957	–	–	(1,018)	(7,307)	186	9,255
Mining and production costs ³	(35,850)	(27,271)	–	–	(780)	(29)	574	(63,356)
Selling, general and administrative costs ⁴	(5,949)	(9,580)	–	–	(27,632)	(9,655)	(116)	(52,932)
Other income	163	253	–	–	258	1	562	1,237
EBITDA	18,474	66,691	–	–	(3,418)	(6,473)	5,618	80,892
Dividend income	–	–	–	2,582	–	–	–	2,582
Realised fair value gains	–	–	–	4,645	–	–	–	4,645
Unrealised fair value gains	–	–	7,053	–	–	–	–	7,053
Depreciation and amortisation	(13,440)	(19,077)	–	–	(597)	(1,657)	(56)	(34,827)
Share-based payments	–	–	–	–	(1,693)	–	–	(1,693)
Impairment reversal/(charges) ⁵	20,824	(250)	–	–	–	(6,210)	(1,163)	13,201
Profit/(loss) from operations	25,858	47,364	7,053	7,227	(5,708)	(14,340)	4,399	71,853
Net finance (expense)/income	(4,135)	(1,137)	–	–	1,193	2,486	(2,887)	(4,480)
Taxation	(13,305)	(15,551)	–	–	(473)	1,538	(451)	(28,242)
Profit/(loss) after taxation	8,418	30,676	7,053	7,227	(4,988)	(10,316)	1,061	39,131

¹ Kagem held two higher-quality emerald auctions in the year in Singapore in May and November, generating revenues of USD22.4 million and USD27.2 million, respectively. Kagem also held two commercial-quality emerald auctions in Lusaka, Zambia, in February and August 2019, realising total revenue of USD29.4 million of revenue. MRM held two mixed-quality auctions in the year, in Singapore in June and December, generating USD121.5 million.

During 2018, Kagem held two higher-quality emerald auctions in the year both in Singapore, in May and in November, generating revenues of USD10.3 million and USD28.4 million, respectively. Kagem also held two commercial-quality emerald auctions in Lusaka, Zambia, in February and August 2018, realising USD21.6 million of revenue. MRM held two mixed-quality auctions in the year, in Singapore in June and November 2018, generating USD127.1 million.

² Revenues have been recognised at one point in time, as control passes to the customer.

³ Excluding mineral royalties and production taxes, export duty on Zambian emeralds, and inventory impairments.

⁴ Excluding share-based payments.

⁵ Including inventory impairments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

2. SEGMENTAL REPORTING/CONTINUED

Income Statement

1 January 2018 to 31 December 2018	Zambia USD'000	Mozambique USD'000	PGMs USD'000	Steel Making Materials USD'000	Corporate USD'000	Fabergé USD'000	Other USD'000	Total USD'000
Rough gemstones ¹	60,319	127,115	–	–	–	–	3,681	191,115
Jewellery	–	–	–	–	–	13,392	–	13,392
Cut and polished	–	–	–	–	1,116	–	467	1,583
Revenue ²	60,319	127,115	–	–	1,116	13,392	4,148	206,090
Mineral royalties and production taxes	(3,865)	(12,641)	–	–	–	–	–	(16,506)
Marketing, management and auction costs	(7,539)	(15,726)	–	–	23,265	–	–	–
Change in inventory and cost of sales	(8,254)	3,967	–	–	(1,204)	(8,081)	(4,534)	(18,106)
Mining and production costs ³	(34,216)	(21,491)	–	–	(279)	–	227	(55,759)
Selling, general and administrative costs ⁴	(4,380)	(14,716)	–	–	(26,615)	(9,948)	(1,904)	(57,563)
Other income	147	11	–	–	269	60	221	708
EBITDA	2,212	66,519	–	–	(3,448)	(4,577)	(1,842)	58,864
Dividend income	–	–	–	5,271	–	–	–	5,271
Realised fair value gains	–	–	–	11,680	–	–	–	11,680
Unrealised fair value losses	–	–	(47,617)	(11,942)	–	–	–	(59,559)
Depreciation and amortisation	(14,538)	(14,453)	–	–	(285)	(1,357)	–	(30,633)
Share-based payments	–	–	–	–	(4,167)	–	–	(4,167)
Impairment (charges) ⁵	(22,788)	(51)	–	–	(207)	–	(3,513)	(26,559)
Profit/(loss) from operations	(35,114)	52,015	(47,617)	5,009	(8,107)	(5,934)	(5,355)	(45,103)
Net finance expense	(3,708)	(756)	–	–	(145)	(3,515)	(721)	(8,845)
Taxation	12,845	(18,686)	–	–	(2,461)	2,516	(697)	(6,483)
Profit/(loss) after taxation	(25,977)	32,573	(47,617)	5,009	(10,713)	(6,933)	(6,773)	(60,431)

¹ Kagem held two higher-quality emerald auctions in the year in Singapore in May and November, generating revenues of USD22.4 million and USD27.2 million, respectively. Kagem also held two commercial-quality emerald auctions in Lusaka, Zambia, in February and August 2019, realising total revenue of USD29.4 million of revenue. MRM held two mixed-quality auctions in the year, in Singapore in June and December, generating USD121.5 million.

During 2018, Kagem held two higher-quality emerald auctions in the year, both in Singapore, in May and in November, generating revenues of USD10.3 million and USD28.4 million, respectively. Kagem also held two commercial-quality emerald auctions in Lusaka, Zambia, in February and August 2018, realising USD21.6 million of revenue. MRM held two mixed-quality auctions in the year, in Singapore in June and November 2018, generating USD127.1 million.

² Revenues have been recognised at one point in time, as control passes to the customer.

³ Excluding mineral royalties and production taxes, and inventory impairments.

⁴ Excluding share-based payments.

⁵ Including inventory impairments.

2. SEGMENTAL REPORTING/CONTINUED**Statement of Financial Position**

31 December 2019	Zambia USD'000	Mozambique USD'000	PGMs USD'000	Steel Making Materials USD'000	Corporate USD'000	Fabergé USD'000	Other USD'000	Total USD'000
Mining asset	141,909	165,058	–	–	–	–	–	306,967
Property, plant and equipment, and intangibles	22,289	52,132	–	–	2,782	42,070	5,873	125,146
Listed and unlisted investments	–	–	57,500	–	1,455	–	–	58,955
Operating assets	60,404	89,112	–	–	10,450	35,775	2,795	198,536
Cash and cash equivalents	4,925	22,272	–	–	49,100	758	1,163	78,218
Segment assets	229,527	328,574	57,500	–	63,787	78,603	9,831	767,822
Deferred tax asset								7,227
Other								9,104
Total assets								784,153
Borrowings	30,000	22,827	–	–	–	–	–	52,827
Operating liabilities	11,645	33,378	–	–	8,424	5,546	1,213	60,206
Segment liabilities	41,645	56,205	–	–	8,424	5,546	1,213	113,033
Deferred tax liability								92,177
Total liabilities								205,210
Net (debt)/cash	(25,075)	(555)	–	–	49,100	758	1,163	25,391

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

2. SEGMENTAL REPORTING/CONTINUED

Statement of Financial Position

31 December 2018	Zambia USD'000	Mozambique USD'000	PGMs USD'000	Steel Making Materials USD'000	Corporate USD'000	Fabergé USD'000	Other USD'000	Total USD'000
Mining asset	127,395	175,920	–	–	–	–	–	303,315
Property, plant and equipment, and intangibles	24,319	41,885	–	–	760	41,308	5,755	114,027
Listed and unlisted investments	–	–	50,447	25,714	1,473	–	–	77,634
Operating assets	47,665	58,697	–	–	9,595	39,276	6,148	161,381
Cash and cash equivalents	13,065	6,518	–	–	41,653	857	895	62,988
Segment assets	212,444	283,020	50,447	25,714	53,481	81,441	12,798	719,345
Deferred tax asset								6,381
Other								8,342
Total assets								734,068
Borrowings	35,000	18,171	–	–	–	–	–	53,171
Operating liabilities	5,377	26,387	–	–	6,765	2,378	2,070	42,977
Segment liabilities	40,377	44,558	–	–	6,765	2,378	2,070	96,148
Deferred tax liability								87,805
Total liabilities								183,953
Net (debt)/cash	(21,935)	(11,653)	–	–	41,653	857	895	9,817

2. SEGMENTAL REPORTING/CONTINUED**Statement of Cash Flows**

1 January 2019 to 31 December 2019	Zambia USD'000	Mozambique USD'000	PGMs USD'000	Steel Making Materials USD'000	Corporate USD'000	Fabergé USD'000	Other USD'000	Total USD'000
Revenue	78,965	121,524	–	–	815	10,517	4,412	216,233
Operating costs and cost of sales ¹	(50,621)	(39,764)	–	–	(29,172)	(16,990)	1,206	(135,341)
Marketing, management and auction costs	(9,870)	(15,069)	–	–	24,939	–	–	–
EBITDA	18,474	66,691	–	–	(3,418)	(6,473)	5,618	80,892
<i>Add back:</i> Change in inventory	(8,437)	(8,957)	–	–	1,018	7,307	(186)	(9,255)
Tax paid (excluding WHT)	(1,939)	(7,753)	–	–	–	–	–	(9,692)
Capital expenditure	(4,330)	(25,411)	–	–	–	–	(1,104)	(30,845)
Free cash flow before working capital movements	3,768	24,570	–	–	(2,400)	834	4,328	31,100
Working capital movements ²	361	(10,698)	–	–	(6,140)	(4,271)	(4,509)	(25,257)
Free cash flow	4,129	13,872	–	–	(8,540)	(3,437)	(181)	5,843
Cash generated from operations	10,398	47,036	–	–	(8,540)	(3,437)	923	46,380
Tax paid (excluding WHT)	(1,939)	(7,753)	–	–	–	–	–	(9,692)
Capital expenditure	(4,330)	(25,411)	–	–	–	–	(1,104)	(30,845)
Free cash flow	4,129	13,872	–	–	(8,540)	(3,437)	(181)	5,843

¹ Excluding share-based payments and inventory impairments.

² Includes movements relating to inventory purchases and excludes VAT refunds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

2. SEGMENTAL REPORTING/CONTINUED

Statement of Cash Flows

1 January 2018 to 31 December 2018	Zambia USD'000	Mozambique USD'000	PGMs USD'000	Steel Making Materials USD'000	Corporate USD'000	Fabergé USD'000	Other USD'000	Total USD'000
Revenue	60,319	127,115	–	–	1,116	13,392	4,148	206,090
Operating costs and cost of sales ¹	(50,568)	(44,870)	–	–	(27,829)	(17,969)	(5,990)	(147,226)
Marketing, management and auction costs	(7,539)	(15,726)	–	–	23,265	–	–	–
EBITDA	2,212	66,519	–	–	(3,448)	(4,577)	(1,842)	58,864
<i>Add back:</i> Change in inventory	8,254	(3,967)	–	–	1,204	8,081	4,534	18,106
Tax paid (excluding WHT)	(591)	(23,771)	–	–	–	–	(16)	(24,378)
Capital expenditure	(11,819)	(17,338)	–	–	(106)	–	(2,039)	(31,302)
VAT refunds	3,655	–	–	–	1,787	138	–	5,580
Free cash flow before working capital movements	1,711	21,443	–	–	(563)	3,642	637	26,870
Working capital movements ²	(5,771)	(7,675)	–	–	(25,675)	(12,356)	(1,586)	(53,063)
Free cash flow	(4,060)	13,768	–	–	(26,238)	(8,714)	(949)	(26,193)
Cash generated from operations	8,350	54,877	–	–	(26,132)	(8,714)	1,106	29,487
Tax paid (excluding WHT)	(591)	(23,771)	–	–	–	–	(16)	(24,378)
Capital expenditure	(11,819)	(17,338)	–	–	(106)	–	(2,039)	(31,302)
Free cash flow	(4,060)	13,768	–	–	(26,238)	(8,714)	(949)	(26,193)

¹ Excluding share-based payments and inventory impairments.

² Includes movements relating to inventory purchases and excludes VAT refunds.

3. COST OF SALES

	2019 USD'000	2018 USD'000
Mining and production costs		
Labour and related costs	24,822	20,691
Mineral royalties and production taxes	17,105	16,506
Export duty on Zambian emeralds	12,440	–
Fuel costs	13,236	11,489
Repairs and maintenance costs	10,542	8,625
Security costs	5,640	5,592
Camp costs	3,870	3,299
Blasting costs	2,041	2,050
Other mining and production costs ¹	9,415	6,555
Total mining and production costs	99,111	74,807
Change in inventory and purchases	(9,255)	18,106
Depreciation and amortisation ²	34,827	30,633
	124,683	123,546

¹ Includes inventory impairment provisions of USD6.2 million related to Fabergé legacy inventory. In 2018 these amounts were USD2.3 million related to Indian inventory.

² Included in the depreciation and amortisation amount of USD34.8 million is USD1.0 million of depreciation on right-of-use assets. There was no impairment on right-of-use assets.

4. OTHER GAINS AND INCOME

	2019 USD'000	2018 USD'000
Realised fair value net gain on Jupiter disposals	4,645	–
Realised fair value gain on Jupiter share buy-backs	–	2,027
Realised fair value gain on Jupiter IPO	–	9,653
Dividend income from Jupiter	2,582	5,271
Other income	1,237	708
	8,464	17,659

See Note 5: *Jupiter disposal and dividend income* for more detail on the Jupiter share buy-backs and dividend.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

5. JUPITER DISPOSAL AND DIVIDEND INCOME

April–November 2019 conditional sale of Jupiter shares

On 15 April 2019, the Group announced that it had entered into a conditional sale and purchase agreement with AMCI Euro Holdings B.V. (“AMCI”), pursuant to which Gemfields (through its wholly-owned subsidiary, Pallinghurst Consolidated (Cayman) Ltd (“PCCL”) agreed to sell, and AMCI agreed to purchase, the 145,845,372 ordinary shares (the “Transaction”) in ASX-listed Jupiter. This constituted GGL’s entire remaining holding in Jupiter following its participation in Jupiter’s IPO last year.

The Group received a total amount of AUD44.2 million in cash as consideration for the Jupiter shares. As part of the Transaction, the Group retained its right to payment of the AUD0.025 per share dividend declared by Jupiter on 19 February 2019, which was paid on 21 May 2019. It was agreed that any further dividend declared by Jupiter between 21 May 2019 and final completion of the Transaction should be passed on to AMCI from PCCL.

Completion of the Transaction took place in two stages, as follows:

1. On 3 June 2019, 72,922,686 of the Jupiter shares were sold for AUD22,120,469 (“First Tranche Sales Proceeds”); and
2. On 28 November 2019, the remaining 72,922,686 of the Jupiter shares were sold for a further AUD22,120,469 (“Second Tranche Sales Proceeds”).

The transaction was conditional upon the expiry of certain IPO-related lock-in restrictions to which PCCL was subject in respect of the Jupiter shares under an escrow deed dated 29 June 2018 and entered between PCCL and Jupiter.

Realised loss on First Tranche Sales Proceeds

On 3 June 2019, the Group’s 72,922,686 Jupiter shares that it had agreed to sell to AMCI had a fair market value of AUD0.350 per share, translated at the closing rate of USD/AUD1.4369 on 3 June 2019. The Group’s realised loss on disposal is calculated as the difference between the agreed sale price of AUD0.303 per share against the market value of Jupiter shares on 3 June 2019, AUD0.350 per share, both translated at the USD/AUD foreign exchange rate on 3 June 2019.

