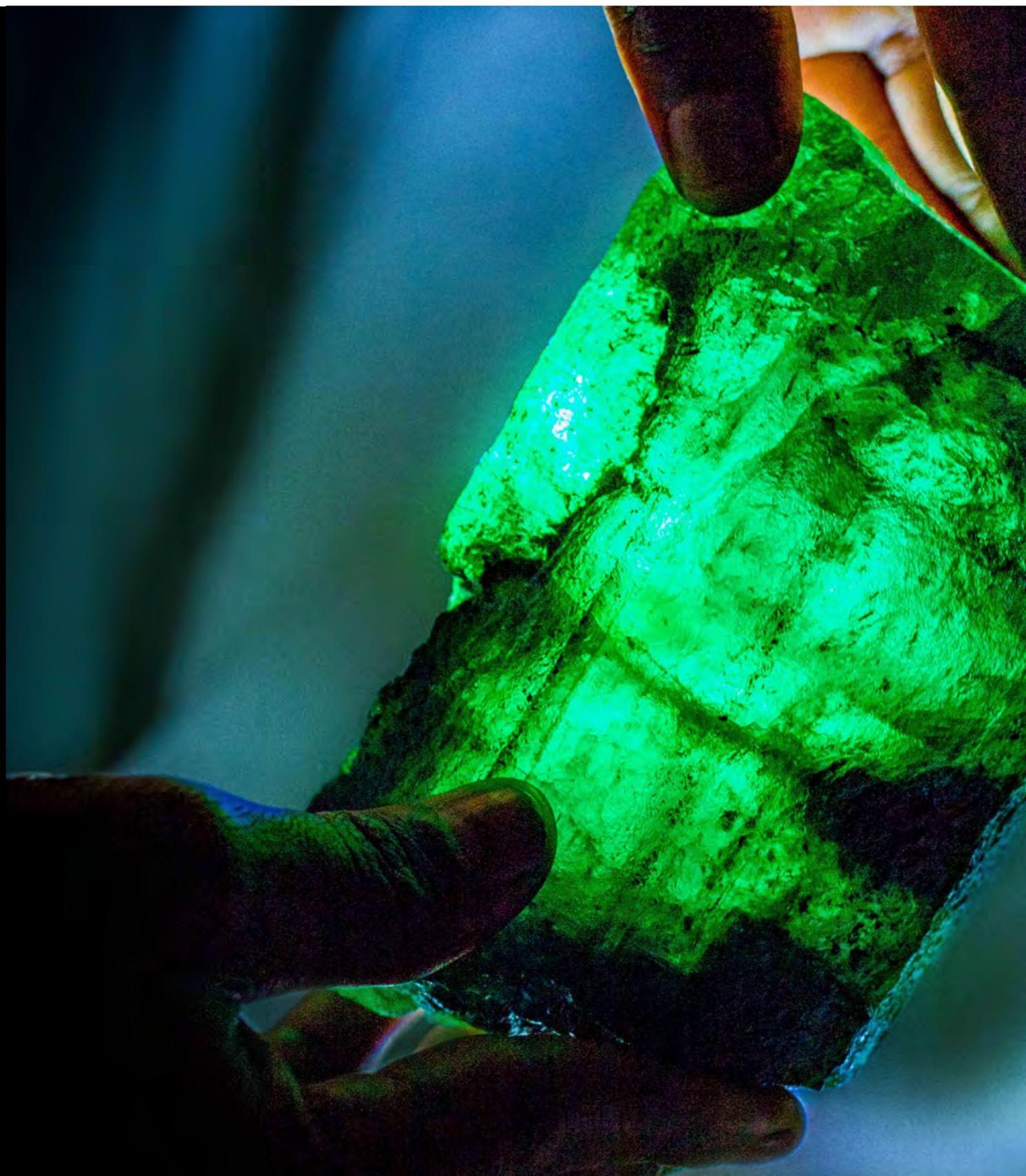




GEMFIELDS
ANNUAL REPORT 2018

Cover image Fabergé Emotion Charmeuse ruby and emerald rings, featuring Gemfields Zambian emeralds and Mozambican rubies, surrounded by rough Zambian emeralds from Kagem mine.

Image (below) The 5,655 carat Inkalamu "Lion" Emerald discovered at the Kagem mine.





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Image Gemfields Mozambican rubies from Montepuez Ruby Mining.

OVERVIEW

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“The Gemfields assets surpassed US\$200 million of turnover for the first time thanks to record revenues from our gemstone auctions and from Fabergé. Combined with the proceeds from the Jupiter IPO, our balance sheet has strengthened considerably.”

Brian Gilbertson
Chairman

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

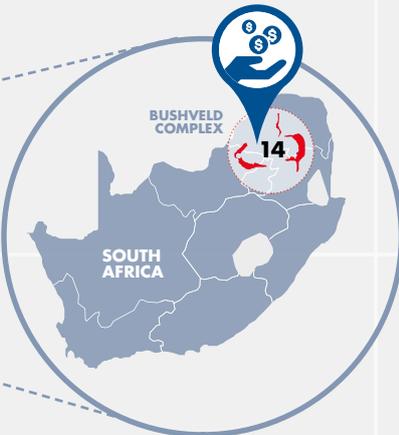
FABERGÉ

- 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

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- 11 Jupiter Mines Limited
Perth, Australia, Investment
- 12 Tshipi é Ntle (Pty) Limited
Hotazel, South Africa, Mine (Manganese)
- 13 Sedibelo Platinum Mines Limited
Guernsey, Channel Islands, Investment
- 14 Sedibelo Platinum Mines Limited
Bushveld Complex, South Africa, Mine (PGMs)





CHAIRMAN'S STATEMENT

Brian Gilbertson
Chairman



The year to 31 December 2018 has been the first full financial reporting period for the reshaped Gemfields Group Limited (“GGL” or “the Company”), now a fully operating mining and marketing group focussed on supplying precious coloured gemstones from Africa to global markets.

The Company has undergone significant transformation in reaching its new structure and strategic focus. We converted from a limited-life, closed-ended investment fund to an operating mining company, made high-level changes to our senior management, and opted to focus on being a “pure-play”, African precious coloured-gemstone producer. The Company is now in a stronger position to support the strategic positioning of our sector-leading mining operations in Zambia and Mozambique and the ongoing development of Fabergé, and to take advantage of suitable new opportunities, should they arise.

The year saw the Company face considerable challenges in Ethiopia, Mozambique and Zambia. The GGL share price endured a disappointing 12 months, falling 40% by year-end. This behaviour of the share price flies against the performance of the Group’s operations, where, inter alia, record revenues were achieved from the Gemfields assets in 2018, crossing the US\$200 million threshold for the first time. The year was capped off by a remarkable milestone not only for Gemfields, but also for the coloured-gemstone sector: cumulative revenue from Gemfields’ 41 auctions of Zambian emeralds and Mozambican rubies since June 2009 surpassed the US\$1 billion mark.

As stated in the Operational Review for Mozambique, the legal case brought by Leigh Day was resolved on a no admission of liability basis. With the reshaping of the Group and the major challenges of 2018 now largely behind us, I hope to soon see the share price begin to reflect the underlying fundamentals.

Our operations in Mozambique and Zambia generated revenues of US\$127.1 million and US\$60.3 million, respectively, in different market circumstances. The ruby auctions achieved record results, while the emerald market continued to suffer from a combination of deflating property prices in Jaipur, tight liquidity, and heightened regulatory scrutiny in India following the Nirav Modi scandal.

Overall, GGL generated EBITDA of US\$58.9 million and recognised free cash flows of US\$26.9 million before movements in working capital. Revenues were utilised to fund the development of a state-of-the-art sort house at MRM, the replacement of ageing fleet at Kagem, and the development of new mining projects in Zambia and Ethiopia. During the year, GGL paid US\$24.4 million and US\$16.5 million of corporation tax and mineral royalties, respectively. At 31 December 2018, GGL was in a net cash position of US\$9.8 million (31 December 2017: net debt of US\$25.7 million) following the receipt of approximately US\$64.4 million from the Jupiter IPO and the repayment of Fabergé’s loan facility during the period.

Bringing our “mine and market” vision to life, Fabergé recorded revenues of US\$13.4 million in 2018, a new record. Operating costs were rigorously reduced, while the operating sales margin for the period also improved significantly. An increasing emphasis on e-commerce has been rewarded by triple-digit growth in online sales, albeit from a low base. As such, Fabergé’s operating performance has shown improvement.

Jupiter Mines Limited, in which GGL presently owns approximately 7.4%, and which, in turn, owns 49.9% of Tshipi, has, through its successful partnership with Ntsimbintle, built Tshipi into a large, long-life and low-cost operator of an industry-leading manganese mine. Tshipi continues to see strong performance and expects to sell over three million tonnes of high-grade manganese ore for its financial year to 28 February 2019. During 2018, GGL received combined buy-back and dividend distributions of approximately US\$13.0 million. In April 2018, Jupiter relisted on the ASX, with GGL supporting Jupiter in this initiative, resulting in AUD83.1 million (US\$64.4 million) of net proceeds being received by GGL. GGL will consider the orderly disposal of its remaining interest in Jupiter at an appropriate time, with the current post-IPO lock-in arrangements expiring fully by the end of September 2019. In February 2019, Jupiter announced that it will declare a final dividend of AUD0.025 per share for its shareholders, with GGL due to receive AUD3.6 million (US\$2.6 million) in May 2019.

Image Gemfields Zambian emeralds from Kagem emerald mine.



With Jupiter now relisted on the ASX, valuation of GGL's shareholding in Jupiter is relatively straightforward.

Our platinum group metals ("PGM") investment, a 6.5% stake in Sedibelo, has entered its tenth year of production. Sedibelo continues to focus on minimising production costs, on cash preservation and on optimising operating efficiencies. Its safety record remains unsurpassed in the industry. The weakening of the South African rand against the US dollar has relieved some pressure on South African PGM producers, and there appears to be new optimism and growth prospects amongst the major producers.

The valuation of unlisted mining companies remains a subjective exercise, critically dependent on the input assumptions made. We have applied a market-multiple approach to valuing Sedibelo's reserves and resources to yield approximately US\$1.1 billion. As shareholders are aware, GGL views its 6.54% holding in Sedibelo as non-core, to be disposed of in an orderly manner when an acceptable opportunity might present itself. Recognising the lack of liquidity available in realising a minority stake in an unlisted company we have applied a 30% "illiquidity discount". This has resulted in our Sedibelo holding being valued at US\$50.4 million compared to US\$98.1 million in the previous reporting period.

The Company has made significant reductions in overall Board remuneration when compared with that originally approved by shareholders at our Annual General Meeting ("AGM") held on 26 June 2017. Nonetheless, 29.6% of shareholders voted against GGL's Remuneration Policy in the June 2018 AGM, thereby requiring that GGL consult with its shareholders. In August 2018, the Company hosted a telephone conference inviting views on the Company's Remuneration Policy. The turnout at this meeting was disappointing, with only one shareholder – who had in fact voted in favour of the policy – dialling in. GGL has therefore furthered efforts to seek shareholder feedback on an individual basis.

Perhaps our biggest challenge over the coming months will be in Zambia, where the government effected changes to the tax regime on 1 January 2019, introducing, inter alia, a new 15% export tax on precious gemstones and metals. Combined with the existing 6% mineral royalty levied on gemstones, this increases Kagem's total tax on revenues to 21%. In addition, the mineral royalty is no longer tax-deductible for corporation tax purposes. GGL and Kagem have been in active and regular dialogue with the relevant ministries since the changes were first mooted in October 2018. However, the changes have been enacted and, as such, an impairment loss in respect of Kagem of US\$22.6 million has been recognised. We continue to face challenges in Ethiopia after a mob overran the site in June 2018. Our team complement, once 110 strong, has been reduced to a handful while we seek solutions to the recommencement of bulk sampling work.

While our business inherently involves fairly volatile geological and political risks, making a maiden distribution to our shareholders remains a key ambition for the year ahead. In addressing a lack of broker research and share trading liquidity, as well as feedback from shareholders who received JSE-listed GGL shares in return for their AIM-listed Gemfields plc shares in 2017, our management team is exploring an additional listing in London during 2019 (without an associated capital raise).

I thank my fellow Directors and the hard-working GGL teams for what has been a challenging but successful year. With many of the uncertainties in the Group having been addressed, I look forward to the next chapter in GGL's vision of becoming "the DeBeers of coloured gemstones".

Brian Gilbertson
Chairman
22 March 2019

CHIEF EXECUTIVE'S STATEMENT

Sean Gilbertson
Chief Executive Officer



My tenure as Chief Executive Officer of the Company commenced in April 2018 and I would like to thank the outgoing Chief Executive, Arne H. Frandsen, and Finance Director, Andrew Willis, for their spirited contribution and stewardship during the Company's decade-long existence as an investment fund.

Today, after significant structural and strategic change in 2017 and 2018, GGL is an operating mining and marketing company focussed on precious coloured gemstones from arguably the world's most exciting continent, Africa.

Our emphasis remains on enhancing the operational performance of our existing mines and operations, as well as further improving our balance sheet. Aided by our marketing activities, 2018 delivered record auction revenues of US\$187.4 million.

October 2018 saw the launch of our new "Every Piece Unique" global consumer advertising campaign, inspiring generations young and old to discover coloured gemstones via a fresh and decidedly modern approach. The CGI-based video is set in an art gallery and sees sculptures, inspired by the many facets underpinning Gemfields, coming to life, highlighting Zambian emeralds, Mozambican rubies, Fabergé, and Gemfields' approach to transparency, sustainability and community projects in the fields of health, education, conservation and livelihood development. The campaign has been very well received with, for example, the video being viewed more than seven million times online alone.

ZAMBIA

Thanks to the august efforts of our team in Zambia, Kagem enjoyed a remarkable production year, with production in the premium emerald category reaching 224,000 carats, exceeding the previous 12 months to 30 June 2017 by more than 400%. All-time records were also set for ore production, total carats produced, the number of carats in the emerald category, and the number of tonnes of rock handled at our principal pit, Chama. We invested a sizeable US\$11.8 million, predominantly in the replacement of mining and ancillary equipment as well as in general infrastructure.

The reopened Mbuva-Chibolele operation continues to display encouraging signs, including the production of more than 5.5 million carats since production recommenced in December 2017. We also continue to progress the incorporation of Mbuva-Chibolele and other wholly-owned Zambian emerald licences into (75%-owned) Kagem in order to create a larger company with greater operating scale and enhanced efficiencies.

While Kagem's production was buoyant, market conditions for Zambian emeralds remained sluggish. The four emerald auctions during 2018 (two in Lusaka and two abroad) generated US\$60.3 million in revenues, a tolerable result considering the ongoing financing and regulatory oversight challenges facing our Indian customers.

The tax regime changes introduced in Zambia on 1 January 2019 have a clear and detrimental impact on the profitability, cash flow and development of the gemstone sector in Zambia and we hope that our ongoing dialogue with the Zambian government will bear a positive outcome.

MOZAMBIQUE

MRM continued its focus on producing a suitable mix of rubies to cater to market demands. During the year, a total of 2.9 million carats of ruby and corundum were produced, with robust premium ruby production of 92,200 carats. We invested US\$16.7 million in improvements to the existing mining and ancillary equipment, the Resettlement Action Plan, and a new, industry-leading sort house, which is set to significantly improve gemstone recovery.

Auger drilling in both the western and southern licences of Megaruma Mining Limitada ("MML") has shown positive signs of secondary ruby mineralisation and has been helpful in delineating gravel beds at these licences. A management service agreement was signed with MRM to facilitate commencement of bulk sampling and washing operations at the western licence of MML. While it is too early in the process to draw conclusions, recovery results from the first bulk sampling pit are disappointing. This is not uncommon during bulk sampling exercises on deposits of this nature.

The two MRM auctions of mixed-quality rubies during the year generated record revenues of US\$127.1 million, with the June 2018 auction achieving an all-time Gemfields auction record of US\$71.8 million.

ETHIOPIA

Web Gemstone Mining (“WGM”) continued to produce “gemmy”-quality emeralds from the Dogogo South bulk sampling pit. Since bulk sampling began in August 2017, the Ethiopia operation has seen 283,535 carats of production in total, of which 11,190 carats were in the emerald grade. Regrettably, in June 2018, WGM’s operations were overrun by a mob estimated at between 300 and 500 persons who looted the site and destroyed core sampling stores. The WGM team was safely evacuated, with only two individuals suffering minor injuries. We continue to monitor developments and to liaise with our stakeholders in the hope of recommencing bulk sampling in the future.

FABERGÉ

Our outright ownership of Fabergé – an iconic and prestigious brand of exceptional heritage – enables us to optimise positioning, perception and consumer awareness of coloured gemstones, advancing the wider group’s “mine and market” vision.

Fabergé’s emphasis for the year was on reducing operating costs and increasing sales from the e-commerce, wholesale and direct-sale channels. Fabergé achieved record revenues for the year of US\$13.4 million, with an EBITDA loss of US\$4.6 million, a material improvement on prior comparative reporting periods. During the year, Fabergé repaid its third-party debt facility, meaning that it no longer carries any third-party debt on its balance sheet.

Fabergé enjoyed extensive global coverage of the “Spirit of Ecstasy Egg”, created in partnership with Rolls-Royce Motor Cars. Two of Fabergé’s timepieces, the Fabergé Dalliance Clover and the Visionnaire Chronograph Dynamique, were shortlisted for the prestigious Grand Prix d’Horlogerie de Genève (GPHG) awards in the “Artistic Crafts” and “Sports” categories, respectively.

INVESTMENTS

Tshipi’s management team has yet again delivered exceptional results, with estimated production for its full year to 28 February 2019 expected to be at record levels. During April 2018, GGL participated in Jupiter’s IPO, realising AUD83.1 million (US\$64.4 million) for the disposal of 60% of our interest, at AUD0.40 per share. This cash injection has helped GGL return to a net cash position by paying down Fabergé’s third-party loan as well as reducing MRM lease facilities. Jupiter has delivered a remarkable 24% dividend yield for its financial year to 28 February 2019.

Sedibelo continues its focus on safety and has now achieved a record of over five million fatality-free shifts – one of the PGM industry’s best safety records. Sedibelo dispatched 113,000 4E PGM ounces during the nine months to September 2018, 22% up on the comparative period. Sedibelo successfully commissioned construction of its chrome extraction plant, with the first cash flows being received during the period.

Given our focus on precious coloured gemstones, we will seek an orderly disposal of our interest in Sedibelo.

CASH VS PROFIT

Our Jupiter investment realised US\$11.7 million of profit during the year from the IPO participation and another Jupiter share buy-back, offset by unrealised mark-to-market losses of US\$11.9 million. A further US\$5.3 million of cash was received from the Jupiter dividend in October 2018.

While 2018 saw record revenues from the Gemfields assets – exceeding US\$200 million for the first time – the final results for the year have been significantly impacted by the fair value loss on Sedibelo and the impairment of Kagem, both of which are non-cash adjustments. We have applied an impairment charge of US\$22.6 million to our Kagem asset as a result of the newly implemented tax changes in Zambia.

As such, the results for 2018 are significantly different from our underlying cash performance. Free cash flows for the year were US\$26.9 million before working capital adjustments (which are largely in relation to the overhang of the Singapore auction receivables at the year-end). Our free cash flows, taken together with our net cash position, highlight the possibility of a distribution to shareholders, conditional of course on favourable winds in the year ahead.

Costs of an exceptional nature during the year include the Leigh Day settlement of US\$7.4 million as well as higher than usual capital expenditure, with the majority being invested in the new sort house at MRM. The Company is also in the process of relocating its London headquarters to realise further corporate cost savings.

I thank all of my colleagues across the Group for their sterling teamwork during what was a demanding and dynamic year, and I look forward to navigating 2019 alongside them.

Sean Gilbertson
Chief Executive Officer



June 2017

Conversion of PRL from a 10-year closed-ended investment fund to an evergreen operating mining company.



London Stock Exchange

July 2017

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

July – Sept 2017

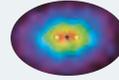
June 2017

July 2017



June – September 2017

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



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.



July–August 2017

March 2018

June 2018



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.



June 2018

PRL shareholders approve PRL's name change to Gemfields Group Limited.

GEMFIELDS

BOARD OF DIRECTORS

BRIAN GILBERTSON (75)

BSc (Mathematics & Physics), BSc (Hons) in Physics, MBL and PMD

Non-Executive Chairman

Brian Gilbertson has extensive experience in the global natural resources industry. In his early career, he was managing director of Rustenburg Platinum Mines Limited, which gained recognition as the world's foremost producer of platinum in the 1980s. Later, as executive chairman of Gencor Limited, Mr Gilbertson led the restructuring of the South African mining industry into the post-apartheid era, transforming Gencor Limited into a focussed minerals and mining group. During this period, he held ultimate responsibility for Impala Platinum Holdings and for Samancor Limited, the world's largest producer of manganese and chrome ore and alloys. Important initiatives included the Hillside and Mozal aluminium projects and the purchase of the international mining assets (Billiton plc) of the Royal Dutch Shell Group.

In 1997, Gencor Limited restructured its non-precious metals interests as Billiton plc and, with Mr Gilbertson as executive chairman, Billiton plc raised US\$1.5 billion in an initial public offering ("IPO") on the London Stock Exchange ("LSE"), taking the company into the FTSE100. In 2001, Billiton plc merged with BHP Limited to create what is widely regarded as the world's premier resources company, BHP Billiton plc.

In late 2003, Mr Gilbertson led the mining group, Vedanta Resources plc, to the first primary listing of an Indian company on the LSE in the second-largest IPO of the year. He was chairman of Vedanta Resources plc until July 2004. In 2004, he founded Incwala Resources (Pty) Limited, a pioneering Black Economic Empowerment corporation in South Africa, and was its first chairman until March 2006.

In 2004, Mr Gilbertson joined Sibirsko-Uralskaya Aluminium Company ("SUAL"), an aluminium producer in Russia, and led



Brian Gilbertson



Sean Gilbertson

the company into the US\$30 billion merger with RUSAL and the alumina assets of Glencore International AG, creating the largest aluminium company in the world.

Mr Gilbertson is the non-executive chairman of Gemfields and Jupiter and is a Director of Sedibelo Platinum Mines and Tshipi. Mr Gilbertson is a British and South African citizen.

SEAN GILBERTSON (46)

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 is a Director of both Gemfields and Fabergé, as well as various related companies. Mr Gilbertson is a British and South African citizen.



David Lovett



Dr Christo Wiese



Lumkile Mondi

DAVID LOVETT (36)

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 United Kingdom (“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 (77)

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

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 Johannesburg Stock Exchange (“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.

In 2015, Dr Wiese was awarded the Lifetime Achievement Award 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 (56)

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 also serves on the boards of Aerosud and ArcelorMittal South Africa. He is the chairman of the Musa Group and Thelo Rolling Stock Leasing.

Mr Mondi has more than 20 years of postgraduate experience and over seven years of 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 (“UN”), the World Bank, the BNDES 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.



Martin Tolcher



Kwape Mmela



Carel Malan

MARTIN TOLCHER (55)*Chartered FCSI*

Independent Non-Executive Director
Chair of the Audit Committee
Member of the 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.

KWAPE MMELA (48)*LLB, MPhil (Business Research)*

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

Kwape Mmela is founder and chairman of ShepherdTree Holdings Limited and Hlamogolo Capital (Pty) Limited, 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 (Proprietary) Limited, which eventually became the Black Economic Empowerment partner of Sedibelo Platinum Mines. Mr Mmela is a South African citizen.

CAREL MALAN (33)*Chartered Accountant (South Africa)*

Independent Non-Executive Director
Member 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 Recovering Zambian emeralds by hand at Kagem mine.





Image The 5,655 carat Inkalamu "Lion" Emerald discovered at the Kagem mine.

PERFORMANCE

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“Africa is arguably the world’s most exciting continent and we remain very enthusiastic about the future prospects for African emeralds, rubies and sapphires. There are of course challenges aplenty and we thank our exceptionally hard-working teams for their fortitude in forging solutions.”

Sean Gilbertson
Chief Executive Officer



2018 HIGHLIGHTS

GEMFIELDS

ZAMBIA

- Kagem Emerald Mine (“Kagem”) produced 224,000 carats of premium emerald for the year to 31 December 2018.
- Kagem produced 35.5 million carats of emerald and beryl during the year, with an average grade of 205 carats per tonne.
- During the year, total cash operating costs were US\$35.4 million, with unit operating costs of US\$2.97 per tonne.
- Total auction revenues of US\$60.3 million were generated from four auctions during the year, namely two higher-quality (“HQ”) and two commercial-quality (“CQ”) auctions.
- Kagem held two HQ auctions in the year, one in Lusaka, Zambia, in May 2018 and one in Singapore in November 2018. HQ auction revenues of US\$38.7 million were achieved, with an average price per carat of US\$65.55.
- Operations at the Mbuva-Chibolele property, adjacent to the Kagem licence area, continued, with 5.5 million carats of emerald and beryl produced at an average grade of 128 carats per tonne.

MOZAMBIQUE

- A total of 92,200 carats of premium ruby were produced for the year to 31 December 2018.
- A total of 2.9 million carats of ruby and corundum were produced during the year, with an average grade of 3.4 carats per tonne.
- During the year, total cash operating costs were US\$33.3 million, with unit operating costs of US\$7.21 per tonne.
- MRM held two mixed-quality auctions in the period, in Singapore in June and November 2018. Record revenues of US\$127.1 million were achieved, with an average price per carat of US\$102.16.
- The Leigh Day case closed with a total settlement of US\$7.4 million; Gemfields is not liable for the alleged abuses set out in the claims but had taken 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.
- A new, “state-of-the-art” automated sort house was completed in December 2018 and commissioned in February 2019.



Image Gemfields Zambian emeralds prepared for auction at Kagem mine.

2018 HIGHLIGHTS

FABERGÉ LIMITED

- During the year to 31 December 2018, Fabergé saw strong activity in agreed sales in both number of pieces sold at 1,769 and number of sales transactions at 750. During the same period, Fabergé's wholesale sales channel saw a significant increase in sales agreed by US\$1.8 million to US\$5.1 million and increased the numbers of points of sale from 50 to 65. Fabergé also saw a reduction in administrative expenses of US\$4.0 million to US\$9.9 million for the year, when compared to the full 12 months to 31 December 2017 of operations.
- Fabergé has again been shortlisted for the prestigious Grand Prix d'Horlogerie de Genève (GPHG) awards, this year for two timepieces. The pieces nominated include the Fabergé Clover from the Fabergé Dalliance collection for the category "Artistic Crafts" and the Visionnaire Chronograph Dynamique within the "Sports" category.
- Fabergé's best-selling jewellery lines were expanded during the period to include bangles and cross-over rings, further building the customer offering based around the iconic Fabergé egg motif.
- 2018 also saw the latest Imperial Class Egg from Fabergé, in collaboration with Rolls-Royce Motor Cars. The amethyst, diamond and rose gold *objet d'art* was incredibly well received and generated significant amounts of coverage. The egg was delivered to its owner in December 2018, following unveiling events in Singapore and England.



Image Palais Tsarskoye Selo rose locket with heart surprise and "I love you" yellow gold pendant. Image features Gemfields Mozambican rubies.

MARKETING AND COMMUNICATIONS

Driving demand through marketing remains a key part of Gemfields' approach and 2018 saw Gemfields advance its reputation as a leader in innovative marketing campaigns.

A new, surprising and upbeat advertising campaign, unexpected activations, and brand partnerships provided international talking points in respect of both the Gemfields and Fabergé brands, bringing to life Gemfields' core values and heightening the presence of Zambian emeralds and Mozambican rubies on the world stage.

NEW ADVERTISING CAMPAIGN HIGHLIGHTS GROUP VALUES

The year 2018 saw the launch of Gemfields' new advertising campaign, "Every Piece Unique", a playful portrayal of the brand values designed to put core aspects of the business front and centre in consumers' minds. The campaign video unites the strands of the Gemfields Group, from Kagem's emeralds to Fabergé's eggs, with vital conservation work, community projects and a sustainable ethos.

The departure from traditional jewellery advertising is a reflection both of an appetite for innovation and of changing consumer demands. With many sources (Forbes, CB Insights, Luxe Digital) citing millennials' preference for, and the growing prominence of, sustainability and social conscience as a prerequisite to purchase, it is the right time to be telling Gemfields' story.

Achieving 7.4 million YouTube views by the end of the year, the campaign film is set in an art gallery closing for the night, when the sculptures come to life through movement and dance. Each art piece moves in a unique way, awakening the next as they move through the gallery.

A faceted female form – half-emerald and half-ruby – embodies these gemstones and highlights Gemfields' drive for transparency. A huge flowering baobab tree represents Gemfields' approach to mining – reducing the impact on the site and maintaining

WWD



GEMFIELDS CAMPAIGN ABOUT MORE THAN JUST GEMSTONES

The multichannel "Every Piece Unique" campaign aims to raise consumer awareness of the company's responsible-sourcing practices rather than the luxury of gemstones. BY THOMAS WALLER

OPENTIMES ADVERTISING in the hard luxury sector – incorporating images of faces or beautiful people in art of local, Gemfields, one of the world's leading suppliers of colored gemstones, is taking a different approach with its new integrated global campaign, based on raising consumer awareness of its responsible-sourcing practices in Africa.

"We had a lot of healthy debates about what direction to take," said Gemfields' chief executive officer Sean Gilbertson. "This is a fundamental and riskier departure from the norm, instead of looking at the end of the chain, we are going all the way to the beginning to tell people a little bit more about where their gemstones come from. I think linking that to many of the elements that are fundamental to what Gemfields does will hopefully come to resonance with what consumers are beginning to care about today. In other words, where did my gemstone come from, how was it mined, how was it brought to market and what happens on the ground where the gemstones are extracted?"

The campaign film, titled "Every Piece Unique", takes a light-hearted approach to the weighty issue by bringing pieces of art in a gallery to life through movement and dance. The characters – developed by MPC Creative using motion capture, VFX and CGI animation – each represent one of the core values of the mining company's business: transparency, a founding principle of the mining company's business, education, the company supports life-changing initiatives for the communities near its mines; conservation, Gemfields works with partners to protect Africa's wildlife

and biodiversity; health, they provide health care to areas around their mines; and food, a nod to the local farming programs they foster. The characters dance at the base of a flowering baobab tree, known in Africa as the "tree of life," a symbol meant to embody "sustainability," which is Gemfields' overarching approach to how it communicates to and around its mining operations.

The two-year campaign launched Oct. 1 and employs an integrated approach across several channels, including social, digital and print. "I think the integrated approach is fundamental today, people consume information through so many channels," the London-based CEO said.

"It's a big believer in the old-fashioned benchmark of getting the message to the consumer's mind several times. So, by using many different channels you increase the chance of doing just that."

The mining company, whose colored gemstones can be found in many of the industry's top fine jewelry collections, unveiled the campaign with a massive banner covering London department store Harrods and wrapping electric vehicles, featuring the characters from the film, around some of the city's landmarks. In New York, it re-created a life-size version of the campaign's Rhinoceros character, meant to reflect its work with conservation partners in Mozambique and Zambia, where Gemfields' mines are based. Gilbertson was coy about future activations and installations, saying, "we will have many layers to gradually peel away to continue to tell the campaign's story."

Further, he noted, "I would describe part of the message being that every colored gemstone is wholly distinctive. I do mean this genuinely. That resonates with pieces of original art, which is why we set this

in a gallery scene. And those individual personalities and characteristics also echo individual people. Unique gemstones, for unique people," he said.

The campaign comes at a time when lab-grown gemstones are beginning to gain traction as a disrupter in the mature gemstone industry, but ultimately Gilbertson doesn't see it as a risk to the mining sector. "There are a lot of people who are trying to go down the road of laboratory-grown stones, thinking that if gemstones are manufactured in laboratories then just think about how much better the world would be because you'd just have all these problems associated with mining in Africa," he commented.

"On the contrary, I think that is one of the most harmful and damaging things we could do to any country in Africa because we would be depriving people of the revenue and employment that comes from gemstones. If we suddenly stop that, we are going to have much bigger problems."

While advertising initiatives spur a lot of internal dialogue about ROI, analytics and costs, Gilbertson was candid when speaking about how he measures the overall campaign.

"I've got debates from the marketing and communications message that might talk about online awareness or clicks, coverage in magazines or newspapers. All that is important, but I measure it in a very different way," he said. "If we can help consumers to understand some of the complexities of bringing these gemstones to market, and very importantly the positive lasting contribution that our purchases of African colored gemstones can make to the African continent, then I will consider the campaign as having been successful." ■

"INSTEAD OF LOOKING AT THE END OF THE CHAIN, WE ARE GOING ALL THE WAY TO THE BEGINNING TO TELL PEOPLE A LITTLE BIT MORE ABOUT WHERE THEIR GEMSTONES COME FROM. I THINK LINKING THAT TO MANY OF THE ELEMENTS THAT ARE FUNDAMENTAL TO WHAT GEMFIELDS DOES WILL HOPEFULLY COME TO RESONATE WITH WHAT CONSUMERS ARE BEGINNING TO CARE ABOUT TODAY. WHERE DID MY GEMSTONE COME FROM, HOW WAS IT MINED, HOW WAS IT BROUGHT TO MARKET AND WHAT HAPPENS ON THE GROUND WHERE THE GEMSTONES ARE EXTRACTED?"

Sean Gilbertson, Gemfields

biodiversity – while a valiant rhino sculpture reflects conservation work with partners.

A scroll-like paper sculpture personifies the schools established, a large-scale hanging feather installation is a nod to the chicken farms and farming associations created, while an abstract painting with human forms surrounding a Fabergé egg symbolises the health clinics started, all to benefit the communities local to Gemfields' mines in Zambia and Mozambique.

The film concludes with an explosion of baobab flowers, and characters return to their original gallery positions, with only two gently floating flowers – with hearts of ruby and emerald – to indicate that something magical has happened.

"Every Piece Unique" highlights how each gemstone is unique, possessing its own character, much like original pieces of art. It continues the "A Story in Every Gemstone" narrative, building a greater understanding of the depths behind responsibly sourcing emeralds and rubies from their origins in Africa. *Luxury Daily* in the United States ("US") commented: "The film is symbolic, fun and deadly serious. It provides an innovative perspective into the soul of the company."







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Rolls-Royce Immortalized in a Fabergé Egg

The world's most iconic automotive brand has crafted a priceless homage to its legacy.

