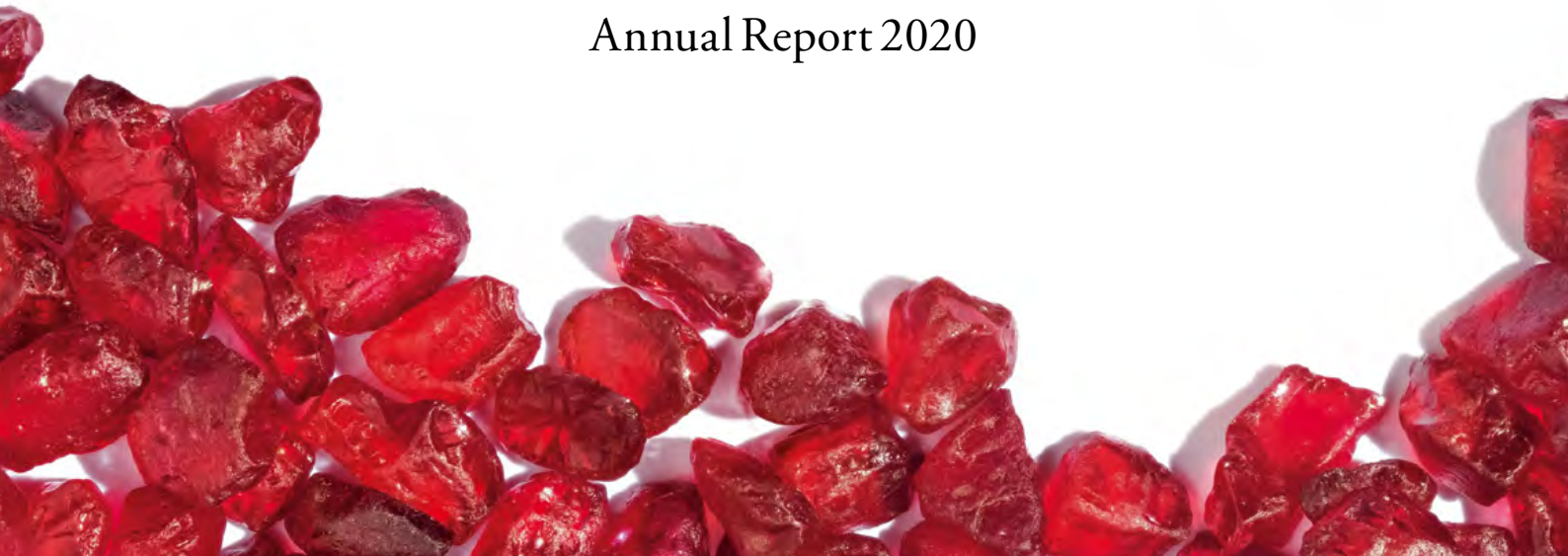


GEMFIELDS

Annual Report 2020



COVER: Gemfields Mozambican rubies and Zambian emeralds surround Fabergé Colours of Love Cosmic Curve Rings
BELOW: Operations, Montepuez Ruby Mining, Mozambique

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



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Responsibly sourced rough rubies, Montepuez Ruby Mining, Mozambique

Gemfields started 2020 positively, with the listing on the Alternative Investment Market of the London Stock Exchange on 14 February 2020, an important milestone for the Company.

OVERVIEW

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Map of Operations



OFFICE

RETAIL
OUTLET

INVESTMENT



MINE

EXPLORATION
ASSET

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 Megaruma Mining Limited (MML) (ruby),
Mozambique
- 7 Web Gemstone Mining
Yabelo, Ethiopia, Exploration Assets