The realised loss on the First Tranche of Sales Proceeds is as follows:

	Number of shares	Price per share USD	Total price USD’000
<i>Realised loss on First Tranche Sales Proceeds</i>			
Agreed sale price of First Tranche of Jupiter shares (3 June 2019)	72,922,686	0.21	15,390
Fair value of First Tranche of Jupiter shares (3 June 2019)	72,922,686	0.24	(17,758)
Realised fair value loss on disposal (First Tranche)			(2,368)

Realised gain on Second Tranche Sales Proceeds

On 28 November 2019, the Group’s 72,922,686 Jupiter shares that it had agreed to sell to AMCI had a fair market value of AUD0.260 per share, translated at the closing rate of USD/AUD1.4780 on 28 November 2019. The Group’s realised gain on disposal is calculated as the difference between the agreed sale price of AUD0.303 per share against the market value of Jupiter shares on 28 November 2019, AUD0.260 per share, both translated at the USD/AUD foreign exchange rate on 28 November 2019.

5. JUPITER DISPOSAL AND DIVIDEND INCOME/CONTINUED

The realised gain on the Second Tranche of Sales Proceeds is as follows:

	Number of shares	Price per share USD	Total price USD'000
<i>Realised gain on Second Tranche Sales Proceeds</i>			
Agreed sale price on Second Tranche Sales Proceeds (28 November 2019)	72,922,686	0.21	14,968
Fair value of Second Tranche of Jupiter shares (28 November 2019)	72,922,686	0.18	(12,829)
Realised fair value gain on disposal (Second Tranche)			2,139

The net realised loss on disposal of both the First Tranche and Second Tranche of Sales Proceeds is as follows:

	USD'000
Realised fair value loss on disposal (First Tranche)	(2,368)
Realised fair value gain on disposal (Second Tranche)	2,139
Net realised loss on disposals	(229)
Other realised fair value movements in the period	4,874
Realised fair value net gain on Jupiter disposals	(4,645)

Other realised fair value movements in the period relate to the Group's mark-to-market fair value movements from 1 January 2019 to the dates of its disposal, i.e. 3 June 2019 and 28 November 2019 of USD4.9 million, these unrealised fair value movements have been reclassified to realised fair value movements in the Consolidated Income Statement.

May 2019 Jupiter dividend

On 19 February 2019, Jupiter announced the details of a final unfranked dividend of AUD0.025 per share. The Group, as a 7.44% shareholder in Jupiter at the time, received a dividend of AUD3.6 million on 21 May 2019. The Group entered into a foreign exchange contract to hedge the foreign exchange risk up to the day of the dividend was received – no hedge accounting has been applied to this natural hedge. The gain on this contract was as follows:

	AUD'000	USD'000
<i>Realised foreign exchange gain on forward contract of dividend payment</i>		
Fair value of foreign exchange contract at date of commitment (4 March 2019)	3,646	2,582
Fair value of foreign exchange contract at date of completion (21 May 2019)	(3,646)	(2,510)
Realised gain on Jupiter exchange contract	–	72

GGL disposed of its remaining Jupiter shares on 28 November 2019 and therefore held Nil Jupiter shares at 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2019 USD'000	2018 USD'000
Labour and related costs	15,753	16,558
Selling, marketing and advertising	13,657	12,483
Professional, legal and other expenses ¹	8,390	15,586
Rent and rates	4,599	4,539
Share-based payments	1,693	4,167
Travel and accommodation	2,147	2,166
Administration costs	–	260
Auditors remuneration	430	200
Other impairments and write-offs	2,148	1,440
Other selling, general and administrative expenses	7,956	5,771
	56,773	63,170

¹ 2018 includes USD7.4 million for the Leigh Day settlement claim paid in January 2019.

7. EMPLOYEES AND DIRECTORS

	2019 USD'000	2018 USD'000
Directors	7	7
Administration staff	140	126
Fabergé staff	39	40
Mining staff	2,186	2,088
	2,372	2,261

8. FINANCE INCOME AND COSTS

	2019 USD'000	2018 USD'000
Interest received	787	659
Foreign exchange gains	6,198	146
Finance income	6,985	805
Interest on bank loans, finance charges and bank charges	(3,782)	(7,300)
Interest charge on lease liabilities	(302)	–
Foreign exchange losses	(7,381)	(2,350)
Finance costs	(11,465)	(9,650)
Net finance costs	(4,480)	(8,845)

9. TAXATION

The Group's tax expense is as follows:

	2019 USD'000	2018 USD'000
Current tax		
Taxation charge for the year	24,561	20,631
Deferred tax		
Origination and reversal of temporary differences	3,681	(14,148)
Total taxation charge	28,242	6,483

The reasons for the difference between the actual taxation charge for the year and the standard rates of corporation tax in Guernsey and the United Kingdom applied to profits for the year, are as follows:

	2019 USD'000	2018 USD'000
Profit/(loss) on ordinary activities before taxation	67,373	(53,948)
Taxation on ordinary activities at the standard rate of corporation tax in Guernsey of 0% (2018: 0%)	–	–
Taxation on ordinary activities at the standard rate of corporation tax in the United Kingdom of 19% (2018:19%) ¹	9,971	–
<i>Effects of:</i>		
Expenses not deductible for tax purposes	3,446	3,064
Over/(under) provision from previous periods	390	(463)
Tax losses not recognised as deferred tax asset	2,143	214
Different tax rates applied in overseas jurisdictions	12,292	3,668
Total taxation charge	28,242	6,483

¹ The weighted average rate applied is 14.8% which has been arrived at by applying 0% for the period to March 2019 when the Company was Guernsey tax resident and 19% for the remainder of the year following the relocation of tax residency to the UK.

In Guernsey, the main rate of corporation tax for the year was 0%. The main rate of corporation tax in the United Kingdom was 19%.

The Group's effective tax rate of 41.9% arises as a result of non-deductible Mineral Royalty Tax in Zambia and the non-recognition of tax losses. The increase in tax charge arising due to differences in overseas tax rates, from 2018, arose as a result of the relocation of tax residency of the company from Guernsey to the UK in March 2019, and as a result of increased profits at Kagem and in the UK.

Different tax rates applied in overseas jurisdictions reflect the different tax rates applicable in the various jurisdictions in which the Group operates. The main rates of corporation tax in Zambia and Mozambique were 30% and 32%, respectively.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised, or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

9. TAXATION/CONTINUED

Deferred tax

Details of the deferred tax liabilities and assets, amounts recognised in the Consolidated Income Statement, and amounts recognised in other comprehensive income are as follows:

	2019 USD'000	2018 USD'000
<i>Recognised deferred tax assets</i>		
Other temporary differences	3,290	2,653
Tax losses	6,052	9,898
Property, plant and equipment	1,886	629
Foreign exchange movement	155	–
Total deferred tax assets	11,383	13,180
Deferred tax assets netted against deferred tax liabilities	(4,156)	(6,799)
Total deferred tax assets	7,227	6,381
<i>Recognised deferred tax liabilities</i>		
Evaluated mining property – Kagem and MRM	(91,110)	(89,620)
Inventory valuation – Kagem and MRM	(4,957)	(4,662)
Intangibles – Fabergé	(266)	(322)
Total deferred tax liabilities	(96,333)	(94,604)
Deferred tax assets netted against deferred tax liabilities	4,156	6,799
Total deferred tax liabilities	(92,177)	(87,805)

The movement on the deferred tax account is provided below.

	2019 USD'000	2018 USD'000
At 1 January	(81,424)	(95,572)
Other temporary differences	637	892
Tax losses	(3,846)	3,127
Property, plant and equipment	1,257	91
Evaluated mining property – Kagem and MRM	(1,785)	8,833
Inventory valuation – Kagem and MRM	–	1,149
Intangibles – Fabergé	56	56
Recognised in the Consolidated Income Statement	(3,681)	14,148
Foreign exchange movement	155	–
At 31 December	(84,950)	(81,424)

Deferred tax assets are only recognised in relation to tax losses and other temporary differences where it is considered probable that the losses will be utilised in the foreseeable future, and therefore the asset is recoverable.

Therefore, as there is uncertainty over the above, no deferred tax has been recognised in relation to unused tax losses in the amount of USD98.0 million (2018: USD89.2 million), of which USD82.7 million was acquired through business combinations during the year ended 31 December 2017.

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings USD'000	Plant, machinery and motor vehicles USD'000	Fixtures, fittings and equipment USD'000	Evaluated mining properties USD'000	Deferred stripping costs USD'000	Total USD'000
Cost						
At 1 January 2018	11,709	21,577	5,626	348,923	11,623	399,458
Additions	12,912	17,869	333	355	–	31,469
Disposals	–	(2,691)	–	–	–	(2,691)
Foreign exchange differences	–	–	(84)	–	–	(84)
At 31 December 2018	24,621	36,755	5,875	349,278	11,623	428,152
Additions	8,132	16,999	869	–	–	26,000
Disposals and reversals	–	(1,250)	–	(860)	–	(2,110)
Foreign exchange differences	18	–	162	–	–	180
At 31 December 2019	32,771	52,504	6,906	348,418	11,623	452,222
Accumulated depreciation						
At 1 January 2018	307	4,056	657	15,949	468	21,437
Provided during the year	809	10,136	2,546	7,437	1,134	22,062
Disposals	–	(2,691)	–	–	–	(2,691)
Impairments	–	–	–	22,577	–	22,577
Foreign exchange differences	–	–	(247)	–	–	(247)
At 31 December 2018	1,116	11,501	2,956	45,963	1,602	63,138
Provided during the year	2,987	12,664	1,633	17,038	312	34,634
Disposals	–	(1,120)	–	–	–	(1,120)
Impairment reversals	–	–	–	(21,559)	–	(21,559)
Foreign exchange differences	18	–	198	–	–	216
At 31 December 2019	4,121	23,045	4,787	41,442	1,914	75,309
Carrying value						
At 31 December 2018	23,505	25,254	2,919	303,315	10,021	365,014
At 31 December 2019	28,650	29,459	2,119	306,976	9,709	376,913

Evaluated mining properties relate to the mining licences held mainly at Kagem and MRM, including Group fair value adjustments from the 2017 acquisition.

Deferred stripping costs relate to Kagem.

Included within land and buildings are right-of-use assets with a cost of USD5.4 million and associated accumulated depreciation of USD1.0 million which have been recognised for the first time upon adoption of IFRS 16. There has been no impairment on these right-of-use assets. These assets relate to property rented in various countries throughout the Group of various lease lengths. Refer to Note 27: *Leases* for details on the initial adoption of IFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

10. PROPERTY, PLANT AND EQUIPMENT/CONTINUED

Impairment review of Kagem Mining Limited

The 15% export duty on precious metals and gemstones introduced by the GRZ from 1 January 2019 was expected to have a significantly adverse impact on the cash flow generation of Kagem to the extent that revenues were reduced directly by the tax and was therefore considered an impairment indicator. As a result, an impairment review in accordance with IAS 36 was performed at 31 December 2018 where the recoverable amount of the cash generating unit (“CGU”) was determined to be lower than its carrying value leading to an impairment charge of USD22.6 million being recognised. The impairment charge reduced the carrying value to USD184.2 million. The recoverable amount was determined based on the value-in-use calculations, using the cash flows expected to be generated from existing operations, up to the date when the reserves and resources are available using annual ore extraction rates.

In December 2019, the GRZ issued a Statutory Instrument (“SI”) which enacted into law the suspension of the export duty indefinitely from 1 January 2020. In light of this indefinite suspension, Kagem’s recoverable amount has been reassessed as USD335.8 million, which is higher than its carrying value of USD187.1 million. Consequently, an impairment reversal of USD21.6 million has been recognised taking the CGU’s carrying value to USD208.7 million. The impairment reversal takes into account depreciation during the year and therefore is not equivalent to the impairment charge previously recognised. The recoverable amount of USD335.8 million has been determined based on the ‘value-in-use’ calculations using the cash flows expected to be generated from existing operations, up to the date when the reserves and resources are available using annual ore extraction rates and similar assumptions to the calculations performed at 31 December 2018.

The key assumptions used in the recoverable amount calculations for both 2018 and 2019 are:

- Recoverable amount of reserves and resources – economically recoverable reserves and resources are based on management’s expectations and the technical studies and exploration and evaluation work undertaken by in-house and third-party specialists.
- Commodity prices – rough emerald and beryl prices have been determined using the Group’s historic achieved prices over a period of 10 years and 30 auctions. Rough emerald and beryl prices are not traded on a public exchange and most transactions occur in private auctions and therefore historic trends of prices and product mix are the most appropriate and reasonable basis. A 10% fall in prices would reduce the recoverable amount by USD51.7 million, leaving the impairment reversal unchanged.
- Composition of auctions – the quality of production and product mix typically dictate the composition of the high-quality auctions. The composition of the auction includes premium emerald and emerald stones that enhance the auction parcels and schedules and is dependent on: (i) production; (ii) management strategy, i.e. building inventory or cash generation; and (iii) market intelligence. Any variations in this composition are at the discretion of management, and given the continued improvement in the quality of production and the market strength, it is anticipated that over the near to medium term the proportion of emerald production taken to high-quality auctions will increase. A 10% reduction in the quantity of emerald stones sent to high quality auction would reduce the recoverable amount by USD36.7 million, leaving the impairment reversal unchanged.
- Operating costs – variable operating costs have been included in the impairment test as a function of the related production volumes. Fixed costs at the mines, washing plant and sort house are largely constant but reflect material changes in activity levels.
- Discount rate – a real discount rate of 10.70% was used in the recoverable amount calculations, which represents the pre-tax rate that reflects the Group’s current market assessments of the time value of money and the risks specific to the CGU. The Group applied a real discount rate of 10.4% in the 2018 impairment review.
- Timing of capital expenditure – management have estimated the timing of capital expenditure on the development projects based on the Group’s current and future financing plans and the results of technical studies completed to date.

The calculation of value-in-use of the Group’s CGUs for the impairment review at 31 December 2019 provided a range of outcomes as the calculation is particularly sensitive to changes in rough emerald and beryl, composition of the high-quality auctions and the discount rate used, amongst other changes. Any changes to the assumptions adopted in the calculation of the value-in-use to sell, individually or in aggregate, would result in a different valuation being determined. Sensitivity to these key inputs has been detailed above.

If the real discount rate is increased to 11.5% the recoverable amount would be USD34.7 million lower, however the impairment reversal would remain unchanged.

11. INTANGIBLE ASSETS

	Software USD'000	Indefinite life intangible assets USD'000	Finite life intangible assets USD'000	Unevaluated mining properties USD'000	Total USD'000
Cost					
At 1 January 2018	166	39,942	496	8,896	49,500
Additions	131	–	–	3,325	3,456
Foreign exchange differences	(4)	–	–	–	(4)
At 31 December 2018	293	39,942	496	12,221	52,952
Additions	265	–	–	2,800	3,065
Foreign exchange differences	–	–	–	–	–
At 31 December 2019	558	39,942	496	15,021	56,017
Accumulated amortisation					
At 1 January 2018	50	–	138	–	188
Charge in the year	110	–	330	–	440
Foreign exchange differences	(4)	–	–	–	(4)
At 31 December 2018	156	–	468	–	624
Charge in the year	193	–	–	–	193
At 31 December 2019	349	–	468	–	817
Carrying value					
At 31 December 2018	137	39,942	28	12,221	52,328
At 31 December 2019	209	39,942	28	15,021	55,200

Indefinite life intangibles assets consist of intangibles relating to the Fabergé brand and trademarks.

Unevaluated mining properties consist of intangibles relating to the mining and prospecting licences (evaluation and exploration assets) held in the newer projects, mainly in Mozambique and Ethiopia.