BY ANGELA M.H. SCHUSTER ON OCTOBER 23, 2018










Rolls Royce's latest offering, a Spirit of Ecstasy Fabergé Egg
Photo: Courtesy of Rolls-Royce Motor Cars

The campaign launched in September across digital, social and print media, on Sky TV and BA in-flight entertainment, and through public relations (“PR”) and in-market activations, delivering a total of 310 million views. Digital activity delivered a 1,394% increase in users of Gemfields’ website in the final quarter compared with the same period in 2017.

IN-MARKET ACTIVATIONS BRING NEW ADVERTISING CAMPAIGN ALIVE

In New York, as a priority market for jewellery sales, the activation approach was multifaceted. It comprised an advertising mural, painted in linseed oil paints to deepen the sustainability message, digital transit shelters featuring film characters, and, to fuel New Yorkers’ love of social media, a life-sized version of the rhino character touring the streets of Manhattan with fashion influencers Cara Santana, Ian Michael Crumm and Brooke Carrie Hill.

In London, the sustainability message was furthered by wrapping newly introduced electric black cabs and printing film characters on “breathable” banners designed to clean pollution from the city air. Subsequent in-market events are lined up for early 2019 in China and India as the campaign continues for the next two years.

INNOVATIVE PARTNERSHIPS BLAZE A TRAIL

The Group continued its tradition of innovative marketing partnerships, blazing a trail for the coloured gemstone industry.

Fabergé’s contemporary collaboration with Rolls-Royce Motor Cars saw “Rolls-Royce immortalised in a Fabergé egg” (*Robb Report*), with the Spirit of Ecstasy Egg highlighting a meeting of the minds between two brands, each boasting over a century of rich heritage yet still as relevant today. The amethyst, diamond and rose-gold *objet d’art* commission, shown in England and Singapore, succinctly communicates bespoke capabilities and the inimitable Fabergé surprise.

For a third year, Gemfields collaborated with leading US fine-jewellery showroom, Muse, to curate a collection of ruby- and emerald-inspired pieces at a wide range of price points. Launched at Couture in Las Vegas, 65 pairs of earrings by 23 of today’s most dynamic designers attracted global media attention, with *Rapaport* declaring that “ethically sourced gemstones are a trend to watch”. The pieces went on to be worn by celebrities Ellie Goulding, Katherine Langford, Danielle Campbell, Emily Weiss, Bel Powley, Kate McKinnon and Alysia Reiner at various red-carpet events.

MARKETING AND COMMUNICATIONS CONTINUED

Fabergé partnered with family jewellers, CW Sellors, creating a limited-edition collection with the rarest mineral in Britain, Blue John, to celebrate their 40th birthday. Fabergé also paid tribute to its first workmaster since the Russian Revolution, Frédéric Zaavy, by showcasing his one-of-a-kind collection at an exclusive exhibition in Harrods.

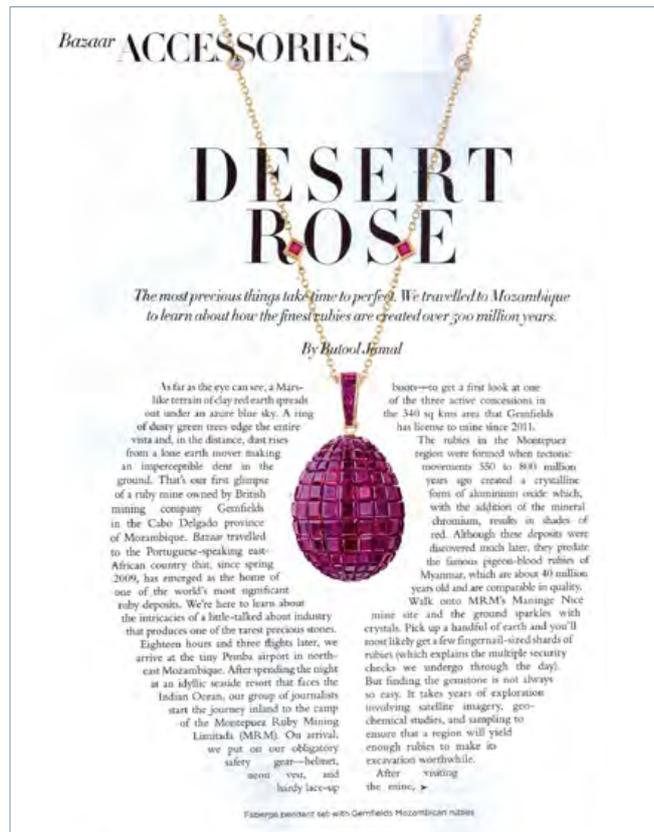
Significant improvements across Group social media feeds culminated in Gemfields' most engaging festive social media campaign to date, which saw iconic holiday elements recreated with animated rubies and emeralds. The festive theme was fused with a selection of jewellery pieces from Fabergé and brand partners with international reach, from Chopard to Ana Khouri, Bina Goenka and William & Son, building awareness of where consumers can buy Gemfields' gemstones.

INCREASING PRESENCE IN THE GROWING CHINA MARKET

In a market traditionally dominated by Burmese rubies, Gemfields set about bringing African gemstones to the fore. In May, Gemfields hosted leading Chinese jewellery and business editors, from titles such as *xbiao*, *Sobu* and *Bazaar Jewelry*, at Kagem emerald mine, resulting in a plethora of emerald coverage reaching 14 million Chinese consumers and achieving a return on investment ("ROI") of 19x. Gemfields also hosted similar trips with Indian and American media to the MRM ruby mine in Mozambique.

At the Hong Kong Jewellery and Gem Fair in both March and September, roundtable discussions and one-on-one interviews with key spokespersons provided an opportunity to delve into topics of gemstone origin and pigmentation, as well as the communities that sales of African gemstones support.

In addition, Gemfields invited top-tier press and key opinion leaders to a bespoke masterclass in Shanghai, designed to boost the status of Mozambican rubies and Zambian emeralds. Hosted by the renowned gemstone and jewellery expert Joanna Hardy, readers of titles such as *ELLE Deco*, *InStyle* and *itTime* are now equipped with a deeper understanding of African gemstones and their rich



provenance owing to informed coverage in these important consumer-facing titles. Subsequent press interviews were also held in Beijing, with titles including *Tatler* and *Modern Weekly*.

BOOSTING AFRICAN GEMSTONES ON THE WORLD STAGE

The discovery of “Inkalamu” – the “Lion Emerald” – a 5,655 carat Zambian emerald crystal with remarkable clarity and a perfectly balanced golden-green hue captivated the international press, including CNN, BBC News and Bloomberg. Gemfields pledged 10% of the auction proceeds from the sale of Inkalamu to the Zambian Carnivore Programme and the Niassa Carnivore Project in Mozambique to further their vital efforts in protecting lions.

A pair of emerald earrings from Kagem was sold at Christie’s “Important Jewels” auction in London, increasing the presence of African gemstones on the world stage in a forum known to predominantly favour Colombian emeralds.

AWARDS AND EXHIBITIONS

Aurélié Picaud, Global Timepieces Director, was awarded the coveted Lauréat de L’empreinte de L’année (Impression of the Year Award) at Le Centre du Luxe et de la Création (Luxury & Creation Centre) for her work across Fabergé’s timepiece collections. In addition, Fabergé was shortlisted for the prestigious Grand Prix d’Horlogerie de Genève (“GPHG”) Awards this year for two of its world-renowned timepieces: the Fabergé Dalliance Clover for the “Artistic Crafts category” and the “Visionnaire Chronograph Dynamique” within the “Sports category”.

The Group sponsored *Vogue India*’s Women of the Year Awards, as official jewellery and gemstone partner, presenting the Lifetime Achievement Award to Ritu Kumar, an Indian fashion designer, as well as providing jewellery for leading Bollywood actresses.

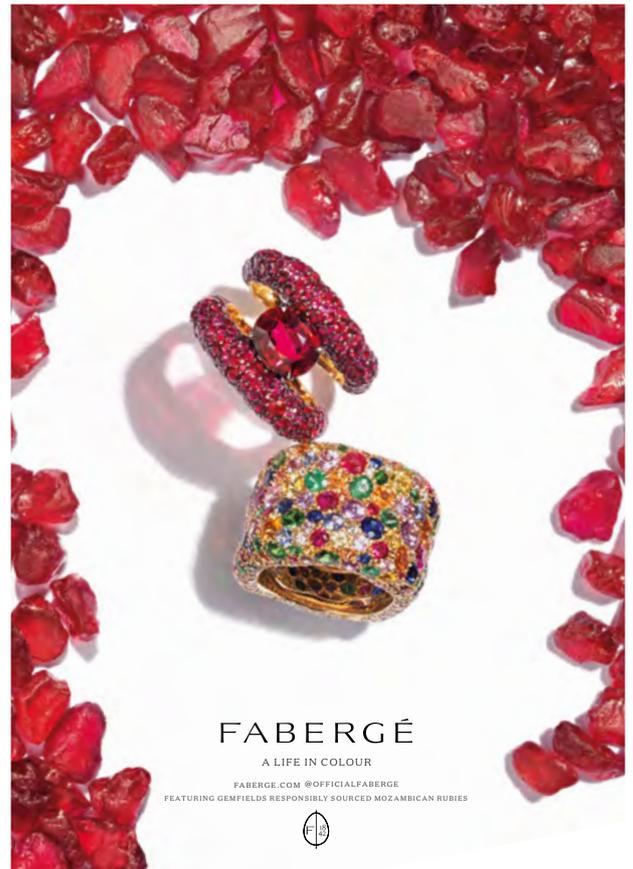
Gemfields’ strong presence at international trade shows continued, with a presence at IDCA Tucson, IJS in Mumbai, the Hong Kong International Jewellery Shows, and JJS in Jaipur. Fabergé maintained attendance at Jewellery Arabia in Bahrain and at the Doha Jewellery & Watches Exhibition, and also hosted a Wholesale Conference at its Head Office in London.

THE YEAR 2019

The year ahead will see Gemfields’ “Every Piece Unique” campaign built on, as well as the launch of Fabergé’s new advertising campaign celebrating coloured gemstones. The focus on marketing in the US and China markets will continue, along with promoting Fabergé in a contemporary and engaging manner. Greater emphasis will be placed on educating consumers on how to purchase rubies and emeralds, and why they should be asking their jeweller whether their gemstone is from Gemfields.



Image The 5,655 carat Inkalamu “Lion” Emerald discovered at the Kagem mine and Lady Libertine I with hand-carved Gemfields’ emeralds.



FABERGÉ

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FEATURING GEMFIELDS RESPONSIBLY SOURCED MOZAMBIKAN RUBIES



COMMODITY OUTLOOK

COLOURED GEMSTONES

The Coloured Gemstones data below is based on the most recently published figures in the United Nations Commodity Trade Database. Given the specialised nature of the coloured gemstones market, figures are only published annually in June of each year. The 2018 data, however, is not yet available. Therefore, in the text that follows, references are to 2017 numbers with 2016 numbers used as a comparison. These are the latest figures available.

The coloured gemstone and pearl market decreased to US\$10.6 billion (2016: US\$11.8 billion) in global imports in 2017. This now represents as much as 14% of the value of global imports of worked diamonds for jewellery use (2016: 16%).

Emeralds, rubies and sapphires alone account for 48% (2016: 67%) of the finished coloured gemstone and pearl market. Global imports of the top three coloured gemstones reached US\$5.1 billion, representing a decrease of 35% compared with the previous year (2016: US\$7.9 billion), whereas global imports of finished diamonds for jewellery use decreased in 2017 to US\$73.7 billion (2016: US\$74.0). The category of other coloured gemstones (excluding diamonds, emeralds, rubies and sapphires) was holding the gains it achieved in 2016 (US\$1.2 billion in global imports in 2017 compared with US\$1.1 billion in 2016).

The world's top gemstone manufacturing hubs – India and Thailand – experienced marginal growth in their exports of emeralds, rubies and sapphires in 2017, namely 4% and 3.8%, respectively (2016: 8% and 9%, respectively). Exports from Hong Kong, the main trading hub, rose 10% to US\$2.2 billion (2016: US\$2.0 billion). Asian markets slowed remarkably, with China's and India's imports decreasing by 97% (US\$66.3 million) and 40% (US\$856 million), respectively, in 2017. US imports, however, increased by 20% (US\$1.5 billion). Europe's key jewellery manufacturing and consumption centres showed a reasonable increase (Switzerland: 27% increase; Italy: 21% increase), but UK emerald, ruby and sapphire imports fell by 1.5%. France, though, has continued its upward trend, with imports growing by 10.2%.

The global luxury goods industry as estimated by Bain & Company is expected to grow by 6% to 8% in 2018, with a strong rebound led by China after the visible drop in 2017. Looking ahead to 2025, Bain & Company expects growth to pick up to 4% to 5% per year (at constant exchange rates), increasing the market size from €366 to €390 billion. However, in India, post demonetisation in 2016 and the subsequent dampening, general business sentiment further deteriorated due to the US\$2 billion Nirav Modi fraud in 2018. On the contrary, Chinese spending on luxury goods dampened significantly in the latter part of 2018, as reflected in luxury good spending in Hong Kong, and the World Bank lowering its forecast on Chinese GDP growth to 6–6.5% for 2019 from the expected 6.6% which was forecast in 2018. Given these issues in the wholesale market in India and the retail growth slowdown in China, it is expected that immediate to mid-term growth will be lower. HSBC expects that the overall luxury sector growth will be around 6% in 2019 compared to 9% in 2018.

Based on 2018 price data obtained from Gemval, it can be seen from the following graph (Figure 1) that in 2018 the coloured gemstone market continued to be stable throughout the year. Gemval has tracked aggregate prices of 25 different standard specimen of gemstones since 2005 and is a good indicator of overall price trend, which seemed to be relatively stable over 2018 and showed an upward trend in early 2019. This can possibly be attributed to supply restriction at the current demand levels.

Gemfields' rough emerald and ruby auctions indicate a similar trend in line with the Gemval Aggregate Index ("GVA"), where peak value was realised in June 2018 despite the weaker Indian market.

We believe that, with our optimised positioning and drive for consumer awareness of coloured gemstones, and in advancing the wider Group's "mine and market" vision, consumers' awareness of the true value and rarity of emeralds and rubies has increased. Together with the rediscovery of the natural and inherent beauty of colour by younger generations, this will contribute significantly to the continued increase in demand for coloured gemstones.

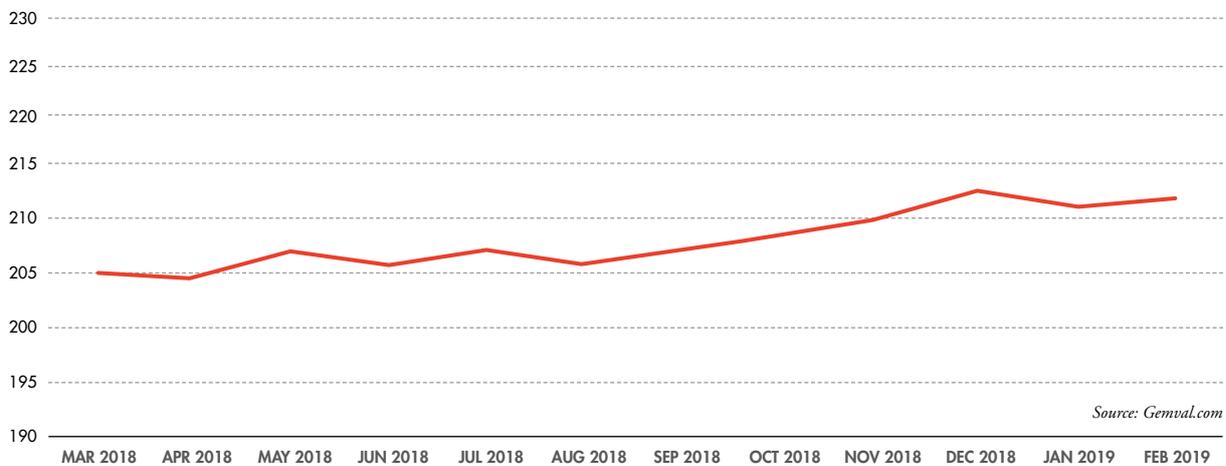


Image Optically grading
Zambian
emeralds at Kagem
emerald mine.

THE GLOBAL LUXURY GOODS INDUSTRY AS ESTIMATED BY BAIN & COMPANY IS EXPECTED TO GROW BY 6% TO 8% IN 2018.



FIGURE 1: Gemval – GVA – Index



OPERATIONAL REVIEW

ZAMBIA



Operations in Zambia comprise the following:

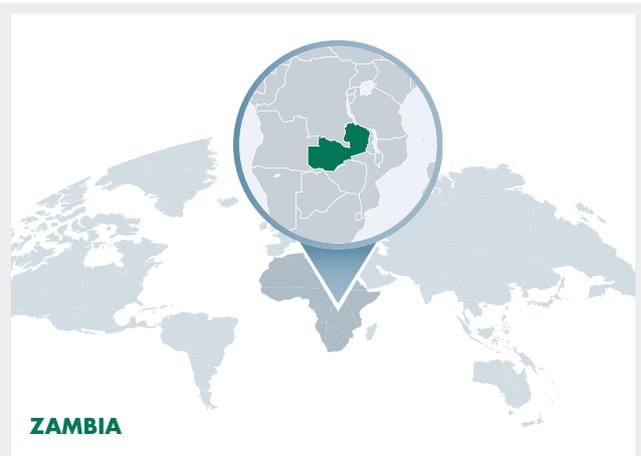
- Kagem Mining Limited (“Kagem”)**, the world’s single-largest producing emerald mining company, accounts for approximately 25% of global emerald production. The 40.5 square kilometre licence area is located in the Ndola Rural Emerald Restricted Area (“NRERA”) and lies south of Kitwe and west of Ndola, 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, an open-pit mine extending over 2.2 kilometres of strike length and supplying approximately 25% of global emerald production;
 - » Fibolele, another open-pit mine with a 600-metre-long strike length; and
 - » Libwente, a smaller pit in the exploration phase.
- Gemfields Mining Limited (“Mbuva-Chibolele”)**, located on the prolific Fwaya-Fwaya–Pirala Belt in the NRERA within the Kafubu area of the Copperbelt Province of Zambia. This lies adjacent to the Kagem licence area, to the southwest. Operations ceased in 2007 to allow the focus to shift to Kagem, but resumed in late 2017.

KAGEM

This operational review covers the year from 1 January 2018 to 31 December 2018. Information for the prior year to 31 December 2017 represents the five-month period from 1 August 2017 to 31 December and covers the period post the Company’s acquisition of Gemfields and its subsidiaries. However, to enhance comparability, pre-acquisition figures for the 12 months to 30 June 2017 have also been included, where possible.

Auction results

Kagem held two higher-quality auctions in the year, one in Lusaka,



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	27 years

Zambia, in May 2018 and another in Singapore in November 2018, together generating US\$38.7 million at an average of US\$65.55 per carat. Two commercial-quality auctions were also held in Jaipur, India, during February 2018 and in Lusaka, Zambia, in July/August 2018, realising US\$21.6 million at an average of US\$3.54 per carat. Total revenues generated by Kagem for the year ended 31 December 2018 were US\$60.3 million, a reasonable result given the challenges faced by our Indian customers following the demonetisation, the heightened regulatory oversight in India in the wake of the Nirav Modi scandal, and a deflating property market in Jaipur.

A commercial-quality auction held in Lusaka in February 2019 generated US\$10.8 million in revenue.

The five auctions held since the beginning of 2018 took Kagem’s total auction revenue since March 2009 to US\$567 million.

Mining

The Chama open-pit mine is supported by a SAMREC-compliant Resources and Reserves Statement produced by SRK Consulting (UK) Limited (“SRK”) as at 31 December 2017, published in April 2018, which confirms a 27-year open-pit Life of Mine Plan (“LoMP”) and that the mine is well positioned for growth in production.

During the year, Kagem continued the removal of overburden in three sectors of the Chama pit (F10, Chama and FF-Mboyonga), effectively clearing the way to the emerald formation for mining. In addition, certain sections of the pit were further cleared and

de-ramped, allowing a consistent production profile at Chama. The efficiencies achieved from redesigning the pit have continued, with a larger, more efficient fleet being deployed in the pit.

Fibolele continued to provide additional sources of production, and the extension of the strike length by 600 metres during the year exposed more emerald- and beryl-yielding contacts. Fibolele has produced 12 million carats since inception, with four million carats being recovered in 2018 alone.

Total rock handling in respect of all pits remained at 11.9 million tonnes for the year, despite the challenges of increased hauling and handling of hard rock from a deeper part of the mine. The fleet-monitoring system was upgraded with GPS geofencing (virtual software providing real-time information), allowing more sophisticated monitoring of the movement and allocation of heavy earth-moving machinery to facilitate efficiency improvements. Further efficiencies were achieved in the adoption and roll-out of several best-practice techniques in drilling, blasting and machinery usage.

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 ore volumes. The production strategy adopted in 2017 continued throughout 2018, focussing on controlled blasting, ore mining, and chiselling the in-situ ground, manually picking the run of mine (“ROM”) at contact point to enable size and quality production. Implementation of this strategy has necessitated an increased number of chisel operators and technique improvements, with an observed increase in size, quantity and quality of emeralds being produced.

Gemstone production for the year was 35.5 million carats of emerald and beryl, with 224,000 carats of premium emerald, an increase in premium production of more than 493% over the entire 12 months to June 2017. Of the total production, the Chama pit contributed 31.5 million carats, and the bulk sampling project, Fibolele, contributed four million carats. Despite considerable technological advances, the difficulty in predicting the distribution of minerals necessary for emerald formation remains.

Kagem production summary

	12 months to 31 December 2018	5 months to 31 December 2017	12 months to 30 June 2017
Gemstone production (premium emerald) in thousand carats	224.0	46.3	37.8
Gemstone production (emerald and beryl) in million carats	35.5	11.7	19.1
Ore production (reaction zone) in thousand tonnes	173.9	79.0	120.7
Grade (emerald and beryl)/reaction zone) in carats/tonnes	205.0	148.0	158.0
Waste mined in million tonnes	11.7	4.2	11.0
Total rock handling in million tonnes	11.9	4.3	11.1
Stripping ratio	67	53	91

Kagem’s key operational parameters for the year ended 31 December 2018 are summarised in the table below.

Processing

Improvements at the wash plant continued during the year, with the implementation of specific control measures resulting in a lower spillage across the various picking belts. In addition, the teams’ picking abilities have been improved by slowing the plant feed rate from 63 tonnes per hour (“tph”) to 44 tph, and adjusting the feed split and laminar flow to make greater use of the newer facilities.

Operating costs

Total operating costs for the year were US\$42.2 million (five months to December 2017: US\$16.9 million; 12 months to June 2017: US\$40.8 million), with a unit operating cost of US\$3.54 per tonne. Cash rock handling unit costs (defined as total cash operating costs divided by total rock handled) were US\$2.97 per tonne for the year, with total cash costs of US\$35.5 million.

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

Tax regime

Effective from 1 January 2019, the Government of Zambia, made a number of changes to the country’s tax regime. These changes included the introduction of a 15% export on gemstones and removed the tax deductibility of the 6% mineral royalty tax. In addition, Goods Sales Tax (GST) will replace the VAT system effective from 1 April 2019.

The implementation of the 15% export levy has adversely impacted the outlook for Kagem with its cash generation and profitability being drastically reduced. As a result, an impairment review was conducted at 31 December 2018 resulting in a charge being recognised of US\$22.6 million, reducing the value of the asset to the Group.

OPERATIONAL REVIEW

ZAMBIA/CONTINUED

Capital expenditure

During the year, US\$11.8 million was invested in replacement mining and ancillary equipment as well as in infrastructure improvements.

Geology and exploration

During the year, geological understanding of the ore body and mineralisation was further advanced 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 now including detailed block modelling. With an updated block model, the geologists and miners have more focussed data to increase the efficiency of production.

The Fibolele sector is a 600-metre-long, open-pit bulk sampling operation which yielded four million carats of emerald for the year. 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.

Infrastructure

This year saw landscape development across the mine, rehabilitation of the waste dump, additional dewatering capacity for the main pit, additional heavy earth-moving machinery to boost mining activities, bridge construction between Kagem and Mbuva-Chibolele, a conveyor belt weighing system at the wash plant, and new staff living quarters and staff welfare amenities. Construction of the new refuelling station in the pit at Workshop 2 and the extension of the materials warehouse are a few of the principal infrastructure developments.

Staff welfare remained a priority, with continued improvements to the accommodation and field canteen at Chama pit.



Improvements in information technology (“IT”) and security infrastructure (encompassing the installation of high-resolution cameras in and around the pit as well as an updated CCTV control room) continued throughout 2018.

Security

The implementation of high-resolution digital surveillance CCTV (comprising 20 mobile CCTV cameras and eight PTZ cameras with recording capability) and radio communication continued to aid effective and efficient management of the security systems, with permanent patrol teams being stationed in and around all the dump sites to provide robust protection and surveillance in respect of the mining licence area. The sort house security system was further enhanced with the construction of an electrical fence. The intruder alarm system is now serviced by a new third-party provider, with weekly tests performed to ensure reliability.

To advance the integrity and accountability levels across the system, polygraph testing has been introduced at Gemfields, with tests conducted on some of Kagem’s management and senior staff.

In aiming at total compliance with Gemfields’ Human Rights Policy, an international consultant has been appointed to train all staff and to assist with implementation.

224,000 CARATS OF PREMIUM EMERALD WERE PRODUCED DURING THE YEAR, AN INCREASE OF MORE THAN 493% OVER THE ENTIRE 12 MONTHS TO JUNE 2017.

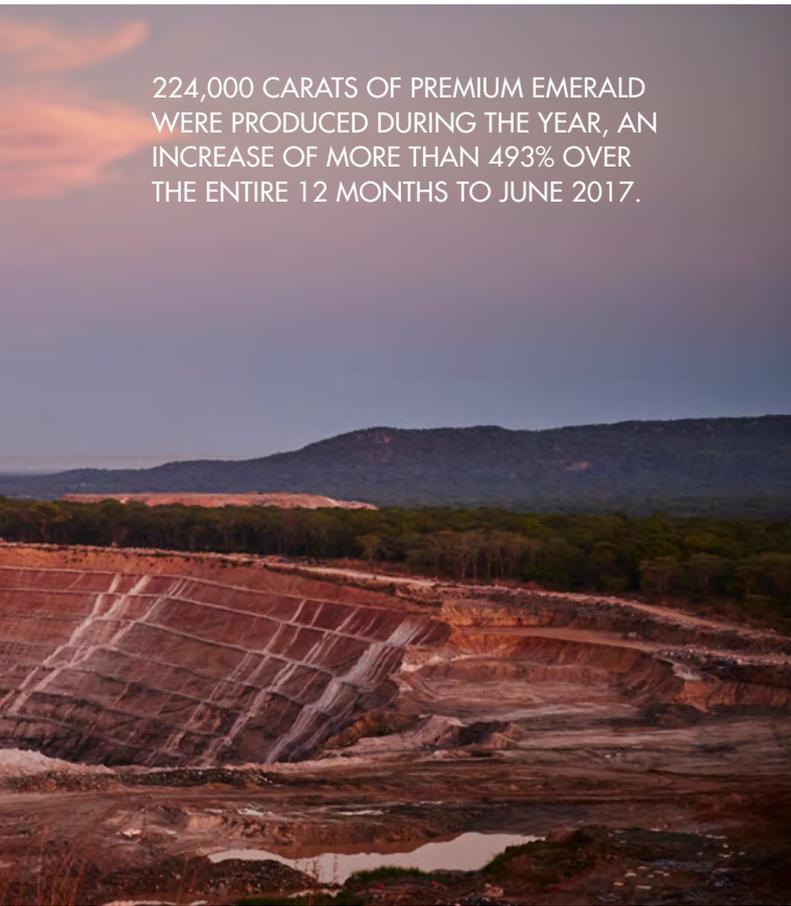


Image Charma pit, Kagem emerald mine in Zambia.

Health, safety and environment (“HSE”)

Kagem continues to pride itself on, and endeavours to maintain, its ability to conduct mining in a responsible, transparent and safe manner with minimal impact on the natural environment. Kagem aims for a zero-harm (injury-free) culture where health and safety are not only considered 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.

This year, a number of strategies were implemented, including the giving of a small token/award to the person reporting the most near-misses to a general monthly safety meeting held with the entire workforce. This was aimed at improving the near-miss and incident-reporting culture among employees and at helping to identify the root causes of any potential incident. Each month, safety topics are discussed at pre-shift safety talks.

Kagem recorded seven lost-time injuries during the period. More information on Kagem’s HSE performance is provided in the Governance section.

Sustainability and corporate responsibility

Due to the reduced revenues available for community projects, sustainability and corporate responsibility (“SCR”) were unavoidably scaled back during the period. Kagem’s Community Development Strategy (“CDS”) maintained engagement within the two chiefdom areas, but actual expenditure on community projects was limited. During the year, Kagem completed a rehabilitation of the Kandole–Kafwaya Road, improving connectivity between the chiefdoms of Lumpuma and Nkana. The project was completed at an estimated cost of US\$80,000. Aside from constructing a bridge across the Kafubu River from Kagem to Mbuva-Chibolele, which provided ancillary benefits to the community, no other major health, agricultural or educational projects were undertaken this year in view of the cash constraints facing the business.

After announcing a scholarship fund for up to nine aspiring students at the University of Zambia and Copperbelt University, Kagem in 2018 provided scholarships to two aspiring mining students to pursue careers in the sector. The two join Kagem’s four other students already on the programme, which covers the full cost of education, including tuition fees, boarding fees, upkeep, clothing and book allowances, and a medical scheme with the mine. Internships will be offered in due course.

Human resources

For the year, a total of 145 new employees were added to the workforce, filling both new and replacement posts, taking the total number of people directly employed by Kagem to 783. The total number of contractor employees as at 31 December 2018 was 180. Staff welfare activities have focussed on improving social amenities around the workplace and camp. Annual interdepartmental football tournaments were held on site and several social soccer games with teams from 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 (“HR”), management development/team building, engineering, finance, IT, and mining. Training was conducted by both external and in-house trainers, with 98% of the work-force being trained at the mine site, and 2% being trained off-site in Zambia. A total of 22 Zambian students completed their internships at Kagem in various departments such as finance, HR, engineering 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 that are abreast of technical and practical knowledge of gemstone mining. During the year, a third round of scholarship interviews was completed, with one student from each university being selected. This brought the total number

OPERATIONAL REVIEW

ZAMBIA/CONTINUED

of sponsored students at both institutions to six. Kagem also witnessed the first graduation of one of the sponsored students from the Copperbelt University, who achieved a distinction in Bachelor of Mining. The selection process for new entrant students (one from each institution) will commence in the first quarter of 2019 in accordance with the memorandum of understanding (“MoU”).

MBUVA-CHIBOLELE

The Mbuva-Chibolele licence is located on the Fwaya-Fwaya-Pirala 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 kept under care and maintenance from 2007 onwards so as to focus on operations at Kagem. However, following Pallinghurst’s acquisition of Gemfields, a decision was made to expand the Group’s emerald footprint and, accordingly, operations at Mbuva-Chibolele were resumed in late 2017.

Licence ownership

Kagem and Gemfields Ltd (“Gemfields”) entered into a licence transfer agreement whereby a collection of 13 Zambian gemstone licences ultimately controlled by Gemfields would be transferred to Kagem. The licences to be transferred include the well-known Kamakanga and Mbuva-Chibolele licences. The latter licence has recently been brought back into production.

It is envisioned that enhancements and improvements will be made to the resource base, with operational synergies and economies of scale boosting production levels and revenues. In addition, as Kagem’s minority shareholder, the proposal will provide the Industrial Development Corporation with the same 25% exposure across an expanded base of emerald assets. Kagem is awaiting final clearance from the tax authorities to proceed with this exciting prospect for the Zambian emerald industry.

Exploration and bulk sampling

Bulk sampling started in August 2017, with mining within existing pit boundaries based on new parameters in order to facilitate more mechanised mining operations. The dewatering of the pit, bridge construction between Kagem and Mbuva-Chibolele, and initial waste mining were outsourced, with in-house mining expected to commence when excavations reach rock types and conditions necessary for emerald formation.

The operation has dedicated mining and geology teams, along with a fleet of two excavators and four dump trucks. Appropriate security arrangements have been put in place to ensure 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 Mbuva-Chibolele deposit, belongs to a group referred to as “schist-hosted emeralds” resulting from the interaction of beryl-bearing fluids related to pegmatoid dykes or granitic rocks, with Chromium-rich mafic and ultramafic schists.

Mining

During the year, 1.6 million tonnes of rock were handled, of which 803,000 tonnes of waste were mined by contractors and 805,000 tonnes were mined by in-house resources, resulting in a total of 42,740 tonnes of ore. The maiden production from recommissioned operations at Mbuva-Chibolele was 5.5 million carats of emerald and beryl, with 1,160 carats of premium emerald and 667,908 carats of emerald, an encouraging sign for the pit, which was still under rehabilitation in 2018.

Production

Chibolele 2018 production summary (first year of mining)

	12 months to 31 December 2018
Gemstone production (premium emerald) in thousand carats	1.27
Gemstone production (emerald and beryl) in million carats	5.5
Ore production (reaction zone) in thousand tonnes	42.7
Grade (emerald and beryl/reaction zone) in carats/tonnes	128
Waste mined in million tonnes	1.56
Total rock handling in million tonnes	1.6
Stripping ratio	34

OPERATIONAL REVIEW

MOZAMBIQUE



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.

This operational review covers the year from 1 January 2018 to 31 December 2018. Information for the prior year to 31 December 2017 represents the five-month period from 1 August 2017 to 31 December and covers the period post the Company's acquisition of Gemfields and its subsidiaries. However, to enhance comparability, pre-acquisition figures for the 12 months to 30 June 2017 have also been included, where possible.

MONTEPUEZ RUBY MINING (“MRM”)

Auction results

MRM held two mixed-quality auctions in the year, in Singapore in June 2018 and December 2018, where revenues of US\$71.8 million



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	16 years

and US\$55.3 million were achieved, resulting in a record of US\$127.1 million. The auctions realised average prices per carat of US\$122.03 and US\$84.32, respectively.

Mining

The Montepuez ruby deposit is supported by a SAMREC-compliant Resources and Reserves Statement produced by SRK Consulting (UK) Limited (“SRK”) as at 31 August 2018, and issued in January 2019, which confirms a 16-year open-pit MRM Life of Mine Plan (“LoMP”) and that the mine is well positioned for growth in production.