FABERGÉ

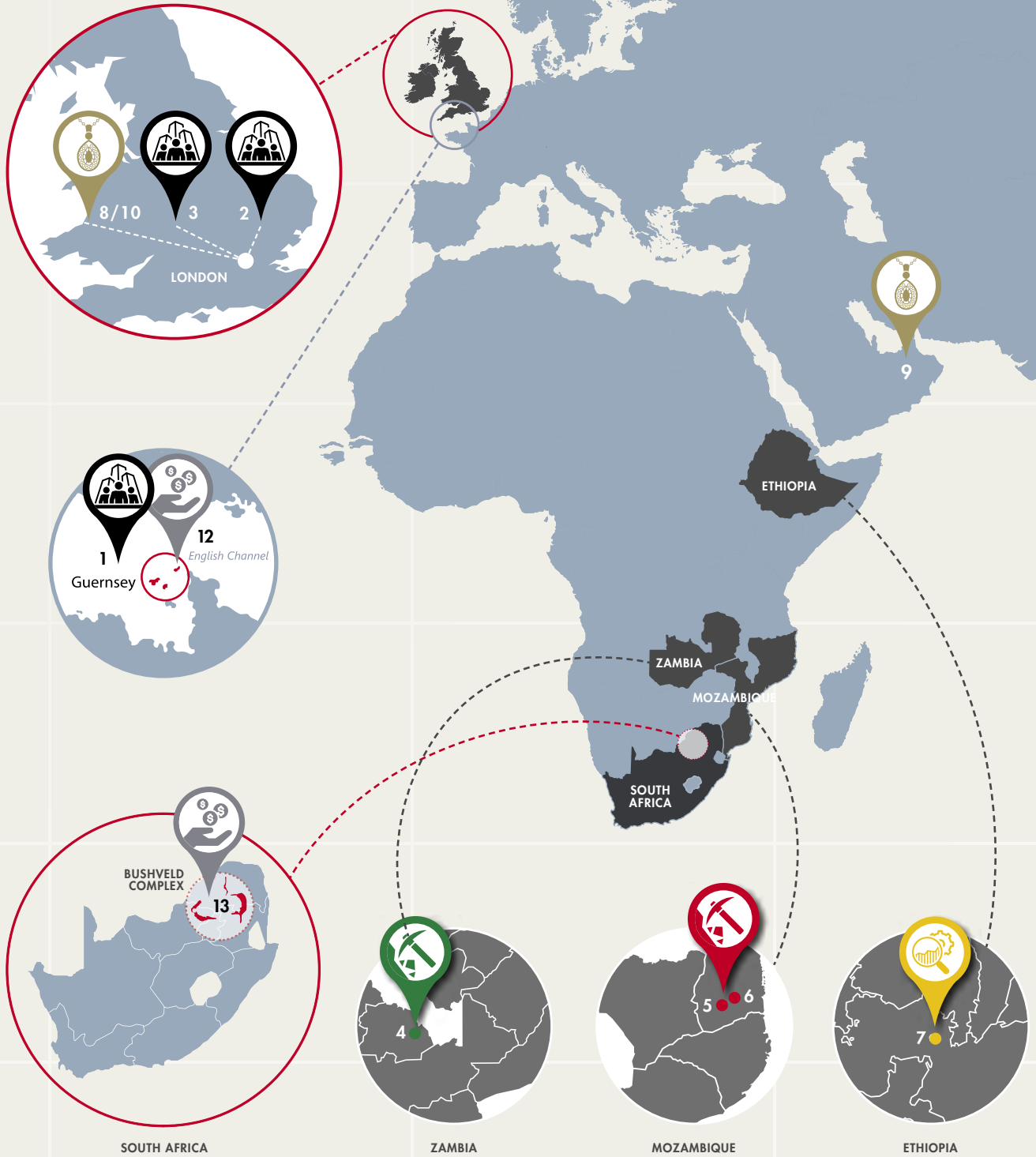
- 8 Fabergé (UK) Limited
London, United Kingdom, Head Office
- 9 Fabergé Dubai
Dubai, UAE, Retail Outlet
- 10 Fabergé Harrods
London, United Kingdom, Retail Outlet
- 11 Fabergé Inc
Houston, USA, Retail Outlet

INVESTMENTS

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



11



Chairman's Statement

Martin Tolcher
Chairman



The past year will undoubtedly be remembered as a real “*annus horribilis*” of recent times. Very few companies have been spared the mass disruption created by the COVID-19 pandemic and Gemfields Group Limited (“Gemfields”, the “Company”, “GGL” or “the Group”) is no different. The COVID-19 pandemic unquestionably has been the toughest challenge Gemfields has faced to date.