Fabergé Limited cash generating unit valuation, a retailer of premium personal luxury goods (“PLGs”)

As at 31 December 2018, as disclosed in the 2018 Financial Statements, it was considered that the Fabergé value-in-use based on a discounted cash flow was the most appropriate valuation method. The Group has now applied a Market Approach – Revenue Multiple method for the valuation of Fabergé at 31 December 2019 given the reduction of sales revenue from USD13.4 million in 2018 to USD10.5 million in 2019 and considering the typical method of valuing luxury goods businesses. The primary source in determining the valuation of Fabergé at 31 December 2019 is an independent valuation report, prepared by an independent third party as at 31 December 2019. The report includes a Fair Value less Cost of Disposal valuation (“FVLCD”) using the revenue multiple method and includes a range of valuations. The report concluded that the only practical market-based approach to value Fabergé is by reference to enterprise value to revenue multiples (“EV/Revenue”) exhibited by comparable companies (“CoCos”) and comparable transactions (“CoTrans”). For both elements of the valuation the report considered a peer group of well-established, globally recognised PLG companies with a focus on those operating jewellery or timepieces brands.

The Group believes that a revenue multiple based on comparable companies is the most appropriate method of valuing the Fabergé CGU.

The key judgements, assumptions and inputs are discussed in more detail below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

11. INTANGIBLE ASSETS/CONTINUED

Basis of revenue

For both the CoCos and the CoTrans elements of the valuation, the independent valuation report used three Fabergé revenue metrics of:

1. 2019 sales orders agreed of USD12.3 million (12 months to 31 December 2019);
2. The three year 2017–2019 average annual agreed sales of USD12.2 million; and
3. Average rolling 12-month agreed sales in the second half of 2019 of USD12.2 million.

Based on the Fabergé business, the three year 2017–2019 average annual agreed sales metric of USD12.2 million is considered to be the most reliable basis of the revenue multiple for FVLCD since this spans the largest time period, is within a narrow range of revenue bases under review yet still presents a more representative estimate of future sales.

Peer group

The peer group of globally recognised, luxury personal goods companies selected to establish a comparable EV/Revenue multiple range considered the following:

- Fabergé's greater heritage and premium brand perception compared to many brands within the peer group;
- Fabergé's comparatively small size and less diversified brand and product portfolio;
- Fabergé's higher growth potential compared to the larger and more mature companies in the peer group; and
- Fabergé's last fiscal year revenue and EBITDA margin growth is negative.

Taking these factors into account, the report considers it reasonable to apply a discount to the peer group average multiples and selected an EV/Revenue multiple range of 3.5x–4.0x (mid-point: 3.75x).

Control premium

Multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels or shares. As such, they generally reflect a minority discount. The report has therefore applied a control premium range of 25%–35% in order to arrive at an adjusted enterprise value for the Fabergé CGU.

Discount for Lack of Marketability ("DLOM")

On the basis that a revenue multiple derived from the CoCos reflects trades of liquid parcels or shares, whereas the Fabergé CGU is a private entity, the report considered it appropriate to apply a DLOM.

The report applies a DLOM range of 5%–10% taking into consideration the following factors:

- Gemfields Group Limited ("GGL") has received several offers for Fabergé;
- Given the well-established and globally recognised heritage of the Fabergé brand, it may be considered a "trophy asset" by potential investors; and
- Quantitative analysis using the Ghaidarov Average-Strike Put Option model.

Illustrative costs of disposal

Given the number of acquisition offers received by GGL for Fabergé since it was acquired in 2013 and the high-profile nature of the Fabergé brand, the independent third party consider it likely that any potential sale of the business would involve relatively minimal marketing and related costs.

As such, the report considered an appropriate illustrative cost of disposal of 1% of enterprise value, which is the mid-point of disposal costs of between 0.5% and 1.5% of similar transactions observed.

11. INTANGIBLE ASSETS/CONTINUED

Surplus inventory

Within inventory of USD30.7 million at 31 December 2019, Fabergé carries a high level of “showpiece” assets which can be summarised as art-jewellery and exceptional gemstones, showcasing the highest possible level of design, craftsmanship and quality associated with the brand. These assets are not required for the operations of the CGU and can be considered as surplus assets. This surplus amount aggregates to USD23.4 million with the remainder regarded as operational inventory, required to support annual sales.

This surplus inventory amount is added back to the calculated enterprise value after adjustment for control premium and DLOM to arrive at the total enterprise value of the Fabergé CGU.

Valuation results

Using the revenue multiple of the three year 2017–2019 average annual agreed sales and an average of the CoCos EV/Revenue valuation results, the Directors conclude that the Fabergé CGU is not impaired with a CGU valuation of USD77.9 million.

It is noted that the carrying value of the CGU of USD75.1 million sits within a range of values of EV/Revenue multiple valuations from CoCo and CoTrans as illustrated in the analysis below. The ranges indicate that the Fabergé CGU is not impaired at 31 December 2019.

Summary of results – mid-point values

	USD millions
FVLCD (at an EV level, including surplus inventory)	
CoCos EV/Rev – FY19 – full year (sales agreed)	78.3
CoCos EV/Rev – FY17–19 – average sales agreed	77.9
CoCos EV/Rev – Trailing USD6 million average of rolling USD12 million sales agreed	78.1
CoTrans EV/Rev – FY19 – full year (sales agreed)	74.8
CoTrans EV/Rev – FY17–19 – average sales agreed	74.4
CoTrans EV/Rev – Trailing USD6 million average of rolling USD12 million sales agreed	74.6
Average	76.3
Headroom/(impairment)	
CoCos EV/Rev – FY19 – full year (sales agreed)	3.1
CoCos EV/Rev – FY17–19 – average sales agreed	2.7
CoCos EV/Rev – Trailing USD6 million average of rolling USD12 million sales agreed	2.9
CoTrans EV/Rev – FY19 – full year (sales agreed)	(0.4)
CoTrans EV/Rev – FY17–19 – average sales agreed	(0.8)
CoTrans EV/Rev – Trailing USD6 million average of rolling USD12 million sales agreed	(0.6)
Average	1.2

If the valuation was sensitised for a 10% fall in revenue at the mid-point revenue multiple of 3.75x, the FVLCD to dispose would be USD72.1 million with the full range being from USD65.9 million to USD79.2 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

12. INVESTMENTS

Information on each of the Group's investments is provided below. This disclosure is intended to ensure that users of the Financial Statements understand how each investment has been valued, and the risks associated with each investment valuation. In addition, the disclosure meets certain requirements related to the Group's JSE listing.

The reconciliation of the investment valuations from 1 January 2019 to 31 December 2019 is as follows:

	Balance at 1 January 2019 USD'000	Unrealised fair value losses USD'000	Realised fair value gains USD'000	Disposals USD'000	Balance at 31 December 2019 USD'000
<i>Listed equity investments</i>					
Jupiter ¹	25,714	–	4,645	(30,359)	–
	25,714	–	4,645	(30,359)	–
<i>Unlisted equity investments</i>					
Sedibelo Platinum Mines ²	50,447	7,053	–	–	57,500
	50,447	7,053	–	–	57,500
Total	76,161	7,053	4,645	(30,359)	57,500

1 The net realised fair value gain of USD4.6 million comprises a realised fair value gain on Jupiter of USD4.87 million (inclusive of a realised foreign exchange loss of USD1.0 million) and a realised loss on disposal of USD0.23 million (see Note 5: Jupiter disposal and dividend income, for further breakdown). All 'realised' fair value losses during the period have been reclassified as 'realised' fair value gains. The Group received a total amount of AUD44.2 million (or USD30.4 million) in cash as consideration for the Jupiter Shares it owned.

2 The unrealised fair value gain on Sedibelo of USD7.1 million does not include any foreign exchange, as the valuation is denominated in USD.

The reconciliation of the investment valuations from 1 January 2018 to 31 December 2018 is as follows:

	Balance at 1 January 2018 USD'000	Transfer from unlisted USD'000	Unrealised fair value losses USD'000	Realised gains USD'000	Disposals USD'000	Transfer to listed USD'000	Balance at 31 December 2018 USD'000
<i>Listed equity investments</i>							
Jupiter ¹	–	37,656	(11,942)	–	–	–	25,714
	–	37,656	(11,942)	–	–	–	25,714
<i>Unlisted equity investments</i>							
Jupiter ¹	98,100	–	–	11,680	(72,124)	(37,656)	–
Sedibelo Platinum Mines ²	98,064	–	(47,617)	–	–	–	50,447
	196,164	–	(47,617)	11,680	(72,124)	(37,656)	50,447
Total	196,164	37,656	(59,559)	11,680	(72,124)	(37,656)	76,161

1 The unrealised fair value loss on Jupiter of USD11.9 million included an unrealised foreign exchange loss of USD3.6 million. The realised gain on Jupiter of USD11.7 million did not include any foreign exchange, as the cash receipts were denominated in USD. The cash receipt from the Jupiter IPO of AUD83.1 million (or USD64.4 million), net of associated selling costs, was converted to USD on the same day, resulting in no foreign exchange gain/(losses) being realised. The Company disposed of 5.81% of its shares to Jupiter at USD0.35 per share in the March 2018 Jupiter buy-back, with the Company receiving USD7.7 million. The Company disposed of 212,028,012 of its shares to Jupiter at a price of AUD0.40 per share or USD0.31 per share converted at the foreign exchange rate on 18 April 2018, the date the Jupiter IPO was completed, with the Company receiving USD64.4 million. See Note 5: Jupiter disposal and dividend income, for more detail on the Jupiter share buy-back and IPO.

2 The unrealised fair value loss on Sedibelo of USD47.6 million did not include any foreign exchange, as the valuation is denominated in USD.

12. INVESTMENTS/CONTINUED

Jupiter Mines Limited ("Jupiter") – equity (up to 28 November 2019)

Nature of investment	<p>The Group held an equity interest in Jupiter up to 28 November 2019. Jupiter is based in Perth, Western Australia, and its main asset is a 49.9% interest in the Tshipi manganese joint venture in South Africa. The Group completed its transaction to sell its remaining stake in Jupiter to a third party at an agreed price of AUD0.21 per share on 28 November 2019.</p> <p>As the Group disposed of its remaining Jupiter shares on 28 November 2019, the Group held a balance of Nil Jupiter shares at 31 December 2019.</p>
Last date of valuation	28 November 2019
Fair value methodology	<p>Market Approach – Listed Share Price</p> <p>The Group's interest in Jupiter was last valued on 28 November 2019 at the mid-price of AUD0.26 per share, translated at the closing rate of USD/AUD1.4780 on 28 November 2019.</p>

Sedibelo Platinum Mines Limited ("Sedibelo Platinum Mines" or "Sedibelo" or "SPM") – equity

Nature of investment	The Group holds an equity interest in SPM, a producer of Platinum Group Metals ("PGMs") with interests in the Bushveld Complex in South Africa.
Date of valuation	31 December 2019
Fair value methodology	<p>Market Approach – Market Comparables estimate</p> <p>The Directors have, based on the approach below, estimated that the value of SPM is USD879 million; the Group's indirect 6.54% interest has therefore been valued at USD57.5 million.</p> <p>As at 31 December 2018, as disclosed in the 2018 Financial Statements, the Directors considered that a valuation of SPM based on a Market Approach was most appropriate. The Directors have again applied the Market Approach for their valuation of SPM at 31 December 2019.</p> <p>The primary source in determining the valuation of SPM at 31 December 2019 is an independent valuation report, prepared by an independent third party as at 31 December 2019. The independent valuation report includes a valuation using the Market Approach and includes a range of valuations.</p> <p>The independent valuation report concluded that the only practical market-based approach is to value the Group's investment in SPM by reference to the key market multiples exhibited by reference to the pricing of publicly listed PGM companies. The independent valuation report considered a peer group comprising Anglo Platinum, Impala Platinum, Northam Platinum and Royal Bafokeng Platinum. When comparing the valuation of SPM's peer group, the independent valuation report considered the most suitable measures to be enterprise value per resource ounce and production per ounce. Secondary measures of enterprise value per reserve ounce and revenue were also considered.</p>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

12. INVESTMENTS/CONTINUED

Sedibelo Platinum Mines Limited (“Sedibelo Platinum Mines” or “Sedibelo” or “SPM”) – equity (continued)

Fair value methodology The independent third party used the available information reported by SPM in its September 2019 MD&A reporting and from SPM's most recent mineral resources and reserves report (as at December 2016), and have determined that the attributable PGM resource of the SPM at 31 December 2019 would most likely be c.92–93 million ounces. The independent valuation report worked on the assumption that production at SPM will remain in the 130–150k ounces per annum range in the near term but note that operations at SPM have the flexibility to increase this rate should PGM prices demonstrate a sustained price improvement.

The average multiple of enterprise values across SPM's peer group over their (i) mineral resources and (ii) production, suggests respective averages of USD26 per 4E ounce and USD 4,855 per 4E ounce. Each multiple arrives at an implied valuation of SPM within a range of USD631 million–USD2,418 million, with a mid-point of USD1,525 million. The Group's indirect 6.54% interest would be valued in a range of USD41 million and USD158 million, with a mid-point of USD 100 million, on this basis. If the Directors were to apply the same 30% “illiquidity discount” that they applied in the 2018 Financial Statements, then this would decrease the Group's (6.54% interest) valuation of SPM from USD100 million to USD70 million.

The independent third party concluded that the majority of the PGM peer group is significantly larger on all operational and performance metrics than SPM. The independent third party reviewed African gold companies to assess how smaller operators are valued in the market relative to their larger peer group. This being in their opinion the best market guide to how PGM companies would rate if the population in the sample were higher, and therefore provides an indication as to a suitable market-based discount to apply to the large PGM peer multiples for the purposes of valuing SPM.

The independent third party selected two peer groups of African gold companies. The peer group of “large” gold companies consisted of AngloGold Ashanti, Endeavour Mining, Perseus and Semafo whilst the peer group of “junior” gold companies consisted of Golden Star, Roxgold, Hummingbird, Shanta Gold and Caledonia Mining. The independent third party excluded outliers AngloGold and Roxgold, which have specific characteristics which influence their rating. The independent third party concluded that junior gold companies presently trade at between c.45–70% discount on mineral resources and production basis compared to the peer group of large gold companies.

The independent valuation report concluded that it is reasonable to use the following multiples to value SPM; USD10–12 per 4E ounce for mineral resources and USD2,000–2,500 per 4E ounce for production. The multiples lead to a range of values for SPM (100% basis) on an enterprise value basis of; USD920 million – USD1,116 million on a mineral resource basis and USD260 million to USD375 million on a production basis.

After allowance of SPM's net debt of USD10 million – USD15 million at 31 December 2019 the independent valuation report arrived at a value range of SPM (100% basis) to be in a range of USD750 million – USD1,000 million. The independent valuation report assessed the value of the Group's 6.54% investment being in the range of USD50 million – USD65 million, with a mid-point valuation of USD57.5 million. The Directors concur with the independent third-party mid-point valuation of SPM as at 31 December 2019.

12. INVESTMENTS/CONTINUED

Sedibelo Platinum Mines Limited ("Sedibelo Platinum Mines" or "Sedibelo" or "SPM") – equity (continued)

Fair value methodology For the purposes of the disclosures required by IFRS 13, if SPM's mineral resources decreased by 25% (i.e. from c.92–93 million ounces to c.69–70 million ounces), with all other indicators and evidence unchanged, the independent valuation report's assessment of the valuation would be in the range of USD35 million–USD50 million, with a mid-point of USD42.5 million. The related fair value decrease of USD15 million would be recognised in profit and loss. If SPM's mineral resources increased by 25% (i.e. from c.92–93 million ounces to c.115–116 million ounces), with all other indicators and evidence unchanged, the independent valuation report's assessment of the valuation would be in the range of USD60 million–USD80 million, with a mid-point of USD70 million. The related fair value increase of USD12.5 million would be recognised in profit and loss.

Fair value hierarchy

IFRS 13 requires disclosure of fair value measurements under the following hierarchy:

Level	Fair value input description
Level 1	Listed prices (unadjusted) in active markets for identical assets or liabilities
Level 2	Inputs other than listed prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3	Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The investment in Jupiter up to the Group's divestment on 28 November 2019 was deemed to be Level 1 under the fair value hierarchy.