The mining operations at MRM comprise a number of shallow, open-cast 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 excavated areas, thereby returning the area to its natural aesthetic.

Total rock handling for the year averaged 385,000 tonnes per month, despite no new blocks being opened. Intensive mining in the additional 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 ores (high quality and low incidence) being continued. Total rock handling during the year equated to 4.6 million

OPERATIONAL REVIEW

MOZAMBIQUE/CONTINUED

tonnes, comprising 0.8 million tonnes of ore and 3.3 million tonnes of waste material at an overall stripping ratio of 4.4. In addition to the production, 0.6 million tonnes of other material handled, which included mostly slimes and minor amounts for road improvements, were moved. As with the previous year, production was primarily focussed on the Mugloto Block (77%) in order to extract higher-quality ruby-bearing ore, with the remainder coming from the Maninge Nice Block (20%) and Glass Block (3%).

Production

A total of 2.9 million carats of ruby and corundum were produced during the year, with a focus on high-quality, low-occurrence deposits which provide premium rubies.

Of the 2.9 million carats of production for the year, 1.5 million carats were recovered from Maninge Nice secondary ore, 0.8 million carats from Mugloto secondary ore, and 0.6 million carats from the fines (-4.6 mm material).

MRM's key operational parameters for the 12-month period to 31 December 2018 are summarised in the table below.

Montepuez production summary

	12 months to 31 December 2018	5 months to 31 December 2017	12 months to 30 June 2017
Gemstone production (premium ruby) in thousand carats	92.2	46.9	104.4
Gemstone production (ruby and corundum) in million carats	2.9	2.4	8.8
Ore mined (primary and secondary) in thousand tonnes	747.9	397.3	743.2
Ore processed (primary and secondary) in thousand tonnes	842.2	367.5	553.9
Grade (ruby and corundum/ore processed) in carats/tonnes	3.4	6.6	15.9
Waste mined in thousand tonnes	3,873.6	1,787.2	3,655.4
Total rock handling in thousand tonnes	4,621.6	2,184.6	4,398.6
Stripping ratio	4.4	4.5	4.7

Processing

During the year, the 747,900 tonnes of ore were primarily mined from three different blocks, namely Mugloto, Maninge Nice and Glass, with 842,200 tonnes processed. Of this total processed, 837,000 tonnes were washed by the main processing plant and 5,200 tonnes by the exploration processing plant. The improved processing was partly facilitated by a second de-grit unit, which was added to the circuit of the treatment plant in November 2017, resulting in de-bottlenecking and increased overall throughput rate, which stands at 132 tonnes per hour during the year compared with 111 in the previous period.

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, at 3.4 carats per tonne, compared with the year to June 2017 at 15.9 carats per tonne.

Operating costs

Total cash operating costs were US\$33.3 million (five months to December 2017: US\$11.1 million; 12 months to June 2017: US\$27.7 million), with unit operating costs of US\$7.21 per tonne or US\$11.58 per carat, primarily driven by the cost of the Leigh Day settlement as well as lower production. Excluding these costs, the cost per carat would have been US\$8.96. Cash operating costs include mining and production costs plus general and administrative costs during the year, but exclude depreciation, amortisation, mineral royalties, management fees and auction fees.

Capital expenditure

Total cash capital expenditure for the year was US\$16.7 million, comprising US\$12.9 million invested in expansion and exploration – principally, the new sort house – US\$2.1 million in existing mining and ancillary equipment replacements, and US\$1.7 million associated with the Resettlement Action Plan (“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.

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.

Exploration was focussed in the Mugloto Block during the period and consisted mainly of diamond-core drilling. A series of inclined and vertical boreholes drilled at close-space intervals to confirm the extensive mineralisation along the lineament – mainly on the northern and southern shear – resulted in a successful delineation of primary deposits with ruby mineralisation. A total of 9,756 metres of core drilling were completed during the year (12 months to June 2017: 8,058 metres). The geochemistry of amphibolitic ruby sources from different locations reveals that geochemical variation exists 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 and named Mugloto Pit 9. 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 explored area – covering 77 square kilometres – by way of auger drilling. 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 2,974 tonnes of ore from Maninge Nice Pit 5 was processed for testing purposes and resulted in premium grades of 0.03 carat/tonne ("ct/t") and tumble ruby grades of 0.38 ct/t, which is higher than premium and tumble ruby grades of previous Maninge Nice pits.

Infrastructure

Enhancement of the production facilities continued with the construction of a new, "state-of-the-art" sort house. The US\$15 million facility commissioned in February 2019 will greatly enhance operational capacity.

During the year, 28 new housing units were constructed, adding to the Namanhumbir residential capacity. The site also has a clinic, a gymnasium, recreational facilities, and various outdoor sports facilities, which include volleyball, tennis, futsal and badminton courts and a soccer/cricket field, providing improved living conditions at the camp.

Security

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 ("VPSHR"). Continued training in the United Nations VPSHR, social media, awareness, conflict resolution, and juveniles in artisanal mining was delivered by reputable 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 ("HSE")

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. During the period, a number of positive Department of Health, Safety and Environment ("MIREM") visits were hosted, and MRM has developed associated environmental management plans to meet regulatory requirements. HSE training has focussed on toolbox talks, risk-assessing work environments, and improving the culture associated with near-miss reporting.

OPERATIONAL REVIEW

MOZAMBIQUE/CONTINUED

A total of six lost-time injuries occurred at the mine site 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 HSE programme and given to employees, with the focus being on first aid, firefighting and safe driving. More information on HSE performance is provided in the main Governance section.

MRM made good progress in post-mining environmental rehabilitation, with a total of more than 800 locally grown saplings replanted over an area of 28,000 square metres. The operation continued to find solutions to its management of slime resulting from the wash-plant process. The current solution was deemed to be in compliance whilst a more effective solution is found, and MRM was awaiting further feedback from the authorities following its 2018 MIREM audits.

Sustainability and corporate responsibility

In line with our philosophy of creating a sustainable community development programme, various sustainability and corporate responsibility (“SCR”) initiatives in the areas of education, agriculture and health continued apace during the period.

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. A key focus for the team has been to increase the number of farmers benefiting from training and the roll-out of conservation farming programmes which help farmers increase yields. Over the last period, the number of farmers that MRM is working with increased to over 400, and the introduction of a second mobile health clinic saw the total number of patient visits reach nearly 50,000 for the period.

Clearance of land for the Resettlement Action Plan (“RAP”), which was approved on 8 August 2017 by the Government of Mozambique, is now complete and construction of houses started



MRM HELD TWO MIXED-QUALITY AUCTIONS IN THE YEAR, WHERE REVENUES OF US\$71.8 MILLION AND US\$55.3 MILLION WERE ACHIEVED, RESULTING IN A RECORD US\$127.1 MILLION OF REVENUES FOR THE YEAR.

Image Operations at Montepuez Ruby Mining, Mozambique.

during the period, with 105 lots cleared and the masonry of 35 houses completed. Further information about the RAP can be found in the Sustainability and Corporate Responsibility section.

Legal

As stated in the 2017 Annual Report, in February 2018 a UK-based law firm, Leigh Day LLP (“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 figure is GBP5.8 million (US\$7.4 million), comprising the sum to be distributed to the claimants by Leigh Day and their legal expenses.

Gemfields maintains that it is not liable for the alleged abuses set out in the claims, but has taken the view that the agreed settlement best balances the interests of the various stakeholders and avoids tainting MRM's relationship with sections of the local community by engaging in protracted and expensive litigation against the claimants. 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 will also 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. An independent panel will consider evidence accompanying grievances submitted to the OGM and, where applicable, will determine compensation payable with reference to Mozambican law.

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 will also create a new agricultural development and training fund, committing 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 fund will be additional to the settlement amount and will sit alongside Gemfields' existing direct investment in, and establishment of, collaborative community projects in the area.

Human resources

As at 31 December 2018, 1,174 people were employed by MRM, of which 456 were directly employed and 718 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 during the period.

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 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, and bulk sampling commenced in one of them in July 2018, with 117,000 tonnes of rock handled during the year, including 16,000 tonnes of ore. The wash plant that commenced operations in October 2018 processed and treated 4,200 tonnes of ore, with four carats of varying-grade rubies recovered.

During 2018, the licence boundary demarcation and fixing of survey control points were completed in April, the Environmental Licence (Category B Certificate) was received in May 2018, and the DUAT application was submitted.

With regard 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 and the Environmental Licence (Category B Certificate), both of which are expected to be obtained in the first quarter of 2019.

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).

Due diligence studies, including field mapping and pitting programmes, were performed in 2013 and an airborne geophysical survey was completed in 2015. Based on these, exploration activities are expected to commence in 2019. Delineation of licence boundaries and necessary environmental concurrence will be obtained from the authorities prior to commencement of exploration activities.

CAMPOS DE JOIA ("CDJ")

CDJ is a Gemfields holding company in Mozambique and has four licences at present, 6114L, 7427C, 9059L and 9060L, totalling an area of 452 square kilometres. The latter two licences have yet to be issued by the Ministry of Mines.

As with ERM, due diligence studies and airborne surveys have been completed and exploration activities are expected to commence in 2019. Delineation of licence boundaries and necessary environmental concurrence will be obtained from the authorities prior to commencement of exploration activities.

OPERATIONAL REVIEW

FABERGÉ LIMITED



The prior period information represents the five-months from 1 August 2017 to 31 December 2017, covering the period post the acquisition of Gemfields, and its subsidiaries, by the Company. However, to enhance comparability, pre-acquisition figures for the 12 months to 30 June 2017 have also been included. The current year represents January 2018 to December 2018.

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 2018, Fabergé directly operated three points of sale: a stand-alone boutique on Grafton Street in Mayfair, 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 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, Abu Dhabi Andorra, Azerbaijan, Bahrain, Belgium, Canada, Czech Republic, Dubai, France, Germany, Italy, Jordan, Japan, Kuwait, Malta, Moldova, the Netherlands, Qatar, Romania, Saudi Arabia, South Africa, Switzerland, Thailand, UK, Ukraine and the USA. The total number of Fabergé outlets increased from 50 to 65 during the period.



Image Fabergé "Three Colours of Love" Fluted bands in sapphire, ruby and diamond.

FINANCIAL PERFORMANCE

Fabergé achieved revenues of US\$13.4 million in the year to 31 December 2018 (five months to December 2017: US\$3.4 million; 12 months to June 2017: US\$13.7 million). During the same period, Fabergé recorded an EBITDA (earnings before interest,



Image Fabergé Lady Compliquée Peacock in Black and White.



Image Fabergé Imperatrice Tassel Pendants in sapphire and Zambian emeralds.

tax, depreciation and amortisation) loss of US\$4.6 million (five months to December 2017: US\$3.7 million; 12 months to June 2017: US\$0.6 million), with average monthly operating expenses of US\$0.8 million and a sales margin of 40%.

EXHIBITIONS AND PRODUCT DEVELOPMENTS

Fabergé was again shortlisted for the prestigious Grand Prix d'Horlogerie de Genève (GPHG) Awards, this year for two timepieces. The pieces nominated were the Fabergé Clover from the Fabergé Dalliance Collection in the "Artistic Crafts" category, and the Visionnaire Chronograph Dynamique in the "Sports" category.

Fabergé's best-selling jewellery lines were expanded during the period to include bangles and cross-over rings, further building the customer offering based around the iconic Fabergé egg motif.

The year 2018 also saw the latest Imperial Class Egg from Fabergé, in collaboration with Rolls-Royce Motor Cars. The amethyst, diamond and rose-gold *objet d'art* was incredibly well received, generating significant amounts of coverage. The egg was delivered to its owner in December 2018, following unveiling events in Singapore and England.

MARKETING AND COMMUNICATIONS

Throughout 2018, Fabergé focussed, by way of a blend of digital marketing and print advertising, on fine-jewellery collections featuring coloured gemstones, guilloché enamel, and high-complication timepieces.

Further information on the marketing and communications projects carried out by Fabergé can be found in the dedicated Marketing and Communications section.

THE YEAR AHEAD

In 2019, Fabergé will continue to increase its digital presence, with a greater focus on social media platforms given the reach, adaptability and measurability offered by that medium. In addition, it will maintain a new print advertising campaign through the first half of the year. Coloured gemstone-set, fine-jewellery collections will remain at the heart of the campaign, allowing Fabergé to seek and utilise synergies with Gemfields' marketing and to continue to promote the brand's tagline: A Life in Colour.

In addition, Fabergé will continue to expand its global retail footprint, with further multi-brand retail openings in the USA, Europe, the Middle East and South-East Asia.

OPERATIONAL REVIEW

NEW PROJECTS AND OTHER ASSETS



ETHIOPIA

Gemfields owns 75% of Web Gemstone Mining plc (“WGM”), a company that holds a 200-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.

Geopolitical and community relations

Ethiopia has undergone a period of significant political unrest over the last three years, resulting in a nationwide state of emergency following a number of violent protests that culminated in the resignation of Prime Minister Hailemariam Desalegn in February 2018. Mr Desalegn was replaced by Prime Minister Abiy Ahmed in April 2018, a concession aimed at calming the restive state of Oromia, WGM’s home state. Mr Abiy immediately embarked on a reformist agenda that has already yielded sweeping changes across the country, but his reforms have also experienced significant resistance from supporters of the former administration. The political troubles are further compounded by inter-ethnic tensions that are simultaneously affecting large parts of the country. Although the government is taking steps to rectify the situation, the uncertainty is expected to prevail for a number of months to come.

The widespread unrest, coupled with some localised issues, resulted in the stoppage of operations for 30 days between mid-February and mid-March 2018. As a gesture of goodwill to the local communities and authorities, WGM upgraded a 16-kilometre stretch of public road that serves as the main route out of the licence area for the entire local community. Operations resumed simultaneously with the start of the road upgrade and ran smoothly for several months until late June 2018.

On 29 June 2018, a protest organised by local youth groups at the Dogogo bulk sampling pit escalated into an unprovoked violent mob of around 500 people that attacked company staff and assets and overran the operations area, offices and campsites, resulting in the evacuation of all personnel and abandonment of the project.

In a second attack on 31 July 2018, an armed mob breached the strongroom and looted all emerald inventory produced over the course of the bulk sampling exercise. The mob subsequently ransacked the campsites, offices and operations areas, destroying or looting all company property remaining on site.

WGM has not been able to access the licence area in an operational capacity but has been 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 emerald. This number has since fallen significantly to between 50 and 100.

Bulk sampling exercise

A bulk sampling exercise was initiated in August 2017 in the Dogogo South Block to further advance understanding of the ore grade and value and to determine the economic viability of the deposit. During the review period, excavation focussed around the central part of the pit, which covers 160 metres of strike length, measures 100 metres wide, and includes the old artisanal pits. The average depth of pit at the footwall is approximately 15 metres. Following resumption of the operation in March 2018, daily operational hours were increased from eight to 12 hours per day to maximise the daylight work hours, to make up for the time lost as a result of the work stoppage, and to accelerate the accumulation of data required for the pre-feasibility study.

Total rock handling for the year (up to 28 June 2018, being the final day of operations before the licence invasion) was 293,513 tonnes, including 6,478 tonnes of potential ore and 41,349 tonnes of non-mining activity (road construction). The stripping ratio up to this stage of the operation was 1:16. As at 25 June 2018, 16,453 metres of blast hole drilling had been carried out using three drilling machines (one wagon drill and two jackhammers), resulting in 73,673 cubic metres of rock being blasted in 2018. In total, since the bulk sampling exercise commenced, 529,238 tonnes of rock were mined, including 27,955 tonnes of potential ore, with 25,550 metres of blast hole drilling being done.

Geology and survey

Floor and wall mapping of the excavated area and X-ray fluorescence analysis of the mine face occurred constantly throughout the bulk-sampling exercise. Productive reaction zones were exposed in several places at the contacts between pegmatite and talc-mica schist, yielding gemmy-quality emerald and beryl. Chromium values at the reaction zones and production areas are consistent

with the ranges encountered during the core drilling programme that was completed in December 2016, confirming the findings of the core drilling programme.

A topographic survey of the Dogogo South Block, including the existing drill hole collars, trenches, stockpile, and surrounding areas, was completed. The resulting data will be used for all future planning and reporting.

Production

Total production for the year (up to 28 June 2018) stood at 182,770 carats, of which 4,255 carats were in the emerald category. During the year, the majority of production occurred directly in the bulk sampling pit. As at 28 June 2018, the bulk sampling pit had produced a total of 141,955 carats, of which 3,585 carats were in the emerald category.

The remaining production occurred by washing ore in the pilot wash plant. A 30×30-metre area was designated as a makeshift wash plant area, which consisted of a platform for a vibrating table, a ramp for offloading ore onto the table, a sprinkler system, an underground water reservoir, an overhead water tank, and a sorting/wet sieving table. The vibrating table was commissioned in January 2018 and underwent trials and refinement. A feeder ramp and a new wet sieving table were commissioned in early 2018.

As of 28 June 2018, the pilot wash plant had processed a total of 344 tonnes of ore, an average of eight tonnes per day following the table upgrade, producing a total of 40,815 carats, of which 670 carats were of emerald category. The plant was mostly destroyed in the licence invasion.

The results of the bulk sampling exercise were encouraging, but the data gathered was nonetheless inadequate for resource estimation. Furthermore, the loss of the bulk sampling production, and the destruction of the exploration data and the emerald samples, means that the bulk sampling exercise will have to be repeated, because the emerald samples were the principal value driver for determining the economic viability of the deposit and were therefore a key input for the pre-feasibility study. The time and cost of repeating the exercise are likely to be less than before because the previously completed overburden removal means that less rock handling will be required to access the production zones.

Stakeholder developments

Following the licence invasion, WGM and Gemfields sent letters to all relevant authorities to raise awareness of the situation, and to generate support for resumption of the operation. Letters were sent to the zonal, state and federal administrations, to federal and state mining ministries, to the federal Ministry of Foreign Affairs, to the British Embassy in Addis Ababa, and to the Prime Minister of Ethiopia. In addition, press releases were issued which were picked up by both domestic and international news outlets,



Image Preparing Zambian emeralds for auction at Kagem emerald mine.

generating considerable TV and print media coverage in Ethiopia and elsewhere in favour of WGM. The federal and regional authorities have assured WGM of their support for a Return to Work (“RTW”), and have also issued a letter of support for the resumption of operations, subject to stabilisation of the unrest.

A consultant from a social risk consultancy firm travelled to Ethiopia in August 2018 on a fact-finding mission to establish the reasons for the licence invasion, to identify the key stakeholders involved in such invasion, and to assist in the development of the RTW strategy.

A community caucus was formed with the authority to represent the interests of the entire licence area community during forthcoming multiparty discussions to restart operations. Confidential letters of support for the project have been received from the community caucus, the Wachile Woreda District authorities, the Gumi Gayo (the Borona people’s traditional governance structure), the Borona Zone Authorities, and the Regional Government of Oromia.

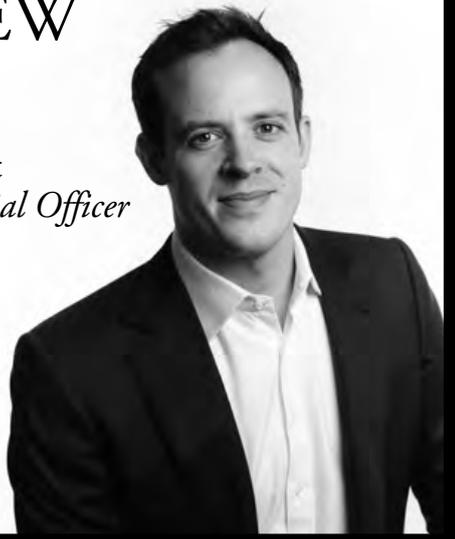
Gemfields has adopted a “wait-and-see” strategy in order to give the political unrest time to settle, and to allow time for any residual tensions at the site to subside. In the meantime, the Company will carry out some limited community engagement to encourage grassroots support for the project, whilst also continuing to liaise with regional and federal authorities on a regular basis.

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 later in 2019.

FINANCIAL REVIEW

David Lovett
Chief Financial Officer



This financial review covers the Group's financial year from 1 January 2018 to 31 December 2018, being the first full year of Gemfields Group Limited, and incorporates the former Pallinghurst Resources Limited and the Gemfields group of companies. The information for the prior 12 months to 31 December 2017 includes results for the five-month period from 1 August 2017 to 31 December 2017 from

Gemfields and its subsidiaries, covering the period post the acquisition of Gemfields. However, to enhance comparability, pre-acquisition figures for the 12 months to 30 June 2017 have also been included, where possible.

The Group achieved record revenues for the year of US\$206.1 million (12 months to December 2017: US\$81.7 million and 12 months to June 2017: US\$158.3 million), following four rough emerald and beryl auctions (two commercial-quality ("CQ") and two higher-quality ("HQ")) and two higher- and commercial-quality ("mixed") rough ruby and corundum auctions. The two ruby auctions generated US\$127.1 million, whilst the four emerald auctions made US\$60.3 million for the year.

The HQ and CQ emerald auctions realised higher average prices per carat at US\$65.55 and US\$3.54, respectively (12 months to June 2017: HQ US\$63.61 per carat and CQ US\$3.53 per carat), demonstrating some green shoots of recovery in the Indian market following the recent downturn related to the Nirav Modi fallout and the resulting property market slump. The HQ auction held in Singapore in November 2018 realised the second-highest price per carat in Kagem's history of US\$68.03. The bulk of Kagem's emerald customers operate in India, where the gemstone and jewellery sectors are suffering from the fallout of the Nirav Modi fraud, in which Indian banks suffered significant losses. Consequently, access to traditional sources of finance has been restricted for many companies in the Indian gemstone and jewellery industry. With reduced funding available, customers had to be much more selective about the auction lots they wished

A summary of the key financial indicators of the Group for the year ended 31 December 2018 are shown in the table below.

in millions of US\$	2018	2017
Revenue	206,090	81,650
EBITDA ¹	58,864	30,486
(Loss)/profit after tax	(60,431)	45,054
Cash flow from operating activities	5,109	14,842
Free cash flow ² before working capital movements	26,870	6,190
Free cash flow ²	(26,193)	2,097
Net cash/(debt)	9,817	(25,686)

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

Revenue

in millions of US\$	2018	2017
Kagem	60,319	21,502
MRM	127,115	54,970
Fabergé	13,392	3,355
Other	5,264	1,823
Total	206,090	81,650

¹ Earnings before interest, taxation, depreciation and amortisation.

² Free cash flow is calculated as cash flow from operating activities less capital expenditure.

to secure. Given the confidence in the value and quality of the gemstones offered, auction lots (at all auctions) that did not meet our reserve prices were held back to aid market stability during the present period of turbulence.

MRM achieved record revenues during the year, with the mixed-quality auction in June realising US\$71.8 million at an average price of US\$122.03 per carat, and the one in November 2018 realising US\$55.3 million at an average price of US\$84.32 per carat, as the ruby market continued to show signs of strength and stable demand.

Wholly-owned Fabergé generated revenues of US\$13.4 million, underpinned by retail sales of US\$4.2 million and US\$6.8 million from wholesale sales and US\$2.4 million from other channels.

COSTS

Total mining and production costs (excluding mineral royalties and production taxes and impairments) were US\$55.8 million (12 months to December 2017: US\$22.3 million and 12 months to June 2017: US\$56.5 million), with the major contributors being labour (US\$20.7 million), fuel (US\$11.5 million), repairs and maintenance (US\$8.6 million), and security. The production cost base has been impacted by inflationary pressures in all jurisdictions, with the price of fuel rising along with wages. However, these were partially offset by cost optimisation programmes across the Group during the year.

Mineral royalties and production tax were US\$16.5 million (12 months to December 2017: US\$6.9 million and 12 months to June 2017: US\$6.4 million) and are calculated as 10% on ruby revenues in Mozambique and 6% on emerald sales in Zambia. The higher revenues in both countries have seen a rise in the amounts paid.

On the acquisition of Gemfields 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 US\$30.6 million (12 months to December 2017: US\$22.2 million and 12 months to June 2017: US\$7.0 million). Depreciation on property, plant and equipment during the year, excluding these mine assets, was US\$13.5 million.

Selling, general and administrative expenses, excluding impairment charges, were US\$61.8 million (12 months to December 2017: US\$32.2 million and 12 months to June 2017: US\$59.5 million), principally driven by: labour costs of US\$16.6 million; selling, marketing and advertising costs of US\$12.5 million, which included the latest Gemfields media campaign; professional fees of US\$15.6 million; and rent, rates and office expenses of US\$4.5 million. The significant professional fees result primarily

from the Group's resolution of the Leigh Day claims of US\$9.2 million. This consists of a US\$7.4 million settlement figure, comprising the sum to be distributed to the claimants by Leigh Day and their legal expenses, and US\$1.8 million in legal fees paid for the Group's defence. The year ended 31 December 2017 only had five months of the Gemfields operations and also included expenses of the former Pallinghurst investment activities, such as the investment manager's benefit, share-based payments, and costs associated with the takeover of Gemfields.

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

The benefits of the cost saving and of the efficiency initiatives commencing in late 2017 have had a positive impact on the Group's overall cost base over 2018. It is expected that these initiatives will continue into 2019.

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 weakened by 3% against the Mozambican metical ("MZN") and 2% against pound sterling ("GBP"), whilst strengthening by 11% against the Zambian kwacha ("ZMW"). These fluctuations have had a favourable impact on costs in Zambia, and an adverse effect on costs in Mozambique and the United Kingdom.

Total operating costs at Fabergé are at their lowest level of US\$9.9 million (12 months to December 2017: US\$5.1 million, and 12 months to June 2017: US\$15.8 million), reflecting the continued benefit of the cost optimisation and efficiencies implemented, which saw reduced labour and marketing and advertising spend, as well as the benefit of a weaker GBP.

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION ("EBITDA")

With record revenues achieved and two HQ auctions at Kagem, coupled with fairly flat costs reflecting the Group's ongoing cost optimisation strategy, EBITDA was US\$58.9 million (12 months to December 2017: US\$30.5 million and 12 months to June 2017: US\$60.3 million).

IMPAIRMENT CHARGES AND WRITE-OFFS

The Group recognised impairment charges and write-offs of US\$26.6 million primarily relating to the US\$22.6 million for Kagem and inventory impairments of US\$2.6 million.

The introduction of the 15% export levy in Zambia was deemed to be an impairment indicator as at 31 December 2018. As a result, and as required by accounting standards, an impairment

FINANCIAL REVIEW CONTINUED

review was performed factoring in the export levy, which led to a charge being recognised. Following the impairment charge, Kagem's carrying value and recoverable value are US\$184.2 million. The Group continues to engage all levels of authority within the Government of the Republic of Zambia to remedy this critical situation. In the event that the levy is reduced or rescinded, or were Kagem to get an exemption, then some or all of the impairment charge recognised is expected to reverse in 2019.

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, an Australian-listed company whose main asset is a 49.9% interest in the Tshipi é Ntle manganese mine, and Sedibelo Platinum Mines Limited, a South African platinum mine.

In 2018, the Group realised US\$11.7 million gains from the Jupiter share buy-back and initial public offering ("IPO") and US\$5.3 million of dividends from Jupiter. In addition, US\$11.9 million of unrealised mark-to-market losses were recognised, following a fall in the share price at the balance sheet date. In total, the Group made a net income of US\$5.1 million from Jupiter, receiving a total of US\$77.4 million in cash throughout 2018.

The Sedibelo valuation as at 31 December 2018 of US\$50.4 million is after a fair value loss of US\$47.6 million. 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. Accordingly, the value of the investment in Sedibelo was discounted to US\$50.4 million from US\$98.1 million.

In 2017, the Group recognised an unrealised US\$64.4 million loss on the revaluation of the shares it acquired in Gemfields in June and July 2017, and US\$16.3 million on the revaluation of the unlisted Sedibelo investment. In addition, the Group recognised

a US\$96.4 million bargain purchase gain on the acquisition of Gemfields and US\$27.5 million on the mark-to-market of Jupiter. The bargain purchase of US\$96.4 million recognised in the income statement arises, as the fair value of Gemfields' net assets acquired exceeded the fair value of the total consideration at the acquisition date.

FINANCE INCOME, EXPENSES AND FOREIGN EXCHANGE DIFFERENCES

The net finance expenses (exclusive of exchange differences) during the financial year were US\$6.6 million (12 months to December 2017: US\$2.9 million and 12 months to June 2017: US\$5.1 million), mainly comprising US\$7.3 million in interest on the Gordon Brothers loan at Fabergé, the Kagem Barclays facility, and the overdraft facilities at MRM, which were offset by interest earning on cash balances across the Group.

The net foreign exchange loss of US\$2.2 million (12 months to 31 December 2017: US\$0.9 million gain and 12 months to June 2017: US\$0.3 million) reflects the movement of the USD against the GBP, the MZN and the ZMW.

Taxation

in millions of US\$, unless otherwise stated	2018	2017
(Loss)/profit before taxation	(53,948)	52,643
Income tax expense	6,483	7,589
Effective tax rate %	-12%	14%
Cash tax paid	24,378	10,959

The tax charge for the year was US\$6.5 million (12 months to December 2017: US\$7.6 million), calculated on a loss before tax of US\$53.9 million (12 months to December 2017: profit of US\$52.6 million), resulting in an effective tax rate of -12% (2017: 14%). The tax charge for the year consisted of a current tax charge of US\$20.6 million and a deferred tax credit of US\$14.1 million.

The effective tax rate of -12% arises as a result of impairment losses, non-deductible settlement costs and taxes withheld on dividends received from MRM. The fair value loss recognised for Sedibelo, the impairment charge at Kagem and the impairment of intragroup loans due from Fabergé were non-deductible for tax, putting upward pressure on the tax rate.

The rate, when normalised for the effect of impairments, was 35% (12 months to December 2017: 38%).

The current income tax charge consists of the MRM tax charge of US\$20.8 million, US\$1.5 million for the 8% withholding tax on dividend distributions paid by MRM, and a US\$1.7 million

current tax credit at Kagem. MRM's effective tax rate during the year was 35%, the UK -6% and Kagem 46%.

The deferred tax credit principally originates from the tax effect of mining assets and inventory recognised on the acquisition of Gemfields, various tax losses, and property, plant and equipment. Of the total deferred tax credit, US\$9.0 million related to the impairment of mining property and tax losses at Kagem. Fabergé generated taxable losses for the year against which the Group recognised a deferred tax asset of US\$2.5 million in respect of US\$14.5 million in losses that can be utilised as part of a future UK group relief claim.

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

NET PROFIT AFTER TAXATION

The Group made a loss after tax for the year of US\$60.4 million (12 months to December 2017: US\$45.1 million profit and 12 months to June 2017: US\$23.1 million loss), as the impairment charges and fair value losses have eroded the EBITDA.

On a normalised basis, excluding dividends received, impairment charges and write-offs, fair value movements and Leigh Day settlement costs, the Group would have recognised a profit after tax of US\$18.0 million. The year to 31 December 2017 included the US\$96.4 million bargain purchase gain on the Gemfields acquisition and US\$53.2 million net unrealised fair value losses on the Group's investments.

Earnings per share for the year ended 31 December 2018 were a loss of US\$0.05 compared with earnings of US\$0.04 in 2017, reflecting the loss for the year compared with the large gains in 2017 as discussed above and the relatively stable weighted average number of shares in issue. Normalised earnings per share for the year (excluding impairments and extraordinary legal claims and fees) would be a profit of US\$0.01.

Headline earnings per share were a loss of US\$0.03 compared with a loss in 2017 of US\$0.06. The 2018 headline earnings exclude the impairment charges recognised in the year whilst 2017 removed the gains realised on the Gemfields acquisition. Consequently, the headline earnings in 2017 were a loss of US\$58.5 million compared with a loss of US\$42.4 million in 2018. The headline earnings in 2018 represent the inclusion of the Gemfields group companies for a full year compared with five months in 2017.

CAPITAL EXPENDITURE

Capital expenditure, including intangibles, in the year was US\$31.3 million (12 months to December 2017: US\$12.7 million and 12 months to June 2017: US\$26.1 million). The majority,

that is, US\$16.7 million, was spent at MRM, comprising US\$12.9 million invested in expansion and exploration, principally the new sort house, US\$2.1 million in existing mining and ancillary equipment replacements, and US\$1.7 million associated with the Resettlement Action Plan ("RAP"). At Kagem, US\$11.8 million was invested in replacement mining and ancillary equipment, particularly yellow goods and infrastructure improvements.

The remainder, that is, US\$2.8 million, was spent at Gemfields Ltd and on new projects, mainly in Ethiopia and Mozambique.

CASH FLOWS

Net cash and cash equivalents increased by US\$25.3 million to US\$63.0 million during the year.

The Group generated US\$29.5 million from operations during the current financial year, following the higher EBITDA. From this, US\$24.4 million was paid in taxes, primarily US\$23.8 million at MRM and US\$0.6 million at Kagem, such that net cash flow from operating activities was US\$5.1 million.

Capital expenditure of US\$31.3 million was substantially higher than in 2017, as Kagem increased its heavy equipment and machinery and MRM invested in the new sort house and the RAP.

With the higher EBITDA offset by increased capital expenditure and taxes, free cash flow before working capital movements was US\$26.9 million compared with US\$6.2 million in 2017. Working capital movements of US\$53.1 million largely relate to higher auction receivables following the November and December auctions.

in millions of US\$	2018	2017
EBITDA	58,864	30,486
Change in inventory	18,106	(7,003)
Taxation (excluding royalties)	(24,378)	(10,959)
Capital expenditure	(31,302)	(12,745)
VAT refunds	5,580	1,309
Loans repaid by investments	–	4,948
Interest received	–	154
Free cash flow before working capital movements	26,870	6,190
Working capital movements	(53,063)	(4,093)
Free cash flow	(26,193)	2,097

During the financial year, the total cash generated from investing activities was US\$46.7 million, as proceeds of US\$64.4 million from the Jupiter IPO, US\$5.3 million from Jupiter dividends, and US\$7.7 million from share buy-backs offset the capital expenditure of US\$31.3 million (as discussed above).

FINANCIAL REVIEW CONTINUED

The Group's financing activities saw the repayment of the Gordon Brothers loan of US\$18.0 million and the MRM lease facilities of US\$10.5 million plus financing costs, the payment of a US\$5.9 million dividend to our partner at MRM (including withholding tax), the buy-back of Gemfields Group Limited shares in the early part of the year of US\$4.7 million, and interest and finance costs paid of US\$5.0 million. In addition, MRM utilised US\$18.1 million of its overdraft as at 31 December 2018.