As a result, Gemfields has spent the year adapting its approach, policies and controls in order to best navigate the changing circumstances and uncertainty brought about by COVID-19. From the outset, the focus has been the well-being of employees, host communities and customers, whilst ensuring business continuity and the protection of shareholder value. The Board is encouraged that, with the current rollout of the global vaccination programme, the world is learning gradually how to live and work with COVID-19.

Gemfields started 2020 positively, with the listing on the Alternative Investment Market (“AIM”) of the London Stock Exchange on 14 February 2020, an important milestone for the Company. GGL’s share price initially reacted well to its AIM listing, rising by some 16% from the start of the period up to the listing date. However, as the impact of COVID-19 kicked in during March 2020, the GGL share price has suffered and struggled to gain momentum since. The first quarter also saw the Zambian operations produce an exceptional quantity of premium-grade emeralds, setting the Group up well for the year ahead. Unfortunately, the Group then encountered the challenges posed by COVID-19, with office closures, travel bans, the suspension of mining operations and general disruption caused to team members operating in nine countries.

The Group’s flagship operations in Mozambique and Zambia have both been impacted severely by the various measures put in place to contain the COVID-19 pandemic, most significantly the restrictions on travel and the movement of goods, which have impeded both the mining operations and the overall market for the Group’s products. Gemfields’ 2020 auction schedule was also affected negatively by the many travel, quarantine and congregating restrictions put in place internationally to mitigate COVID-19 contagion. Gemfields’ typical auction schedule consists of five to six auctions per year – two of mixed-quality rubies and three or

four of emeralds (split between higher quality and commercial-quality). Gemfields was able to host only one regular-format auction in 2020, yielding USD11.4 million from the sale of commercial quality emeralds in February 2020 in Lusaka. The Group has therefore had to find alternative and innovative ways of holding auctions despite challenging market conditions, introducing its inaugural series of five small online emerald auctions that took place between November and mid-December of 2020. Gemfields achieved revenues of USD10.9 million from the mini-auction series, resulting in Kagem Mining Limited (“Kagem”) generating total auction revenues for 2020 of USD22.3 million. There was no ruby revenue in 2020. During the same period in 2019, the Mozambican and Zambian operations generated revenues of USD121.5 million and USD79.0 million, respectively. With the disruptions caused by COVID-19 running well into 2021, the Group is pleased that this new online auction platform provides an additional string to GGL’s bow in facing the inevitable challenges ahead.

All but critical operations at Montepuez Ruby Mining Ltda (“MRM”) were suspended from 22 April 2020 and remained suspended for the rest of the year. Production at MRM during those first four months was well within expectations. With no ruby auctions taking place during the year, MRM presently has sufficient inventory to support one mixed-quality ruby auction. All significant capital expenditure projects, including the second ore treatment plant at MRM, remain suspended until business conditions improve. Operations at MRM restarted during March 2021 in a phased manner, initially with MRM’s treatment plant and sorting house, with production expected to ramp back up to full-scale by the end of April 2021.

Principal operations at Kagem were suspended from 30 March 2020, halting the excellent run of premium emerald production during the first quarter of 2020. Production in the premium emerald category, for the first three months of the year, surpassed 50% of the prior full year’s premium emerald production. As a result of this excellent recovery in the first quarter, Kagem presently has sufficient inventory to support one higher-quality and one commercial-quality emerald auction. All significant capital expenditure projects at Kagem remain suspended for the

foreseeable future. Principal operations at Kagem recommenced during March 2021 in a phased manner, with full production capacity expected by the end of April 2021.

Fabergé Ltd (“Fabergé”) recorded revenues of USD7.1 million in 2020 (USD10.5 million for the comparative period) at a sales margin of 54% (31% for the previous year) and an EBITDA loss of USD3.4 million (USD6.5 million for the previous year). Fabergé continues to seek to mitigate the impact of ongoing COVID-19 restrictions on its physical retail outlets by increasing its digital presence, with a greater focus on social media platforms given the reach, adaptability and measurability offered by these channels. The Group’s focus remains on removing the cash dependency on the Group by pursuing operating profitability at Fabergé.