The investment in Sedibelo, measured at fair value through profit or loss, has been deemed to be Level 3 under the fair value hierarchy, based on the valuation method used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

13. SUBSIDIARIES

The Group's subsidiaries are set out below. All interests are held directly or indirectly by the Company and are consolidated within these Financial Statements. The note includes all of the Group's subsidiaries; none have therefore been omitted.

Name	Country of incorporation	Group % interest at 31 December 2019	Group % interest at 31 December 2018
Almizan Development Limited	British Virgin Islands	100%	100%
Cabo Delgado Mining Services Limitada ¹	Mozambique	0%	100%
Campos de Joia, Limitada	Mozambique	98.75%	98.75%
Campos de la Gema S.A.S. ¹	Colombia	0%	0%
Eastern Ruby Mining Limitada	Mozambique	75%	75%
Fabergé (UK) Limited	United Kingdom	100%	100%
Fabergé Hospitality Limited	British Virgin Islands	100%	100%
Fabergé Inc.	United States of America	100%	100%
Fabergé Limited	Cayman Islands	100%	100%
Fabergé Suisse SA	Switzerland	100%	100%
Forest HoldCo Limited	United Kingdom	100%	100%
Gemfields BVI Limited	British Virgin Islands	100%	100%
Gemfields Canada Inc.	Canada	100%	100%
Gemfields CdJ Mauritius	Mauritius	100%	100%
Gemfields Holdings Zambia Limited	Zambia	100%	100%
Gemfields India Pvt Limited	India	100%	100%
Gemfields Mauritius Limited	Mauritius	100%	100%
Gemfields Mining Limited	Zambia	100%	100%
Gemfields Participacoes Limitada	Brazil	100%	100%
Gemfields Limited	United Kingdom	100%	100%
Gemfields Singapore Pte Limited	Singapore	100%	100%
Gemfields South Africa (Pty) Limited	South Africa	100%	100%
Gemfields Spain S.L. ²	Spain	0%	100%
Gemfields USA, Inc.	United States of America	100%	100%
Gemholds Brazil Limited	United Kingdom	100%	100%
Gemholds Colombia Limited	United Kingdom	100%	100%
Gemholds Ethiopia Limited	United Kingdom	100%	100%
Gemholds Limited	United Kingdom	100%	100%
Gemhouse Mining Zambia Limited	Zambia	100%	100%
Gemriti Limited	Mauritius	75%	75%
Graphon Investments (Pvt) Limited	Sri Lanka	75%	75%
Graphon Mining Resources (Pvt) Limited	Sri Lanka	75%	75%
Hagura Mining Limited	United Kingdom	100%	100%
Island HoldCo Limited	United Kingdom	100%	100%
Kagem Mining Limited	Zambia	75%	75%

¹ The company was liquidated during the 2018 year.

² The company was liquidated in May 2019.

13. SUBSIDIARIES/CONTINUED

Name	Country of incorporation	Group % interest at 31 December 2019	Group % interest at 31 December 2018
Mbuva Mining Limited	Zambia	100%	100%
Megaruma Mining Limitada	Mozambique	75%	75%
Montepuez Ruby Mining Limitada	Mozambique	75%	75%
Nairoto Resources Holdings Limited ³	Mauritius	100%	0%
Nairoto Resources Limitada ³	Mozambique	75%	0%
Oriental Mining SARL	Madagascar	100%	100%
Pallinghurst Consolidated (Cayman) Limited	Cayman Islands	100%	100%
Gemfields Resources (Guernsey) GP Ltd (formerly Pallinghurst Resources (Guernsey) GP Ltd)	Guernsey	100%	100%
Gemfields Services Limited (formerly Pallinghurst Resources UK Limited)	United Kingdom	100%	100%
Peninsula HoldCo Limited	United Kingdom	100%	100%
Ratnapura Lanka Gemstones (Pvt) Limited	Sri Lanka	75%	75%
Singha Heavy Equipment (Pvt) Limited	Sri Lanka	75%	75%
Singha Industrial Investments (Pvt) Limited	Sri Lanka	75%	75%
The Gemfields Resources Fund L.P. (formerly The Pallinghurst Resources Fund L.P.)	Cayman Islands	99.99%	99.99%
Web Gemstone Mining plc	Ethiopia	75%	75%

³ These entities were incorporated during the year and are expected to facilitate the gold projects in Mozambique once the relevant assets are acquired. Not a business combination or an acquisition.

Kagem holds a loan facility of USD30 million which is secured through a fixed and floating charge over all of Kagem's net assets.

14. NON-CONTROLLING INTERESTS

Non-controlling interests in the Group that are material, relate to the following subsidiaries:

- Kagem, a company incorporated in Zambia. Its principal operation is rough-emerald mining, exploration and processing in Zambia. The Government of the Republic of Zambia holds a 25% non-controlling interest.
- MRM, a company incorporated in Mozambique. Its principal operation is rough-ruby mining, exploration and processing. Mwiriti Limitada, a private company incorporated in Mozambique, holds a 25% non-controlling interest.
- Other, includes all the other subsidiaries with non-controlling interests ("NCIs") which are listed in Note 13: *Subsidiaries* and which are not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

14. NON-CONTROLLING INTERESTS/CONTINUED

	2019 Kagem USD'000	2019 Montepuez USD'000	2019 Other USD'000	2019 Total USD'000
Amount attributable to all shareholders				
Profit/(loss) after tax	13,620	31,588	(2,350)	42,858
Cash generated from operations	10,340	54,628	(653)	64,315
Non-current assets	153,156	210,551	12,871	376,578
Current assets	61,166	110,727	2,929	174,822
Total assets	214,322	321,278	15,800	551,400
Non-current liabilities	(67,479)	(52,574)	–	(120,053)
Current liabilities	(30,501)	(67,953)	(24,243)	(122,697)
Total Liabilities	(97,980)	(120,527)	(24,243)	(242,750)
Net assets	116,342	200,751	(8,443)	308,650
Amounts attributable to non-controlling interest				
Profit/(loss) after tax	3,405	7,897	(540)	10,762
Dividends declared	–	–	–	–
Equity	13,210	73,592	(2,120)	84,682

15. OTHER NON-CURRENT ASSETS

	2019 USD'000	2018 USD'000
VAT receivable ¹	5,324	5,802
Loan receivable ²	700	2,455
Related-party receivable ³	3,000	–
Other	80	85
	9,104	8,342

There are no expected material credit losses. Please refer to Note 24: *Financial instruments* for discussion on credit risk.

¹ VAT receivable relates to amounts owed to MRM, whose collection is expected more than 12 months from the balance sheet date.

² Relates to amounts receivable in Sri Lanka and is shown net of a provision of USD1.4 million (2018: USD2.0 million).

³ This is receivable from our partner Chamerelis Holding Co. Limited, Mozambique for the gold project which will see the Group form a joint venture to explore, evaluate and potentially develop 12 mining and prospecting gold licences in northern Mozambique. The transaction has not completed and the USD3.0 million represents an advance which has no fixed terms of repayment and is expected to be recovered once the viability of the respective projects has been confirmed.

16. INVENTORY

	2019 USD'000	2018 USD'000
Rough and cut and polished gemstones	73,211	58,066
Fabergé inventory	30,743	35,030
Spares and consumables	6,740	6,141
	110,694	99,237

The total provision made against inventory as at 31 December 2019 is USD5.1 million (2018: USD4.5 million).

17. TRADE AND OTHER RECEIVABLES

	2019 USD'000	2018 USD'000
Trade receivables	62,544	46,648
VAT receivables	13,313	7,548
Related-party receivable ^{1,2}	6,100	2,300
Other receivables	5,885	5,646
	87,842	62,142

¹ Kariba Minerals Limited was a joint venture in which the Group held a 50% shareholding. As at 31 December 2019, the Group had received the full USD2.3 million for the sale of its holding. At 31 December 2018, USD2.3 million was still receivable.

² USD6.1 million is receivable from Mwiriti Ltda, our partner in MRM which will be recovered from future dividends from MRM and the Nairobi gold operations.

Trade receivables of USD62.5 million at 31 December 2019 (2018: USD46.6 million) primarily relate to auction receivables from the Montepuez ruby auction held in December 2019. The carrying amounts approximate their fair value with collection periods of under 120 days.

There are no expected material credit losses given the nature of the contract given the collection period and historic customer trends. Please refer to Note 24: *Financial instruments* for a discussion on credit risk.

18. BORROWINGS

	Interest rate	Maturity	2019 USD'000	2018 USD'000	
Non-current interest-bearing loans and borrowings					
Barclays Zambia	USD20 million term loan	USD LIBOR + 5.50%	2020–2024	18,000	20,000
Barclays Zambia	USD10 million revolving credit facility	USD LIBOR + 5.50%	2022	10,000	–
Barclays Mauritius	USD15 million revolving credit facility	USD LIBOR + 5.50%	2020	–	10,000
			28,000	30,000	
Current interest-bearing loans and borrowings					
Barclays Zambia	USD20 million term loan	USD LIBOR + 5.50%	2020	2,000	–
Barclays Mozambique	USD15 million overdraft facility	USD LIBOR + 4.00%	2019	12,875	14,459
Barclays Mauritius	USD15 million revolving credit facility	USD LIBOR + 5.50%	2020	–	5,000
BCI ¹	USD15 million overdraft facility	USD LIBOR + 3.75%	2019	9,952	3,712
			24,827	23,171	
			52,827	53,171	

¹ BCI – Banco Comercial E De Investimentos, S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

18. BORROWINGS/CONTINUED

Cash and non-cash movements in Borrowings and leases are shown below:

	Borrowings 2019 USD'000s	Borrowings 2018 USD'000s	Leases 2019 USD'000s	Leases 2018 USD'000s	Total 2019 USD'000	Total 2018 USD'000
IFRS 16 adjustment	–	–	2,627	–	2,627	–
At 1 January	53,171	63,470	–	–	53,171	63,470
Additions to leases	–	–	2,764	–	2,764	–
Cashflows						
Cashflows in	52,826	–	–	–	52,826	–
Cashflows out	(53,170)	(11,849)	(998)	–	(54,168)	(11,849)
Non-cash flows						
Settled with restricted cash	–	(600)	–	–	–	(600)
Finance costs	–	2,150	302	–	302	2,150
Exchange differences	–	–	(44)	–	(44)	–
At 31 December	52,827	53,171	4,651	–	57,478	53,171

Barclays Zambia

In August 2019, Kagem entered into a USD20 million term loan facility with Barclays Bank Zambia plc. The facility bears interest at a rate of three-month US LIBOR plus 5.50%. The facility is repayable over 60 months after the date of the first drawdown of the facility. As at 31 December 2019, USD20 million was fully drawn, with USD2.0 million being repayable in December 2020. The facility replaced the previous USD20 million revolving credit facility which was due to expire in February 2020.

Kagem also entered into a USD10 million revolving credit facility with Barclays Bank Zambia plc which bears interest at a rate of three-month US LIBOR plus 5.50% and is repayable after 36 months after the date of the first drawdown of the facility (there is an option to extend the facility for a further 24 months upon agreement by both parties). As at 31 December 2019, USD10 million was fully drawn.

At 31 December 2019, Kagem had USD30 million outstanding with Barclays Bank Zambia plc, with security comprising a fixed and floating charge over all of Kagem's net assets, equivalent to the total amount outstanding under the facility and a corporate guarantee from Gemfields Group Ltd.

The facilities are subject to the following financial covenants for which the first measurement period is 31 December 2020:

- Senior Debt Service Cover Ratio shall not fall below 1.2 times.
- Interest Service Cover Ratio shall not fall below 2.5 times.
- Senior Net Debt/EBITDA shall not exceed 2.5 times.

Barclays Mauritius

In August 2019, Kagem settled the USD15 million outstanding Barclays Bank Mauritius Limited and refinanced this with Barclays Bank Zambia plc as discussed above. The facility attracted interest at USD LIBOR plus 5.50% and was due for repayment in February 2020. As at 31 December 2018, USD15 million was fully drawn. At 31 December 2019 Kagem did not owe any amounts to Barclays Mauritius.

18. BORROWINGS/CONTINUED

Barclays Mozambique

In April 2016, MRM entered into a USD15 million unsecured overdraft facility with Barclays Bank Mozambique S.A. The facility has an interest rate of three-month US LIBOR plus 4% per annum. The outstanding balance as at 31 December 2019 was USD12.9 million (2018: USD14.5 million). Gemfields Ltd issued a corporate guarantee for the facility.

The proceeds of the facilities from Barclays Bank Mozambique S.A. and BCI will facilitate MRM in financing its capital expenditure requirements for the Montepuez ruby deposit in Mozambique and provide additional working capital.

Banco Comercial E De Investimentos ("BCI")

- (i) In June 2016, MRM entered into a USD15 million unsecured overdraft facility with BCI. This is a rolling facility which renews annually, provided that terms and conditions are met, and attracts interest of three-month USD LIBOR plus 3.75% per annum. At 31 December 2019, USD9.9 million (2018: USD18.2 million) was outstanding. The facility is secured by a blank promissory note undertaken by MRM and a corporate guarantee by Gemfields Mauritius Limited, a 100% subsidiary of the Group.
- (ii) In June 2016, MRM entered into a USD15 million financing leasing facility with BCI. This is a renewable facility with a drawdown period of 12 months, and the amounts drawn down were repayable over a maximum period of 48 months. The facility had an interest rate of three month USD LIBOR plus 3.75% per annum. As at 31 December 2019, USD Nil million was outstanding.

19. PROVISIONS

	Environmental restoration provision USD'000	Resettlement Action Plan ("RAP") USD'000	Other provisions USD'000	Total USD'000
At 1 January 2018	2,669	9,264	644	12,577
Additions during the year	183	–	2,401	2,584
Utilised during the year	–	(1,712)	–	(1,712)
At 31 December 2018	2,852	7,552	3,045	13,449
Additions during the year	–	–	2,052	2,052
Utilised during the year	(1,482)	(4,596)	–	(6,078)
At 31 December 2019	1,370	2,956	5,097	9,423
Non-current	1,370	–	4,942	6,312
Current	–	2,956	155	3,111

Environmental restoration

The Group has an obligation to undertake restoration, rehabilitation and environmental work when environmental disturbance is caused by the development or ongoing production of a mining property. A provision is recognised for the present value of such costs, based on management's best estimate of the legal and constructive obligations incurred. These estimates reflect industry best practice and currently applicable legislation. Significant changes in legislation could result in changes in provisions recognised. It is anticipated that these costs will be incurred over a period in excess of 20 years on average.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

19. PROVISIONS/CONTINUED

Resettlement Action Plan

The Group has an obligation to compensate the households and other land users who are physically or economically displaced by the proposed mining in its concession area, in accordance with local legislative requirements. A provision is recognised for the present value of such costs, based on management's best estimate of the obligations incurred.

Other provisions

The other non-current provisions primarily consist of future legal claims and employee end-of-contract benefits. End-of-contract benefits are payable in more than one years' time for some of the Group's employees who are on fixed-term contracts and are calculated based on the legal and contractual benefits. Future legal claims relate to the estimated costs that the Group expect to incur relating to past events.

20. TRADE AND OTHER PAYABLES

	2019 USD'000	2018 USD'000
Trade payables	6,885	4,765
Accrued expenses	12,393	19,263
Payroll and employee related payables	3,928	3,294
Other taxes including mineral royalty and production taxes	5,548	2
Other payables	1,096	834
	29,850	28,158

21. SHARE CAPITAL

Shares issued are recognised at the fair value of consideration received, with the excess over the nominal value of the shares credited to share premium. Costs directly attributable to a share issue are deducted from share premium rather than being included in profit or loss.