FINANCIAL POSITION

The Group's balance sheet is summarised below:

in millions of US\$	2018	2017
Non-current assets	509,699	639,616
Current assets	224,369	184,101
Total assets	734,068	823,717
Non-current liabilities	(121,567)	(169,597)
Current liabilities	(62,386)	(37,009)
Total liabilities	(183,953)	(206,606)
Net assets	550,115	617,111

Assets

in millions of US\$	2018	2017
Mining asset	303,315	332,974
Property, plant and equipment, and intangibles	114,027	94,359
Listed, unlisted and other investments	77,634	197,483
Inventory	99,237	118,813
Auction receivables	41,137	863
Cash and cash equivalents	62,988	37,784
Other assets, including deferred taxation	35,730	41,441
Total assets	734,068	823,717

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 2018, these are US\$117.7 million at Kagem and US\$160.8 million at MRM, with the Kagem asset having been reduced following the US\$22.6 million impairment charge recognised. MML and other exploration assets make up the remainder of the US\$303.3 million.

Listed and unlisted investments

The Group's listed investment represents the 7.44% holding in Jupiter and is valued at its share price at the balance sheet date. The Group's interest in Jupiter is valued at the 31 December 2018 mid-price of AUD0.250 per share, translated at the closing rate of US\$1/AUD1.4174.

In January 2018, Jupiter made an equal offer buy-back of 5.81% of its shares in issue, at US\$0.35 per share. The Group participated in this Jupiter share buy-back, receiving approximately US\$7.7 million in March 2018.

On 18 April 2018, Jupiter successfully relisted on the Australian Securities Exchange with a secondary capital raising of AUD240 million (US\$185 million) which comprised an AUD225 million institutional allocation and an AUD15 million allocation to the general public. The IPO was significantly oversubscribed. Gemfields received AUD83.1 million (US\$64.4 million) from Jupiter by participating in the IPO.

On 17 September 2018, Jupiter announced the details of an interim unfranked dividend of AUD0.05 per share. The Group, as a 7.44% shareholder in Jupiter, received AUD7.3 million (US\$5.3 million), translated at the US\$/AUD exchange rate on 26 September 2018, the date GGL entered into a forward US\$/AUD contract. The Group received the dividend on 10 October 2018.

On 19 February 2019, Jupiter announced the details of a final unfranked dividend of AUD0.025 per share. The Group is due to receive AUD3.6 million (US\$2.6 million), translated at the US\$/AUD1.4128 exchange rate on 4 March 2019, the date GGL entered into a forward US\$/AUD contract. The Group will receive its dividend on 21 May 2019.

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 2018 of US\$50.4 million is after a significant fair value loss of US\$47.6 million. 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.

Consequently, the most appropriate valuation methodology to apply is a market comparables analysis comparing the Enterprise Values of Sedibelo's peer group with their total average mineral reserves and resources base and then applying this to Sedibelo's estimated reserves and resources (price per 4E ounce) to arrive at an estimated valuation of Sedibelo.

The directors have considered the liquidity of the Group's interest in Sedibelo and have applied a 30% discount to the market comparables valuation.

Inventory

in millions of US\$	2018	2017
Rough emeralds and beryl	36,273	49,967
Rough rubies and corundum	15,877	21,374
Fabergé jewellery and watches	35,030	35,482
Cut and polished product	5,916	7,264
Spares and consumables	6,141	4,727
Total	99,237	118,813

Inventory decreased by US\$19.6 million to US\$99.2 million. The fall in inventory comprised US\$5.5 million in lower rough ruby and corundum inventory at MRM following the December 2018 auction, a US\$13.7 million decline in rough emerald and beryl inventory at Kagem and in India as sales for the year exceeded production, a US\$0.5 million decrease in jewellery and watches inventory at Fabergé, and a US\$1.3 million lower cut and polished product reflecting sales in the year. Additionally, there was a US\$1.4 million increase in spares and consumables.

Net debt

in millions of US\$	2018	2017
Cash and cash equivalents	62,988	37,784
Current borrowings	23,171	4,178
Non-current borrowings	30,000	59,292
Net cash/(debt)	9,817	(25,686)

Cash and cash equivalents of US\$63.0 million have increased by US\$25.2 million following record revenues, a higher EBITDA, and the proceeds from the Jupiter IPO.

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.

Kagem has a revolving credit facility of US\$35 million which bears interest at three-month US LIBOR plus 5.5% per annum

and is payable in February 2020. The facility was fully drawn at 31 December 2018. The loan facility was subject to four financial covenants, which are tested half-yearly. As at 31 December 2018, Barclays Bank Zambia had waived the covenant testing, as discussions on the refinancing of these facilities were ongoing. As part of the waiver, Kagem has committed to repaying US\$5.0 million of this facility by 31 March 2019, so this has been classified as current borrowings on the Group's balance sheet as at 31 December 2018.

In May 2017, Fabergé (UK) Limited finalised a US\$25 million, three-year extendable facility with Gordon Brothers Finance Company. The loan was an asset-based facility with security over the inventory at Fabergé Inc, Fabergé (UK) Limited, Gemfields Ltd and Gemfields USA Inc, and a debenture over Fabergé, including the brand. The facility attracted interest at three-month US LIBOR plus 6.1%, renewable for two further years, taking the tenure of the loan to a potential five years. The outstanding amounts were repaid in June 2018 and the facility ceased.

MRM has the following facilities:

- A US\$15 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 2018, US\$14.5 million was drawn.
- A US\$15 million overdraft facility entered into with Banco Comercial E De Investimentos, S.A. ("BCI") in June 2016. This facility is valid for 18 months and is renewable. The facility has an interest rate of three-month US LIBOR plus 3.75% per annum. At 31 December 2018, US\$3.7 million was drawn.
- A US\$15 million finance leasing facility entered into by MRM with BCI in June 2016. This is a renewable facility with a drawdown period of 18 months, and the amounts drawn down are repayable over a maximum period of 48 months. The facility has an interest rate of three-month US LIBOR plus 3.75% per annum. During the year, the balance was repaid in full such that, at 31 December 2018, the outstanding balance was US\$Nil.

For an analysis of the outstanding facility liabilities at year-end, please see Note 19 of the Consolidated Financial Statements.

David Lovett
Chief Financial Officer
22 March 2019

MINERAL RESERVES AND RESOURCES 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 Mineral Reserves Report 2018, which contains a comprehensive review of the mineral resources and mineral reserves as at 31 December 2018 for Kagem, and as at 31 August 2018 for MRM, and details the location, geology, mining, processing, and operational statistics at Kagem and MRM. The complete Mineral Resources and Mineral Reserves Report 2018 and the Competent Person’s Reports (“CPRs”) for Kagem and MRM, from which the 2018 report was compiled, are available online at www.gemfieldsgroup.com.

GGL’s attributable mineral resources and mineral reserves are reported according to, and in compliance with, the SAMREC Code (2016 edition).

As at 31 December 2018, GGL had total attributable mineral resources of 968 million carats (“Mct”) of combined emerald and beryl at an average value of US\$4.56/ct, and 580 Mct of ruby and corundum at an average value of US\$9.49/c as at 31 August 2018.

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.

THE POST-TAX NET PRESENT VALUE OF MRM IS ESTIMATED BY SRK TO BE US\$527 MILLION AT A DISCOUNT RATE OF 10%.

COMPETENT PERSONS AND CONSENT

The Competent Persons (“CPs”) in terms of SAMREC who take responsibility for the reporting of Mineral Resources and Mineral Reserves for Kagem in this report is:

- Anirudh Krishna Sharma, MAusIMM (CP), Head (Production, Planning and Exploration) with KAGEM Mining Limited, is the Chartered Professional (CP GEOLOGY) member of Australasian Institute of Mining and Metallurgy (AusIMM) and is Competent Person for the reporting of the Mineral Resources. Anirudh has more than five years’ relevant experience in this style of mineralisation for reporting Mineral Resources.

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

- Onno Ewald Edwin ten Brinke, MSc/Meng (Mining Engineering with Rock Mechanics), MAusIMM, Principal Consultant (Mining Engineering) with SRK (Kazakhstan) Ltd is a Competent Person for the auditing of the Mineral Reserves with over twenty years of relevant experience in similar types of open pit mining operations.

The CP’s address is SRK Consulting (Kazakhstan) Ltd, 11th Floor, 39 Gogol Street, Almaty, Kazakhstan, 050002.

The Competent Persons (“CPs”) in terms of SAMREC who take responsibility for the reporting of mineral resources and mineral reserves for Montepuez in this report are as follows:

- Dr Lucy Roberts MAusIMM PhD, a Principal Consultant (Resource Geology) with SRK Consulting (UK) Ltd (“SRK”), is the Competent Person for the reporting of mineral resources. Dr Roberts has more than five years’ relevant experience in reporting mineral resources in respect of coloured-gemstone projects.
- Mr Michael Beare CEng MIoM3 ACSM BEng, a Corporate Consultant (Mining Engineering) with SRK, is the Lead Competent Person, who is responsible for the reporting of mineral reserves. Mr Beare has 26 years’ experience in the mining industry and has been extensively involved in diamond and gemstone projects.

The CP’s address is 21 Gold Tops, City and County of Newport, NP20 4PG, Wales, United Kingdom.

Membership of the AusIMM and IoM3 satisfies the Recognized Professional Organizations’ (“RPO”) requirements in terms of the SAMREC Code.

The CPs have confirmed to GGL in writing that the contents of this summary report are consistent with the CPRs for Kagem and MRM, and further consent to the disclosure of the 2018 Mineral Resources and Mineral Reserves Statement in the form and context in which it is presented.

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 LSGI over an area of 40.5 square kilometres issued on 27 April 2010, which is valid for ten years.

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 higher commodity price (US\$3.90/ct) which reflects an optimistic view. All grades quoted reflect beryl and emerald, expressed as carats per tonne.

Mining comprises conventional open-pit, drill-blast-load-haul methods used by a combination of the Kagem-owned, in-house fleet and contractor mining fleets.

The steeply dipping reaction zones (“RZs”) are mined using manually intensive methods with the assistance of hydraulic excavators under close supervision, but 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-type 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 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 average beryl and emerald combined (B+E) production grade for the F10, Junction and Chama sectors within the Chama pit has been steadily decreasing over time. Gemfields expects that, as more pegmatite contact zones are uncovered, the recovered grade should increase. The F10 de-ramping project has added significant grade enhancement to the F10 sector. The Fibolele sector added significant emerald production numbers in the 2018 financial year.

The auctions in 2018 realised US\$60.3 million from the sale of 6.73 Mct of high- and commercial-grade quality emeralds.

An Environmental Protection Fund (“EPF”) audit conducted at the request of the Chief Inspector of Mines assesses the closure cost based on the total environmental liability. From the closure cost, the cash contribution Kagem needs to pay to the EPF is established, with the rest being secured in the form of a bank guarantee. Kagem currently has a payment guarantee (No. 339020015174) with Standard Chartered Bank for US\$349,238.19 based on the 2015 EPF audit as per liability assessment No. MSD/20/1/17. However, due to a change in the establishment of the closure cost methodology, the 2018 EPF audit established the closure cost as US\$1,104,226.84, meaning the cash contribution to the EPF, at 5% of closure cost, is US\$55,211.34, to be paid over five years in equal instalments.

For the period 1 January to 31 December 2018, Kagem recovered 35.6 Mct from 174,000 tonnes (“kt”) of RZ ore at a grade of 205 ct/t. The operating unit costs for the 2018 year were maintained below budget, that is, a US\$3.09/t as against the budget of US\$3.25/t.



Images Recovering Zambian emeralds by hand at Kagem mine.

MINERAL RESERVES AND RESOURCES SUMMARY CONTINUED

Kagem mineral resources and mineral reserves

The Kagem Mineral Resources and Mineral Reserves Statement attributable to GGL at 31 December 2018 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 mineral reserves.

No inferred resources are included in the Life of Mine Plans (“LoMPs”), which support the Mineral Reserve Declaration included at the end of this summary.

GGL took effective control of Gemfields at the end of July 2017. The Kagem Mineral Resources and Mineral Reserves Statement attributable to GGL at 31 December 2018 is set out below:

Mineral resource (Attributable to GGL)	Tonnage (kt)	B+E grade (ct/t)	Contained B+E (Mct)	Mineral 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 mineral reserve	2,353	260	612
Inferred	–	–	–				
Fibolele				Fibolele			
Measured	–	–	–	Proved	–	–	–
Indicated	93.3	90.03	8.4	Probable	96.3	74.14	7.14
Total measured + indicated	93.3	90.03	8.4	Total mineral reserve	96.3	74.14	7.14
Inferred	1,065	119	127.1				
Libwente							
Measured	–	–	–				
Indicated	–	–	–				
Total measured + indicated	–	–	–				
Inferred	150	46	6.8				
Total M+I mineral resources	3,231.3	299.72	968.4	Total mineral reserves	2,449.3	252.86	619.34
Total inferred mineral resources	1,215	110.2	133.9				

Gemstone mineral resource Grade and value	Chama	Recovered grade (ct/t) Fibolele	Libwente	2018 Parcel value (US\$/ct)
Premium emerald	3.36	0.07	0.05	64.63
Emerald	80.60	21.83	9.39	4.19
Beryl-1	139.80	32.14	16.58	0.11
Beryl-2	82.21	35.95	19.96	0.01



*Image
Rough emerald in lock box
at Kagem mine, Zambia.*

The comparative Kagem Mineral Resources and Mineral Reserves Statement attributable to GGL at 31 December 2017 is set out below:

Mineral resource (Attributable to GGL)	Tonnage (kt)	B+E grade (ct/t)	Contained B+E (Mct)	Mineral reserves (Attributable to GGL)	Tonnage (kt)	B+E grade (ct/t)	Contained B+E (Mct)
Chama				Chama			
Measured	525	283	148.5	Proved	562	249	140.0
Indicated	2,775	304	843.0	Probable	1,953	256	503.7
Total measured + indicated	3,300	300	991.5	Total mineral reserve	2,515	256	643.7
Inferred	–	–	–				
Fibolele				Fibolele			
Measured	–	–	–	Proved	–	–	–
Indicated	105	119	12.4	Probable	108	103	11.2
Total measured + indicated	105	119	12.4	Total mineral reserve	108	103	11.2
Inferred	1,065	119	127.1				
Libwente							
Measured	–	–	–				
Indicated	–	–	–				
Total measured + indicated	–	–	–				
Inferred	150	46	6.8				
Total M+I mineral resources	3,405	295	1,003.9	Total mineral reserves	2,624	250	654.8
Total inferred mineral resources	1,215	110	133.9				

Gemstone mineral resource Grade and value	Chama	Recovered grade (ct/t) Fibolele	Libwente	2017 Parcel value (US\$/ct)
Premium emerald	3	0.04	0.03	64.63
Emerald	76	23	7	4.19
Beryl-1	140	43	13	0.11
Beryl-2	85	36	17	0.01

MINERAL RESERVES AND RESOURCES SUMMARY CONTINUED

MONTEPUEZ

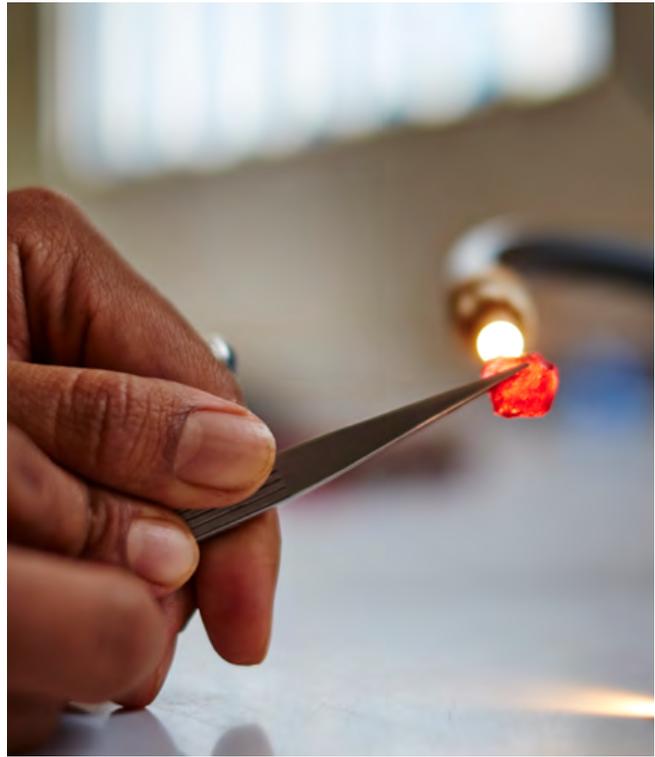
Montepuez Ruby Mining is located in Cabo Delgado Province in north eastern Mozambique, approximately 170 kilometres west of Pemba. The single mining licence 4703C Ref. 1588/CM/INAMI/2015 covers an area of 34,996 hectares and is valid until 11 November 2036.

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 6.5 Mtpa by 2019, with ore mining increasing from 749,000 tonnes per annum (“ktpa”) to 1.5 Mtpa by 2019, and is projected to extend to 2033 (with an LoM of 16 years). The expected average stripping ratio for the LoM is 3.5 tonne per tonne (“t/t”).

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 tonnes per hour (“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, followed by a double-deck, wet screen to remove +25 mm stone fraction and -1.6 mm fines.



Images Optically sorting Mozambican rubies at Montepuez Ruby Mining.

After washing and separation in the plant, the resulting gravity concentrate is sorted by hand in the high-security area under strict supervision. After removal of fines, the remaining gemstones are then subdivided into five broad quality categories.

The auction in June 2018 realised US\$71.8 million from the sale of 0.59 Mct of higher-, medium- and commercial-quality rubies.

MRM holds a valid approval for its Resettlement Action Plan (“RAP”), an authorisation to use the land (DUAT), a water-use licence valid until December 2020, and a Category A Environmental Licence valid until August 2019. 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 US\$25 million for closure.

For the year ended 31 December 2018, MRM recovered 2.9 Mct from 748 kt ore at an average grade of 3.8 ct/t (2.4 Mct from 397 kt at an average grade of 6.1 ct/t for the five-month period to 31 December 2017). Total operating costs were well controlled at an all-in cost of US\$33 million during 2018 (US\$11 million for the five-month period to 31 December 2017). Cash operating unit costs of US\$11.58/ct in 2018 (US\$4.54/ct for the five-month period to 31 December 2017) and cash rock handling unit costs of US\$7.2/t during 2018 (US\$5.04/t for the five-month period to 31 December 2017).

MRM MINERAL RESOURCES AND MINERAL RESERVES

The MRM Mineral Resources and Mineral Reserves Statement attributable to GGL at 31 August 2018 is set out below. Mineral resources are reported inclusive of the mineral reserves.

Mineral resource (Attributable to GGL)	Tonnage (kt)	Grade (ct/t)	Contained (Mct)	Mineral 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
Indicated – primary stockpiles	35	97.9	3.5				
Total indicated	1,235	83.8	103.6	Total mineral 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 – secondary	9,794	3.0	29.7
Indicated – secondary stockpiles	701	7.3	5.1				
Total indicated	10,151	3.3	33.4	Total mineral 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 mineral reserve	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 mineral 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

No inferred resources are included in the LoMPs which support the Mineral Reserve Declaration above.

GGL took effective control of Gemfields at the end of July 2017 and is reporting its attributable mineral resources and mineral reserves for the first time. Shareholders are reminded that the MRM Mineral Resources and Mineral Reserves Report in the 2017 Annual Report was based on a draft MRM CPR which remained under review by the Johannesburg Stock Exchange (“JSE”) at that time. Shareholders were informed at the time that the Probable Reserves derived from Indicated Resources were still subject to alignment between the respective teams of SRK and the JSE.

Comparison of the 2018 MRM mineral resources and mineral reserves with those of the previous year is therefore not relevant.



GOVERNANCE

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*The Company's name changed from
"Pallinghurst Resources Limited"
to "Gemfields Group Limited" on
26 June 2018.*

*Image First glimpse of a rough emerald
at Kagem mine, Zambia.*

ABOUT THE GROUP



Image Rough ruby grading at MRM, Mozambique.

STRUCTURE

Gemfields Group Limited (“GGL”, the “Company” or the “Group”) is incorporated in Guernsey under company registration number 47656 and is regulated in Guernsey. 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. GGL’s primary listing is on the JSE Limited (the “Johannesburg Stock Exchange” or “JSE”), and its secondary listing is on the Bermuda Stock Exchange (“BSX”). 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 2018 (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 2018 (the “Financial Statements”).

SHAREHOLDERS

GGL has no single controlling shareholder; the largest shareholder is Dr Christo Wiese, a Director of the Company, who holds an interest of 11.20%¹. GGL’s shareholder base is set out in the table below:

Directors of the Company ¹	14.21%
NGPMR (Cayman) L.P.	9.67%
Investec Pallinghurst (Cayman) L.P.	9.11%
Gemfields Group Limited ²	8.20%
Ophorst Van Marwijk Kooy Vermogensbeheer N.V.	7.40%
Oasis ³	6.62%
Other shareholders	45.79%

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

² The Company held a 51.10% see-through interest in Fabergé Conduit Limited at 31 December 2018, a company that received 188,416,547 GGL shares in exchange for its Gemfields shares as a result of the Company’s acquisition of Gemfields. The Company’s interest in its own shares through Fabergé Conduit Limited was therefore 96,276,146 shares or 6.72%. In addition, the Company had repurchased 21,066,753 or 1.47% of its own shares as at 31 December 2018.

³ The Oasis shareholding includes interests held by Oasis Asset Management and Oasis Crescent Capital.

¹ Dr Wiese holds indirect interests in GGL shares via various entities, totalling 11.20%. In addition, certain shares are held by members of Dr Wiese’s immediate family, totalling a further 0.16%.

Image Assessing a rough emerald at Kagem mine, Zambia.



PRIVATE EQUITY STATUS UP TO 31 JULY 2017

Prior to 1 August 2017, the Group was considered by the Directors to be a private equity or venture capital² organisation.

CONVERSION TO AN OPERATING MINING COMPANY EFFECTIVE 1 AUGUST 2017

GGL had an initial life span of ten years, which was due to expire on 14 September 2017. On 26 June 2017, shareholders of GGL voted in favour of the restructuring of the Company and the acquisition of Gemfields plc, now called Gemfields Ltd (“Gemfields”).

GGL's life was extended by 50 years and the Company has converted to an operating mining company as a result of the Gemfields acquisition effective 1 August 2017. The Company has since had its listing on the JSE moved from Investment Companies to Mining.

CORPORATE CHANGES FOLLOWING THE GEMFIELDS ACQUISITION

Following the Gemfields acquisition, there have been a number of corporate changes in relation to the Group. Andrew Willis resigned as Finance Director of the Company and was replaced by David Lovett on 31 March 2018, as Chief Financial Officer. At the same time, Arne H. Frandsen resigned as Chief Executive of the Company, with Sean Gilbertson becoming Chief Executive Officer in his place. Erich Clarke resigned as a Non-Executive Director on 7 January 2019 and was replaced by Carel Malan on 9 January 2019. The Pallinghurst group of investment companies and staff not associated to the Group's strategic focus on African coloured gemstones split away from the Group and GGL's name changed from “Pallinghurst Resources Limited” to “Gemfields Group Limited” on 26 June 2018. On 26 June 2018, the shareholders of GGL voted to amend the Company's articles of association to reflect the new operations of the Group.

² The Directors use the terms “private equity” and “venture capital” interchangeably. The Directors acknowledge that certain users of the Financial Statements may attribute slightly different meanings to the two terms, but these differences are not relevant to the Group.

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

Gemfields has a fully integrated approach to sustainability and corporate responsibility (“SCR”) initiatives across the Group. Gemfields prides itself on being a responsible and recognised leader regarding legitimacy, transparency and integrity within the coloured-gemstone mining sector and beyond into the downstream supply chain. Gemfields’ SCR programme of work is not confined to localised community, conservation and HSE (health, safety and environment) projects at our operations, but covers a range of associated issues; from human rights, to product disclosure, to government or industry relations.

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, and 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 are challenging the sector by championing legitimacy and leading from the front.*

The coloured-gemstone sector in which Gemfields operates has traditionally been based on artisanal mining and a fragmented route to market. We have been radically changing that through our business model. To do this, we are challenging the sector by ensuring our business is one based on legitimacy and compliance with prevailing norms, practices and laws.

***Transparency:** To lead, we have to be transparent. Without that transparency, we undermine our uniqueness.*



Image One of the local community farming associations in Mozambique.

Such an ancient, artisanal and fragmented industry means that routes to market are very often opaque. Gemfields is championing transparency. It participates in the Extractive Industries Transparency Initiative, operates a unique auction platform, and is driving transparency initiatives into the downstream supply chain.

***Integrity:** We are committed in our approach to delivery, doing so with rigour and completeness.*

As a business that is at the intersection where mining and marketing meet, we must ensure that tangible operational actions support sales and marketing. In the absence of defined standards for the coloured-gemstone sector, we reference the wider mining industry for guidance on best practice. By adhering to nationally and internationally expected norms, we are confident that our integrity and rigorous approach will stand up to scrutiny.

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 which we have many at our mining operations who work in harsh conditions. 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”), standards 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 issues facing the business in terms of responsible business practices. We identified early on that there are approximately 50 material issues, and these have been ranked in terms of their importance to our stakeholders and their importance to our business, of which 14 have the highest priority as the most high risk or as having the potential to cause the most reputational harm:

- 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

Health, safety, environment (“HSE”) and community are ultimately overseen by the Board. Strategic direction-setting, management of policies, and guidance on delivery are actioned through a dedicated senior manager at Gemfields who works closely with the operations and business units, which take ownership of operational delivery to ensure that Group expectations, policies and procedures are met.

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 chiefs or village-level leadership groups.

Locally, at each operation, we have successfully strengthened our operational delivery teams in Zambia and Mozambique. Their responsibility is to implement HSE improvement and community plans in collaboration with stakeholders in order to enhance our operational viability and social licence to operate.

STRATEGIC APPROACH

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”), most notably:

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 improvements to educational access as well as address gender disparities by opening access to both boys and girls.

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.

COMMUNITY DEVELOPMENT AND LEGACY

When we arrive at a mining location to start our operations, we always engage with the local community. Whilst we are reliant on the government licensing process, we recognise that customary and cultural rights over land and resources are a sensitive subject, and that expectations about a mining company can differ. Therefore, managing our relationship with communities in a free, open and inclusive way is a priority. We have dedicated employees

SUSTAINABILITY AND CORPORATE RESPONSIBILITY CONTINUED

at the operations in which we mine whose roles are specifically to cooperate with the local communities and 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. We primarily invest in health, education and livelihood projects after extensive engagement with the community, but, from time to time, we also contribute to cultural activities such as arts and sports. Our focus is on rural health access, education, and income-generating livelihoods, as these are consistently cited as the most significant indicators of poverty and lack of 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 for projects to create a legacy of long-term economic development so that, throughout the mining life cycle and afterwards, the communities can truly benefit. Our approach is that, for infrastructure projects, where the role of the state is limited, we will build schools and clinics or upgrade basic facilities, including utilities, roads and bridges, but 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 in order 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 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. We recognise that, in more remote locations, the state often cannot provide the services, transport or reliable infrastructure to give people access. Our primary focus, therefore, is on improving healthcare infrastructure either through rehabilitating existing clinics or building new ones with the support of local government and health outreach and education. We have also launched innovative services such as a mobile health clinic which can reach parts of the community that are too far from traditional clinic facilities.

Case study: Mobile health clinic, Mozambique

Around our concession in Mozambique, there has historically been no nearby access to health facilities. With the help of MRM, a new community health clinic was completed during the period. However, for the communities in and around our concession, even reaching this facility can be a considerable undertaking. Recognising the need of the local communities, MRM launched a second mobile health clinic that drives to the villages on a weekly basis. The clinic provides health checks, referrals and basic treatments and is staffed by a nurse from the Ministry of Health and one of our own team. In the 2018 calendar year, the mobile clinic recorded nearly 50,000 patient visits.



Image (above) Mobile health clinic in Mozambique, serving six local communities.

Image (below) A student at the Chapula Secondary School in Zambia.



Image Chapula Secondary School, Zambia.

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 or improved existing community schools directly, 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: University scholars, Zambia

Whilst the Zambian mining sector has plenty of opportunities for lower-skilled labour, opportunities for locally qualified geologists and mining engineers present more of a challenge. Kagem has to compete for these candidates with the bigger mining companies and, in a competitive market, offering scholarships with the opportunity for internships and ongoing employment is one way to contribute to educational standards and guarantee that well-qualified graduates enter the workforce. Kagem has a scholarship fund for up to nine aspiring students at the University of Zambia and Copperbelt University. To date, Kagem has sponsored six out of the nine scholars by covering the costs of full-time university education: tuition fees, boarding fees, upkeep, clothing and book allowances, and a medical scheme with the mine. Kagem is proud to sponsor the next generation of geologists and mining engineers.

SUSTAINABILITY AND CORPORATE RESPONSIBILITY CONTINUED

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.



Image Irrigation at one of the local community farming associations, Mozambique.

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 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, whilst 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: Vocational training centre, Mozambique

During 2018, MRM committed to, and has now completed, the building of a vocational training centre ("VTC") to help provide people with basic skills and qualifications in preparation for the anticipated employment boom in the northern Mozambique province of Cabo Delgado. MRM has given a commitment to the Mozambique government that the VTC will train 2,000 local people over the next seven years. Each trainee will gain a national qualification from the Mozambican vocational training organisation IFPELAC. So far in this period, over 100 local villagers have been trained, and half of those have been retained by a construction contractor to assist with building a resettlement village. As with our other livelihood projects, this VTC will be handed over to the state to run for the next seven years, and the MRM contract with IFPELAC will be to ensure that qualified trainers are in place to train 300+ people each year. Some of those trainees may be retained by MRM itself if there is demand from the operation for such skills.

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 Resettlement Action Plan ("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



Image (above) Community farming associations bring more dependable livelihoods to local people.

Image (below) National Geographic join Gemfields to check progress of carnivore satellite collars, introduced as part of conservation efforts in Zambia.

communities, and that only one, Nthoro, located in the most viable mineralised area, would need to be resettled.

The RAP process involved extensive socio-economic mapping, community engagement, public consultation, and a comprehensive census and register of homeowners' assets, including farmland. The socio-economic mapping and community engagement were carried out and it was established that 105 families would be eligible to move to a new resettlement township to be built by MRM outside the concession boundary, not far from the village of Namanhumbir.

In August 2017, some three years after officially starting the public-consultation phase, MRM received formal approval from the Mozambique National RAP Committee for the project. Understandably, this was a considerable delay for the affected community. During the 2018 calendar year, there has been extensive clearance of the new resettlement location in readiness for construction of the first phase of building. By the end of the period, the entire RAP area had been cleared, ready for construction, and, at the time of writing, 35 houses were at completed masonry stage and on track for the first 14 to be fully completed by the end of March 2019. Engagement of the to-be-affected community at Nthoro continues and MRM has hosted visits by the community itself, NGOs, and government representatives to witness progress.

HEALTH, SAFETY, AND ENVIRONMENTAL REHABILITATION

Mining can be a dangerous activity and the safety, health and well-being of our workforce is therefore our absolute priority. As a mining project grows from simple exploration, right up to a fully-fledged operation, safety is always at the forefront of our minds. Prior to starting an operation, we carry out health and safety risk



assessments and develop tailored safety processes for each area. On-site clinics and medical-evacuation services ensure that the risk of medical emergencies is minimised. We enhance the well-being of our employees through intercultural and sporting events and recreational facilities to make their stay at the operations more comfortable.

We drive a zero-harm culture through awareness raising and training and by highlighting the importance of individual and shared responsibility. 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, and, at both Kagem and MRM, the operations are progressing towards achieving these certifications, with the aim of completing certification in the coming year.

SUSTAINABILITY AND CORPORATE RESPONSIBILITY CONTINUED



Image Gemfields' new advertising campaign, bringing core aspects of the brand central to communications.

As a result of improved, centralised reporting throughout 2018, we were able to more clearly track incidents, accidents and near misses (“IANM”) reported at site level for the purpose of public reporting. A summary of this period’s HSE performance for each of the main Gemfields Group entities is presented below:

Entity	Total IANM reported	Near misses reported	Lost-time injuries	Fatalities
Gemfields Mining	6	0	0	0
Kagem	71	12	7	0
Kariba	1	0	0	0
MML	6	0	0	0
MRM	110	10	6	0
WGM	3	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 licence, 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 as we complete mining activity in each area.

Further, 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 2018, 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. Cartier, Kering, Gemfields, LVMH, Muzo Mines, Tiffany & Co., Swarovski Gems and Van Cleef & Arpels 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 to working towards achieving a more accountable and transparent industry. The result is 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 2018, the group was more open and consulted publicly with key industry bodies, NGOs and other businesses. The work of the CGWG is nearing completion. However, it is anticipated that its efforts will be recognised by the Responsible Jewellery Council, 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 membership of the Responsible Jewellery Council

In 2018, Gemfields made application for Fabergé to join the Responsible Jewellery Council (“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. To become a fully certified member, Fabergé has started a self-assessment due diligence exercise which requires the company to disclose its working practices, policies and business processes. Once complete, Fabergé will engage an auditor to verify the self-assessment against the evidence presented. This audit report will be submitted to the RJC for consideration, and it is hoped that Fabergé will be accepted as a certified member of the RJC, which will demonstrate that Fabergé is operating as a responsible jewellery company.

More information can be found at
<https://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 somewhat.

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 & Human Rights (“VPSHR”). Following the identification of shortcomings with respect to MRM’s security operations in the early life of the concession during a wholesale security review in 2015/16 and following legal proceedings by a UK law firm, we acknowledged that we could do more regarding human rights. 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.

In order to ensure transparent public commitments to the VPSHR process, Gemfields and MRM are putting in place an industry best-practice operational grievance mechanism (‘OGM’) with an independent panel that will consider evidence accompanying grievances that are submitted to the OGM. Where applicable, the OGM panel will determine any compensation payable by reference to Mozambican law, and, once established, the entire OGM process will be subject to ongoing monitoring. The purpose of this OGM is to provide the community at large with a formal system to raise and potentially seek remedy for any grievance they raise, and it will be aligned to MRM’s existing community engagement systems.