The Company has issued Ordinary Shares and Management Shares. Ordinary Shares entitle the holder to a vote in shareholder meetings and to receive dividends. In the event of the Company's wind-up, Management Shares carry the right to receive notice of, attend and vote at any general meeting of the Company, provided that no Ordinary Shares are in issue at such date. Holders of the Management Shares will only receive their nominal value once the holders of the Ordinary Shares have received the fair value of their shares. Accordingly, the holders of Management Shares do not have the right to receive or participate in any distributions of the Company, including dividends.

21. SHARE CAPITAL/CONTINUED

The Company is permitted to issue an unlimited number of shares in line with the Company's Memorandum of Incorporation.

Issued and fully-paid share capital:

			Number of shares	Share Capital USD	Share Premium USD	
Management Shares (unlisted)						
Management Shares of USD1 each						
Balance at 31 December 2019 and 31 December 2018				2	2	–
	Number of shares	Share Capital USD'000	Share Premium USD'000	Treasury shares USD'000	Reserve for own shares USD'000	
Ordinary Shares (listed)						
Ordinary Shares of USD0.00001 each						
Balance at 1 January 2018	1,431,685,553	14	531,607	(654)	(23,319)	
Share buy-backs				(4,691)		
Balance at 31 December 2018	1,431,685,553	14	531,607	(5,345)	(23,319)	
Share buy-backs ²	–	–	–	(14,439)	–	
Shares cancelled ²	(164,235,308)	(2)	(19,774)	19,774		
Balance at 31 December 2019	1,267,450,245¹	12	511,833	(10)	(23,319)	

¹ At 31 December 2019, the Company had a see-through interest in itself of 96,375,146 shares that are omitted from the calculation of Per Share Information included within Note 23: Per share information. Total number of shares in issue as at 31 December 2019 excluding these shares is 1,171,075,099.

² Throughout 2019, the Company conducted a buy-back programme repurchasing 143,267,555 shares for a consideration of USD14,428,820. The programme was approved by shareholders at the Company's Annual General Meeting on 10 May 2019. The Company cancelled 143,168,555 shares of the 143,267,555 repurchased during 2019.

Previously in December 2017, the Company commenced a share buy-back programme to repurchase up to 152,090,526 shares. The programme was approved by shareholders at an Extraordinary General Meeting of the Company on 12 July 2017. During 2018, the Company repurchased 18,343,267 of its shares (2017: 2,723,486 shares), and as at 31 December 2018, the Company had repurchased a total of 21,066,753 of its shares. These 21,066,753 shares were cancelled by the Company during 2019. The Company had 99,000 shares that it had bought back but had not yet cancelled as at 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

22. SHARE-BASED PAYMENTS

Share Option Plan

The total expense recognised during the year ended 31 December 2019 arising from equity-settled, share-based payment transactions was USD1,693,475 (2018: USD4,167,000).

At 31 December 2019, the following share options had been granted and were outstanding in respect of the ordinary shares:

Issue date	Exercise price	Number of options				Outstanding at 31 December 2019	Final exercise date
		Outstanding at 1 January 2019	Granted	Forfeited/lapsed	Exercised		
September 2017	ZAR3.45	55,780,428	–	–	–	55,780,428	September 2021
January 2018	ZAR2.97	19,420,836	–	(1,948,581)	–	17,472,255	January 2022
July 2018	ZAR2.3	44,690,000	–	(1,522,000)	–	43,168,000	July 2022
March 2019	ZAR1.91	–	1,580,000	–	–	1,580,000	March 2023
Total		119,891,264	1,580,000	(3,470,581)	–	118,000,683	

Of the 167,341,278 share options available for granting, 49,340,595 share options were ungranted at 31 December 2019. There were 70,568,832 options exercisable at 31 December 2019 (2018: 52,324,673). No share options were exercised for the year ending 31 December 2019 (2018: Nil).

All share options vest over a four-year period in tranches of 20%. One-fifth of the options granted vest immediately and the balance vest annually on the grant date over time following four years, during which the grantee has to remain in employment.

The weighted average exercise price for outstanding and exercisable options at year-end was ZAR2.94 (2018: ZAR2.94) and ZAR3.10 (2018: ZAR3.25) respectively. The company's mid-market closing share price at 31 December 2019 was ZAR1.84 (2018: ZAR1.85). The lowest and highest mid-market closing price during the year was ZAR1.27 (2018: ZAR1.55) and ZAR1.95 (2018: ZAR3.72) respectively.

The fair values of the options are calculated using the Black-Scholes method. The number of options granted in 2019 was 1,580,000 (2018: 66,391,796). Assumptions used in this model were:

	Issue date September 2017	Issue date January 2018	Issue date July 2018	Issue date March 2019
Exercise price	ZAR3.45	ZAR2.97	ZAR2.3	ZAR1.91
Share price at date of grant	ZAR2.91	ZAR3.00	ZAR2.38	ZAR1.85
Expected volatility	39.70%	45.83%	47.54%	50.75%
Option life	4.5 years	1–4 years ¹	1–4 years ¹	1–4 years ¹
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	7.73%	6.67–7.65%	6.82–7.95%	6.69%–7.57%
Fair value of options	ZAR1.12	ZAR0.64–1.37	ZAR0.55–1.14	ZAR0.40–0.87

¹ As the first option tranche vests immediately, and the gain to the employee is low, the valuation assumes the options are held for 1 year prior to exercise.

22. SHARE-BASED PAYMENTS/CONTINUED

The risk-free interest rates for the grants in the current year were based on the yields offered from South African government bonds with maturities that range from 1–4 years as per the vesting profile of the options. South African government bonds are considered an appropriate risk-free rate as these are assumed to be the lowest risk investment underpinning the market. In addition, as the Company has a primary listing on the JSE where securities are quoted in South African Rand, the Directors believe that a local currency-based risk-free rate is the most appropriate input when valuing options with the Black-Scholes model.

The expected volatility was based on the historic volatility data of GGL's shares.

23. PER SHARE INFORMATION

Earnings/(Loss) Per Share ("EPS" or "LPS") and Net Asset Value ("NAV") are key performance measures for the Group. EPS/(LPS) is based on profit/(loss) for the year divided by the weighted average number of ordinary shares in issue during the year. NAV per share is based on net assets divided by the number of ordinary shares in issue at 31 December 2019.

Headline Earnings/(Loss) Per Share ("HEPS" or "HLPS") is similar to EPS/(LPS), except that attributable profit specifically excludes certain items, as set out in Circular 1/2019 "Headline Earnings" ("Circular 1/2019") issued by the South African Institute of Chartered Accountants ("SAICA") during the period.

Earnings per share

The Group's EPS/(LPS) is as follows:

	2019	2018
Profit/(loss) for the year attributable to owners of the parent – USD'000	28,369	(62,213)
<i>Weighted average number of shares in issue¹</i>	1,264,903,398	1,316,580,827
Earnings/(loss) per share – USD	0.02	(0.05)

¹ At 31 December 2019, the Company had a see-through interest in itself of 96,375,146 shares or 7.60%. These shares have been removed in the calculation of weighted average number of shares in issue.

At 31 December 2018, the Company had a see-through interest in itself of 117,342,899 shares or 8.20%. These shares have been removed in the calculation of weighted average number of shares in issue.

There are no dilutive shares, as the average share price during the period was below the strike price of all exercisable share options. Therefore, EPS is equal to Diluted EPS.

Headline earnings per share

The Group's HEPS/(HLPS) is as follows:

	2019	2018
Profit/(loss) for the year attributable to owners of the parent – USD'000	28,369	(62,213)
<i>Adjusted for:</i>		
Impairment (reversal)/charges and write-offs	(21,559)	26,559
Tax impact	6,468	(6,773)
	13,278	(42,427)
<i>Weighted average number of shares in issue¹</i>	1,264,903,398	1,316,580,827
Headline earnings/(loss) per share – USD	0.01	(0.03)

¹ At 31 December 2019, the Company had a see-through interest in itself of 96,375,146 shares or 7.60%. These shares have been removed in the calculation of shares in issue.

At 31 December 2018, the Company had a see-through interest in itself of 117,342,899 shares or 8.20%. These shares have been removed in the calculation of shares in issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

23. PER SHARE INFORMATION/CONTINUED

NAV per share

The Group's USD NAV per share is as follows:

	2019	2018
Net assets – USD'000	494,261	476,195
Number of shares in issue ¹	1,171,075,099	1,314,342,654
NAV per share – USD	0.42	0.36

¹ At 31 December 2019, the Company had a see-through interest in itself of 96,375,146 shares or 7.60%. These shares have been removed in the calculation of shares in issue.
At 31 December 2018, the Company had a see-through interest in itself of 117,342,899 shares or 8.20%. These shares have been removed in the calculation of shares in issue.

Tangible NAV per share

The Group's USD tangible NAV per share is as follows:

	2019	2018
Net assets – USD'000	494,261	476,195
Adjusted for:		
Intangible assets	(55,200)	(52,328)
	439,061	423,867
Number of shares in issue ¹	1,171,075,099	1,314,342,654
Tangible NAV per share – USD	0.37	0.32

¹ At 31 December 2019, the Company had a see-through interest in itself of 96,375,146 shares or 7.60%. These shares have been removed in the calculation of shares in issue.
At 31 December 2018, the Company had a see-through interest in itself of 117,342,899 shares or 8.20%. These shares have been removed in the calculation of shares in issue.

24. FINANCIAL INSTRUMENTS

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

Financial assets

	2019 USD'000	2018 USD'000
Financial assets measured at fair value:		
Sedibelo	57,500	50,447
Jupiter	–	25,714
Other investments	143	143
Total financial assets at fair value	57,643	76,304
Financial assets measured at amortised cost:		
Trade and other receivables ¹	69,997	49,981
Other non-current assets ²	3,712	2,471
Cash and cash equivalents	78,218	62,988
Total financial assets measured at amortised cost	151,927	115,440
Total financial assets	209,570	191,744

¹ Trade and other receivables excludes prepayments and VAT.

² Other non-current assets exclude property lease premium and VAT.

24. FINANCIAL INSTRUMENTS/CONTINUED

The Sedibelo investment is Level 3 (2018: Level 3), the inputs for which are not based on observable market data; refer to Note 12: *Investments* for further information. The Jupiter investment was Level 1 for the period up to the Group's final disposal of Jupiter shares on 28 November 2019, under the fair value hierarchy, for which listed prices in active market are available (2018: Level 3). Refer to Note 12: *Investments* for details.

Financial liabilities

	2019 USD'000	2018 USD'000
Financial liabilities measured at amortised cost:		
Trade and other payables ¹	28,493	26,977
Borrowings	52,827	53,171
Lease liabilities	4,651	–
Total financial liabilities measured at amortised cost	85,971	80,148
Total financial liabilities	85,971	80,148

¹ Trade and other payables excludes social security.

Fair value of financial assets and liabilities

At 31 December 2019 and 2018, the carrying value of the Group's current financial assets and liabilities carried at amortised cost approximated their fair values.

Capital structure

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern while taking advantage of strategic opportunities in order to provide sustainable returns for shareholders.

The Group's capital consists of equity shares. There are also two Management Shares. The Directors monitor the Group's gearing ratio on an ongoing basis. No dividends have been paid out to shareholders since incorporation. No changes have been made to the Group's capital management objectives, policies or procedures during 2019.

Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments (loans) carried at amortised cost, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. It arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at reporting date.

(i) Risk management

Credit risk is managed on a Group basis.

The Group holds materially all of its cash balances with four counterparties, Barclays Bank plc ("Barclays"), Investec Bank plc ("Investec"), Goldman Sachs and ABSA Bank (formerly Barclays in Mozambique and Zambia). Bankruptcy or insolvency of any of these counterparties could have a significant adverse impact on the Group. The Group's subsidiaries and associates may also hold immaterial cash balances with various other banks; the failure of one of these counterparties would be unlikely to have a significant impact on the Group. The Directors monitor the Group's range of counterparties to ensure that the Group's credit/counterparty risk is at an appropriate level. The Group's investments hold cash balances with a range of counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

24. FINANCIAL INSTRUMENTS/CONTINUED

The Group's exposure to counterparty risk at 31 December 2019 is set out below:

Counterparty	Location	Credit rating (Fitch)	2019 USD'000	2018 USD'000
Barclays	United Kingdom	A	8,800	25,373
Investec	Guernsey	BBB plus	29,708	20,316
HSBC	United Kingdom	AA plus	856	14,775
BCI ¹	Mozambique	n/r	1,852	881
Rabobank	United Kingdom	AA minus	–	609
Goldman Sachs	United Kingdom	A	10,000	–
ABSA	Mozambique	BB plus	19,466	–
ABSA	Zambia	BB plus	4,043	–
Standard Chartered	Zambia	A	519	–
Citibank	Zambia	A	351	–
Other counterparties	Various	n/a	2,623	1,034
Total			78,218	62,988

¹ BCI – Banco Comercial E De Investimentos, S.A.

The Group's trade receivables are predominantly derived from auction customers, who are specifically invited to each auction, and the credit quality of whom is thoroughly assessed, considering financial position, past experience and other factors. Risk is further mitigated by the fact that sales are required to be settled by cash transfer within a short time period. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions. By 31 March 2020, the Group had collected 96% of the auction receivables outstanding at 31 December 2019. The Group did not recognise any impairment and believes that credit risk is limited as customers pay within a short period of time. Based on the nature of the Group's client base, the expected credit loss has no impact on the Group.

The Group applies the IFRS 9 simplified approach to measuring credit losses using a lifetime expected credit loss provision for trade receivables. Based on the assessment, the carrying value of trade receivables, classified at amortised cost, approximated the fair value.

The Group's other receivables primarily relate to third party and related party loans, and these are also assessed individually considering financial position, past experience and other factors.

The Group provides against any loan where non-repayment is considered likely for any reason.

(ii) Impairment of financial assets

The Group's financial assets have been assessed for impairment, based on the amounts expected to be received, and the following provisions for impairment were made during the year:

- Third-party loan in Sri Lanka: USD1.1 million (2018: USD1.0 million).
- Related-party loan to Kariba: USD Nil (2018: 0.4 million).

There are no other financial assets that are impaired and accordingly, no additional analysis has been provided.

24. FINANCIAL INSTRUMENTS/CONTINUED

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It represents the risk that the Group will encounter difficulty in meeting its financial obligations.

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. To achieve this aim, the Group seeks to maintain cash balances and agreed facilities at levels considered appropriate to meet ongoing obligations.

The Group maintains an integrated business performance and cash flow forecasting model, incorporating financial position information, which is updated monthly.

The Group performance against budget and associated cash flow forecast is evaluated on a monthly basis. The Directors receive rolling 12-month cash flow projections on a monthly basis as well as information regarding cash balances and Group performance against budget. At the reporting date, these projections indicated that the Group expected to have sufficient liquidity to meet its obligations in all reasonably expected circumstances.

The following table illustrates the contractual maturity analysis of the Group's financial liabilities, including the liabilities that must be settled gross, based, where relevant, on interest rates and exchange rates prevailing at the reporting date.

31 December 2019	Repayable within one month USD'000	Repayable within one to six months USD'000	Repayable within six to 12 months USD'000	Repayable within 1 to 5 years USD'000	Repayable after 5 years USD'000	Total USD'000
Trade and other payables	22,797	5,696	–	–	–	28,493
Leases	54	634	578	2,784	601	4,651
Borrowings and interest	312	1,558	26,697	32,681	–	61,248
Total	23,163	7,888	27,275	35,465	601	94,392

31 December 2018	Repayable within one month USD'000	Repayable within one to six months USD'000	Repayable within six to 12 months USD'000	Repayable within 1 to 5 years USD'000	Repayable after 5 years USD'000	Total USD'000
Trade and other payables	20,425	6,552	–	–	–	26,977
Borrowings and interest	6,806	9,032	10,840	30,540	–	57,218
Total	27,231	15,584	10,840	30,540	–	84,195

Market risk

The significant market risks affecting the Group are currency risk, interest rate risk, price risk and commodity risk. These risks relate to the investments that are held at fair value and are often denominated in foreign currencies and the Group's underlying mining operations.

Currency risk

The Group's operations are exposed to currency risk on foreign currency sales, purchases and expenses. As the majority of revenues are denominated in USD and the USD plays a dominant role in the Group's business, funds borrowed and held in USD provide a natural hedge against currency fluctuations. Operating costs and costs of locally sourced equipment are influenced by fluctuations in local currencies, primarily the Zambian kwacha and Mozambican metical.

Some of the Group's investments are denominated in currencies other than the USD, including ZAR, AUD and GBP. These assets are translated into USD at each balance sheet date and the Group's Consolidated Statement of Comprehensive Income includes related, unrealised foreign exchange gains or losses. The Group also realises foreign exchange gains or losses on occasion, usually relating to the completion of transactions in assets denominated in currencies other than the USD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

24. FINANCIAL INSTRUMENTS/CONTINUED

Currency risk (continued)

A key tenet of the Group's treasury policy is that materially all of the Group's cash is held in USD, other than amounts allocated for a specific foreign currency investment which are usually held in the relevant currency. The Group's cash balance is therefore not subject to material foreign exchange risk in most circumstances.

The Group also undertakes transactions and holds assets and liabilities in currencies other than the USD. The Group may enter into equity or loan investments in currencies other than the USD. These balances are translated at the end of each reporting period, and the related foreign exchange gain or loss is included in the Consolidated Statement of Comprehensive Income. The Directors consider the denomination of each investment as part of the initial decision as to whether to invest in an asset.

The Group's policy is to hold all material cash balances in USD at all times, other than when allocated for a specific investment or for specific material expenses. Cash balances are translated into a currency other than the USD only when an outflow of cash is imminent, or if required for legal or similar reasons. The Group may occasionally hold balances in currencies other than the USD for a material investment which is considered likely but is not yet certain, giving rise to potential foreign exchange risk if the investment does not occur and the balance is translated back into USD at a different exchange rate. Alternatively, for specific material cash outflows (which would usually be for either an investment or expenses), the Group may choose to enter into an appropriate hedging strategy, such as a forward contract or option, to minimise the Group's foreign exchange exposure. The Group has not entered into any hedging strategies during the year.

Sensitivity analysis has been performed based on the sensitivity of the Group's net financial assets to movements in foreign exchange rates assuming the currency has moved 10% as against the USD.

At 31 December 2019	USD USD'000	GBP USD'000	ZMW USD'000	MZN USD'000	Other USD'000	Total USD'000
Investments	57,643	–	–	–	–	57,643
Cash and cash equivalents	72,551	804	321	242	4,300	78,218
Other non-current assets	3,712	–	–	–	–	3,712
Trade and other receivables	67,290	1,217	–	408	1,082	69,997
Borrowings	(52,827)	–	–	–	–	(52,827)
Lease liabilities	(1,596)	(2,634)	–	(187)	(234)	(4,651)
Trade and other payables	(9,689)	(4,456)	(954)	(12,026)	(1,368)	(28,493)
Net financial assets/(liabilities)	137,084	(5,069)	(633)	(11,563)	3,780	123,599
<i>Sensitivity analysis</i>						
Impact on the Income Statement, assuming a 10% movement against the USD	n/a	(506)	(63)	(1,156)	378	(1,347)

24. FINANCIAL INSTRUMENTS/CONTINUED

At 31 December 2018	USD USD'000	GBP USD'000	ZMW USD'000	MZN USD'000	Other USD'000	Total USD'000
Investments	76,304	–	–	–	–	76,304
Cash and cash equivalents	56,630	4,045	139	1,375	799	62,988
Other non-current assets	–	–	–	–	2,471	2,471
Trade and other receivables	48,284	97	733	525	342	49,981
Borrowings	(53,171)	–	–	–	–	(53,171)
Trade and other payables	(18,025)	(5,361)	(526)	(2,043)	(1,022)	(26,977)
Net financial assets/(liabilities)	110,022	(1,219)	346	(143)	2,590	111,596
<i>Sensitivity analysis</i>						
Impact on the Income Statement, assuming a 10% movement against the USD	n/a	(122)	35	(14)	259	158

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk on its cash balances. The Group's policy is to invest cash at floating rates of interest and to maintain cash reserves in short-term investments which are for a maximum of one year but are usually for shorter time periods. This maintains the Group's liquidity levels whilst also securing a return for shareholders on uninvested cash. During 2019 and 2018, all uninvested cash was accessible either on-demand, or shortly afterwards. In addition, the Group may make interest-bearing loans to its investments.

31 December 2019	Repayable within one month USD'000	Repayable within one to six months USD'000	Repayable within six to 12 months USD'000	Repayable within 12 to 36 months USD'000	Total USD'000
Cash and cash equivalents	78,218	–	–	–	78,218
Borrowings	–	–	(24,827)	(28,000)	(52,827)
Net financial assets/(liabilities) subject to interest rate risk	78,218	–	(24,827)	(28,000)	25,391
31 December 2018	Repayable within one month USD'000	Repayable within one to six months USD'000	Repayable within six to 12 months USD'000	Repayable within 12 to 36 months USD'000	Total USD'000
Cash and cash equivalents	62,988	–	–	–	62,988
Borrowings	(6,514)	(7,571)	(9,086)	(30,000)	(53,171)
Net financial assets/(liabilities) subject to interest rate risk	56,474	(7,571)	(9,086)	(30,000)	9,817

An analysis of the expected maturity of the Group's financial assets at the balance sheet date is shown below. Expected maturities are usually based on contractual maturities. The sensitivity analyses below have been determined based on the exposure to interest rates for the Group's financial instruments at the balance sheet date. When the Directors consider the impact of changes in interest rates on the Group, a 0.5% increase or decrease is used for analysis. The Directors consider this to be a suitable change in interest rates in the current interest rate environment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

24. FINANCIAL INSTRUMENTS/CONTINUED

31 December 2019	Repayable within one month USD'000	Repayable within one to six months USD'000	Repayable within six to 12 months USD'000	Repayable within 12 to 36 months USD'000	Total USD'000
Net financial assets/(liabilities) subject to interest rate risk	78,218	–	(24,827)	(28,000)	25,391
<i>Sensitivity analysis</i>					
Impact on profit or loss, assuming a 0.5% movement in interest rate	391	–	(124)	(140)	127

31 December 2018	Repayable within one month USD'000	Repayable within one to six months USD'000	Repayable within six to 12 months USD'000	Repayable within 12 to 36 months USD'000	Total USD'000
Net financial assets/(liabilities) subject to interest rate risk	56,474	(7,571)	(9,086)	(30,000)	9,817
<i>Sensitivity analysis</i>					
Impact on profit or loss, assuming a 0.5% movement in interest rate	282	(38)	(45)	(150)	49

Price risk

Price risk is the risk that the price for listed investments fluctuates with a corresponding impact on the Consolidated Statement of Comprehensive Income. The Directors' valuations for unlisted investments are also likely to increase or decrease over time. The Directors believe that disclosure of a 25% decrease/increase in the fair values of the Group's investments is reasonably possible and presents relevant information to shareholders. The Executive Directors usually participate in the executive leadership/management of each investment and monitor the associated risks on an ongoing basis and report to the Board as necessary. A 25% change in the fair value of investments would have the following impact on the Consolidated Statement of Comprehensive Income:

	2019			2018		
	Quoted USD'000	Unquoted USD'000	Total USD'000	Quoted USD'000	Unquoted USD'000	Total USD'000
Total	–	14,375	14,375	6,429	12,612	19,041

Commodity risk

The Group holds coloured gemstones on its balance sheet in the form of inventory. A decrease in the price of coloured gemstones, specifically rubies and emeralds, may have a material impact on the Company's profitability. For the Group's other major investment, namely Sedibelo, commodity prices have no direct impact on the Group's Financial Statements. However, commodity prices can have a significant impact on the valuation of these investments and can impact on the viability of assets that the Group has invested in or may invest in. The commodities of most relevance to the Group currently are coloured gemstones and PGMs.

Sensitivity analyses representative of the position throughout the year

The sensitivity analyses presented above are based on the financial instruments held at year-end. The sensitivity analyses presented for 31 December 2019 are considered likely to be representative of the financial instruments held and of risks to the balance sheet in the immediate future. Furthermore, if the Group divested of an investment, its exposure to market risks would change. As there is uncertainty as to how the Group's risk profile will change in the future, no further representative sensitivity analyses have been disclosed, as the Directors do not believe that this would be useful. Users of the Financial Statements should refer to the Principal Risks Section of this Annual Report for further information on the risks that the enlarged Group is exposed to.

25. CAPITAL COMMITMENTS

At 31 December 2019, the Company had the following capital commitments:

- (i) USD2.8 million (2018: USD5.6 million) for the construction of the Decanter Centrifuge, other mining equipment, prefabricated rooms at Muaria Village and the RAP project in Montepuez.
- (ii) USD1.8 million (2018: USD1.2 million) for the purchase of mining equipment at Kagem.

26. COMMITMENTS AND CONTINGENCIES

During the course of internal control and governance processes led by the Group in 2018, indications of small value payments seemingly not made in accordance with the Group's policies and procedures were identified in one of the Group's subsidiaries, Gemfields India.

The Board regards payments made outside of the Group's policies as a principal risk and takes breaches of the policies seriously. As a result, the Company appointed an experienced UK-based legal firm to undertake an investigation of the payment practices in Gemfields India. As part of this investigation, a number of lower value payments (typically a few hundred US dollars) were identified as falling outside of Group policy. The payments were made over a period of time and, even in aggregate, represent an immaterial amount from a Group materiality perspective. At the time of approving the 31 December 2018 financial statements, it was not possible to be sufficiently certain of the prospect or quantum of any liability that may or may not arise in relation to this matter in respect of any breach in legislation. However, having taken detailed legal advice, the Directors believed that any such liability may have been below the materiality threshold and therefore no provision was made in the financial statements at 31 December 2018.

Following identification of this matter, the Board has implemented a number of measures to further enhance its controls and processes. These include appointing a Head of Internal Audit, refreshing relevant training across the Group, restructuring management in the affected entity and re-emphasising and reviewing relevant policies and procedures, including reporting and whistle-blowing facilities.

At 31 December 2019, following further legal advice and review of the enhanced control environment across the Group, any liability relating to this matter is now considered to be remote and immaterial.

27. LEASES

The explanation of the difference between operating lease commitments disclosed as at 31 December 2018 when applying IAS17 to the lease liabilities recognised as at 1 January 2019 is presented in the table below:

	USD'000
Operating lease commitments as at 31 December 2018 under IAS 17	3,845
Excluded short-term leases	(1,299)
Leases previously not included	374
The effect of discounting using the incremental borrowing rate at 1 January 2019	(293)
Lease liability as at 1 January 2019	2,627
Short-term portion – current liability	616
Long-term portion – non-current liability	2,011

All leases relate to property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

27. LEASES/CONTINUED

The initial value of the right-of-use assets is equal to the lease liability as at 1 January 2019 under IFRS16.

	USD'000
Right-of-use asset	
Balance at 31 December 2018	–
IFRS 16 adjustment at 31 December 2018	2,635
Balance at 1 January 2019	2,635
Additions in year	2,764
Depreciation	(1,011)
Balance at 31 December 2019	4,388

The following line items were affected by the adjustments and reclassifications made with respect to the amounts recognised at the date of initial application – 1 January 2019:

	IAS17 2018 USD'000	IFRS 16 Adjustments USD'000	IFRS 16 2019 USD'000
Property, plant and equipment	365,014	2,627	367,641
Other non-current assets	144,685	–	144,685
Total non-current assets	509,699	2,627	512,326
Total current assets	224,369	–	224,369
Total assets	734,068	2,627	736,695
Liabilities			
Lease liabilities – non-current liabilities	–	2,011	2,011
Other non-current liabilities	123,377	–	123,377
Total non-current liabilities	123,377	2,011	125,388
Lease liabilities – current liabilities	–	616	616
Other current liabilities	60,576	–	60,576
Total current liabilities	60,576	616	61,192
Total liabilities	183,953	2,627	186,580
Net assets	550,115	–	550,115
Equity	550,115	–	550,115

	USD'000
Lease liabilities as at 31 December 2019	
Short-term portion – current liability	1,081
Long-term portion – non-current liability	3,570
Total lease liability	4,651

Note that the lease liability cash and non-cash movements are analysed in Note 18: *Borrowings*.

27. LEASES/CONTINUED

The following amounts relating to leases are recognised in the income statement:

	2019 USD'000	2018 USD'000
Depreciation charge for the right-of-use asset – PPE	1,011	–
Interest expense on lease liabilities (included in finance cost)	302	–
Expense relating to short-term leases – Property leases (included in SG&A expenses)	2,454	–
Expense relating to leases of low-value assets	–	–
Operating lease expense (IAS17) (included in SG&A expenses)	–	3,657
Total expenses related to leases	3,767	3,657

The following amounts are recognised in the cashflow statement:

	2019 USD'000	2018 USD'000
Cash outflow for leases (IFRS16) financing activity		
Principal	696	–
Interest	302	–
Cash outflow for leases – operating activity	2,454	3,657
Total Cash outflow	3,452	3,657

28. RELATED-PARTY TRANSACTIONS

The Group's subsidiaries, joint ventures and associates are related parties. Investments within the Group's Investment Portfolio are also usually related parties. The Investment Portfolio consists of investments held at fair value and loans to portfolio companies. Certain individuals act as both Directors of the Company and as directors of the Group's investments. Mr Brian Gilbertson is the chairman of Jupiter and a director of SPM.

Vistra Guernsey acted as the Group's administrator and Company Secretary for part of 2018. The Group's relationship with Vistra Guernsey was at arm's length. The Group's expense for services rendered by Vistra Guernsey for the year ending 31 December 2019 was USD Nil (2018: USD104,613). The Group's outstanding balance with Vistra at 31 December 2019 was USD Nil (2018: USD Nil). The Group's working agreement with Vistra Guernsey was terminated in July 2018.

Kariba Minerals Limited is a joint venture in which the Group held a 50% shareholding. As at 31 December 2018, the Group held a receivable of USD2,300,000 which was received during 2019.

A number of directors made purchases of jewellery and watches from Fabergé amounting to USD5,224 (2018: USD18,007) during the year. All purchases were made at approved prices and have been paid for in full.

Related-party transactions include entering into equity investments, exiting from equity investments, and loan transactions. Related-party transactions related to the Group's investments are detailed in Note 12: *Investments*.