During the 2018 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. We anticipate that, in 2019, Gemfields will be formally recognised as having met the requirements in order to join as a corporate member of the VPSHR initiative. Further, Gemfields is committed to continuous learning and awareness raising both in international markets and locally in our countries of operation.

More information can be found at
<http://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.

The Group's main operating activity is its mining interests in Zambia, Mozambique, South Africa and Ethiopia, which are primarily in the natural-resources sector. The performance of the Group's investments is critical to the Group's prospects.

KEY RISKS TO THE GROUP

Macroeconomic risks

The global macroeconomic outlook can have a major impact on the Group's operations and investments. Adverse macroeconomic conditions and a deterioration in the global economic environment, such as a slowdown in the markets that the Group operates in, may have a significant impact on the performance of the Group's operations and the valuation of the Group's investments.

Gemfields is exposed to macroeconomic risk associated with the consumption of hard luxury goods, directly in its supply of rough gemstones to the jewellery manufacturing sector, and via the luxury brand, Fabergé. During times of economic uncertainty or an economic downturn, demand for hard luxury goods may fall. The macroeconomic climate may result in wholesale and retail buyers not spending, or, at worst, defaulting on payments.

Commodity price risk

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 investments, namely Jupiter and Sedibelo, 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, or may invest,

in. The commodities of most relevance to the Group currently are coloured gemstones, platinum group metals ("PGM"), manganese and iron ore.

Country risks

The Group holds investments which operate in countries including Zambia, Mozambique, South Africa, Australia, Madagascar and Ethiopia. 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.

Gemfields' exposure in emerging markets such as Zambia, Mozambique and Ethiopia is generally subject to greater risks related to changes in legal requirements, mineral royalty rates and taxation policies, or to restrictions on the export of currency or gemstones, risks which may have a material, adverse impact on the Company's operations or ability to expand.

Political instability may also result in civil unrest, labour disputes, or the withdrawal or variation of existing agreements, mining licences and permits. Any of these threats may adversely affect the Company's operations.

Resources sector and mining risks

The Group's operations and investments are focussed on the resources sector and have associated performance, political, economic, legal and similar risks. 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



Image Extracting rough emeralds in the sort house at Kagem mine, Zambia.

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

DIRECT RISKS TO THE GROUP

Counterparty risk

The Group holds materially all of its cash balances with three counterparties, Barclays Bank plc ("Barclays"), Investec Bank plc ("Investec") and HSBC Bank plc ("HSBC"). 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.

Exchange rate risk

The Group's operations are exposed to exchange rate risk in respect of foreign currency sales, purchases and expenses, as no active

currency hedging is undertaken. 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 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.

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.

Risk caused by excessive levels of gearing

Significant levels of gearing could affect the returns attributable to shareholders. Any default on borrowing could lead to repossession of the assets on which the borrowing has been secured, with an adverse effect on shareholders. The Directors monitor the level of borrowing to ensure that the Company is operating and growing sustainably.

Community relations

Mining requires the acceptance and support of a wide range of local community stakeholders and of the workforce itself. The

PRINCIPAL RISKS CONTINUED

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 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 – as has been experienced in Ethiopia. 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. Thus, despite 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.

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.

Growth

Gemfields is reliant on key individuals throughout the business for making decisions and managing key projects across the business. With a lean management structure, Gemfields recognises the potential for inefficient use of management time and resources as well as of the pressure on management that does not allow for more judicious decision-making at key moments. The loss of key

personnel or the failure to attract and retain qualified employees could affect the Group’s operations, financial position and growth.

Growth is dependent partly on our ability to bring new projects online but ultimately rests on the management team’s ability to remove barriers to entry that can prevent new projects from adequately delivering as expected, and to empower their teams to execute their duties to a high level.

Geology and mining

Owing to the unpredictable nature of gemstone geology and the nascent nature of mechanised coloured-gemstone mining, there is no assurance that Gemfields’ exploration and development activities will be successful, or that new-project expenditure will be fully recovered, or that ore reserves can sustain the life of a mine.

There is a risk that exploration activities may not deliver viable mineral resources or that Gemfields may fail to identify attractive acquisition or investment opportunities.

Health, safety and environment (“HSE”)

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, or disruption to the mining operations and, at worst, 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.

Fabergé

The Fabergé distribution model presently relies on a combination of online sales, directly operated boutiques, a large number of concessions, international client events, and a network of independent multi-brand retailers. Failure of the distribution model either wholly or partly would have a material, adverse impact on Fabergé and, potentially, the Gemfields Group.

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; hence, 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.

DIRECTORS' REPORT

The Directors are pleased to present the Group's Annual Report and Financial Statements for the year ended 31 December 2018.

NATURE OF BUSINESS

Gemfields Group Limited ("GGL", the "Company" or the "Group") was incorporated in Guernsey on 7 September 2007 and was listed on the Bermuda Stock Exchange ("BSX") on 26 September 2007. The Group subsequently listed on the Johannesburg Stock Exchange ("JSE") on 20 August 2008 and changed its name from "Pallinghurst Resources Limited" to "Gemfields Group Limited" on 26 June 2018.

BOARD COMPOSITION

Director	Designation	Appointment date
Mr Brian Gilbertson ¹	Non-Executive Director – Chairman	4 September 2007
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 Martin Tolcher	Independent Non-Executive Director	25 November 2008
Mr Lumkile Mondli	Independent Non-Executive Director	29 October 2015
Mr Kwape Mmela	Independent Non-Executive Director	31 July 2017
Mr Carel Malan ²	Independent Non-Executive Director	9 January 2019

¹ Mr Gilbertson became Non-Executive Chairman effective 1 January 2018.

² Mr Carel Malan was appointed to the Board on 9 January 2019.

DIRECTORS WHO RETIRED DURING THE YEAR

Director	Designation	Appointment date
Mr Arne H. Frandsen ¹	Executive Director – Chief Executive	4 September 2007
Mr Andrew Willis ²	Executive Director – Finance Director	25 November 2008
Mr Erich Clarke ³	Independent Non-Executive Director	31 July 2017

¹ Mr Arne H. Frandsen resigned from the Board on 31 March 2018.

² Mr Andrew Willis resigned from the Board on 31 March 2018.

³ Mr Erich Clarke resigned from the Board on 7 January 2019.

Up until 31 July 2017, the Group was a specialist natural resources investment holding company. The Company became an operating mining company upon taking Board control of Gemfields and has prepared its financial statements as an operating mining company. The Company's listing has since moved to the "Mining" sector of the JSE main Board.

CORPORATE GOVERNANCE

The Group subscribes to the King Code of Governance Principles and the King Report on Governance ("King IV"). The Directors are satisfied that the Group complies with the principles and recommendations of King IV. 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.

Further to this assessment, Toby Hewitt was appointed as the Group's Company Secretary on 27 September 2018 and Dewald Blom was appointed as the Group's Chief Information Officer on 6 December 2018.

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.

DIRECTORS' REPORT CONTINUED

RETIREMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Company's Articles of Incorporation, Carel Malan and Brian Gilbertson will offer themselves for re-election at the Annual General Meeting ("AGM") to be held on Friday, 10 May 2019.

SHAREHOLDER MEETINGS

An Annual General Meeting and an Extraordinary General Meeting were held on 26 June 2018. The following resolutions were passed:

Special resolutions:

1. To approve the adoption of amended Articles of Association of the Company.
2. To approve the change of company name from "Pallinghurst Resources Limited" to "Gemfields Group Limited".

Ordinary resolutions:

1. The adoption of the Company's Annual Report and Financial Statements for the year ended 31 December 2017.
2. To re-elect Erich Clarke, who retired by rotation, as a Director of the Company.
3. To re-elect Kwape Mmela, who retired by rotation, as a Director of the Company.
4. To re-elect Dr Christo Wiese, who retired by rotation, as a Director of the Company.
5. To re-elect Sean Gilbertson, who retired by rotation, as a Director of the Company.
6. To re-elect David Lovett, who retired by rotation, as a Director of the Company.
7. To elect each of Martin Tolcher, Lumkile Mondi and Erich Clarke (subject to his re-election as a Director pursuant to Ordinary Resolution 2) to the Company's Audit Committee.
8. To reappoint BDO LLP ("BDO") as the Company's auditor (until the conclusion of the 2019 Annual General Meeting) and to authorise the Directors to fix BDO's remuneration.

Non-binding advisory vote:

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

There was also a second non-binding advisory vote to endorse the Company's Remuneration Policy (as set out within the Remuneration Committee Report). As more than 25% of shareholders voted against the endorsement of the Company's Remuneration Policy, the resolution did not pass and the Company engaged with shareholders in accordance with the principles of King IV. A shareholders' conference call was arranged by the Board on 22 August 2018 but no dissenting shareholders participated in the call.

The Group's next AGM is scheduled for Friday, 10 May 2019. Full details are set out in the Notice of Annual General Meeting which is included in the Annual Report. 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.

INDEPENDENT AUDITOR

BDO was re-elected as Company auditor at the AGM on 26 June 2018. There was a delay in the publishing of the Company's financial results for the year ended 31 December 2017 which related to the then lack of accreditation by the JSE of BDO. BDO submitted an application for JSE accreditation, which was considered and approved by the JSE.

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 auditor, 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 Directors have considered the likely cash flows and costs of the Group for the 12 months subsequent to the signature of the Financial Statements. The Directors have concluded that the Group has adequate resources to continue with its activities for the foreseeable future. The Annual Financial Statements have therefore been prepared on the going-concern basis.

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 of 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 BSX Listing Regulations, and the Companies (Guernsey) Law of 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.



Image Student using computer lab at Chapula Secondary School, Zambia.

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 2018 were approved by the Directors on 22 March 2019 and will be presented to shareholders at the AGM on 10 May 2019. The Financial Statements are signed on the Directors' behalf by:

David Lovett
Director
22 March 2019

Sean Gilbertson
Director
22 March 2019

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 Johannesburg Stock Exchange ("JSE") Listings Requirements 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 a "comply-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 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 eight Directors on the Board, of which six 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 Gemfields Group Limited ("GGL"), Brian Gilbertson, has become Non-Executive Chairman as from 1 January 2018 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 (Chief Executive Officer) and David Lovett (Chief Financial Officer), are responsible for the Group's strategic direction and everyday management. Brian Gilbertson was the Company's Executive Chairman up to 31 December 2017, but is now a Non-Executive Chairman. 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. Five Board meetings were held during 2018, at which all resolutions were agreed unanimously.

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 2018:

	Board	Audit	Remuneration	Nomination
Mr Brian Gilbertson	5/5	n/a	n/a	n/a
Mr David Lovett ¹	2/2	n/a	n/a	n/a
Mr Sean Gilbertson	5/5	n/a	n/a	n/a
Dr Christo Wiese	3/5	n/a	n/a	n/a
Mr Martin Tolcher	5/5	4/4	2/2	1/1
Mr Lumkile Mondli	5/5	4/4	2/2	1/1
Mr Kwape Mmela	5/5	n/a	2/2	1/1
Mr Carel Malan ²	n/a	n/a	n/a	n/a
Mr Arne H. Frandsen ³	1/1	n/a	n/a	n/a
Mr Andrew Willis ³	1/1	n/a	n/a	n/a
Mr Erich Clarke ⁴	4/4	4/4	n/a	n/a

¹ Appointed to the Board on 31 March 2018.

² Appointed to the Board and the Audit Committee on 9 January 2019.

³ Resigned from the Board on 31 March 2018.

⁴ Resigned from the Board on 7 January 2019.

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. 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. GGL does not currently have a Social and Ethics Committee as, historically, the nature and size of the Company have made such a committee redundant. 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. The Company will, however, review the requirement of having a Social and Ethics Committee in the future.

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

On 28 August 2018, Vistra Fund Services (Guernsey) Limited ("Vistra Guernsey") resigned as Administrator and Company Secretary of the Company and Mourant Governance Services (Guernsey) Limited ("Mourant") was engaged to provide Guernsey corporate administration services. 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 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 and the JSE Listings Requirements. 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.

CORPORATE GOVERNANCE REPORT CONTINUED

RISK MANAGEMENT

The Directors are responsible for the Group's system of internal controls, which is designed to provide reasonable assurance against material mis-statement 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:

- A Risk Register which is monitored on an ongoing basis;
- An organisational structure and division of responsibilities; and
- Policies and procedures governing financial reporting, accounting and payments.

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. Previously, as an investment holding company, the Company did not have a significant, direct impact on the natural environment in which it operated. The responsibility for sustainable development was largely retained by the Company's investments, Gemfields, Sedibelo Platinum Mines and Jupiter. Since the acquisition of Gemfields, the Company has integrated the corporate social responsibility and sustainability 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.

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 South African media. GGL also communicates with its shareholders regarding the Group's financial performance and strategy through the Stock Exchange News Service ("SENS") and via the website, www.GemfieldsGroup.com. The Board communicates with other stakeholders as appropriate. The Company ensures communication with smaller shareholders who lack access to electronic media by way of publishing financial results in a main South African daily newspaper.

REGULATORY AUTHORISATION

Following the acquisition of Gemfields during 2017, the Company ceased to be an investment entity and started the process of converting to an operating mining company. As a result of the change in nature of the Company, the authorisation granted by the Guernsey Financial Services Commission ("GFSC") under Section 8 of the Protection of Investors (Bailiwick of Guernsey) Law of 1987, as amended, was cancelled on 17 January 2018.

INTERNAL AUDIT

King IV recommends that all companies implement an internal audit function. During the year, the Group utilised Vistra Guernsey as its administrator, passing responsibility for the provision of the Company's accounting function and therefore no internal audit function was appointed. Following Vistra Guernsey's resignation as company secretary and administrator, the Audit Committee received a number of third-party internal reports for review. Following the acquisition of Gemfields Limited ("Gemfields") and the associated integration of the internal financial terms, the Board believe that it would be appropriate for the Group to appoint its own internal audit function to co-source activity with third parties during the year to December 2019. Mr Robin Griffiths was appointed Director Internal Audit on 1 January 2019.

DEALING IN SECURITIES

GGL has a defined policy for the conduct of Directors and employees classified as insiders in relation to dealing in GGL's shares. The JSE Listings Requirements 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 GGL's shares during these closed periods. Directors and employees can trade in GGL shares outside of these periods after first obtaining the necessary approval in writing in accordance with the Company's policies. Any transactions by Directors are communicated to the JSE and BSX and are published on SENS and on the Company's website.



Image Fabergé Emotion Charmeuse Ruby Ring surrounded by rough rubies from MRM, Mozambique.

AUDIT COMMITTEE REPORT

INTRODUCTION

The Audit Committee is pleased to present its report for the year ended 31 December 2018, 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 Tolcher (Chair)
- Mr Mondl
- Mr Malan

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



Image School child at rehabilitated primary school in Mozambique.

recommendation from the Nomination Committee and approval by the Board. 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 Chief Financial Officer ("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 unscheduled meetings and who should be invited to such meetings. Four formal meetings were held during 2018.

INTERNAL AUDIT

During the year, the Group utilised a third-party administrator, Vistra Guernsey, until its resignation on 28 August 2018. The provision of the Company's accounting function was one of Vistra Guernsey's key duties. Following Vistra Guernsey's resignation as company secretary and administrator, the Audit Committee received a number of third-party internal reports for review. Following the acquisition of Gemfields Limited ("Gemfields") and the associated integration of the internal financial terms, the Board believes that it would be appropriate for the Group to appoint its own internal audit function to co-source activity with third parties during the year to December 2019. Mr Robin Griffiths was appointed Director of Internal Audit on 1 January 2019.



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 International Financial Reporting Standards (“IFRS”), the JSE Listings Requirements and the Companies (Guernsey) Law of 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 performance of the Group’s accounting function;
- Reviewed the performance of the Chief Financial Officer, and was satisfied that the Chief Financial Officer continues to possess the appropriate expertise and experience to carry out his responsibilities as Chief Financial Officer; and
- Reviewed the Audit Committee Report included in the Company’s previous annual report.

The Audit Committee is satisfied that the Group’s internal controls are adequate and fit for purpose.

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. Following the acquisition of Gemfields, an analysis was undertaken as to whether it is deemed appropriate for the Company to appoint its own Chief Information Officer as a result of the Company converting to an operating mining company. Further to this assessment, Mr Dewald Blom was appointed as the Group’s Chief Information Officer on 6 December 2018.

DUTIES CARRIED OUT IN 2018

During the year ended 31 December 2018, 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;
- Recommended the reappointment of BDO as Company auditor, to the Board;
- Approved the fees paid to BDO during 2018 which were solely for audit services;
- Approved the fees proposed by BDO for their annual audit services for 2019; and
- Ensured that the independence of BDO has not been compromised for any reason.

CHANGE IN COMPANY AUDITOR

Following the formal completion of the compulsory acquisition of Gemfields becoming effective, Saffery Champness (“Saffery”), which was the Company’s previous auditor before BDO, reviewed Section 26(a) ISQC1 (UK) Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements (2017), and concluded that it would not be able to meet the requirements of this section. Accordingly, it decided to resign as auditors. Following the resignation of Saffery, the Audit Committee recommended the appointment of BDO as the Company’s auditor, to the Board. BDO was appointed as the Company’s auditor on 8 January 2018.

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 and the Companies (Guernsey) Law of 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 2018.

Martin Tolcher
Chair of the Audit Committee

REMUNERATION COMMITTEE REPORT

THE COMPANY HAS MADE SIGNIFICANT REDUCTIONS IN OVERALL BOARD REMUNERATION WHEN COMPARED WITH THAT ORIGINALLY APPROVED BY SHAREHOLDERS AT OUR ANNUAL GENERAL MEETING HELD ON 26 JUNE 2017.

INTRODUCTION

The Remuneration Committee is pleased to present its report for the year ended 31 December 2018, 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 Mondli

MEETINGS

The Committee meets as often as is required, but not less than once a year. Two meetings were held during 2018. Members of the Remuneration Committee do not participate when the level of their personal remuneration is considered.

GEMFIELDS GROUP LIMITED (GGL) REMUNERATION POLICY

Prior to the termination of the Investment Management Agreement on 14 September 2017, the Company did not require a full Remuneration Policy, as the Executive Directors did not draw a salary. Only the Non-Executive Directors received fees prior to this date. The announcement of the Gemfields takeover, however, triggered the need for the creation of a robust Remuneration Policy due to the proposed change in nature of the Company from an investment entity to an operating mining group. In preparation for a successful takeover, the Board, with input from the Remuneration Committee, set about creating a new, comprehensive Remuneration Policy (the "Remuneration Policy") that would apply after the takeover and the termination of the Investment Management Agreement.

Image Kagem emerald mine, Zambia.

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 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 below:

	Component	Objective	Link to business strategy	Policy
Elements one and two: Guaranteed pay	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 benefit package is comparable with others on the market, the aim being to attract and retain the best talent.	GGL 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 Gemfields Group, and are reviewed annually.
Element three: Short-term incentives	Annual bonus At the end of each calendar year, Executive Directors stand to 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.
Element four: Long-term incentives	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.

REMUNERATION COMMITTEE REPORT CONTINUED

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 Extraordinary General Meeting ("EGM") held on 26 June 2017, shareholders resolved that the maximum amount payable as Non-Executive Directors' fees be increased to US\$100,000 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 GGL's remuneration more in line with prevailing market practice, but will also improve GGL's ability to attract candidates with appropriate qualifications and experience to the Board to take the Company forward.

A non-binding advisory vote to endorse the Company's Remuneration Implementation Report was passed at the AGM held on 26 June 2018. There was a second non-binding advisory vote to endorse the Company's Remuneration Policy. As more than 25% of shareholders voted against the endorsement of the Company's Remuneration Policy, the resolution did not pass and the Company followed up in order to engage with shareholders in accordance with the principles of King IV. A shareholders' conference call was arranged by the Board on 22 August 2018 but

no dissenting shareholders participated in the call. The single shareholder who did participate was supportive of the Company's Remuneration Policy.

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%
- 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 2018 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%
	US\$	US\$	US\$
Sean Gilbertson	547,963	547,963	547,963
David Lovett	252,750	252,750	252,750
Subtotal	800,713	800,713	800,713
Annual bonus amount:	No bonus	50% of base compensation	100% of base compensation
Sean Gilbertson	–	273,982	547,963
David Lovett	–	126,375	252,750
Sub-total	–	400,357	800,713
Total cash remuneration	800,713	1,201,070	1,601,426

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, as approved by shareholders on 26 June 2017. The share options were divided into five equal tranches.

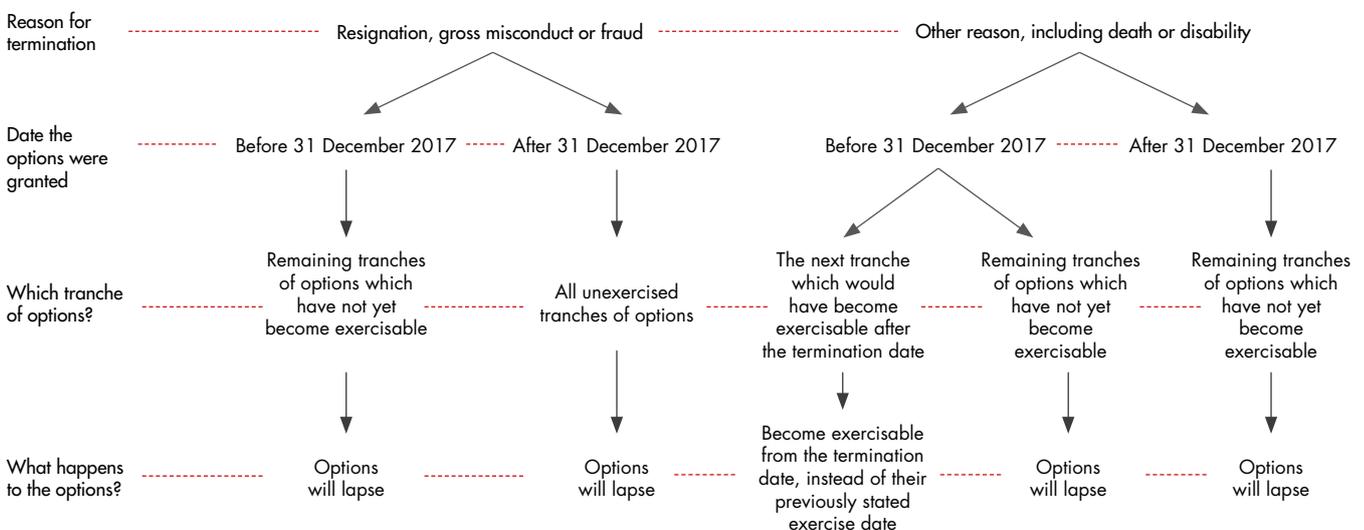
Each of the tranches becomes exercisable at a different date. The first tranche is exercisable from the date the options were granted (14 September 2017), the second from the first anniversary of that date (14 September 2018), the third from the second anniversary (14 September 2019), the fourth from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

Further to this, Sean Gilbertson currently holds 27,890,213 share options at an option price of 345 ZAR cents, representing approximately 1.9% of the Company's issued share capital. He was not granted any further share options during 2018.

In 2018, David Lovett was granted: (i) 1,184,200 share options on 4 January 2018 at an option price of 297 ZAR cents; and (ii) 7,000,000 share options on 27 June 2018 at an option price of 230 ZAR cents, together representing approximately 0.6% of the Company's issued share capital. These share options were granted in five tranches as per the above.

Should an Executive Director cease to be employed by GGL, then the manner of their departure and the date any options were granted to them determine how those options are treated. The figure below provides further clarification.

FIGURE 1: Termination arrangements – share options



REMUNERATION COMMITTEE REPORT CONTINUED

Executive Directors' contracts of employment

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

If Sean Gilbertson's service contract is terminated, GGL will 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 GGL's employment.

Should the termination be as a result of death or disability, different arrangements apply. GGL will 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 David Lovett's service contract allows for service to be terminated by Mr Lovett giving GGL three months' written notice, or by GGL giving him three months' written notice.

If Mr Lovett's service contract is terminated, GGL will pay him an amount equal to his notice period only.

Should the termination be as a result of death or disability, GGL will 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 2018 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 and also via the GGL website and the Stock Exchange News Service ("SENS"), encouraging shareholders to come forward should they believe their view is yet to be represented.

A non-binding advisory vote to endorse the Company's Remuneration Implementation Report was passed at the AGM held on 26 June 2018. There was a second non-binding advisory vote to endorse the Company's Remuneration Policy. As more than 25% of shareholders voted against the endorsement of the Company's Remuneration Policy, the resolution did not pass and the Company followed up in order to engage with shareholders in accordance with the principles of King IV. A shareholders' conference call was arranged by the Board on 22 August 2018 but no dissenting shareholders participated in the call. The single shareholder who did participate was supportive of the Company's Remuneration Policy.

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 2018***Changes to Executive Director base compensation*

After replacing Andrew Willis as Chief Financial Officer (“CFO”), David Lovett was awarded a base compensation of US\$337,000 per year.

Sean Gilbertson’s base compensation increased to US\$575,000 per year, effective 31 March 2018, when he assumed the position of Chief Executive Officer. Sean Gilbertson’s salary for the period up to 31 March 2018 was GBP350,000 per year. Mr Gilbertson’s base compensation has been benchmarked against the former Chief Executive of GGL, with a 4% reduction.

Change to Chairman role

After an extensive review of the King IV Report, Brian Gilbertson elected to transition from Executive Chairman to Non-Executive Chairman, effective 1 January 2018. The Company and Remuneration Committee believe that Mr Gilbertson’s extensive experience and superior leadership uniquely position him to chair the Board. This also results in GGL having a more conventional management and governance structure.

As a result of his transition from Executive to Non-Executive Chairman, Brian Gilbertson has elected to decrease his base compensation of US\$600,000 per annum from 1 January 2018 by approximately 83% to a Non-Executive Chairman’s fee of US\$60,000, plus an additional GBP30,000 (equivalent to US\$38,208 at 31 December 2017), for acting as Chairman of Gemfields. The fee is capped at a maximum Non-Executive Director

fee of US\$100,000 per annum. As Non-Executive Chairman, Brian Gilbertson will not be eligible for participation in the annual bonus scheme from 1 January 2018. Additionally, Mr Gilbertson voluntarily elected to waive his right to all share options beyond the initial tranche which vested in September 2017.

Resignations of Andrew Willis, Arne H. Frandsen and Erich Clarke
Arne H. Frandsen, Andrew Willis and Erich Clarke resigned from the Board on 31 March 2018, 31 March 2018 and 7 January 2019, respectively.

Erich Clarke did not receive any termination payment upon his resignation, other than his pro-rated fees for the period up to his resignation date. He did not hold any share options.

Arne H. Frandsen received a termination payment of US\$900,000, which, when coupled with a pro-rated base compensation payment of US\$150,000 for 2018, resulted in him being paid US\$1,050,000 for the year 2018. All unexercised share options previously awarded to Mr Frandsen lapsed – 16,734,127 of the 27,890,213 share options previously awarded to Mr Frandsen thus lapsed upon his resignation. Mr Frandsen therefore retains 11,156,086 share options at an option price of 345 ZAR cents, representing approximately 0.8% of the Company’s issued share capital.

Andrew Willis received a termination payment of US\$546,678, which, when coupled with a pro-rated base compensation payment of US\$90,428 for 2018, resulted in him being paid US\$637,106 for the year 2018; 16,734,127 of the 27,890,213 share options previously awarded to Mr Willis lapsed upon his resignation. Mr Willis therefore retains 11,156,086 share options at an option price of 345 ZAR cents, representing approximately 0.8% of the Company’s issued share capital.

Schedule of fees and remuneration

Throughout the 2018 financial year, the Executive Directors’ remuneration consisted of their base compensation and the granting of share options, though no Executive Directors had exercised any share options as at 31 December 2018. No annual bonuses were paid in 2018.

The table below sets out the remuneration of Executive Directors during 2018:

1 January 2018 to 31 December 2018	Base compensation US\$’000	Termination payment US\$’000	Total US\$’000
Sean Gilbertson	548	–	548
David Lovett ¹	253	–	253
Arne H. Frandsen ²	150	900	1,050
Andrew Willis ²	90	547	637
Total	1,041	1,447	2,488

¹ This relates to the period 31 March 2018 to 31 December 2018.

² This relates to the period 1 January 2018 to 31 March 2018.

REMUNERATION COMMITTEE REPORT CONTINUED

The table below shows a comparison of previous Executive Directors' salaries and available potential bonuses against those of the current Executive Directors:

	Position	Salary US\$'000	Bonus (US\$'000)	10% to 15%	15% to 20%	20% to 25%	25% or more	Total maximum remuneration (US\$'000)
			under 10%					
Previous Executive Directors' remuneration – original (pre-remuneration Policy)								
Andrew Willis	Finance Director/CFO	600	–	150	300	450	600	1,200
Arne H. Frandsen	CEO	600	–	150	300	450	600	1,200
Brian Gilbertson	Chairman	600	–	150	300	450	600	1,200
Priyank Thapliyal	COO	600	–	150	300	450	600	1,200
Sean Gilbertson	CIO	600	–	150	300	450	600	1,200
		3,000	–	750	1,500	2,250	3,000	6,000
Previous Executive Directors' remuneration – amended (after resignations and partial salary forfeits)								
Andrew Willis	Finance Director/CFO	345	–	86	173	259	345	690
Arne H. Frandsen	CEO	600	–	150	300	450	600	1,200
Sean Gilbertson	CIO	465	–	117	232	349	465	930
		1,410	–	353	705	1,058	1,410	2,820
Current Executive Directors' remuneration								
David Lovett	CFO	337	–	84	169	253	337	674
Sean Gilbertson	CEO	575	–	144	288	431	575	1,150
		912	–	228	457	684	912	1,824

The Non-Executive Director fees vary based on the individuals' involvement and role within the various committees of GGL. The fees payable to Non-Executive Directors for the year ended 31 December 2018 are as follows:

1 January 2018 to 31 December 2018	Group Director fees US\$'000	Board committees US\$'000	Lead Independent Director US\$'000	Total US\$'000
Brian Gilbertson	100	–	–	100
Martin Tolcher	40	17.5	–	57.5
Dr Christo Wiese	40	–	–	40
Lumkile Mondli	40	17.5	2.5	60
Erich Clarke	40	5	–	45
Kwape Mmela	40	12.5	–	52.5
Total	300	52.5	2.5	355

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 US\$100,000 per Director per annum. With effect from 14 September 2017, the fee payable for each Non-Executive Director increased from US\$35,000 per annum to US\$40,000 per annum. There was no change to this in 2018.

Variable remuneration

The Variable Remuneration Scheme as explained earlier in this report was established in the 2017 financial year and consists of two elements: annual bonuses and share options.

Annual bonuses

Any annual bonus for the 2018 year would have been based on the Adjusted Share Price at year-end. The Adjusted Share Price was measured against a price of ZAR2.53. The Adjusted Share Price at 31 December 2018 was ZAR1.87, and therefore no annual bonuses were payable in relation to the 2018 financial year.

The Adjusted Share Price at 31 December 2018 of ZAR1.87 will be compared with the Adjusted Share Price at the end of 2019 to determine if any annual bonuses will be payable for the 2019 financial year.

Share options

The then Executive Directors were each granted share options equal to approximately 2% of the issued ordinary shares of the Company on 14 September 2017. The first of five tranches became exercisable on the date of issue. Upon leaving GGL on 31 March 2018, 16,734,127 share options (per person) held by each of Arne H. Frandsen and Andrew Willis lapsed.

In 2018, David Lovett was granted: (i) 1,184,200 share options on 4 January 2018 at an option price of 297 ZAR cents; and (ii) 7,000,000 share options on 27 June 2018 at an option price of 230 ZAR cents, together representing approximately 0.6% of the Company's issued share capital.

Sean Gilbertson currently holds 27,890,213 share options at an option price of 345 ZAR cents, representing approximately 1.9% of the Company's issued share capital. No share options were granted to Sean Gilbertson in 2018.

No share options were exercised by Executive Directors as at 31 December 2018.

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

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. No annual bonuses were paid at the end of 2018.

The USD equivalent amounts for the GBP-based salaries of Sean Gilbertson and Andrew Willis are based on a USD/GBP average rate for the period of their employment during 2018.

It is not yet possible to gauge the Executive Directors' performance during 2019 with regard to the Adjusted Share Price, as insufficient time has elapsed. At the date of signature of the Company's Financial Statements the Adjusted Share Price was ZAR1.89.

Termination payments

Arne H. Frandsen received a termination payment of US\$900,000, which, when coupled with a pro-rated base compensation payment of US\$150,000 for 2018, resulted in him being paid US\$1,050,000 for the year 2018; 16,734,127 of the 27,890,213 share options previously awarded to him lapsed upon his resignation. Mr Frandsen therefore retains 11,156,086 share options at an option price of 345 ZAR cents, representing approximately 0.8% of the Company's issued share capital.

Andrew Willis received a termination payment of US\$546,678, which, when coupled with a pro-rated base compensation payment of US\$90,428 for 2018, resulted in him being paid US\$637,106 for the year 2018; 16,734,127 of the 27,890,213 share options previously awarded to him lapsed upon his resignation. Mr Willis therefore retains 11,156,086 share options at an option price of 345 ZAR cents, representing approximately 0.8% of the Company's issued share capital.

Mr Erich Clarke resigned as an Independent Non-Executive Director, effective 7 January 2019, and received his pro-rated fees for the period up to his resignation date.

	Options held at 1 January 2018	Options granted during the year	Options forfeited during the year	Options exercised during the year	Options held at 31 December 2018
Brian Gilbertson	5,578,043	–	–	–	5,578,043
Sean Gilbertson	27,890,213	–	–	–	27,890,213
David Lovett	–	8,184,200	–	–	8,184,200
<i>Directors who retired during the year</i>					
Arne H. Frandsen ¹	27,890,213	–	16,734,127	–	11,156,086
Andrew Willis ¹	27,890,213	–	16,734,127	–	11,156,086

¹ Resigned 31 March 2018.

REMUNERATION COMMITTEE REPORT CONTINUED

Mr Brian Gilbertson made the transition from Executive to Non-Executive Chairman, effective 1 January 2018, and elected to waive any additional payments or share option entitlements following this date.

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 GGL 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 297 ZAR 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 230 ZAR 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.

No share options had been exercised by Group employees as at 31 December 2018.

Success of the Remuneration Policy throughout 2018

Whilst 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.