In 2018, the Group established Gemfields Foundation ('the Foundation'), a UK registered charitable company independent of Gemfields Ltd with a Board of Trustees whose purpose is to address poverty in developing countries and support conservation projects. The Foundation will be part-funded by Gemfields Ltd, and can also accept donations from external bodies or individuals, with the funds to be used to create new community projects or support those that the Group's subsidiaries are already undertaking. In 2018 Gemfields Ltd contributed USD50,000 to the Foundation with no further donations made in 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

28. RELATED-PARTY TRANSACTIONS/CONTINUED

The Directors are the Key Management Personnel for the Company. The amounts paid to the Executive Directors for services during 2019 are set out below:

1 January 2019 to 31 December 2019	Base compensation USD'000	Annual bonus USD'000	Share options USD'000	Total USD'000
Sean Gilbertson	575	201	–	776
David Lovett	337	118	–	455
Total	912	319	–	1,231

1 January 2018 to 31 December 2018	Base compensation USD'000	Annual bonus USD'000	Termination payments USD'000	Share options USD'000	Total USD'000
Sean Gilbertson ¹	548	–	–	–	548
David Lovett ²	253	–	–	–	253
Arne H Frandsen ³	150	–	900	–	1,050
Andrew Willis ³	90	–	547	–	637
Total	1,041	–	1,447	–	2,488

1 Sean Gilbertson became Chief Executive Officer effective 31 March 2018.

2 Mr Lovett became Chief Financial Officer effective 31 March 2018.

3 Resigned effective 31 March 2018.

The amounts paid to the Non-Executive Directors for services during 2019 are set out below:

1 January 2019 to 31 December 2019	Group Director fees USD'000	Board committees USD'000	Lead Independent Director USD'000	Total USD'000
Brian Gilbertson ¹	90	–	–	90
Martin Tolcher ²	45	17	–	62
Lumkile Mondli	40	17	3	60
Dr Christo Wiese	40	–	–	40
Kwape Mmela	40	13	–	53
Carel Malan ³	39	5	–	44
Erich Clarke ⁴	1	–	–	1
Total	295	52	3	350

1 Resigned effective 25 November 2019.

2 Mr Tolcher became Non-Executive Chairman effective 25 November 2019.

3 Appointed effective 9 January 2019.

4 Resigned effective 7 January 2019.

28. RELATED-PARTY TRANSACTIONS/CONTINUED

The amounts paid to the Non-Executive Directors for services during 2018 are set out below:

1 January 2018 to 31 December 2018	Group Director fees USD'000	Board committees USD'000	Lead Independent Director USD'000	Total USD'000
Brian Gilbertson ¹	100	–	–	100
Martin Tolcher	40	17	–	57
Dr Christo Wiese	40	–	–	40
Lumkile Mondli	40	17	3	60
Erich Clarke	40	5	–	45
Kwape Mmela	40	13	–	53
Total	300	52	3	355

¹ Brian Gilbertson became Non-Executive Chairman effective 1 January 2018.

The interests in GGL equity shares held by the Directors are set out below:

	2019		2018	
	Number of shares	Interest	Number of shares	Interest
Dr Christo Wiese ¹	160,388,407	12.65%	160,388,407	11.20%
Sean Gilbertson ^{2,3}	10,454,959	0.82%	8,498,536	0.59%
Kwape Mmela	8,325,334	0.66%	8,325,334	0.58%
David Lovett	42,000	0.00%	42,000	0.00%
<i>Directors who have resigned during the year</i>				
Brian Gilbertson ⁴	n/a	n/a	26,148,899	1.83%
Total	179,210,700	14.14%	203,403,176	14.21%

¹ At 31 December 2019, Dr Wiese held indirect interests in 160,388,407 GGL shares via various entities. In addition, certain family members held a further 2,204,700 shares; including these interests would increase Dr Wiese's shareholding to 12.83%.

² Sean Gilbertson has an interest, not included in the figure, by virtue of being a beneficiary of a family trust which owns Autumn Holdings Asset Inc., which, in turn, holds 1,887,230 Ordinary Shares.

³ This figure does not include shares held by Pallinghurst Resources Management L.P., a limited partnership in which Sean Gilbertson holds a 50% interest, and which is entitled to 3,030,652 Ordinary Shares; however, these shares have not yet been claimed following the compulsory acquisition of Gemfields plc in 2017.

⁴ Resigned 25 November 2019.

The Company had 1,267,450,245 shares in issue at 31 December 2019 (2018: 1,431,685,553). There have been no changes to these shareholdings up to the date of publication of the Annual Report. On 4 March 2020, the Company completed the cancellation and de-listing from trading of a total number of 96,381,488 shares, leaving the Company with a total of 1,171,068,757 Ordinary Shares in issue at the date of publication of the Annual Report. This has resulted in the Directors' interests, as a percentage of total shares in issue, increasing in the table above by virtue of the total shares in issue reducing by 96,381,488 shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

29. EVENTS OCCURRING AFTER THE END OF THE PERIOD

Emerald auction held in Lusaka, Zambia, from 18 to 21 February 2020

Post the year-end, a predominantly commercial-quality auction was held in Lusaka in February 2020. Revenues of USD11.5 million were achieved, which were in line with prior auctions of commercial quality emeralds illustrating a stable underlying market. The auction takes Kagem's total auction revenue since July 2009 to USD647 million.

Listing on AIM

On 14 February 2020, the Group announced its admission to the AIM market of the London Stock Exchange. The rationale for the listing on AIM is to allow Gemfields access to greater liquidity and international investors. It will also allow UK investors access to growing market and the opportunity to invest in a Company that is the world-leader in the mining, grading, marketing and selling of precious coloured gemstones.

At the time of admission, the Company's total issued share capital consisted of 1,267,450,245 Ordinary Shares with a nominal value of USD0.00001 each, of which 96,381,488 Ordinary Shares were by the Company and had no voting rights. Therefore, the total issued number of Ordinary Shares with voting rights is 1,171,068,757. finnCap is acting as Nominated Adviser and Broker to the Company.

Artisanal miners

In February 2020, MRM experienced a coordinated incursion by approximately 800 artisanal miners, vastly outnumbering the MRM security personnel and Mozambican police present at that location at the time. These artisanal miners were seeking ruby-bearing gravels and, despite repeated warnings from MRM personnel, commenced undercutting the outer edge of the mining pit. This led to several ground collapse incidents in which 11 artisanal miners died. MRM personnel provided humanitarian assistance where possible. In addition to notifying the authorities, Gemfields invited members of the Mozambican press and media to visit MRM and its surrounding villages to provide first-hand coverage of the activity and to report on the strikingly coordinated nature of the influx and its possible causes.

In a subsequent press conference held by the Inspector General of the Ministry of Minerals, Resources and Energy ("MIREM"), the involvement of organised networks in ruby smuggling was noted. Mozambican newspaper articles have since cited artisanal miners who claim to have made payments to factions within the Mozambican police in order to gain access to MRM.

Greater presence of the media and of Mozambican authorities at the mine and in surrounding areas and villages has resulted in MRM's mining pits, including Maninge Nice 3, presently being clear of artisanal miners and as such, day-to-day operations remain unaffected.

MRM continues to work closely with Mozambican authorities to raise awareness among local communities of the dangers of artisanal mining and to assist in tackling ruby smuggling and reduce the risk to, and exploitation of, vulnerable groups by well-organised syndicates.

MRM has a series of different mining pits which are variously activated depending on operating conditions and the ore types required. MRM has not been mining Maninge Nice 3 for some months. The pit, which generally contains smaller, flatter, pink-coloured rubies of lower value, accounts for less than 10% of the total ruby value sold by MRM to date.

29. EVENTS OCCURRING AFTER THE END OF THE PERIOD/CONTINUED

Impact of COVID-19, or the novel coronavirus

The sudden outbreak of the virus has the potential to create short-term uncertainty in global markets and to disrupt the timing of the Group's auctions in Singapore, which is expected to negatively affect demand and price and ultimately, the Group's revenue and cash generation. In addition, it will likely also impact the availability and cost of imported goods required for mining operations. As a result, after consultation with a wide range of the Group's customer base, it has been decided that the Group's auction will be postponed to the last quarter of the year. As a consequence, the Group has sought to preserve cash by suspending all non-committed and discretionary expenditure across the Group. Following these actions, the Group is expected to have sufficient cash balances and ability to mitigate the short- to medium-term impact (see the section on Going concern in Note 1: *Accounting policies*). The risk is monitored and mitigated in conjunction with the Group's principal risks.

Change to issued share capital

On 4 March 2020, the Company announced that it had completed the cancellation and de-listing from trading of a total number of 98,381,488 ordinary shares. The cancelled shares represented approximately 7.60% of the previous total issued share capital of the Company (being 1,267,450,245 ordinary shares), and comprised of: (i) 96,276,146 ordinary shares held by the Company in itself, through a wholly-owned subsidiary; and (ii) 105,342 ordinary shares repurchased on-market by the Company.

Following the cancellation and de-listing of the cancelled shares, the Company has 1,171,068,757 ordinary shares in issue, all of which carry equal voting rights.

Approval of Consolidated Financial Statements

The Consolidated Financial Statements were approved by the Directors and authorised for issue on 4 April 2020.

INDEPENDENT AUDITOR'S REPORT

to the members of Gemfields Group Limited

Opinion

We have audited the financial statements of Gemfields Group Limited (the "Parent Company") and its subsidiaries (the "Group"), the year ended 31 December 2019 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity and Notes to the Consolidated Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's affairs as at 31 December 2019 and of its profit for the year then ended;
- the Group Financial Statements have been prepared in accordance with IFRSs as issued by the IASB; and
- the Financial Statements have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

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 Parent 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: *Accounting policies* in the Financial Statements which sets out the Directors' consideration of the potential impact of the recent COVID-19 outbreak as part of the Group's going concern assessment. The Directors have modelled the impact of various scenarios on the Group's cash flow projections including delays to the planned auction schedule, reduction in revenue generated from auctions and temporary mine closures. Mitigating actions the Group could take to reduce costs, including delaying planned capital expenditure, suspension of the Group's planned share buy-back scheme and reduction in overheads and other non-committed costs, have also been modelled.

Due to the uncertainty as to how the COVID-19 outbreak may impact upon the Group's projected cash flows – especially its updated auction schedule – 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.

The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

We identified going concern as a Key Audit Matter based on our assessment of the significance of the risk and the effect on our audit strategy.

Material uncertainty in relation to going concern (continued)

Our audit procedures in response to this Key Audit Matter included the following:

- We critically reviewed the latest Board approved cash flow forecasts for the Group, which covered 15 months from the date of approval of these financial statements. We challenged management's assumptions in respect of level of production, mix and number of premium quality/commercial quality auctions, gemstone prices, operating costs and capital expenditure. In doing so, we considered factors such as empirical operational performance, historical auction results, trading performance in FY2019 and market analyst commentary regarding the impact the current market downturn will have on market appetite and pricing.
- We recalculated management's forecast covenant compliance calculations and assessed the consistency of such calculations with the ratios stated in the relevant lender agreements.
- We assessed management's sensitivity analysis performed in respect of key assumptions underpinning the forecasts.
- As summarised in Note 1: *Accounting policies*, management have modelled a number of scenarios to incorporate the expected impact of the COVID-19 pandemic. We challenged management on the completeness of the scenarios assessed as reasonably possible to impact the Group as a consequence of COVID-19.
- We challenged the nature of mitigating actions identified by management in their assessment and the quantum ascribed to these mitigating actions.
- Scenarios modelled by management include a reverse stress test to analyse how long the business could operate without auction revenues. We have challenged management's assessment on their ability to meet the financing requirements should auctions be delayed beyond this point.
- Given the stressed forecasts indicate a potential breach of covenants, we critically assessed the Board's judgement that, should a breach occur, the banking facilities would remain available to the Group. We made specific inquiries of management and the Board regarding the nature of discussions held with the Group's lenders and how those discussions had been considered in the Board's conclusion.
- We reviewed the adequacy of disclosures in the Financial Statements in respect of COVID-19, which the Directors have concluded represents a material uncertainty regarding their ability to continue as a going concern.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, 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.

In addition to the matter described in the *Material uncertainty in relation to going concern* section we have determined the matters described below to be the Key Audit Matters to be communicated in our report.

INDEPENDENT AUDITOR'S REPORT/CONTINUED

to the members of Gemfields Group Limited

<p>Key Audit Matter</p>	<p>Impairment review of Kagem Mining Limited</p> <p>As detailed in Note 10: <i>Property, plant and equipment</i>, the carrying value of Kagem Mining Limited's ("Kagem") mining assets amounted to USD208.7 million at 31 December 2019.</p> <p>As disclosed in Note 10: <i>Property, plant and equipment</i>, in December 2019 the Government of Zambia enacted tax changes, effective from 1 January 2020. These tax changes presented an indicator that the impairment loss recognised in the prior period at Kagem may no longer exist or may have decreased. Therefore, management carried out an impairment review as at 31 December 2019.</p> <p>As disclosed in Note 1: <i>Accounting policies</i> and Note 10: <i>Property, plant and equipment</i>, the impairment review of the carrying value of Kagem's mining assets requires significant judgment and estimates to be made by management.</p> <p>A reversal of impairment of USD21.6 million was recognised in the year ended 31 December 2019 in respect of Kagem.</p> <p>We therefore determined impairment of Kagem Mining Limited to be a Key Audit Matter.</p>
<p>How we addressed the Key Audit Matter in the audit</p>	<p>Our procedures in relation to management's assessment of the carrying value of Kagem's mining assets included:</p> <ul style="list-style-type: none"> • Inspecting the statutory instrument issued by the Government of Zambia in enacting the new tax changes using publicly available information and evaluating the impact of these on the impairment model. • We held a meeting with the Group's in-country tax advisors to ensure a full understanding of their analysis. We challenged their assessment and judgements on whether the enacted tax changes apply for the whole life of mine at Kagem. • Evaluating the forecast cash flows and comparing these to the approved life of mine plan ("LoMP") and resource and reserve reports prepared by a third party expert. We made an assessment of the experts who prepared the underlying information regarding reserves, resources and the LoMP. Our assessment involved understanding the scope of the expert's work and assessing their competence and independence. • Critically reviewing the LoMP by making enquiries of operational management, evaluating against our understanding of the operations and empirical performance and comparing the forecast to historical performance. • Testing whether the methodology applied in the value-in-use calculation is compliant with the requirements of International Accounting Standards ("IAS") 36 <i>Impairment of Assets</i>, and checking the mathematical accuracy of management's model. • 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"> – Assessment of the emerald grade and price forecasts to actual grades and prices achieved historically. – We recalculated the discount rate and utilised BDO valuation specialists to assess and form an opinion on the appropriate range of discount rates as at 31 December 2019.