A non-binding advisory vote to endorse the Company's Remuneration Implementation Report was passed at the AGM held on 26 June 2018. There was a second non-binding advisory vote to endorse the Company's Remuneration Policy. As more than 25% of shareholders voted against the endorsement of the

Company's Remuneration Policy, the resolution did not pass, and the Company followed up in order to engage with shareholders in accordance with the principles of King IV. A shareholders' conference call was arranged by the Board on 22 August 2018 but no dissenting shareholders participated in the call. The single shareholder who did participate was supportive of the Company's Remuneration Policy.

Future focus areas

During 2019, the Board and 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 2018 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 GGL 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, GGL 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 2018

All decisions undertaken in the 2018 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 22 March 2019.

Kwape Mmela

Chair of the Remuneration Committee

NOMINATION COMMITTEE REPORT



Image Emerald grading process at Kagem emerald mine, Zambia.

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 Mondi (Chair)
- Mr Mmela
- Mr Tolcher

MEETINGS

The Nomination Committee meets as often as required, but not less than once per year. One meeting was held during 2018.

DUTIES CARRIED OUT IN 2018

During the year ended 31 December 2018 (and in respect of Carel Malan's appointment, post year-end), 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 appointments of David Lovett as an Executive Director and Carel Malan as a Non-Executive Director;
- Considered the appropriateness of the appointment of Carel Malan to the Audit Committee following the resignation of Erich Clarke;
- Agreed that David Lovett and Carel Malan were suitable candidates for appointment to the Board and that their respective contributions would be beneficial to the Company and its shareholders;
- Confirmed that the reappointment process that was undertaken for the Company's 2018 Annual General Meeting ("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.

Lumkile Mondi

Chair of the Nomination Committee



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“The Group achieved record revenues for the year of US\$206.1 million, following four rough emerald and beryl auctions (two commercial-quality (“CQ”) and two higher-quality (“HQ”)) and two higher-and commercial-quality (“mixed”) rough ruby and corundum auctions.”

*David Lovett
Chief Financial Officer*

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2018

	Notes	2018 US\$'000	2017 US\$'000
Revenue	2	206,090	81,650
Cost of sales	3	(123,546)	(44,319)
Gross profit		82,544	37,331
Unrealised fair value losses	13	(59,559)	(53,218)
Other gains and income	4	17,659	6,289
Selling, general and administrative expenses	6	(63,170)	(32,154)
Impairment charges	11	(22,577)	–
Bargain purchase gain on Gemfields Acquisition	8	–	96,406
(Loss)/profit from operations		(45,103)	54,654
Finance income	9	805	1,240
Finance costs	9	(9,650)	(3,251)
Net finance costs		(8,845)	(2,011)
(Loss)/profit before taxation		(53,948)	52,643
Taxation	10	(6,483)	(7,589)
NET (LOSS)/PROFIT AFTER TAXATION		(60,431)	45,054
(Loss)/profit for the year attributable to:			
Owners of the parent		(62,213)	37,892
Non-controlling interest		1,782	7,162
		(60,431)	45,054
(Loss)/earnings per share attributable to the parent:			
	24		
Basic – US\$		(0.05)	0.04
Diluted – US\$		(0.05)	0.04

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

	2018 US\$'000	2017 US\$'000
(Loss)/profit after taxation	(60,431)	45,054
Other comprehensive income/(loss):		
Items that have been/may be reclassified subsequently to profit or loss:		
Exchange gain/(loss) arising on translation of foreign operations	209	(1,169)
Total other comprehensive income/(loss)	209	(1,169)
TOTAL COMPREHENSIVE (LOSS)/INCOME	(60,222)	43,885
Total comprehensive (loss)/income attributable to:		
Owners of the parent	(62,004)	36,723
Non-controlling interest	1,782	7,162
	(60,222)	43,885

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Notes	2018 US\$'000	2017 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	365,014	378,021
Intangible assets	12	52,328	49,312
Unlisted equity investments	13	50,447	196,164
Listed equity investments	13	25,714	–
Other investments		1,473	1,319
Deferred tax assets	10	6,381	6,775
Other non-current assets	16	8,342	8,025
Total non-current assets		509,699	639,616
Current assets			
Inventory	17	99,237	118,813
Other investments		2	6
Trade and other receivables	18	62,142	27,498
Cash and cash equivalents		62,988	37,784
Total current assets		224,369	184,101
Total assets		734,068	823,717
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	10	87,805	102,347
Borrowings	19	30,000	59,292
Provisions	20	5,572	7,958
Total non-current liabilities		123,377	169,597
Current liabilities			
Provisions	20	7,877	4,619
Current tax payable		1,370	7,041
Borrowings	19	23,171	4,178
Trade and other payables	21	28,158	21,171
Total current liabilities		60,576	37,009
Total liabilities		183,953	206,606
Net assets		550,115	617,111
EQUITY			
Share capital	22	14	14
Share premium	22	531,607	531,607
Treasury shares	22	(5,345)	(654)
Reserve for own shares	22	(23,319)	(23,319)
Cumulative translation reserve		(960)	(1,169)
Option reserve		5,474	2,692
Retained earnings		(31,276)	29,552
Attributable to equity holders of the parent		476,195	538,723
Non-controlling interest	15	73,920	78,388
Total equity		550,115	617,111

The Financial Statements were approved and authorised for issue by the Directors on 22 March 2019 and were signed on their behalf by:

David Lovett	Sean Gilbertson
Director	Director
22 March 2019	22 March 2019

The accompanying notes form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Notes	2018 US\$'000	2017 US\$'000
Cash flow from operating activities			
(Loss)/profit before taxation		(53,948)	52,643
<i>Adjustments for</i>			
Loan interest income		–	(154)
Unrealised fair value losses	13	59,559	53,218
Realised fair value gains	4	(11,680)	(5,841)
Dividend income	4	(5,271)	–
Bargain purchase on Gemfields Acquisition	8	–	(96,406)
Depreciation and amortisation	3	30,633	22,169
Impairment charges and write-offs	6,11	26,559	–
Share-based payments	6	4,167	2,692
Other		(49)	(8)
Finance income	9	(805)	(1,240)
Finance expense	9	9,650	3,251
Loss on sale of property, plant and equipment		–	34
Increase in non-current assets		(125)	–
Increase in non-current liabilities		461	–
(Increase)/decrease in trade and other receivables		(39,183)	2,368
Decrease/(increase) in inventory		8,631	(9,681)
Increase/(decrease) in trade and other payables		888	(2,346)
Cash generated from operations		29,487	20,699
Loans repaid by investments ¹		–	4,948
Interest received ¹		–	154
Tax paid (excluding withholding tax)		(24,378)	(10,959)
Net cash generated from operating activities		5,109	14,842
Cash flows from investing activities			
Purchase of intangible assets		(2,311)	(1,790)
Purchases of property, plant and equipment		(28,991)	(10,955)
Interest received		659	82
Sale of property, plant and equipment		–	36
Proceeds from Jupiter Initial Public Offering (IPO)		64,397	–
Dividends received from Jupiter		5,271	–
Proceeds from Jupiter shares buy-backs		7,726	14,697
Cash acquired with subsidiaries		–	33,367
Investments acquired		(101)	–
Net cash generated from investing activities		46,650	35,437
Cash flows from financing activities			
Dividends paid to non-controlling interest of Montepuez Ruby Mining (including withholding tax)		(5,850)	(6,206)
Cash paid for treasury shares		(4,691)	(654)
Gemfields Acquisition – share issue transaction costs		–	(1,643)
Proceeds from borrowings		18,110	–
Repayment of borrowings		(29,959)	(2,485)
Interest paid		(5,046)	(2,406)
Release of previously restricted cash at Fabergé		1,023	–
Net cash utilised in financing activities		(26,413)	(13,394)
NET INCREASE IN CASH AND CASH EQUIVALENTS		25,346	36,885
Cash and cash equivalents at the beginning of the period		37,784	1,218
Net foreign exchange gain on cash		(142)	(319)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		62,988	37,784

¹ These were considered to be operating activities during the period from 1 January 2017 to 31 July 2017, when Gemfields Group Limited (formerly Pallinghurst Resources) was an investment company.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Share capital US\$'000	Share premium US\$'000	Reserve for own shares US\$'000	Treasury shares US\$'000	Cumulative translation reserve US\$'000	Option reserve US\$'000	Retained earnings/ (losses) US\$'000	Total attributable to equity holders of the parent US\$'000	Non- controlling interest US\$'000	Total equity US\$'000
Balance at 1 January 2018	14	531,607	(23,319)	(654)	(1,169)	2,692	29,552	538,723	78,388	617,111
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	(23,319)	(5,345)	(960)	5,474	(31,276)	476,195	73,920	550,115

	Share capital US\$'000	Share premium US\$'000	Reserve for own shares US\$'000	Treasury shares US\$'000	Cumulative translation reserve US\$'000	Option reserve US\$'000	Retained earnings/ (losses) US\$'000	Total attributable to equity holders of the parent US\$'000	Non-controlling interest US\$'000	Total equity US\$'000
Balance at 1 January 2017	8	375,227	–	–	–	–	(8,340)	366,895	–	366,895
Profit for the year	–	–	–	–	–	–	37,892	37,892	7,162	45,054
Other comprehensive loss	–	–	–	–	(1,169)	–	–	(1,169)	–	(1,169)
Total comprehensive income	–	–	–	–	(1,169)	–	37,892	36,723	7,162	43,885
Gemfields Acquisition – NCI	–	–	–	–	–	–	–	–	83,480	83,480
Gemfields Acquisition – further acquisition of NCI	–	7,254	–	–	–	–	–	7,254	(7,254)	–
Gemfields Acquisition – shares issued in exchange for Gemfields shares	6	150,769	–	–	–	–	–	150,775	–	150,775
Gemfields Acquisition – share issue costs	–	(1,643)	–	–	–	–	–	(1,643)	–	(1,643)
Gemfields Acquisition – own shares acquired	–	–	(23,319)	–	–	–	–	(23,319)	–	(23,319)
Shares bought back during the year, net of transaction costs	–	–	–	(654)	–	–	–	(654)	–	(654)
Share options recognised during the year	–	–	–	–	–	2,973	–	2,973	–	2,973
Share options forfeited during the year	–	–	–	–	–	(281)	–	(281)	–	(281)
Dividends declared to non-controlling interest of Montepuez Ruby Mining	–	–	–	–	–	–	–	–	(5,000)	(5,000)
Balance at 31 December 2017	14	531,607	(23,319)	(654)	(1,169)	2,692	29,552	538,723	78,388	617,111

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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 is set out on pages 26 to 38.

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 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 2018. Below is a list of the new standards which impacted the Group; where appropriate, these new standards have been incorporated into the Financial Statements.

IFRS 9 *Financial Instruments* ("IFRS 9")

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The effects of adopting IFRS 9 are set out below:

Classification and measurement

Under IFRS 9, there is a change in the classification and measurement requirements relating to financial instruments. Previously, there were four categories of financial assets: loans and receivables, fair value through profit or loss, held to maturity and available for sale. Under IFRS 9, financial assets are either classified as amortised cost, fair value through profit or loss or fair value through other comprehensive income.

The requirements of IFRS 9 did not result in a change in classification of the Group's financial assets.

Impairment

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets in the scope of IFRS 15.

The impairment and ECL requirements of IFRS 9 did not have a material impact on the Group. Please refer to Note 25 *Financial Instruments* for further detail.

Hedge accounting

The changes introduced by IFRS 9 relating to hedge accounting currently have no impact, as the Group does not apply hedge accounting.

1. ACCOUNTING POLICIES/CONTINUED

IFRS 15 Revenue from contracts with customers ("IFRS 15")

IFRS 15 introduced a single framework for revenue recognition and clarifies principles of revenue recognition. This standard modifies the determination of when to recognise revenue and how much revenue to recognise. The core principle of IFRS 15 is that the revenue recognition model has changed from one based on the transfer of risk and reward of ownership to the transfer of control of ownership, and the standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a relative stand-alone selling price basis, based on a five-step model.

The requirements of IFRS 15 have not had an impact on the timing of revenue recognition in the Group.

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

There are a number of new standards, amendments to standards and interpretations that are not mandatory for 31 December 2018 reporting periods and have not been early-adopted by the Group. These will be adopted in the period that they become mandatory, unless otherwise indicated. Information on the new standards which could impact the Group is presented below.

IFRS 16 Leases ("IFRS 16")

The new standard was issued in January 2016, replacing the previous leases standard, IAS 17 Leases, and related interpretations. IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases for the customer ("lessee") and the supplier ("lessor"). 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.

The Group have undertaken an assessment of existing leases and determined that the requirements of IFRS 16 will not have a material impact on the Group.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Basis of preparation

The Financial Statements are presented in United States dollars ("US\$"), 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

1. ACCOUNTING POLICIES/CONTINUED

Basis of accounting

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. Other than information contained within the Consolidated Statement of Cash Flows, the Financial Statements have been prepared on the accruals basis.

The Company was an investment entity for the period 1 January to 31 July 2017

Prior to the acquisition of Gemfields Ltd (formerly Gemfields plc), the Company met the definition of an investment entity under IFRS 10 Consolidated Financial Statements; the Directors accounted for investments in joint ventures, associates and certain controlled entities at fair value through profit or loss.

The Directors have determined that the Company met the following criteria which define an investment entity for the period until the acquisition of Gemfields Ltd:

- The Company invests solely to provide returns from capital appreciation, investment income or both.
- The Company obtains funds from a large number of shareholders and invests through the advice of the Investment Manager.
- The Company measures the performance of substantially all of its investments on a fair value basis.
- The Company does not plan to hold its investments indefinitely and has an exit strategy for each investment.

In consequence, it has been necessary to assess the nature of the Company's holdings in subsidiaries to determine the impact of the adoption of the Investment Entities Amendments. The Group previously did not hold any subsidiaries which formed part of the Investment Portfolio. While the Company was an investment entity, it held investments in certain subsidiaries which provided investment-related services; the accounting treatment did not change for these entities, which were consolidated in line with the previous accounting treatment.

As an investment entity, the Group held certain investments in associates that were investment-holding entities and did not form part of the Investment Portfolio. These investments in associates were accounted for at fair value.

Critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

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.

1. ACCOUNTING POLICIES/CONTINUED

New standards impacting the Group which have resulted in additional accounting judgements are:

- IFRS 15 *Revenue from Contracts with Customers*.

As a result of this new standard, judgement has been applied in identifying the performance obligations arising on contracts with customers.

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

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).

Rough gemstone 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, prices are agreed, and the Group has a present right to payment. 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. Recognition is therefore deemed to be at the point at which the auction is awarded. At this stage, the buyer has obtained control of the stone, the prices are agreed and the buyer is under obligation to make payment. The Group retains no further rights to the gemstones, as it is legally bound by the sale agreement to deliver the goods to the purchaser and does not have the ability to use the stones or direct to another customer.

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 judgements, estimations and assumptions that have the most significant effect on the amounts recognised in the Financial Statements are detailed below:

(i) *Assessment of fair value*

The most critical accounting judgements, estimates and assumptions relate to the valuation of the Group's portfolio of investments, as disclosed in Note 13 *Investments*. The Directors use a range of valuation methodologies in accordance with IFRS 13 *Fair Value Measurement* ("IFRS 13") and the IPEVC Valuation Guidelines (whilst the Company was an investment entity) 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. The Company may use discounted cash flow ("DCF") models, which estimate expected future cash flows, which 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

1. ACCOUNTING POLICIES/CONTINUED

(ii) Fair value of assets and liabilities acquired with business combinations

The fair value of the acquiree's assets and liabilities is determined by the Directors at the date of acquisition. The allocation of these assets and liabilities across the aggregate of the acquiree's identifiable assets, liabilities and contingent liabilities involves judgements, estimates and assumptions by the Directors across a range of key factors. The Company uses independent third-party experts in determining the fair value of the assets and liabilities acquired, which assures the Directors that their judgements, estimates and assumptions are materially accurate.

(iii) Going-concern basis of accounting

In forming its opinion as to 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 19 *Borrowings*. The Board also prepares a number of alternative scenarios modelling the business variables and key risks and uncertainties. Based upon these, the Board has concluded that the Group has adequate working capital and therefore confirms its belief that it is appropriate to use the going-concern basis of preparation for the Financial Statements of the Group.

(iv) Impairment testing of non-current assets

Assessing the Group's non-current operating assets for impairment requires a significant amount of judgement. 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 prospects for Kagem, a cash-generating unit, are considered extremely challenging following the imposition of the 15% export levy, despite a significant improvement in the quality and quantity of production in 2018 and early 2019 and signs of strengthening of the market. The 15% export levy is taken directly off revenues, along with the mineral royalty tax of 6%, and, as such, a 21% reduction in Kagem's revenues will have an adverse impact on the profitability of the business.

The recoverable amount of the Kagem cash-generating unit is believed by management to be significantly lower than its carrying value, such that an impairment charge of US\$22.6 million has been recognised (see Note 11 *Property, plant and equipment*). The calculation of the fair value-in-use of the Group's cash-generating units for the impairment review at 31 December 2018 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.

1. ACCOUNTING POLICIES/CONTINUED

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

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* ("IAS 36"), have considered the asset for impairment.

Key estimates relating to the valuation of the Fabergé CGU are disclosed in Note 12 *Intangible assets*.

(vi) Determination of ore reserves

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 2018, which contains a thorough review of the mineral resources and mineral reserves as at 31 December 2018, and details the location, geology, mining, processing, operating statistics, and changes at the applicable mining operations and projects, is available online at www.gemfieldsgroup.com. A condensed version of this report is included on page 46. Competent Person's Reports can also be found at www.gemfieldsgroup.com.

(vii) Deferred tax

The Group has recognised deferred tax assets in its Financial Statements which require judgement in determining the extent of recoverability at each balance sheet date. The Group assesses recoverability with reference to Board-approved forecasts of future taxable profits. These forecasts require the use of assumptions and estimates.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

1. ACCOUNTING POLICIES/CONTINUED

(ix) Stripping costs

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 11 *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.

(x) Inventories

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.

(xi) Inherent uncertainties in interpreting tax legislation

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.

1. ACCOUNTING POLICIES/CONTINUED*(xii) Inherent uncertainties in respect of any potential and ongoing claims and litigation*

While it is impossible to be certain of the outcome of any particular case or of the number 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 US\$, 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.

	2018		2017	
	Spot	Average	Spot	Average
Mozambican metical (MZN)	61.95	60.88	59.61	61.74
UK pound sterling (GBP)	0.79	0.75	0.74	0.75
Zambian kwacha (ZMW)	12.01	10.65	10.07	9.83
South African rand (ZAR)	14.44	13.24	12.36	13.31

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

1. ACCOUNTING POLICIES/CONTINUED

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group and the Company in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the relevant conditions for recognition are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the fair value of the consideration paid over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired. If the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss. Transaction costs incurred directly in connection with business combinations are expensed.

(i) 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.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Since the acquisition of Gemfields on 1 August 2017, these associates are accounted for using equity accounting.

Equity accounting means that investments in associates are carried in the Consolidated Statement of Financial Position at cost and adjusted for changes in the Group's share of the associate's net assets subsequent to acquisition. The Group's share of its associates' earnings for the year is recognised in profit or loss. The results of associate entities acquired and disposed of during the year are included from the effective dates of acquisition to the effective dates of disposal.

The Group's associates are all investment-holding companies, and, accordingly, do not earn any revenue or other income, other than, in some instances, finance income. All associates' financial year-ends are 31 December. The fair value of each associate is considered to be equal to the consolidated net asset value. None of the associates is listed on a stock exchange.

Prior to 1 August 2017, the Group usually held associates as part of its Investment Portfolio; the value of these investments to the Group was through their marketable value as part of the Investment Portfolio rather than as a medium through which a business is undertaken. The Group therefore measured these investments at fair value even though it had significant influence over the investments.

The Group held certain investments in associates that did not form part of the Investment Portfolio (usually as investment-holding companies). Since the adoption of the "Investment Entities Amendments" on 1 January 2014, these associates had been accounted for at fair value.

1. ACCOUNTING POLICIES/CONTINUED

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 gemstone 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. Returns are accounted for at the point when the customer returns the item in accordance with the terms and conditions published on the Fabergé website and a credit note is issued to the customer.

Note that there is no variable consideration included in the Group's contracts, and payment terms within the Group are less than 30 days.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

1. ACCOUNTING POLICIES/CONTINUED

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 Company is incorporated in Guernsey and is an “Exempt Collective Investment Scheme” under the Income Tax (Zero-10) (Guernsey) (No. 2) Law, 2007.

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 difference 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).

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.

1. ACCOUNTING POLICIES/CONTINUED

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.

Freehold land is not depreciated. 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
Freehold 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 intangible assets 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 estimated reserves. Expenditure deemed to be unsuccessful is written off to the Consolidated Income Statement.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

1. ACCOUNTING POLICIES/CONTINUED

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 intangible 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.

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.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the level of the CGU the asset is part of (i.e. the lowest level group of assets in which the asset belongs for which there are separately identifiable cash flows).

The Group's principal CGUs are determined on an operational basis and have been identified as the Kagem and Montepuez mines and Fabergé.

1. ACCOUNTING POLICIES/CONTINUED

Investments

An investment is considered to be part of the Group's Investment Portfolio if its value to the Group is through its marketable value rather than as a medium through which a business is undertaken. 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.

As an investment entity prior to August 2017 when the Company owned an equity interest of less than 20%, it accounted for these investments at fair value under IFRS 13 *Fair Value Measurement* ("IFRS 13"). All equity investments with a holding of less than 20% were 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.

Whilst the Company was an investment entity, the Group's reporting also complied with all material aspects of the IPEVC Valuation Guidelines when determining what method to use to determine fair value. The IPEVC Valuation Guidelines specify the valuation methodology which is the most appropriate to use for each individual investment at each point in the investment's life cycle. The methodologies used to estimate fair value as recommended by the IPEVC Valuation Guidelines include using an earnings or turnover multiple, share of net assets, the discounted cash flow calculations ("DCF's") or earnings of the underlying business, the DCF's of the investment, or a relevant industry valuation benchmark. The Directors considered all other valuation methodologies where appropriate.

The Directors also considered whether there were any factors that could indicate that a movement in the value of an investment had occurred, including the following:

- The performance of the investment compared with original expectations;
- Any unexpected deterioration in the cash position of the underlying business;
- Any adverse or unexpected results from production activities; and
- External factors such as deterioration in the global economy or the relevant industry.

As a diversified mining company following the acquisition of the Gemfields Group on 28 July 2017, the Company accounts for its equity investments with a holding of less than 20% at fair value under IFRS 13 through the provisions under IFRS 9. These investments were initially recognised at their fair value on the date that Pallinghurst Resources Limited ceased to be an investment entity with subsequent changes in the fair value of the investments being recognised in profit 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.

The Group's investments include listed and unlisted equity investments. The Group's investments may also include other equity instruments such as convertible notes or debentures, or other financial instruments. These investments are initially recognised at their fair value, with subsequent changes in the fair value of the investments being recognised in profit or 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 cost of investment, which is normally used for recent investments, the DCF's 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

1. ACCOUNTING POLICIES/CONTINUED

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.

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.

1. ACCOUNTING POLICIES/CONTINUED

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 25 *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).

- (i) **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.

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. 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 cost of sales in the Consolidated Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

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. Trade and other receivables are measured at amortised cost using the effective interest rate method, less impairment. A provision for impairment of trade and other receivables is made based on expected credit losses. Prepayments for goods or services are not financial assets because they are associated with the receipt of goods or services. They do not give rise to a present right to receive cash or any other financial asset. IFRS 9 requires trade receivables to be measured at their transaction price if they do not contain a significant financing component – all amounts due from trade receivables have expected terms of less than one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

1. ACCOUNTING POLICIES/CONTINUED

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.

- (ii) **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.

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.

Commitments under operating leases

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an “operating lease”), the total rentals payable under the lease are charged to the Income Statement on a straight-line basis over the lease term. The aggregate benefit of any lease incentive is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

Property lease premiums are initially recognised in the balance sheet at cost, and are subsequently amortised over the term of the lease.

2. SEGMENTAL REPORTING

With effect from 1 August 2017, 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 was previously based around its three Investment Platforms: Platinum Group Metals (“PGMs”), Steel Making Materials, and Coloured Gemstones, each of which was categorised as an operating segment. Each investment was assessed on this basis, and, as such, each of the Group’s operating segments may have included multiple mines and other assets. Mr Brian Gilbertson, Non-Executive Chairman (as of 1 January 2018), undertook the role of CODM up to 31 July 2017.

Subsequent to the 100% acquisition of Gemfields Ltd in July 2017, the Group has revised its operating segments to reflect the new business focus. The Group has been organised into geographic units 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, including the previously reported Investment Platforms);
- Fabergé (wholesale and retail sales of jewellery and watches); and
- Other (new projects, traded auctions, sales and marketing offices).

The reporting on these investments to management focusses on revenue, operating costs, EBITDA, key balance sheet lines and free cash flow (as defined further below). These figures are presented after intercompany adjustments have been accounted for.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

2. SEGMENTAL REPORTING/CONTINUED

Income Statement

1 January 2018 to 31 December 2018	Zambia US\$'000	Mozambique US\$'000	PGMs US\$'000	Steel Making Materials US\$'000	Corporate US\$'000	Fabergé US\$'000	Other US\$'000	Total US\$'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)
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	9,751	82,245	–	–	(26,713)	(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 and write-offs ⁵	(22,788)	(51)	–	–	(207)	–	(3,513)	(26,559)
Operating (loss)/profit	(27,575)	67,741	(47,617)	5,009	(31,372)	(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)
(Loss)/profit after tax	(18,438)	48,299	(47,617)	5,009	(33,978)	(6,933)	(6,773)	(60,431)

¹ Kagem held two higher-quality emerald auctions in the year, one in Lusaka, Zambia, in May 2018 and one in Singapore in November 2018, generating revenues of US\$10.3 million and US\$28.4 million respectively. Kagem also held two commercial-quality emerald auctions in Lusaka, Zambia, in February and August 2018, realising US\$21.6 million of revenue. MRM held two mixed-quality auctions in the period, in Singapore in June and November 2018, generating US\$127.1 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

Income Statement

1 January 2017 to 31 December 2017	Zambia US\$'000	Mozambique US\$'000	PGMs US\$'000	Steel Making Materials US\$'000	Corporate US\$'000	Fabergé US\$'000	Other US\$'000	Total US\$'000
Rough gemstones ¹	21,502	54,970	–	–	–	–	819	77,291
Jewellery	–	–	–	–	–	3,355	–	3,355
Cut and polished	–	–	–	–	357	–	647	1,004
Revenue ²	21,502	54,970	–	–	357	3,355	1,466	81,650
Mineral royalties and production taxes	(1,290)	(5,582)	–	–	–	–	–	(6,872)
Change in inventory and cost of sales	13,076	(3,040)	–	–	(294)	(1,930)	(809)	7,003
Mining and production costs ³	(13,638)	(8,521)	–	–	(103)	–	(19)	(22,281)
Selling, general and administrative costs ⁴	(1,530)	(2,769)	–	–	(18,896)	(5,126)	(1,141)	(29,462)
Other income	97	9	–	–	281	–	61	448
EBITDA	18,217	35,067	–	–	(18,655)	(3,701)	(442)	30,486
Bargain purchase	(5,012)	129,507	–	–	(28,089)	–	–	96,406
Realised fair value gains	–	–	–	5,841	–	–	–	5,841
Unrealised fair value (losses)/gains	–	–	(16,344)	27,494	(64,368)	–	–	(53,218)
Depreciation and amortisation	(6,331)	(15,034)	–	–	(192)	(569)	(43)	(22,169)
Share-based payments	–	–	–	–	(2,692)	–	–	(2,692)
Operating profit/(loss)	6,874	149,540	(16,344)	33,335	(113,996)	(4,270)	(485)	54,654
Net finance (expense)/income	(880)	(547)	–	–	(78)	(970)	464	(2,011)
Taxation	(3,155)	(2,716)	–	–	(517)	24	(1,225)	(7,589)
Profit/(loss) after tax	2,839	146,277	(16,344)	33,335	(114,591)	(5,216)	(1,246)	45,054

¹ Kagem held one higher-quality auction in Lusaka, Zambia, in October 2017, generating revenue of US\$21.5 million, whilst MRM held one mixed-quality auction in the period, in Singapore in November 2017, generating US\$55.0 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

2. SEGMENTAL REPORTING/CONTINUED

Statement of Financial Position

31 December 2018	Zambia US\$'000	Mozambique US\$'000	PGMs US\$'000	Steel Making Materials US\$'000	Corporate US\$'000	Fabergé US\$'000	Other US\$'000	Total US\$'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

31 December 2017	Zambia US\$'000	Mozambique US\$'000	PGMs US\$'000	Steel Making Materials US\$'000	Corporate US\$'000	Fabergé US\$'000	Other US\$'000	Total US\$'000
Mining asset	157,781	175,193	–	–	–	–	–	332,974
Property, plant and equipment, and intangibles	19,241	27,718	–	–	970	42,700	3,730	94,359
Listed and unlisted investments	–	–	98,064	98,100	1,319	–	–	197,483
Operating assets	51,536	40,424	–	–	7,390	37,889	9,072	146,311
Cash and cash equivalents	10,932	6,878	–	–	15,164	3,284	1,526	37,784
Segment assets	239,490	250,213	98,064	98,100	24,843	83,873	14,328	808,911
Deferred tax asset								6,775
Other								8,031
Total assets								823,717
Borrowings	35,000	10,493	–	–	–	17,977	–	63,470
Operating liabilities	8,916	20,405	–	–	6,487	3,362	1,619	40,789
Segment liabilities	43,916	30,898	–	–	6,487	21,339	1,619	104,259
Deferred tax liability								102,347
Total liabilities								206,606
Net (debt)/cash	(24,068)	(3,615)	–	–	15,164	(14,693)	1,526	(25,686)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

2. SEGMENTAL REPORTING/CONTINUED

Statement of Cash Flows

1 January 2018 to 31 December 2018	Zambia US\$'000	Mozambique US\$'000	PGMs US\$'000	Steel Making Materials US\$'000	Corporate US\$'000	Fabergé US\$'000	Other US\$'000	Total US\$'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)
EBITDA	9,751	82,245	–	–	(26,713)	(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	9,250	37,169	–	–	(23,828)	3,642	637	26,870
Working capital movements ²	(13,310)	(23,401)	–	–	(2,410)	(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 January 2017 to 31 December 2017	Zambia US\$'000	Mozambique US\$'000	PGMs US\$'000	Steel Making Materials US\$'000	Corporate US\$'000	Fabergé US\$'000	Other US\$'000	Total US\$'000
Revenue	21,502	54,970	–	–	357	3,355	1,466	81,650
Operating costs and cost of sales ¹	(3,285)	(19,903)	–	–	(19,012)	(7,056)	(1,908)	(51,164)
EBITDA	18,217	35,067	–	–	(18,655)	(3,701)	(442)	30,486
<i>Add back:</i> Change in inventory	(13,076)	3,040	–	–	294	1,930	809	(7,003)
Loans repaid by investments	–	–	–	–	4,948	–	–	4,948
Interest received	–	–	–	–	154	–	–	154
Tax paid (excluding WHT)	–	(10,863)	–	–	–	–	(96)	(10,959)
Capital expenditure	(1,530)	(8,364)	–	–	(218)	(1,131)	(1,502)	(12,745)
VAT refunds	307	–	–	–	876	126	–	1,309
Free cash flow before working capital movements	3,918	18,880	–	–	(12,601)	(2,776)	(1,231)	6,190
Working capital movements ²	(115)	(279)	–	–	(4,849)	(702)	1,852	(4,093)
Free cash flow	3,803	18,601	–	–	(17,450)	(3,478)	621	2,097
Cash generated from operations	5,333	37,828	–	–	(17,232)	(2,347)	2,219	25,801
Tax paid (excluding WHT)	–	(10,863)	–	–	–	–	(96)	(10,959)
Capital expenditure	(1,530)	(8,364)	–	–	(218)	(1,131)	(1,502)	(12,745)
Free cash flow	3,803	18,601	–	–	(17,450)	(3,478)	621	2,097

¹ Excluding share-based payments and inventory impairments.

² Includes movements relating to inventory purchases and excludes VAT refunds.

3. COST OF SALES

	2018 US\$'000	2017 US\$'000
Mining and production costs		
Labour and related costs	20,691	8,232
Mineral royalties and production taxes	16,506	6,872
Fuel costs	11,489	4,140
Repairs and maintenance costs	8,625	3,658
Security costs	5,592	2,322
Camp costs	3,299	1,208
Blasting costs	2,050	569
Other mining and production costs	6,555	2,152
Total mining and production costs	74,807	29,153
Change in inventory and purchases	18,106	(7,003)
Depreciation and amortisation	30,633	22,169
	123,546	44,319

4. OTHER GAINS AND INCOME

	2018 US\$'000	2017 US\$'000
Realised fair value gain on Jupiter share buy-backs	2,027	5,841
Realised fair value gain on Jupiter IPO	9,653	–
Dividend income from Jupiter	5,271	–
Other income	708	448
	17,659	6,289

See Note 5 for more detail on the Jupiter share buy-backs, IPO and dividend.

5. REALISED GAINS ON SHARE BUY-BACKS, JUPITER'S RELISTING ON THE ASX, AND DIVIDEND INCOME

March 2018 Jupiter buy-back

On 22 January 2018, Jupiter announced the details of an off-market, equal access share buy-back to return up to US\$42 million to its shareholders. All Jupiter shareholders were made an equal offer to buy back 5.81% of their shares in Jupiter, at a set price of US\$0.35 per share.

The Group, as an 18.40% shareholder in Jupiter at the time, had the right to have 5.81% of its 379,948,385 Jupiter shares bought back. The Group accepted the buy-back by Jupiter, resulting in the sale of 22,075,001 shares in Jupiter for US\$0.35 per share. The transaction was completed on 19 March 2018, with the Group receiving US\$7.7 million. As at 19 March 2018, the Directors' most recent estimate of the fair value of the Jupiter shares was US\$0.26 per share, being the valuation as at 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

5. REALISED GAINS ON SHARE BUY-BACKS, JUPITER'S RELISTING ON THE ASX, AND DIVIDEND INCOME/CONTINUED

The buy-back price per share was underpinned by Jupiter's long-term manganese price assumptions, which were higher than the long-term manganese price of US\$3.60 used by the Directors in the valuation of Jupiter at 31 December 2017.