<p>How we addressed the Key Audit Matter in the audit</p>	<ul style="list-style-type: none"> – Critical review of the forecasted costs against the expected production profiles in the mine plan and historical performance. – Review of management’s sensitivity analysis and performance of our own sensitivity analysis over individual key inputs. <ul style="list-style-type: none"> • We reviewed the sufficiency of disclosures given in Note 11: <i>Intangible assets</i> including the sensitivity analysis presented. <p>Key observations:</p> <p>We found management’s assessment that the enacted tax changes by the Government of Zambia present an indicator that the impairment loss recognised in the prior period at Kagem no longer exists at the reporting date to be appropriate.</p> <p>We found the disclosures in the financial statements to be appropriate and in line with accounting standards.</p>
<p>Key Audit Matter</p>	<p>Valuation of investment in Sedibelo</p> <p>As detailed in Note 1: <i>Accounting policies</i> and Note 12: <i>Investments</i>, the Group holds an investment in Sedibelo Platinum Mines (“SPM”). The value of the investment is recognised at fair value, estimated at USD57.5 million (2018: USD50.4 million). Details of the methods of valuation and the estimates and judgements involved are disclosed in Note 12: <i>Investments</i>.</p> <p>The primary source in determining the valuation of SPM at 31 December 2019 is an independent valuation report, prepared by an independent third party as at 31 December 2019. Judgement is involved in determining the fair value methodology, selection of SPM’s peer group and the discount factor applied. Given that significant judgments are involved in determining the fair value, this is considered to be a Key Audit Matter.</p>
<p>How we addressed the Key Audit Matter in the audit</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • We critically assessed the valuation prepared by a third party using our own valuation and technical specialists to assess the reasonableness of the methodology used and its compliance with IFRS. • We corroborated key inputs to the valuation such as the enterprise values and resource base of SPM’s peer group and SPM’s own resource base to publicly available market information. • We challenged the appropriateness of SPM’s peer group and the discount factor applied. We involved our specialist valuations department in reviewing the basis on which the discount factor was determined. • We assessed the independence and qualifications of the expert who prepared the valuation report. • We reviewed and evaluated the appropriateness of management’s sensitivity analysis. • We reviewed the sufficiency of disclosures in the Financial Statements, particularly the disclosures of key estimates and assumptions which impact the fair values, and the sensitivity analysis thereon. <p>Key observation:</p> <p>Based on procedures performed, we concurred with management’s position and considered the disclosure in the financial statements to be appropriate.</p>

INDEPENDENT AUDITOR'S REPORT/CONTINUED

to the members of Gemfields Group Limited

<p>Key Audit Matter</p>	<p>Valuation of the Fabergé CGU and NRV of inventory</p> <p>As detailed in Note 11: <i>Intangible assets</i> and Note 16: <i>Inventory</i>, the carrying value of the Fabergé CGU amounted to USD75 million, of which inventory accounted for USD30 million as at 31 December 2019.</p> <p>An independent third party expert was engaged by Management to undertake a net realisable value (“NRV”) assessment of Fabergé’s inventory. Accordingly, an impairment of USD5 million was recorded against Fabergé’s inventory balance as at 31 December 2019.</p> <p>Furthermore, a third-party valuation report prepared by an independent third party expert formed the basis in determining the carrying value of the Fabergé CGU as at 31 December 2019. The carrying value of the Fabergé CGU was determined under a fair value less costs of disposal approach based on a revenue multiple method derived from quoted comparable companies and transactions.</p> <p>As disclosed in Note 1: <i>Accounting policies</i> and Note 11: <i>Intangible assets</i>, the impairment review of the carrying value of Fabergé CGU requires significant judgment and estimates to be made by management. There is a risk that the Fabergé CGU is carried at an amount greater than its recoverable amount through continued use or sale.</p>
<p>How we addressed the Key Audit Matter in the audit</p>	<p>In relation to Fabergé’s inventory NRV assessment we undertook the following work:</p> <ul style="list-style-type: none"> • We critically reviewed the valuation report and made an assessment of the third party expert by considering, amongst other things, the scope of their work, their independence and their expertise. • We held a meeting with the expert to ensure a full understanding of their analysis. • We recalculated the inventory provision recognised and checked the appropriateness of disclosures in the financial statements. <p>In relation to Fabergé’s CGU carrying value assessment we undertook the following work:</p> <ul style="list-style-type: none"> • We critically assessed the valuation prepared by a third party using our own valuation and technical specialists to assess the reasonableness of the methodology used and its compliance with IFRS. • We corroborated key inputs to the valuation such as the market multiples to publicly available market information. • We challenged the appropriateness of enterprise value to revenue market multiple approach and involved our specialist valuations department in reviewing the valuation approach and the basis on which the discount factor was determined. • We assessed the independence and qualifications of the expert who prepared the valuation report. • We reviewed and evaluated the appropriateness of management’s sensitivity analysis. • We reviewed the sufficiency of disclosures in the financial statements, particularly the disclosures of key estimates and assumptions which impact the fair values, and the sensitivity analysis thereon. <p>Key observation:</p> <p>Based on the work performed we found management’s assessment of the carrying value of Fabergé’s CGU to be reasonable.</p> <p>We found the disclosures in the Financial Statements to be appropriate.</p>

Our application of materiality

Group materiality Basis for determining materiality	USD6,900,000 1% of total assets
Group performance materiality Basis for performance materiality	USD5,175,000 75% of Group materiality

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.

We determined an asset-based measure to be appropriate as the Group is currently developing mining projects that require significant capital expenditure. We consider total assets to be the most significant determinant of the Group's financial performance used by members as the Group continues to bring its mining assets through to production.

Whilst materiality for the Financial Statements as a whole was USD6,900,000 (2018: USD7,000,000), each significant component of the Group was audited to a lower level of materiality ranging from USD5,520,000 to USD2,060,000 (2018: USD2,000,000). Performance materiality was set at 75% (2018: 75%) of materiality, and was used to determine the financial statement areas to be included within the scope of our audit and the extent of sample sizes during the audit.

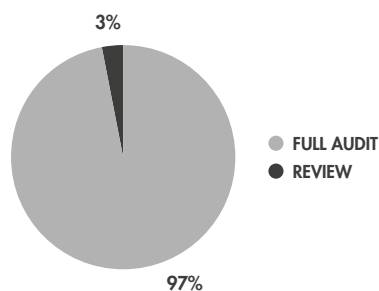
We agreed with the Audit Committee that we would report to the Committee all individual audit differences identified during the course of our audit in excess of USD345,000 (2018: USD350,000). We also agreed to report differences below these thresholds that, in our view warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the Financial Statements at the Group level.

Our Group audit scope focused on the Group's principal operating locations being United Kingdom (Gemfields and Fabergé), Zambia (Kagem Mining) and Mozambique (Montepuez Ruby Mining). These components along with the Parent Company were regarded as being significant components of the Group and were subject to full scope audit.

The remaining components of the Group were considered non-significant and these components were principally subject to analytical review procedures, together with additional substantive testing over the risk areas detailed above where 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.



INDEPENDENT AUDITOR'S REPORT/CONTINUED

to the members of Gemfields Group Limited

The audits of each of the components were principally performed in the United Kingdom, Zambia and Mozambique. All of the audits were conducted by either BDO LLP or BDO network member firms with Kagem Mining and Montepuez Ruby Mining being audited by BDO Zambia and BDO Mozambique respectively.

As part of our audit strategy as Group auditors:

- Detailed Group reporting instructions were sent to the component auditors, which included significant areas to be covered by the audits and set out the information to be reported to the Group audit team.
- Members of the Group audit team were physically present in Zambia and Mozambique at certain times during the fieldwork phases of the audits.
- The Group audit team was actively involved in the direction of the audits performed by the component auditor for Group reporting purposes, along with the consideration of findings and determination of conclusions drawn.
- The Group audit team visited the Kagem and Montepuez operating mines, reviewed the Zambian and Mozambican auditor work papers whilst onsite and attended clearance meetings for the significant components.

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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- Proper accounting records have not been kept by the Parent Company; or
- The Parent Company Financial Statements are not in agreement with the accounting records; or
- We have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities for financial reporting, 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 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 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. 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 Section 262 of the Companies (Guernsey) Law, 2008. 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 McNaughton

For and on behalf of BDO LLP

Chartered Accountants

London, UK

4 April 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

SHAREHOLDER INFORMATION

for the year ended 31 December 2019

Shareholder spread	Number of shareholders	%	Number of shares	%
1–1,000 shares	417	16.92	185,899	0.01
1,001–10,000 shares	1,006	40.83	4,741,946	0.37
10,001–100,000 shares	744	30.19	24,685,596	1.95
100,001–1,000,000 shares	199	8.08	63,597,098	5.02
1,000,001–10,000,000 shares	72	2.92	257,068,549	20.28
10,000,001 shares and over	26	1.06	917,171,157	72.36
	2,464	100	1,267,450,245	100
Distribution of shareholders				
Banks/Brokers	162	6.57	528,734,448	41.72
Close corporations	34	1.38	1,868,109	0.15
Endowment funds	2	0.08	921,437	0.07
Individuals	1,965	79.75	97,269,401	7.67
Insurance companies	2	0.08	67,516,853	5.33
Mutual funds	17	0.69	138,800,166	10.95
Nominees and trusts	19	0.77	28,933,196	2.28
Other corporations	21	0.85	1,292,319	0.10
Private companies	72	2.92	171,262,106	13.51
Public companies	16	0.65	167,407,280	13.21
Retirement funds	13	0.53	46,223,495	3.65
Trusts	141	5.72	17,221,435	1.36
	2,464	100	1,267,450,245	100
Public/non-public shareholders				
Public shareholders	2,443	99.15	991,864,399	78.26
Non-public shareholders	21	0.85	275,585,846	21.74
Holdings of Directors ¹	19	0.77	179,210,700	14.14
Interest in own shares	2	0.08	96,375,146	7.60
	2,464	100	1,267,450,245	100
Shareholders holding 5% or more			Number of shares	%
Dr Christo Wiese ²			160,388,407	12.65
FIL Limited			138,933,419	10.96
Ophorst Van Marwijk Kooy Vermogensbeheer NV			99,480,742	7.85
Gemfields Group Limited			96,375,146	7.60
Oasis Group Holdings (Pty) Ltd ³			94,785,218	7.48
Old Mutual Limited ⁴			75,721,374	5.97
Investec Asset Management (Pty) Ltd			68,255,891	5.39
Solway Finance Ltd			67,386,056	5.32

¹ Dr Wiese's interest has been included within "Holdings of Directors" rather than as a "Shareholder holding 10% or more". Four GGL Directors own shares in GGL, as detailed in the Financial Statements. For the split of public/non-public shareholders disclosed above, each of Dr Wiese's interests has been classified as a separate shareholder; this has increased the number of separate shareholdings to 19.

² At 31 December 2019, Dr Wiese held indirect interests in 160,388,407 GGL shares via various entities. In addition, a further 2,204,700 shares, or 0.17%, are held by members of Dr Wiese's immediate family; including these shares would increase Dr Wiese's total shareholding to 12.83%.

³ The Oasis shareholding includes interests held by Oasis Asset Management and Oasis Crescent Capital.

⁴ The Old Mutual shareholding includes interests held by Old Mutual Investment Group (South Africa) and Old Mutual Customised Solutions.

COMPANY DETAILS

Executive Directors

Sean Gilbertson
David Lovett

Non-Executive Directors

Martin Tolcher¹
Dr Christo Wiese
Lumkile Mondli
Kwape Mmela
Carel Malan²

The following persons were Directors during the period:

Brian Gilbertson³
Erich Clarke⁴

1 Martin Tolcher became Non-Executive Chairman effective 25 November 2019.

2 Appointed 9 January 2019.

3 Resigned 25 November 2019.

4 Resigned 7 January 2019.

Registered Office

Gemfields Group Limited
PO Box 186
Royal Chambers
St Julian's Avenue
St Peter Port
Guernsey
GY1 4HP
Channel Islands

Company Secretary

Mr Toby Hewitt
1 Cathedral Piazza
London
SW1E 5BP
United Kingdom

London Office

1 Cathedral Piazza
London
SW1E 5BP
United Kingdom

Legal Advisor (Guernsey)

Mourant
Royal Chambers
St Julian's Avenue
St Peter Port
Guernsey
GY1 4HP
Channel Islands

Legal Advisor (Bermuda)

Appleby Global
Canon's Court
22 Victoria Street
PO Box HM 1179
Hamilton HM EX
Bermuda

Legal Advisor (South Africa)

White & Case LLP
Katherine Towers
1st Floor
1 Park Lane, Wierda Valley
Sandton, 2196
Johannesburg
South Africa

Legal Advisor (UK)

Howard Kennedy LLP
No.1 London Bridge
London
SE1 9BG
United Kingdom

JSE Sponsor

Investec Bank Limited
100 Grayston Drive
Sandton, 2196
South Africa

AIM Nominated Advisor and Broker

finnCap Limited
60 New Broad Street
London
EC2M 1JJ
United Kingdom

COMPANY DETAILS CONTINUED

BSX Sponsor

Clarien Investments Limited
25 Reid Street, 4th Floor
Hamilton HM11
Bermuda

Registrar and Bermuda Transfer Secretary

Computershare Investor Services (Guernsey) Limited
1st Floor
Tudor House
Le Bordage
St Peter Port
Guernsey
GY1 1DB
Channel Islands

Administration Services (Guernsey)

Mourant Governance Services (Guernsey) Limited
PO Box 186
Royal Chambers
St. Julian's Avenue
St Peter Port
Guernsey
GY1 4HP
Channel Islands

South African Transfer Secretary

Computershare Investor Services (Pty) Limited
Rosebank Towers
15 Biermann Avenue
Rosebank, 2196
South Africa

Financial Public Relations

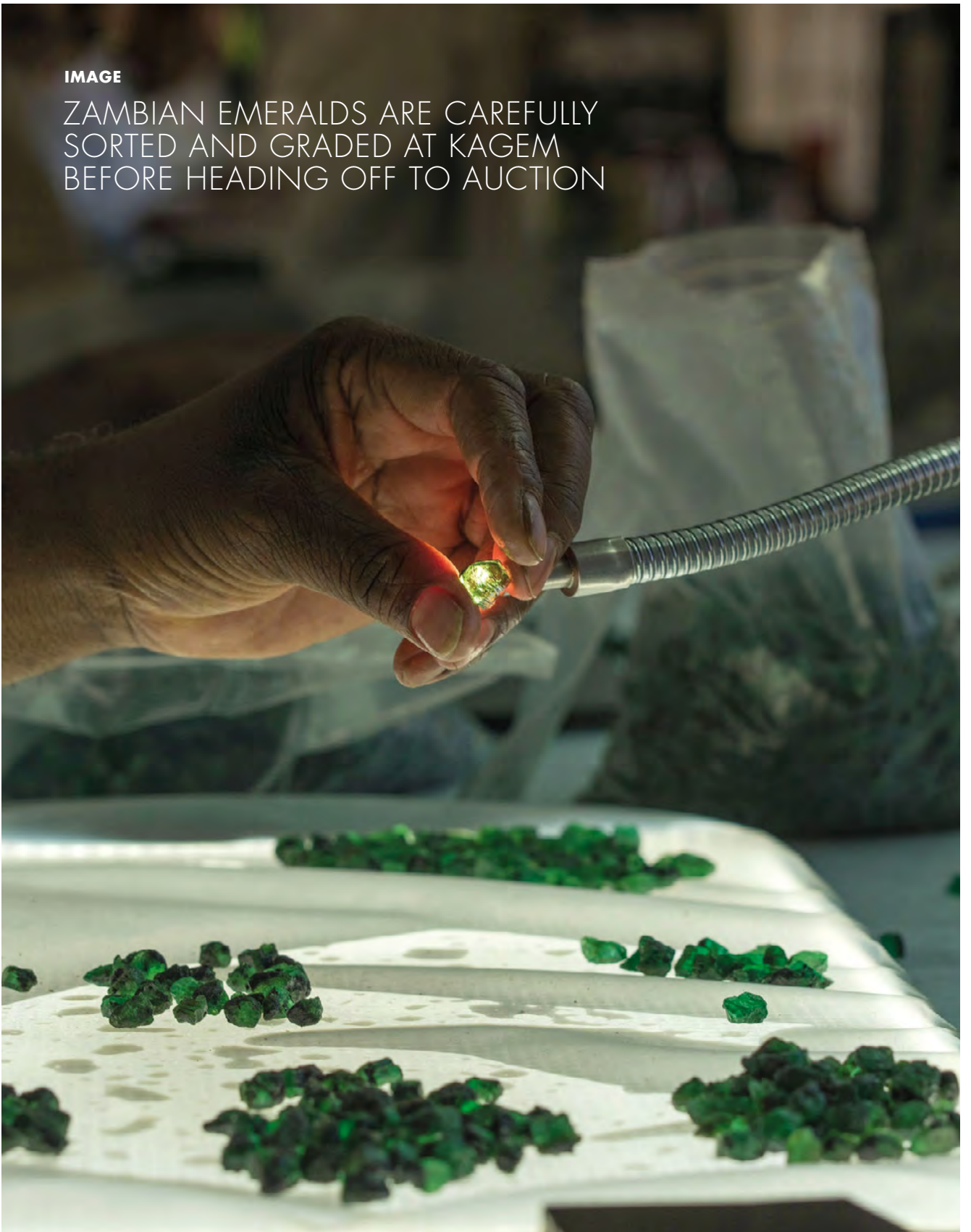
Camarco
107 Cheapside
London
EC2V 6DS
United Kingdom

Auditor

BDO LLP
55 Baker Street
London
W1U 7EU
United Kingdom

IMAGE

ZAMBIAN EMERALDS ARE CAREFULLY
SORTED AND GRADED AT KAGEM
BEFORE HEADING OFF TO AUCTION



GEMFIELDS

www.gemfieldsgroup.com