The realised gain on the March 2018 Jupiter buy-back was as follows:

	Number of shares	Price per share US\$	Total price US\$'000
Fair value of Jupiter shares at date of receipt (19 March 2018)	22,075,001	0.26	(5,700)
Buy-back price of the 5.81% of Jupiter shares (19 March 2018)	22,075,001	0.35	7,727
			2,027

April 2018 Jupiter IPO/Relisting on the ASX

In March 2018, Jupiter announced its intention to relist on the Australian Securities Exchange ("ASX") in order to provide liquidity for its shareholders. This was expected to be achieved via a placing of up to 600 million existing Jupiter shares with new investors at AUD0.40 per share, thereby raising up to AUD240 million and putting a value on Jupiter of approximately AUD780 million.

On 12 April 2018, Jupiter announced the full allocation of the IPO shares, yielding AUD240 million. The Group had previously committed to making available for sale up to 212,028,012 of its Jupiter shares at the placing price of AUD0.40 per share (equivalent to US\$0.31 per share on the date of receipt, 18 April 2018).

On 18 April 2018, Jupiter was successfully relisted on the ASX. The Group received, net of associated sale costs, AUD83.1 million from the Jupiter IPO process in respect of the disposal of its 212,028,012 Jupiter shares, reducing its interest from 18.40% to 7.44%.

The realised gain on the April 2018 IPO was as follows:

	Number of shares	Price per share US\$	Total price US\$'000
Fair value of Jupiter shares at date of receipt (18 April 2018)	212,028,012	0.26	(54,744)
IPO price per share sold by GGL (18 April 2018)	212,028,012	0.31	64,397
Realised gain			9,653

October 2018 Jupiter dividend

On 17 September 2018, Jupiter announced the details of an interim dividend to return approximately AUD98 million to its shareholders. All Jupiter shareholders were entitled to an "unfranked" dividend of AUD0.05 per share.

The Group, as a 7.44% shareholder in Jupiter, received a dividend of AUD7.3 million on 10 October 2018. The Group entered into a foreign exchange contract to hedge the foreign exchange risk up to the day the dividend was received. The gain on this contract was as follows:

	AUD'000	US\$'000
<i>Realised foreign exchange gain on forward contract of dividend payment</i>		
Fair value of foreign exchange contract at date of commitment (26 September 2018)	7,292	5,271
Fair value of foreign exchange contract at completion (10 October 2018)	(7,292)	(5,175)
Realised gain on Jupiter foreign exchange contract	–	96

GGL's remaining holding of Jupiter shares is 145,845,372 shares.

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2018 US\$'000	2017 US\$'000
Labour and related costs	16,558	7,432
Selling, marketing and advertising	12,483	4,757
Professional, legal and other expenses ¹	15,586	7,082
Rent and rates	4,539	1,628
Share-based payments	4,167	2,692
Travel and accommodation	2,166	766
Administration costs	260	425
Amounts paid to Auditor	200	210
Investment Manager's benefit	–	3,572
Other impairments and write-offs	1,440	–
Other selling, general and administrative expenses	5,771	3,590
	63,170	32,154

¹ Includes US\$7.4 million for the Leigh Day settlement claim paid in January 2019.

7. EMPLOYEES AND DIRECTORS

	2018 US\$'000	2017 US\$'000
Directors	7	9
Administration staff	126	137
Fabergé staff	40	42
Mining staff	2,088	1,978
	2,261	2,166

8. ACQUISITION OF THE GEMFIELDS GROUP OF COMPANIES

For the purposes of this note, Gemfields Group Limited has been referred to as either the “Company” or “PRL”, being the abbreviated name of the bidding Company at the time of the acquisition. The Company’s name changed from Pallinghurst Resources Limited to Gemfields Group Limited effective 26 June 2018. Gemfields Ltd (previously Gemfields plc) has been referred to as “Gemfields”, being the name of the target company at the time of the acquisition.

Gemfields is a leading supplier of coloured gemstones and owns emerald assets in Zambia and Ethiopia, ruby assets in Mozambique, and amethyst assets in Zambia. In 2008, the Company and the Pallinghurst Co-Investors became the majority shareholders of Gemfields by contributing the Kagem emerald mine to Gemfields, its core operating asset, for shares. Subsequently, in 2013, the Company and the Pallinghurst Co-Investors contributed Fabergé Ltd to Gemfields. The Gemfields investment formed a core component of the Company’s value proposition and therefore unlocking Gemfields’ full value potential is of paramount importance to the Company.

Despite many positive developments, the share price of Gemfields did not reflect its inherent value. Accordingly, on 19 May 2017, the Company announced the terms of an offer to acquire the entire issued, and to be issued, share capital of Gemfields, other than the Gemfields shares already held by the Company (the “Offer”).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

8. ACQUISITION OF THE GEMFIELDS GROUP OF COMPANIES/CONTINUED

On 28 July 2017, Gemfields delisted from AIM and the non-PRL-related Board members of Gemfields resigned and were replaced with PRL nominees, and therefore this is the date on which PRL took Board and management control. The key component of being an investment entity which changed as a result of the Gemfields acquisition is the fair value condition. PRL could only influence Gemfields' operational performance upon taking Board control of Gemfields, which occurred on 28 July 2017. PRL was only able to measure Gemfields' performance prior to this date on the fair value basis, that is, its listed share price. Upon taking Board control of Gemfields, PRL's performance measurement of Gemfields changed to operational metrics. Accordingly, 28 July 2017 is the effective date that PRL ceased to be an investment entity. The deemed acquisition date of Gemfields upon PRL ceasing to be an investment entity is the start of the subsequent month, 1 August 2017.

During the period 26 June 2017 to 19 September 2017, the Company acquired 301,024,558 additional Gemfields shares (in return for 1.91 PRL shares for each Gemfields share) for a total consideration of US\$135 million (between ZAR2.64–ZAR3.18 per PRL share). At the acquisition date, the Company had acquired 282,171,346 additional Gemfields shares for a total consideration of US\$127 million. The acquisition cost of these additional Gemfields shares is based on the PRL share price (on the day of each tranche of acceptances), converted at the 1.91 Offer ratio and the daily US\$/ZAR exchange rate.

PRL valued its 96.63% interest in Gemfields as at 31 July 2017 (the day preceding the acquisition date) at the Gemfields share price on the date that Gemfields delisted from AIM (28 July 2017). IFRS 13 *Fair Value Measurement* ("IFRS 13") required that PRL derecognised its interest in Gemfields at this price, as there was a Level 1 (IFRS 13 fair value hierarchy) listed share price available in an active market at the delisting date, a few days before the acquisition date. PRL's 96.63% interest in Gemfields is valued at the 28 July 2017 closing price of GBP0.3200 per share, translated at the closing rate on 31 July 2017 of US\$1/GBP0.7604. PRL's interest of 96.63% in Gemfields was valued at US\$228 million on 31 July 2017.

On 1 August 2017, the Company's total shareholding had reached 96.99% of the entire issued share capital of Gemfields. As the level of Gemfields share acceptances surpassed 90% of the shares to which the Offer related, the Company commenced the compulsory acquisition process in respect of the remaining Gemfields shares under Sections 979 to 982 of the Companies Act of 2006.

A bargain purchase of US\$96.4 million was recognised at the acquisition date, as the fair value of Gemfields' net assets acquired exceeded the fair value of the total consideration at the acquisition date. On 20 June 2017, Chinese conglomerate firm, Fosun Gold Holdings Limited ("Fosun"), made a firm intention, by way of a Rule 2.7 Announcement, to acquire the entire issued, and to be issued, ordinary share capital of Gemfields at GBP0.4500 per share, which, converted at the closing rate on 31 July 2017 of US\$1/GBP0.7604, implied a valuation of Gemfields (on a 100% basis) of US\$331 million. The Fosun offer was a cash-based offer. Fosun stated that the consideration to be made payable by Fosun as part of the intended offer would have been funded from their existing cash reserves, which had been fully confirmed in accordance with the requirements of the Takeover Code. An assessment was made of the fair values of the acquired assets and liabilities on the date of acquisition. The assessment resulted in a valuation of the total net assets acquired being equivalent to the value of the Fosun offer. The fair values of the assets and liabilities are inherently judgemental, but the Fosun offer is believed to be representative of the "price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" as required by IFRS 13, despite the offer not being accepted due to the Offer becoming wholly unconditional (due to the number of acceptances received, as well as PRL shareholders voting in favour of the Offer on 26 June 2017).

8. ACQUISITION OF THE GEMFIELDS GROUP OF COMPANIES/CONTINUED

Details of the initial and fair value of identifiable assets and liabilities acquired, purchase consideration, and resulting bargain purchase included in the Annual Report for the year ended 31 December 2017 are shown below. The fair value is final, and there has been no change in the valuation since 31 December 2017.

	Carrying value US\$'000	Adjustment US\$'000	Fair value US\$'000
Property, plant and equipment	225,753	164,710	390,463
Fabergé trademark	40,474	–	40,474
Other intangible assets	7,236	–	7,236
Deferred tax asset	5,372	–	5,372
Other non-current assets	8,075	–	8,075
Inventories	90,551	18,581	109,132
Trade and other receivables	29,540	–	29,540
Cash and cash equivalents	33,367	–	33,367
Total assets	440,368	183,291	623,659
Trade and other payables	(25,678)	–	(25,678)
Borrowings	(66,023)	–	(66,023)
Other liabilities	(17,265)	–	(17,265)
Deferred tax liability	(48,307)	(58,797)	(107,104)
Total liabilities	(157,273)	(58,797)	(216,070)
Total net assets	283,095	124,494	407,589
Non-controlling interest			(83,480)
Bargain purchase			(96,406)
Total consideration at 1 August 2017			227,703
Non-controlling interest acquired ¹			7,254
Total consideration at 19 September 2017			234,957

¹ Non-controlling interest was calculated on the fair value of the identifiable assets and liabilities acquired.

9. FINANCE INCOME AND COSTS

	2018 US\$'000	2017 US\$'000
Interest received	659	82
Foreign exchange gains	146	1,158
Finance income	805	1,240
Interest on bank loans, finance charges and bank charges	(7,300)	(3,018)
Foreign exchange losses	(2,350)	(233)
Finance costs	(9,650)	(3,251)
Net finance costs	(8,845)	(2,011)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

10. TAXATION

The Group's tax expense is as follows:

	2018 US\$'000	2017 US\$'000
Current tax		
Taxation charge for the year	20,631	13,749
Deferred tax		
Origination and reversal of temporary differences	(14,148)	(6,160)
Total taxation charge	6,483	7,589

The reasons for the difference between the actual taxation charge for the year and the standard rate of corporation tax in Guernsey applied to profits for the year, are as follows:

	2018 US\$'000	2017 US\$'000
(Loss)/profit on ordinary activities before taxation	(53,948)	52,643
Taxation on ordinary activities at the standard rate of corporation tax in Guernsey of 0% (2017: 0%)	–	–
<i>Effects of:</i>		
Expenses not deductible for tax purposes	3,064	1,775
Prior year adjustment	(463)	–
Tax losses not recognised as deferred tax asset	214	1,709
Different tax rates applied in overseas jurisdictions	3,668	4,105
Total taxation charge	6,483	7,589

In Guernsey, the main rate of corporation tax for the year was 0%.

The Group's effective tax rate of –12% arises as a result of non-deductible impairment losses and legal settlement costs.

Expenses not deductible for tax purposes include the impairment losses incurred across the Group, legal settlement costs in the Leigh Day case and camp costs incurred at Kagem.

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, Mozambique and the United Kingdom for the year were 30%, 32% and 19%, respectively.

Deferred tax assets and liabilities must be 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.

10. 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:

	2018 US\$'000	2017 US\$'000
<i>Recognised deferred tax assets</i>		
Other temporary differences	2,653	1,761
Tax losses	9,898	6,771
Property, plant and equipment	629	538
Total deferred tax assets	13,180	9,070
Deferred tax assets netted against deferred tax liabilities	(6,799)	(2,295)
Total deferred tax assets	6,381	6,775
<i>Recognised deferred tax liabilities</i>		
Evaluated mining property – Kagem and Montepuez	(89,620)	(98,453)
Inventory valuation – Kagem and Montepuez	(4,662)	(5,811)
Intangibles – Fabergé	(322)	(378)
Total deferred tax liabilities	(94,604)	(104,642)
Deferred tax assets netted against deferred tax liabilities	6,799	2,295
Total deferred tax liabilities	(87,805)	(102,347)

The movement on the deferred tax account is provided below.

	2018 US\$'000	2017 US\$'000
At 1 January	(95,572)	(101,732)
Property, plant and equipment	91	(80)
Other temporary differences	892	84
Evaluated mining property – Kagem and Montepuez	8,833	4,899
Inventory valuation – Kagem and Montepuez	1,149	1,718
Intangibles – Fabergé	56	23
Tax losses	3,127	(484)
Recognised in the Consolidated Income Statement	14,148	6,160
At 31 December	(81,424)	(95,572)

Deferred tax assets are only recognised in relation to tax losses and other temporary differences which would give rise to deferred tax assets 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 US\$89.2 million (2017: US\$89.0 million), of which US\$82.7 million was acquired through business combinations during the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings US\$'000	Plant, machinery and motor vehicles US\$'000	Fixtures, fittings and equipment US\$'000	Evaluated mining properties US\$'000	Deferred stripping costs US\$'000	Total US\$'000
Cost						
At 1 January 2017	–	–	–	–	–	–
Business combinations ¹	10,449	18,263	4,270	345,858	11,623	390,463
Additions	1,260	3,920	1,316	3,065	–	9,561
Disposals	–	(606)	–	–	–	(606)
Foreign exchange differences	–	–	40	–	–	40
At 31 December 2017	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
Accumulated depreciation						
At 1 January 2017	–	–	–	–	–	–
Provided during the year	307	4,592	665	15,949	468	21,981
Disposals	–	(536)	–	–	–	(536)
Foreign exchange differences	–	–	(8)	–	–	(8)
At 31 December 2017	307	4,056	657	15,949	468	21,437
Provided during the year ²	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
Net book value						
At 31 December 2017	11,402	17,521	4,969	332,974	11,155	378,021
At 31 December 2018	23,505	25,254	2,919	303,315	10,021	365,014

¹ This consisted of US\$0.6 million cost and US\$0.2 million accumulated depreciation which was transferred at net book value.

² Evaluated mining properties includes US\$15.6 million depreciation, offset by US\$8.1 million of depreciation from purchase price adjustments.

Evaluated mining properties relate to the mining licences held mainly at Kagem and Montepuez, including the fair value adjustment recognised on the Gemfields acquisition.

Deferred stripping costs relate to Kagem.

11. PROPERTY, PLANT AND EQUIPMENT/CONTINUED

Impairment review of Kagem Mining Limited

In light of the newly implemented 15% export levy on rough emeralds and beryl, enacted and effective from 1 January 2019, the cash flow generation and operating environment for Kagem is more challenging than before to the extent that revenues are reduced directly by the tax.

The recoverable amount of the Kagem CGU is believed by management to be lower than its carrying value such that an impairment charge of US\$22.6 million has been recognised. The impairment charge has reduced the carrying value of the Kagem CGU from US\$206.8 million to US\$184.2 million. The recoverable amount 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.

The following key assumptions are used in the recoverable amount calculations:

- Recoverable amount of reserves and resources: Economically recoverable reserves and resources are based on management's expectations, as well as on 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 ten years and 30 auctions. Rough emerald and beryl prices are not traded on a public exchange and most transactions occur in private auctions; therefore, historic trends in respect of prices and product mix are the most appropriate and reasonable basis. A 10% fall in prices would increase the impairment by US\$14.0 million to US\$36.6 million.
- Composition of auctions: The quality of production and the 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 auctions would increase the impairment charge to be recognised to US\$45.5 million.
- 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 nominal discount rate of 10.37%, pre-tax 14.81%, 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 cash-generating unit.
- Timing of capital expenditure: Management has 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 2018 provided a range of outcomes, as the calculation is particularly sensitive to changes in rough emerald and beryl, the 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 nominal discount rate is increased to 11.53%, pre-tax 16.47%, per the upper range of possible outcomes, the impairment charge would be US\$20 million higher.

Both Gemfields and Kagem management are in extensive, amicable discussions with the various stakeholders in the Government of Zambia with a view to mitigating the 15% export tax levy which has resulted in the significant impairment. Should these negotiations be successful, it is expected that all or part of the impairment loss recognised will reverse in the near future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

12. INTANGIBLE ASSETS

	Software US\$'000	Indefinite life intangible assets US\$'000	Finite life intangible assets US\$'000	Unevaluated mining properties US\$'000	Total US\$'000
Cost					
At 1 January 2017	–	–	–	–	–
Business combinations	162	39,942	496	7,110	47,710
Additions	4	–	–	1,786	1,790
At 31 December 2017	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
Accumulated amortisation					
At 1 January 2017	–	–	–	–	–
Charge in the year	50	–	138	–	188
At 31 December 2017	50	–	138	–	188
Charge in the year	110	–	330	–	440
Foreign exchange differences	(4)	–	–	–	(4)
At 31 December 2018	156	–	468	–	624
Net book value					
At 31 December 2017	116	39,942	358	8,896	49,312
At 31 December 2018	137	39,942	28	12,221	52,328

Indefinite life intangible assets consist of intangibles relating to the Fabergé brand and trademarks.

Unevaluated mining properties consist of intangibles relating to the mining and prospecting licences held in the newer projects, mainly in Mozambique and Ethiopia.

Annual impairment review on intangibles

As required under IAS 36 *Impairment of Assets*, the Group performed its annual impairment review of the carrying value of the Fabergé CGU. The CGU's recoverable amount was determined as its value-in-use of US\$92.4 million. The value-in-use calculation exceeds the carrying value of US\$78.8 million by US\$13.6 million and therefore no impairment charge is required.

Assumptions

The value-in-use of the Fabergé CGU is represented by the discounted value of future cash flows that are expected from the continuous use of the assets associated with the Fabergé CGU and the terminal value attributable to them. It is the Directors' view that the Fabergé brand has an indefinite useful life based on the long heritage and history of the Fabergé name. As a result, the Directors consider it appropriate to extend the discounted expected future cash flows into perpetuity. The projected future cash flows used in the value-in-use calculation are based on budgets and forecasts approved by the Directors.

12. INTANGIBLE ASSETS/CONTINUED

The revenue in the next five years is forecast to increase at growth rates between 30.7% and 22.7% per annum between 2019 and 2023 (year five of the value-in-use model) following the introduction of new product lines, development of the timepiece collection, and expansion of the wholesale network driven by an increase in the points of sale. As the “go-to” jeweller in the coloured-gemstone industry, and starting from a relatively low revenue base, Fabergé is in an excellent position to benefit from double-digit growth in the coloured-gemstone industry. From year six to year 20, the revenue is expected to increase at growth rates of between 6% and 21.2% year on year, based on management’s growth expectations and supported by a review of the historic growth rates of comparable companies. The terminal value growth rate of 2.5% applied at the end of the forecast period is based on an average of the long-term inflation rates of the key markets in which Fabergé is expected to operate in the long term.

The average gross profit margin used in the value-in-use calculation is expected to reduce from 47.0% to around 45.6% as the wholesale sales channel increases overall revenue share. This figure is based on weighted margins across the retail and wholesale sales channels.

Centralised non-variable costs, such as payroll and rent, are expected to increase at approximately 2% year on year. Cooperative advertising, where costs are shared between Fabergé and the wholesale partners, is expected to increase in line with the growth in wholesale revenue, with other marketing costs expected to increase in line with inflation.

The majority of revenue is currently derived from owned boutiques and events. As the sales mix moves towards increased wholesale customers and Fabergé sells a number of high-value jewellery pieces, the working capital requirements are expected to decrease in real terms from year one to year 20.

For the purpose of the annual impairment review, the future cash flows were discounted using the nominal post-tax pre-finance discount rate of 11.2% per annum. The discount rate is derived from Fabergé’s weighted average cost of capital. The discount rate represents the current market assessment of the risks specific to the Fabergé CGU, taking into consideration that Fabergé is part of the Gemfields Group. The pre-tax discount rate is 12.3%.

As part of the annual impairment review, a sensitivity analysis in relation to the key assumptions used in the model was performed. The value-in-use calculation is most sensitive to changes in the revenue growth rate and the discount rate. The implications at Group level for changes to these key assumptions are discussed below:

- A decrease in the Post-5-Year Plan annual sales growth rate from 6% to 4.3% represents the break-even point.
- The break-even discount rate is 12.2%, an increase of 1%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

13. 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 2018 to 31 December 2018 is as follows:

	Balance at 1 January 2018 US\$'000	Transfer from unlisted US\$'000	Unrealised fair value losses US\$'000	Realised gains US\$'000	Disposals US\$'000	Transfer to listed US\$'000	Balance at 31 December 2018 US\$'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 US\$11.9 million includes an unrealised foreign exchange loss of US\$3.6 million. The realised gain on Jupiter of US\$11.7 million does not include any foreign exchange, as the cash receipts were denominated in US\$. The cash receipt from the Jupiter IPO of AUD83.1 million, net of associated selling costs, was converted to US\$ 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 US\$0.35 per share in the March 2018 Jupiter buy-back, with the Company receiving US\$7.7 million. The Company disposed of 212,028,012 of its shares to Jupiter at a price of AUD0.40 per share or US\$0.31 per share converted at the foreign exchange rate on 18 April 2018, the date the Jupiter IPO was completed, with the Company receiving US\$64.4 million. See Note 5 for more detail on the Jupiter share buy-back and IPO.

2 The unrealised fair value loss on Sedibelo of US\$47.6 million does not include any foreign exchange, as the valuation is denominated in US\$.

The reconciliation of the investment valuations from 1 January 2017 to 31 December 2017 is as follows:

	Balance at 1 January 2017 US\$'000	Transfer from unlisted US\$'000	Unrealised fair value losses US\$'000	Realised gains US\$'000	Additions US\$'000	Disposals US\$'000	Balance at 31 December 2017 US\$'000
<i>Listed equity investments</i>							
Gemfields Ltd ¹	164,615	–	(64,368)	–	127,456	(227,703)	–
	164,615	–	(64,368)	–	127,456	(227,703)	–
<i>Unlisted equity investments</i>							
Jupiter ²	79,461	27,495	–	5,841	–	(14,697)	98,100
Sedibelo Platinum Mines ³	114,408	–	(16,344)	–	–	–	98,064
	193,869	27,495	(16,344)	5,841	–	(14,697)	196,164
Total	358,484	27,495	(80,712)	5,841	127,456	(242,400)	196,164

1 The unrealised fair value loss on Gemfields Ltd of US\$64.4 million includes an unrealised foreign exchange loss of US\$10.3 million. The Group acquired an additional US\$78.7 million interest in Gemfields Ltd as part of the Gemfields Acquisition during June 2017. The additional interest acquired was valued at the GGL share price (on the day of each tranche of acceptances) converted at the 1.91 Offer ratio and the daily US\$/ZAR exchange rate. Gemfields was derecognised as an investment on 31 July 2017; Gemfields has been consolidated from the acquisition date, effective 1 August 2017.

2 The unrealised fair value gain on Jupiter of US\$27.5 million does not include any foreign exchange movements as the valuation is denominated in US\$. The realised gain on Jupiter of US\$5.8 million does not include any foreign exchange as the cash receipt was denominated in US\$. The Company disposed of 6% of its shares to Jupiter at a price of US\$0.40 per share. The transaction completed on 13 March 2017, with the Company receiving US\$10.1 million. Subsequently, the Company disposed of a further 4% of its shares to Jupiter at a price of US\$0.29 per share. The transaction completed on 5 December 2017, with the Company receiving US\$4.6 million.

3 The unrealised fair value loss on Sedibelo of US\$16.3 million does not include any foreign exchange, as the valuation is denominated in US\$.

13. INVESTMENTS/CONTINUED

Jupiter Mines Limited ("Jupiter") – equity

Nature of investment	<p>The Group holds an equity interest in Jupiter. 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.</p> <p>The Group owns a see-through interest of 7.44% in Jupiter at 31 December 2018, valued at US\$25.7 million.</p>
Date of valuation	31 December 2018
Fair value methodology	<p>Market Approach – Listed Share Price</p> <p>The Group's interest in Jupiter is valued at the 31 December 2018 mid-price of AUD0.2500 per share, translated at the closing rate of US\$1/AUD1.4174.</p> <p>No secondary valuation methodologies have been considered for the Company's investment in Jupiter as it is a listed equity in an active market.</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 2018
Fair value methodology	<p>Market Approach – Market Comparables applying Directors' estimate</p> <p>The Directors have, based on the approach below, estimated that the value of SPM is US\$772 million; the Group's indirect 6.54% interest has therefore been valued at US\$50.4 million.</p> <p>The Directors have considered a range of sources in determining the valuation of SPM. The primary source used by the Directors in their valuation at both 31 December 2017 and 30 June 2018 was based on the Income Approach – a Discounted Cash Flow ("DCF") model prepared by an independent third party, which formed part of a competent person's report (the "CPR") with an effective date of 31 December 2016. The DCF analysis was based on several predictions and uncertainties and changing any of these assumptions can materially impact the valuation.</p> <p>Considering the Directors' desire to realise the investment in an orderly disposal, they have altered their accounting approach from the Income Approach to the Market Approach under IFRS 13 <i>Fair Value Measurement</i> ("IFRS 13"). The Directors also noted the ageing of the CPR in considering the change in the valuation methodology.</p> <p>The Directors considered that the most appropriate valuation methodology is a market comparables analysis comparing the Enterprise Values of SPM's peer group with their respective mineral reserves and resources and then applying the average multiple to SPM's estimated reserves and resources (price per 4E ounce) to arrive at an estimated valuation of SPM.</p> <p>SPM's attributable resources and reserves, as per the most recent mineral resources and reserves report (as at 31 December 2016), total c.95 million ounces with 32.2 million ounces falling in the measured and indicated category, including 16.3 million ounces of probable mineral reserves, and 62.8 million ounces in the inferred category. The Directors have reduced these ounces in line with SPM's production figures for 2017 and 2018 up to 31 December 2018 of 0.3 million ounces.</p>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

13. INVESTMENTS/CONTINUED

Sedibelo Platinum Mines Limited (“Sedibelo Platinum Mines” or “Sedibelo” or “SPM”) – equity (continued)

The Directors 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 Directors believe that Enterprise Value is the most suitable measure. The average multiple of Enterprise Values across SPM’s peer group over their (i) mineral reserves, (ii) mineral resources, and (iii) mineral reserves and resources suggests respective averages of US\$66 per 4E ounce, US\$12 per 4E ounce and US\$10 per 4E ounce. Each multiple arrives at an implied valuation of SPM within 5.5% of the others (US\$1,070 million–US\$1,127 million) and therefore the Directors believe that taking an average is appropriate, yielding a valuation (100% basis) of US\$1,102 million for SPM. The Group’s indirect 6.54% interest would be valued at US\$72 million on this basis.

The Directors note that SPM’s most recently published Net Asset Value as at 30 September 2018 is US\$1,027 million, similar to the figure derived from the Directors’ market comparables approach.

The Directors have considered the lack of liquidity of the Company’s interest in SPM as a factor necessitating a discount to the listed peer group. The Directors note that, given findings from restricted stock studies, the following determinants have been considered: the liquidity of assets owned by the firm, the financial health and cash flows of the firm, the possibility of going public in the future, the size of the firm and the Group’s minority interest. It is generally accepted that an illiquidity discount is set in the region of 20–30% of estimated value. The Directors have analysed these factors against the information they have available to them regarding SPM.

Accordingly, the Directors have determined and applied a discount of 30% to the market comparables valuation of US\$1,102 million which they consider appropriately reflects the above factors. Whilst the Directors note that any adjustment made is subjective, their arising best estimate of SPM’s value is US\$772 million.

For the purposes of the disclosures required by IFRS 13, if SPM’s mineral reserves and resources decreased by 25% (i.e. from 95 million ounces to 71 million ounces), with all other indicators and evidence unchanged, the valuation of SPM included in the balance sheet would decrease from US\$50 million to US\$38 million. The related fair value decrease of US\$12 million would be recognised in profit and loss. Alternatively, if SPM’s comparable peer group’s Enterprise Values/mineral reserves and resources per ounce increase by 20%, with all other indicators and evidence unchanged, the valuation of SPM included in the balance sheet would increase from US\$50 million to US\$60 million. The related fair value increase of US\$10 million would be recognised in profit and loss. Furthermore, if the discount applied by the Directors decreased by 50% (i.e. from 30% to 15%), with all other indicators and evidence unchanged, the valuation of SPM included in the balance sheet would increase from US\$50 million to US\$61 million. The related fair value increase of US\$11 million would be recognised in profit and loss. An adjustment to both forecast PGM prices and production levels would also have an impact on the valuation as well as the Enterprise Values of the peer companies. Due to consequent effects of these two variables, the Directors do not have the resources available in order to accurately determine the impact such changes would have on the valuation.

13. INVESTMENTS/CONTINUED

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)

Following the listing of Jupiter, the investment in Jupiter has been deemed to be Level 1 assets compared with Level 3 as at 31 December 2017.

The investment in Sedibelo, measured at fair value through profit or loss, has been deemed to be Level 3 assets under the fair value hierarchy, based on the valuation method used.

14. 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 been omitted.

Name	Country of incorporation	Group % interest at 31 December 2018	Group % interest at 31 December 2017
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%	100%
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%

¹ The company was liquidated during 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

14. SUBSIDIARIES/CONTINUED

Name	Country of incorporation	Group % interest at 31 December 2018	Group % interest at 31 December 2017
Gemfields South Africa (Pty) Limited	South Africa	100%	100%
Gemfields Spain S.L.	Spain	100%	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%
Mbuva Mining Limited	Zambia	100%	100%
Megaruma Mining Limitada	Mozambique	75%	75%
Montepuez Ruby Mining Limitada	Mozambique	75%	75%
Oriental Mining SARL	Madagascar	100%	100%
Pallinghurst Consolidated (Cayman) Limited	Cayman Islands	100%	100%
Pallinghurst Consolidated (Dutch) B.V. ¹	The Netherlands	0%	100%
Pallinghurst Consolidated (Lux) S.à r.l. ¹	Luxembourg	0%	100%
Pallinghurst Steel Feed (Dutch) B.V. ¹	The Netherlands	0%	100%
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 Pallinghurst Resources Fund L.P.	Cayman Islands	99.99%	99.99%
Web Gemstone Mining plc	Ethiopia	75%	75%

¹ The Company was liquidated during 2018.

Kagem holds a loan facility of US\$35 million which is secured through a fixed and floating charge over Kagem's assets.

15. NON-CONTROLLING INTERESTS

Non-controlling interests in the Group that are material relate to the following subsidiaries:

- Kagem Mining Limited (“Kagem”), a company incorporated in Zambia. Its principal operation is rough-emerald mining, exploration and processing. The Government of the Republic of Zambia holds a 25% non-controlling interest.
- Montepuez Ruby Mining Limitada (“Montepuez”), 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.

	2018 Kagem US\$'000	2018 Montepuez US\$'000	2018 Other US\$'000	2018 Total US\$'000
Amount attributable to all shareholders				
(Loss)/profit after tax	(25,389)	34,543	(2,084)	7,070
Cash generated from operations	15,145	48,522	460	64,127
Non-current assets	155,851	215,536	9,314	380,701
Amounts attributable to non-controlling interest				
(Loss)/profit after tax	(6,347)	8,636	(507)	1,782
Dividends declared	–	6,250	–	6,250
Equity	9,805	65,695	(1,580)	73,920

16. OTHER NON-CURRENT ASSETS

	2018 US\$'000	2017 US\$'000
VAT receivable ¹	5,802	–
Loan receivable ²	2,455	3,593
Related-party receivable ³	–	2,718
Restricted cash	–	1,600
Other	85	114
	8,342	8,025

There are no expected material credit losses. Please refer to Note 25 for discussion on credit risk.

¹ VAT receivable relates to amounts owed to MRM.

² Relates to amounts receivable in Sri Lanka and is shown net of a provision of US\$2.0 million (2017: US\$1.0 million).

³ Kariba Minerals Limited is a joint venture in which the Group holds a 50% shareholding. In November 2018, the Group agreed to sell the entirety of its holding to the joint venture partner, therefore the receivable has been written down during the period to its recoverable value of US\$2.3 million, and as this sale is expected to complete before 31 December 2019, the receivable has been reclassified as current. As at 31 December 2018, the Group held a non-current receivable of US\$Nil (2017: US\$2.7 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

17. INVENTORY

	2018 US\$'000	2017 US\$'000
Rough and cut and polished gemstones	58,066	78,622
Fabergé inventory	35,030	35,482
Spares and consumables	6,141	4,709
	99,237	118,813

The total provision made against inventory as at 31 December 2018 is US\$4.5 million (2017: US\$3.3 million).

18. TRADE AND OTHER RECEIVABLES

	2018 US\$'000	2017 US\$'000
Trade receivables	46,648	5,948
VAT receivables	7,548	11,227
Related-party receivable ¹	2,300	–
Other receivables	5,646	10,323
	62,142	27,498

Trade receivables of US\$46.6 million at 31 December 2018 (2017: US\$5.9 million) primarily relate to auction receivables from the Montepuez ruby auction held in December 2018. The carrying amounts approximate their fair value.

There are no expected material credit losses. Please refer to Note 25 for a discussion on credit risk.

¹ Kariba Minerals Limited is a joint venture in which the Group holds a 50% shareholding. At 31 December 2017, the Group had a non-current receivable from Kariba Minerals Limited of US\$2.7 million. In November 2018, the Group agreed to sell the entirety of its holding to the joint venture partner for a consideration of US\$2.5 million. Therefore, the receivable has been written down during the period to US\$2.3 million (representing fair value less costs to sell), and, as this sale is expected to be completed before 31 December 2019, the receivable has been reclassified as current. As at 31 December 2018, the Group held a current receivable of US\$2.3 million (2017: US\$Nil), which represents a historic receivable of US\$4.2 million less a provision of US\$1.9 million.

19. BORROWINGS

		Interest rate	Maturity	2018 US\$'000	2017 US\$'000
Non-current interest-bearing loans and borrowings					
Barclays Zambia	US\$20 million revolving credit facility	US\$ LIBOR + 5.50%	2020	20,000	20,000
Barclays Mauritius	US\$15 million revolving credit facility	US\$ LIBOR + 5.50%	2020	10,000	15,000
Gordon Brothers	US\$20 million loan facility	US\$ LIBOR + 6.10%	2020	–	17,127
BCI ¹	US\$15 million finance leasing facility	US\$ LIBOR + 3.75%	2019	–	7,165
				30,000	59,292
<hr/>					
		Interest rate	Maturity	2018 US\$'000	2017 US\$'000
Current interest-bearing loans and borrowings					
Barclays Mozambique	US\$15 million overdraft facility	US\$ LIBOR + 4.00%	2019	14,459	–
Barclays Mauritius	US\$15 million revolving credit facility	US\$ LIBOR + 5.50%	2020	5,000	–
BCI ¹	US\$15 million overdraft facility	US\$ LIBOR + 3.75%	2019	3,712	–
BCI ¹	US\$15 million finance leasing facility	US\$ LIBOR + 3.75%	2018	–	3,328
Gordon Brothers	US\$20 million loan facility	US\$ LIBOR + 6.10%	2020	–	850
				23,171	4,178
				53,171	63,470

¹ BCI – Banco Comercial E De Investimentos, S.A.

Cash and non-cash movements in Borrowings are shown below:

	2018 US\$'000	2017 US\$'000
At 1 January	63,470	–
Cash flows	(11,849)	(2,530)
Non-cash flows		
Settled with restricted cash	(600)	–
Business combinations	–	66,023
Effects of foreign exchange	–	(244)
Finance costs accruing during year	2,150	221
At 31 December	53,171	63,470

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

19. BORROWINGS/CONTINUED

Barclays Zambia

In August 2014, Kagem Mining Limited entered into a US\$20 million revolving credit facility with Barclays Bank Zambia plc. The facility bears interest at a rate of three-month US\$ LIBOR plus 4.50%. The facility is due for repayment 36 months after the date of the first drawdown of the facility. In February 2017, the facility was renewed for a further three years, expiring in 2020, with an interest rate of three-month US\$ LIBOR plus 5.50% per annum. The revolving facility has no required monthly repayments but is repayable in full at the end of 36 months from the first drawdown date. As at 31 December 2018, US\$20 million was fully drawn.

The loan facility was subject to four financial covenants, which are tested half-yearly. As at 31 December 2018, Barclays Bank Zambia had waived the covenant testing period, as discussions on the refinancing of these facilities were ongoing. As part of the waiver, Kagem has committed to repaying US\$5.0 million of this facility by 31 March 2019, so this has been classified as current borrowings on the Group's balance sheet at 31 December 2018.

Barclays Mauritius

In February 2017, Kagem Mining Limited entered into a US\$15 million facility with Barclays Bank Mauritius Limited. The facility attracts interest at US\$ LIBOR plus 5.50% and is repayable in full at the end of 36 months from the first drawdown date. As at 31 December 2018, US\$15 million was fully drawn.

The loan facility was subject to four financial covenants, which are tested half-yearly. As at 31 December 2018, Barclays Bank Mauritius had waived the covenant testing period, as discussions on the refinancing of these facilities were ongoing.

Security for the facilities comprises 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 Ltd.

Barclays Mozambique

In April 2016, MRM entered into a US\$15 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 2018 was US\$14.5 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 US\$15 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 US\$ LIBOR plus 3.75% per annum. At 31 December 2018, US\$3.7 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 US\$15 million financing leasing facility with BCI. This is a renewable facility with a drawdown period of 18 months, and the amounts drawn down were repayable over a maximum period of 48 months. The facility had an interest rate of three-month US\$ LIBOR plus 3.75% per annum. During the period, the loan was repaid in full, and, at 31 December 2018, US\$Nil million was outstanding.

Gordon Brothers

In May 2017, Fabergé UK Limited entered into a US\$25 million loan facility with Gordon Brothers Finance Company and GB Europe Management Services Limited jointly. During the year to 31 December 2017, Fabergé UK Limited made the decision to lower the facility to US\$20 million. The facility attracted interest at a rate of three-month US\$ LIBOR plus 6.1%, with a LIBOR floor of 1.25%, and was secured against the value of the Fabergé brand and intellectual property, as well as gemstones, jewellery and watch inventory. During the year, the loan was fully repaid.

20. PROVISIONS

	Environmental restoration provision US\$'000	Resettlement Action Plan ("RAP") US\$'000	Other provisions US\$'000	Total US\$'000
At 1 January 2017	–	–	–	–
Business combinations	2,024	8,570	655	11,249
Additions during the year	645	694	–	1,339
Utilised during the year	–	–	(11)	(11)
At 31 December 2017	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
Non-current	2,852	–	2,720	5,572
Current	–	7,552	325	7,877

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.

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, 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.

Other provisions

The other non-current provisions primarily consist of future legal claims and employee end of contract benefits.

21. TRADE AND OTHER PAYABLES

	2018 US\$'000	2017 US\$'000
Trade payables	4,765	7,491
Other payables ¹	23,393	13,680
	28,158	21,171

¹ Other payables include US\$7.4 million in regards to the agreed settlement of the Leigh Day legal claims, which was paid post year-end (refer to page 41 for more details).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

22. 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.

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 US\$	Share Premium US\$		
Management Shares (unlisted)					
Management Shares of US\$1 each					
Balance at 31 December 2018 and 31 December 2017	2	2			–
Ordinary Shares (listed)					
Ordinary Shares of US\$0.00001 each					
Balance at 1 January 2017	760,452,631	8	375,227	–	–
Allotted during Gemfields Offer period	671,232,922 ¹	6	156,380	–	–
Effect of own shares held	–	–	–	(23,319)	(654)
Balance at 31 December 2017	1,431,685,553²	14	531,607	(23,319)	(654)
Share buy-backs	–	–	–	–	(4,691)
Balance at 31 December 2018	1,431,685,553²	14	531,607	(23,319)	(5,345)

¹ The total of shares allotted includes 96,276,146 GGL shares allotted to an associate included within the Group that are omitted from the calculation of Per Share Information included within Note 24 Per Share Information. Total number of shares in issue as at 31 December 2017 excluding these shares was 1,335,409,407.

² 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 26 June 2017. During the year, the Company repurchased 18,343,267 of its shares, and as at 31 December 2018, the Company had repurchased a total of 21,066,753 of its shares. Accordingly, 21,066,753 shares have been omitted from the calculation of Per Share Information included within Note 24 Per Share Information.

23. SHARE-BASED PAYMENTS

Share Option Plan

The total expense recognised during the year ended 31 December 2018 arising from equity-settled, share-based payment transactions was US\$4,167,000 (2017: US\$2,692,000).

At 31 December 2018, 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 2018	Final exercise date
		Outstanding at 1 January 2018	Granted	Forfeited/lapsed	Exercised		
September 2017	ZAR3.45	89,248,682	–	(33,468,254)	–	55,780,428	September 2021
January 2018	ZAR2.97	–	21,601,796	(2,180,960)	–	19,420,836	January 2022
July 2018	ZAR2.3	–	44,790,000	(100,000)	–	44,690,000	July 2022
Total		89,248,682	66,391,796	(35,749,214)	–	119,891,264	

Of the 167,341,278 share options available for granting, 47,450,014 share options were ungranted at 31 December 2018. There were 52,324,673 options exercisable at 31 December 2018 (2017: 22,312,172). No share options were exercised for the year ending 31 December 2018 (2017: 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 (2017: ZAR3.25) and ZAR3.25 (2017: ZAR3.25), respectively. The company's mid-market closing share price at 31 December 2018 was ZAR1.85 (2017: ZAR3.0). The lowest and highest mid-market closing price during the year was ZAR1.55 (2017: ZAR2.2) and ZAR3.72 (2017: ZAR4.95), respectively.

The fair values of the options are calculated using the Black–Scholes method. The number of options granted in 2018 was 66,391,796 (2017: 111,560,852). Assumptions used in this model were:

	Issue date September 2017	Issue date January 2018	Issue date July 2018
Exercise price	ZAR3.45	ZAR2.97	ZAR2.3
Share price at date of grant	ZAR2.91	ZAR3.00	ZAR2.38
Expected volatility	39.70%	45.83%	47.54%
Option life	4.5 years	1–4 years ¹	1–4 years ¹
Expected dividends	Nil	Nil	Nil
Risk-free interest rate	7.73%	6.67–7.65%	6.82–7.95%
Fair value of options	ZAR1.12	ZAR0.64–1.37	ZAR0.55–1.14

¹ As the first option tranche vest immediately, and the gain to the employee is low, the valuation assumes the options are held for one year prior to exercise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

23. 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 Johannesburg Stock Exchange 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 Gemfields Group Limited’s shares.

24. PER SHARE INFORMATION

Earnings/(Loss) Per Share (“EPS” or “LPS”) and NAV per share 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 2018.

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 4/2018 “Headline Earnings” (“Circular 4/2018”) issued by the South African Institute of Chartered Accountants (“SAICA”) during the period.

Earnings per share

The Group’s (LPS)/EPS is as follows:

	2018	2017
(Loss)/profit for the year attributable to owners of the parent – US\$’000	(62,213)	37,892
Weighted average number of shares in issue ¹	1,316,580,827	1,038,966,894
(Loss)/earnings per share – US\$	(0.05)	0.04

¹ 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 is as follows:

	2018	2017
(Loss)/profit for the year attributable to owners of the parent – US\$’000	(62,213)	37,892
Adjusted for:		
Impairment charges and write-offs	26,559	–
Bargain purchase	–	(96,406)
Tax impact	(6,773)	–
	(42,427)	(58,514)
Weighted average number of shares in issue ¹	1,316,580,827	1,038,966,894
Loss per share – US\$	(0.03)	(0.06)

¹ 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.

24. PER SHARE INFORMATION/CONTINUED

NAV per share

The Group's US\$ NAV per share is as follows:

	2018	2017
Net assets – US\$'000	476,195	538,723
<i>Number of shares in issue</i> ¹	1,314,342,654	1,332,685,921
NAV per share – US\$	0.36	0.40

¹ 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 US\$ tangible NAV per share is as follows:

	2018	2017
Net assets – US\$'000	476,195	538,723
<i>Adjusted for:</i>		
Intangible assets	(52,328)	(49,312)
	423,867	489,411
<i>Number of shares in issue</i> ¹	1,314,342,654	1,332,685,921
Tangible NAV per share – US\$	0.32	0.37

¹ 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.

25. FINANCIAL INSTRUMENTS

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

Financial assets

	2018 US\$'000	2017 US\$'000
Financial assets measured at fair value:		
Sedibelo	50,447	98,064
Jupiter	25,714	98,100
Other investments	143	46
Total financial assets at fair value	76,304	196,210
Financial assets measured at amortised cost:		
Trade and other receivables ¹	49,981	8,131
Other non-current assets ²	2,471	7,960
Cash and cash equivalents	62,988	37,784
Total financial assets measured at amortised cost	115,440	53,875
Total financial assets	191,744	250,085

¹ Trade and other receivables excludes prepayments and VAT.

² Other non-current assets exclude property lease premium and VAT.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

25. FINANCIAL INSTRUMENTS/CONTINUED

The Sedibelo investment is Level 3, the inputs for which are not based on observable market data. The Jupiter investment is Level 1, under the fair value hierarchy, for which listed prices in active market are available (2017: Level 3). Refer to Note 13 for details.

Financial liabilities

	2018 US\$'000	2017 US\$'000
Financial liabilities measured at amortised cost:		
Trade and other payables ¹	26,977	20,040
Borrowings	53,171	63,470
Total financial liabilities measured at amortised cost	80,148	83,510
Total financial liabilities	80,148	83,510

¹ Trade and other payables excludes social security.

Fair value of financial assets and liabilities

At 31 December 2018 and 2017, the carrying value of the Group's 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 either 2018 or 2017.

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 counter-parties 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 three counterparties: Barclays Bank plc ("Barclays"), Investec Bank plc ("Investec") and HSBC Bank plc ("HSBC"). 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.

25. FINANCIAL INSTRUMENTS/CONTINUED

The Group's exposure to counterparty risk at 31 December 2018 is set out below:

Counterparty	Location	Credit rating (Fitch)	2018 US\$'000	2017 US\$'000
Barclays	United Kingdom	A minus	25,373	20,729
Investec	Guernsey	BBB plus	20,316	–
HSBC	United Kingdom	AA minus	14,775	5,015
BCI ¹	Mozambique	n/r	881	2,295
Rabobank	United Kingdom	A plus	609	–
Deutsche	Guernsey	BBB minus	–	6,681
Other counterparties	Various	n/a	1,034	3,064
Total			62,988	37,784

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. Within 30 days of the year-end, the Group had collected 92% of the auction receivables outstanding at 31 December 2018. The Group did not recognise any impairment and believes that credit risk is limited as customers pay within a short period of time.

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 may make loans to investments within the Investment Portfolio; the Group extended a US\$5 million loan to Gemfields (prior to its acquisition), which was repaid in June 2017. 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: US\$1.0 million
- Related-party loan to Kariba: US\$0.4 million.

No other financial assets are impaired or past due and, accordingly, no additional analysis has been provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

25. 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 2018	Repayable within one month US\$'000	Repayable within one to six months US\$'000	Repayable within six to 12 months US\$'000	Repayable within 12 to 36 months US\$'000	Total US\$'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

31 December 2017	Repayable within one month US\$'000	Repayable within one to six months US\$'000	Repayable within six to 12 months US\$'000	Repayable within 12 to 36 months US\$'000	Total US\$'000
Trade and other payables	10,067	9,973	–	–	20,040
Borrowings and interest	741	3,705	5,226	62,500	72,172
Total	10,808	13,678	5,226	62,500	92,212

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.

25. FINANCIAL INSTRUMENTS/CONTINUED

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 US\$ and the US\$ plays a dominant role in the Group's business, funds borrowed and held in US\$ 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 US\$, including ZAR, AUD and GBP. These assets are translated into US\$ 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 US\$.

A key tenet of the Group's treasury policy is that materially all of the Group's cash is held in US\$, 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 US\$. The Group may enter into equity or loan investments in currencies other than the US\$. 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 US\$ 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 US\$ 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 US\$ 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 US\$ 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 US\$.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

25. FINANCIAL INSTRUMENTS/CONTINUED

At 31 December 2018	US\$ US\$'000	GBP US\$'000	ZMW US\$'000	MZN US\$'000	Other US\$'000	Total US\$'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 US\$	n/a	(122)	35	(14)	259	158
At 31 December 2017	US\$ US\$'000	GBP US\$'000	ZMW US\$'000	MZN US\$'000	Other US\$'000	Total US\$'000
Investments	196,210	–	–	–	–	196,210
Cash and cash equivalents	32,301	2,327	458	1,554	1,144	37,784
Other non-current assets	4,367	–	–	–	3,593	7,960
Trade and other receivables	5,095	218	184	2,148	486	8,131
Borrowings	(63,470)	–	–	–	–	(63,470)
Trade and other payables	(6,110)	(4,996)	(2,462)	(3,755)	(2,717)	(20,040)
Net financial assets/(liabilities)	168,393	(2,451)	(1,820)	(53)	2,506	166,575
<i>Sensitivity analysis</i>						
Impact on the Income Statement, assuming a 10% movement against the US\$	n/a	(245)	(182)	(5)	251	(181)

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 2018 and 2017, all uninvested cash was accessible either on demand, or shortly afterwards. In addition, the Group may make interest-bearing loans to its investments.

25. FINANCIAL INSTRUMENTS/CONTINUED

31 December 2018	Repayable within one month US\$'000	Repayable within one to six months US\$'000	Repayable within six to 12 months US\$'000	Repayable within 12 to 36 months US\$'000	Total US\$'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

31 December 2017	Repayable within one month US\$'000	Repayable within one to six months US\$'000	Repayable within six to 12 months US\$'000	Repayable within 12 to 36 months US\$'000	Total US\$'000
Cash and cash equivalents	37,784	–	–	–	37,784
Loans and receivables	–	66	–	–	66
Borrowings	(348)	(1,741)	(2,089)	(59,292)	(63,470)
Net financial assets/(liabilities) subject to interest rate risk	37,436	(1,675)	(2,089)	(59,292)	(25,620)

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.

31 December 2018	Repayable within one month US\$'000	Repayable within one to six months US\$'000	Repayable within six to 12 months US\$'000	Repayable within 12 to 36 months US\$'000	Total US\$'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

31 December 2017	Repayable within one month US\$'000	Repayable within one to six months US\$'000	Repayable within six to 12 months US\$'000	Repayable within 12 to 36 months US\$'000	Total US\$'000
Net financial assets/(liabilities) subject to interest rate risk	37,436	(1,675)	(2,089)	(59,292)	(25,620)
<i>Sensitivity analysis</i>					
Impact on profit or loss, assuming a 0.5% movement in interest rate	187	(8)	(10)	(296)	(127)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

25. FINANCIAL INSTRUMENTS/CONTINUED

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:

	2018			2017		
	Quoted US\$'000	Unquoted US\$'000	Total US\$'000	Quoted US\$'000	Unquoted US\$'000	Total US\$'000
Total	6,429	12,612	19,041	–	49,041	49,041

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 investments, namely Jupiter and 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 or may invest in. The commodities of most relevance to the Group currently are coloured gemstones, PGMs, manganese and iron ore.

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 2018 are considered likely to be representative of the financial instruments held and of risks to the balance sheet in the immediate future. Users of the Financial Statements should be aware that the Group's risk profile has changed significantly during the year due to the acquisition of Gemfields. 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.

26. CAPITAL COMMITMENTS

At 31 December 2018, the Company had the following capital commitments:

- (i) US\$5.6 million (2017: US\$8.9 million) for the construction of the new sort house, for the purchase of mining equipment, and for mine camp expansion in Montepuez; and
- (ii) US\$1.2 million (2017: US\$2.9 million) for the purchase of mining equipment at Kagem.

27. COMMITMENTS AND CONTINGENCIES

During the course of internal control and governance processes led by the Group, 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. Given ongoing work by the Group and its advisors, it is not possible at this time 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. Therefore, no provision has been made in the financial statements. However, having taken detailed legal advice, the Directors believe that any such liability may be below the materiality threshold.

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.

28. COMMITMENTS UNDER OPERATING LEASES

The Group has total future minimum lease payments under non-cancellable operating leases as set out below:

	2018 US\$'000	2017 US\$'000
Not later than one year	1,640	2,237
Later than one year but not later than five years	1,387	4,832
Later than five years	818	–
	3,845	7,069

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

29. 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 the year. 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 2018 was US\$104,613 (2017: US\$156,625). The Group's outstanding balance with Vistra Guernsey at 31 December 2018 was US\$Nil (2017: US\$38,750). The Group's working agreement with Vistra Guernsey was terminated in July 2018.

Kariba Minerals Limited is a joint venture in which the Group holds a 50% shareholding. As at 31 December 2018, the Group held a receivable of US\$2,300,000 (2017: US\$2,718,000), which represents a historic receivable of US\$4,199,000 less a provision of US\$1,899,000. As at 31 December 2018, the Group had entered into an agreement to dispose of its shareholding in Kariba.

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 13 *Investments*.

The Directors are the Key Management Personnel for the Company. The amounts paid to the Executive Directors for services during 2018 are set out below.

1 January 2018 to 31 December 2018	Base compensation US\$'000	Termination payments US\$'000	Total US\$'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 David Lovett became Chief Financial Officer effective 31 March 2018.

³ Resigned effective 31 March 2018.

The amounts paid to the Executive Directors for services during 2017 are set out below.

1 January 2017 to 31 December 2017	Base compensation US\$'000	Total US\$'000
Brian Gilbertson	175	175
Arne H. Frandsen	175	175
Sean Gilbertson	136	136
Andrew Willis	101	101
Priyank Thapliyal ¹	–	–
Total	587	587

¹ Resigned effective 16 November 2017.

29. 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 US\$'000	Board committees US\$'000	Lead Independent Director US\$'000	Total US\$'000
Brian Gilbertson ¹	100	–	–	100
Martin Tolcher	40	17.5	–	57.5
Dr Christo Wiese	40	–	–	40
Lumkile Mondli	40	17.5	2.5	60
Erich Clarke	40	5	–	45
Kwape Mmela	40	12.5	–	52.5
Total	300	52.5	2.5	355

¹ Brian Gilbertson became Non-Executive Chairman effective 1 January 2018.

The amounts paid to the Non-Executive Directors for services during 2017 are set out below.

1 January 2017 to 31 December 2017	Group Director fees US\$'000	Board committees US\$'000	Lead Independent Director US\$'000	Total US\$'000
Martin Tolcher	37	9	–	46
Dr Christo Wiese	37	–	–	37
Lumkile Mondli	37	6	1	44
Erich Clarke ¹	16	1	–	17
Kwape Mmela ¹	16	3	–	19
Stuart Platt-Ransom ²	18	2	1	21
Clive Harris ²	19	2	–	21
Total	180	23	2	205

¹ Appointed effective 31 July 2017.

² Resigned effective 11 July 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

29. RELATED-PARTY TRANSACTIONS/CONTINUED

The interests in GGL equity shares held by the Directors are set out below.

	2018		2017	
	Number of shares	Interest	Number of shares	Interest
Dr Christo Wiese ¹	160,388,407	11.20%	160,388,407	11.20%
Brian Gilbertson ^{2, 3, 4}	26,148,899	1.83%	26,148,899	1.83%
Sean Gilbertson ^{3, 4}	8,498,536	0.59%	4,748,536	0.33%
Kwape Mmela	8,325,334	0.58%	8,325,334	0.58%
David Lovett ⁵	42,000	0.00%	–	0.00%
<i>Directors who have resigned during the year</i>				
Arne H. Frandsen ⁶	n/a	n/a	5,097,129	0.36%
Andrew Willis ⁶	n/a	n/a	2,446,054	0.17%

¹ At 31 December 2018, 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 11.35%.

² Brian Gilbertson holds an interest in Autumn Holdings Asset Inc. (a company in which immediate members of his family, including Sean Gilbertson, also hold interests), which, in turn, holds 1,887,230 GGL shares.

³ Pallinghurst Resources Management L.P., a limited partnership in which Brian Gilbertson holds a 25% interest and Sean Gilbertson holds a 50% interest, is entitled to 3,030,652 GGL shares; however, these shares have not yet been claimed following the compulsory acquisition of Gemfields.

⁴ Brian Gilbertson and Sean Gilbertson hold an interest in Pallinghurst (Cayman) Founder L.P., which, in turn, holds 10,296,964 GGL shares.

⁵ Appointed to the Board effective 31 March 2018.

⁶ Resigned from the Board effective 31 March 2018.

The Company had 1,431,685,553 shares in issue at 31 December 2018 (2017: 1,431,685,553). There have been no changes to these shareholdings up to the date of publication of the Annual Report.

30. EVENTS OCCURRING AFTER THE END OF THE YEAR

Emerald auction held in Lusaka, Zambia, from 18 to 20 February 2019

Post the year-end, a predominantly commercial-quality auction was held in Lusaka in February 2019. Revenues of US\$10.8 million were achieved, which were further evidence of the continuing demand for emeralds. The auction takes Kagem's total auction revenue since July 2009 to US\$567 million.

Settlement of Leigh Day legal claims

In January 2019, GGL announced that it had agreed, on a no-admission-of-liability basis, the settlement of all claims brought by English law firm Leigh Day on behalf of individuals living in the vicinity of MRM's mining concession in northern Mozambique. The settlement amount of GBP5.8 million (US\$7.4 million), comprising the sum to be distributed to the claimants by Leigh Day and their legal expenses, was paid on 23 January 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, is due to receive AUD3.6 million (US\$2.6 million), translated at the US\$/AUD1.4128 exchange rate on 4 March 2019, the date GGL entered into a forward US\$/AUD contract. The Group will receive its dividend on 21 May 2019.

30. EVENTS OCCURRING AFTER THE END OF THE YEAR/CONTINUED

Increase in Jupiter share price

The Jupiter share price has increased since 31 December 2018. The estimated impact of this non-adjusting event is as follows:

The Jupiter share price on 22 March 2019 was AUD0.34 and the exchange rate was US\$1/AUD1.4023. The fair value of the Group's investment was US\$35.4 million, US\$9.7 million higher than the valuation of US\$25.7 million included in the Consolidated Statement of Financial Position.

Approval of Consolidated Financial Statements

The Consolidated Financial Statements were approved by the Directors and authorised for issue on 22 March 2019.

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of Gemfields Group Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2018, which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as 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 2018 and of the Group's loss 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 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 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	<p>Impairment review of Kagem Mining Limited</p> <p>As detailed in Note 11, the carrying value of Kagem Mining Limited’s (“Kagem”) mining assets amounted to US\$184.2 million at 31 December 2018.</p> <p>As disclosed in Note 11, in December 2018 the Government of Zambia enacted tax changes, effective from 1 January 2019. These tax changes caused an indicator of impairment and therefore management carried out an impairment review as at 31 December 2018.</p> <p>There is a risk that the mining assets of Kagem are carried at an amount greater than their recoverable amount through continued use or sale. As disclosed in Note 1 and 11, the impairment review of the carrying value of Kagem’s mining assets requires significant judgement and estimates to be made by management.</p> <p>An impairment of US\$22.6 million was recognised in the year ended 31 December 2018 in respect of Kagem.</p>
Our Response	<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"> • Reviewing management’s assessment of indicators of impairment and the new tax changes in Zambia using publicly available information and evaluating the impact of these on the impairment model. • Assessing the appropriateness of the basis of the impairment review, being value in use based on discounted forecast cash flows. • Evaluating the forecast cash flows by comparing these to the approved Life of Mine plan and resource and reserve reports prepared by a third party. • Critically reviewing the Life of Mine plan 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. – Critically analysing the inputs in management’s calculated discount rate. 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 2018. – 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. <p>• We reviewed the sufficiency of disclosures given in Note 11 including the sensitivity analysis presented.</p>

INDEPENDENT AUDITOR'S REPORT/CONTINUED

<p>Key Audit Matter</p>	<p>Valuation of investment in Sedibelo</p> <p>As detailed in Notes 1 and 13, the Group holds an investment in Sedibelo Platinum Mines (“SPM”). The value of the investment is recognised at fair value, estimated at US\$50.4 million (2017: US\$98.1 million). Details of the methods of valuation and the estimates and judgements involved are disclosed in Note 13.</p> <p>Judgement is involved in determining the fair value methodology, selection of SPM’s peer group and the discount factor applied. Given that significant judgements are involved in determining the fair value, this is considered to be a key audit matter.</p>
<p>Our Response</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • We critically assessed the appropriateness of management’s valuation methodology 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 reserve base of SPM’s peer group and SPM’s own reserve base to publicly available market information. • We challenged management on the selection of SPM’s peer group. • We challenged the discount factor applied and involved our specialist valuations department. Our review of the discount factor involved an assessment of the risks associated with the specific asset. • 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 Audit Matter</p>	<p>Contingent liability</p> <p>The Group is exposed to legal risks in relation to the various jurisdictions in which it operates. As disclosed in Note 27 to the consolidated financial statements, the Group identified a contingent liability relating to potential breaches in legislation.</p> <p>As disclosed in Note 27, the Directors concluded that it is not possible at this time 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.</p> <p>The identification and assessment of potential regulatory fines and the appropriateness of the disclosure of contingent liabilities constitute a key audit matter.</p>
<p>Our Response</p>	<p>In relation to the contingent liability disclosed in Note 27, we undertook the following work:</p> <ul style="list-style-type: none"> • We held meetings with senior management in order to gain an understanding of the contingent liability; • We reviewed correspondence with, and reports from, the legal firm that advised the Group on this matter; • We made an assessment of the legal firm by considering, amongst other things, the scope of their work, their independence and their expertise; • We held a meeting with the legal firm to ensure a full understanding of their analysis and challenged their assessment and judgements; • We challenged the Group’s assessment of whether or not it was possible to reliably estimate any potential obligation which may arise, which included corroborating judgements and estimates made by management to supporting evidence; and • We checked whether the disclosure in Note 27 was compliant with IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>.

Our application of materiality

Group materiality	US\$7,000,000
Basis for determining materiality	1% of total assets
Group performance materiality	US\$5,250,000
Basis for performance materiality	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 US\$7,000,000 (2017: US\$8,200,000), each significant component of the Group was audited to a lower level of materiality of US\$2,000,000 to \$3,000,000 (2017: US\$2,000,000). Performance materiality was set at 75% (2017: 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.

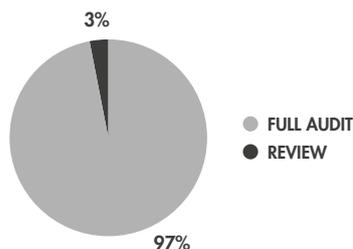
We agreed with the Audit Committee that we would report to the Committee all individual audit differences identified during the course of our audit in excess of US\$350,000 (2017: US\$410,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative 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 focussed 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

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.

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; and
- 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 in relation to which the Companies (Guernsey) Law, 2008, requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- the 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 statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the Board of Directors.

The engagement partner on the audit resulting in this independent auditor's report is Scott McNaughton.

Scott McNaughton

For and on behalf of BDO LLP

Chartered Accountants

London, UK

22 March 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

SHAREHOLDER INFORMATION

for the year ended 31 December 2018

Shareholder spread	Number of shareholders	%	Number of shares	%
1–1,000 shares	419	15.98	194,153	0.01
1,001–10,000 shares	1,108	42.26	5,269,985	0.37
10,001–100,000 shares	796	30.36	26,385,875	1.84
100,001–1,000,000 shares	201	7.67	59,701,598	4.17
1,000,001–10,000,000 shares	73	2.78	260,784,068	18.22
10,000,001 shares and over	25	0.95	1,079,349,874	75.39
	2,622	100	1,431,685,553	100
Distribution of shareholders				
Banks/Brokers	160	6.10	554,934,663	38.76
Close corporations	40	1.53	2,003,575	0.14
Endowment funds	3	0.11	924,437	0.06
Individuals	2,093	79.82	80,896,347	5.65
Insurance companies	4	0.15	67,717,637	4.73
Mutual funds	19	0.72	130,757,240	9.13
Nominees and trusts	18	0.69	25,374,397	1.77
Other corporations	25	0.95	1,675,945	0.12
Private companies	72	2.75	175,619,672	12.27
Public companies	15	0.57	325,613,241	22.74
Retirement funds	16	0.61	50,982,704	3.56
Trusts	157	5.99	15,185,695	1.06
	2,622	100	1,431,685,553	100
Public/non-public shareholders				
Public shareholders	2,597	99.05	1,110,939,478	77.60
Non-public shareholders	25	0.95	320,746,075	22.40
Holdings of Directors ¹	23	0.87	203,403,176	14.21
Interest in own shares	2	0.08	117,342,899	8.20
	2,622	100	1,431,685,553	100
Shareholders holding 5% or more			Number of shares	%
Dr Christo Wiese ²			160,388,407	11.20
NGPMR (Cayman) L.P.			138,469,735	9.67
Investec Pallinghurst (Cayman) L.P.			130,401,519	9.11
Gemfields Group Limited ³			117,342,899	8.20
Ophorst Van Marwijk Kooy Vermogensbeheer N.V.			105,902,382	7.40
Oasis ⁴			94,785,218	6.62

¹ Dr Wiese's interest has been included within "Holdings of Directors" rather than as a "Shareholder holding 10% or more". Five 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 23.

² At 31 December 2018, Dr Wiese held indirect interests in 160,388,407 GGL shares via various entities. In addition, a further 2,204,700 shares, or 0.15%, are held by members of Dr Wiese's immediate family; including these shares would increase Dr Wiese's total shareholding to 11.35%.

³ The Company held a 51.10% see-through interest in Fabergé Conduit Limited at 31 December 2018, a company that received 188,416,547 GGL shares in exchange for its Gemfields shares, as a result of the Company's acquisition of Gemfields. The Company's interest in its own shares through Fabergé Conduit Limited was therefore 96,276,146 shares or 6.72%. In addition, the Company had repurchased 21,066,753 or 1.47% of its own shares at 31 December 2018.

⁴ The Oasis shareholding includes interests held by Oasis Asset Management and Oasis Crescent Capital.

COMPANY DETAILS

Executive Directors

Sean Gilbertson¹
David Lovett²

Non-Executive Directors

Brian Gilbertson³
Dr Christo Wiese
Martin Tolcher
Lumkile Mondli
Kwape Mmela
Carel Malan⁴

The following persons were Directors during the period:

Arne H. Frandsen⁵
Andrew Willis⁵

Erich Clarke⁶

1 Sean Gilbertson became Chief Executive Office effective 31 March 2018.

2 David Lovett was appointed Chief Financial Officer effective 31 March 2018.

3 Brian Gilbertson became Non-Executive Chairman effective 1 January 2018.

4 Appointed 9 January 2019.

5 Resigned 31 March 2018.

6 Resigned 7 January 2019.

Registered Office⁷

Gemfields Group Limited
PO Box 186
Royal Chambers
St Julian's Avenue
St Peter Port
Guernsey
GY1 4HP
Channel Islands

7 Changed effective 28 August 2018.

Legal Advisor (Guernsey)

Mourant Ozannes
1 Le Marchant Street
St Peter Port
Guernsey
GY1 4HP
Channel Islands

Company Secretary⁸

Mr Toby Hewitt
4th Floor
1 New Burlington Place
London
W1S 2HR
United Kingdom

8 Previously Vistra Fund Services (Guernsey) Limited.

London Office

Gemfields Services Limited⁹
4th Floor
1 New Burlington Place
London
W1S 2HR
United Kingdom

9 Previously Pallinghurst Resources UK Limited.

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
102 Rivonia Rd
Sandton, 2196
South Africa

COMPANY DETAILS CONTINUED

JSE Sponsor

Investec Bank Limited
100 Grayston Drive
Sandton, 2196
South Africa

South African Transfer Secretary

Computershare Investor Services (Pty) Limited
Rosebank Towers
15 Biermann Avenue
Rosebank, 2196
South Africa

Auditor

BDO LLP
55 Baker Street
London
W1U 7EU
United Kingdom

BSX Sponsor

Clarien Investments Limited
25 Reid Street, 4th Floor
Hamilton HM 11
Bermuda

Registrar and Bermuda Transfer Secretary

Computershare Investor Services (Guernsey) Limited
1st Floor
Tudor House
Le Bordage
St Peter Port
Guernsey
GY1 1DB

Administration Services (Guernsey)¹⁰

Mourant Governance Services (Guernsey) Limited
PO Box 186
Royal Chambers
St. Julian's Avenue
St Peter Port
Guernsey
GY1 4HP
Channel Islands

10 Previously Vistra Fund Services (Guernsey) Limited.

Image Grading rubies, Sort House, Montepuez Ruby Mine, Mozambique.



GEMFIELDS

www.gemfieldsgroup.com