In November 2020, GGL announced that it had commenced a sales process for its 6.54% indirect stake in Sedibelo Platinum Mines Ltd (“Sedibelo”). Initial discussions with prospective buyers soon commenced. However, due to the complexities of the Sedibelo ownership structure, the process remains ongoing. Sedibelo continues to be unlisted with no market price readily available to value the Group’s stake. At 31 December 2019, the decision was made to engage an independent third party to assess the Group’s carrying value of Sedibelo on the balance sheet. An independent third party was again used to update the valuation of Sedibelo at 31 December 2020, as required by accounting standards. Using the results of the independent valuation report, the Gemfields Board has approved a USD27.9 million fair value decrease for the year, bringing the value for the Group’s 6.54% stake in Sedibelo to USD29.6 million as at 31 December 2020.

At the Company’s Annual General Meeting (“AGM”) on 24 June 2020, more than 25% of voting shareholders voted against the non-binding shareholder resolutions in respect of GGL’s Remuneration Policy and Remuneration Implementation Report. As a result, interested shareholders were invited to attend a conference call on 16 July 2020 to discuss remuneration matters and provide feedback on the Company’s remuneration policy and measures that the Remuneration Committee had been considering. Following this call, the Company’s Remuneration Committee examined shareholder concerns further and deployed the services of a remuneration consultancy to provide independent advice regarding market practice and its application to shareholders’ concerns. Revised remuneration arrangements were formalised and circulated to shareholders. Another shareholder conference call took place on 14 December 2020, and the Company’s revised Remuneration Policy will be put forward for shareholder approval at the Company’s 2021 AGM.

As a result of the AIM listing, Gemfields has improved broker coverage through finnCap and Liberum (who were appointed as joint brokers during the year), strengthening the Group’s public profile and reach to UK, European and international investors. In addition, the redundant Bermudan listing was relinquished in

July 2020. In order to better align the refreshed Gemfields with appropriate market practice and further improve the corporate governance framework, the Company’s Articles of Incorporation (“Articles”) have been reviewed, taking into account shareholder views, AIM and JSE practices and a peer group comparison including large, diversified miners. The proposed revisions to the Articles will be put to shareholders for approval at this year’s AGM.

The past year has also seen the Company face increased scrutiny from, and engagement by, an activist shareholder group. Transparency is a key Gemfields tenet and, to that end, GGL has made copies of the successive rounds of correspondence available to all shareholders via the Company’s website. Although Gemfields does not always concur with the opinions of that group and dealing with the issues raised has involved significant management time, the engagement has been deemed useful and the Company has addressed certain matters pursued by this shareholder group, notably in relation to the Company’s Articles and executive remuneration.

The Group was on track to distribute its maiden dividend to shareholders during the second quarter of 2020. However, given the emergence of the COVID-19 pandemic, the planned distribution was postponed for an indefinite period in order to preserve cash resources. It remains a key ambition of the Board and management team to distribute dividends on a consistent and sustainable basis once the impact of the pandemic has passed and the Company’s operations return to sustained normality.

I welcome the appointment of the Company’s new independent non-executive director, Ms Mary Reilly, to the GGL Board. Mary brings deep experience in UK-listed companies, as well as financial and risk management expertise at this crucial time in the Company’s history.

I would like to thank my fellow directors and the spirited Gemfields teams for their hard work and substantial contributions during this unprecedented and demanding period. GGL takes comfort in the worldwide COVID-19 vaccination rollout and I expect the Company’s business to recover in 2021 as global markets reopen. I look forward to progressing Gemfields’ vision of being the global leader in African emeralds, rubies and sapphires, promoting transparency, trust and responsible mining practices.

Martin Tolcher
Chairman
29 March 2021

Chief Executive's Statement

Sean Gilbertson
Chief Executive Officer



The year brought unprecedented challenges as a result of COVID-19 and our full year results reflect the immense impact caused by the pandemic. Our traditional gemstone auctions were immobilised by the widespread quarantine, travel and congregating restrictions, meaning our clients were severely impeded in carrying out physical inspections of our gemstones, a critical step in purchasing coloured gems. As such, and when combined with the marked stagnation in coloured gemstone trading activity for much of 2020, our auction revenues fell by almost 89% from 2019's record high of USD200.5 million to just USD22.3 million in 2020.

We are grateful to the Gemfields team worldwide for their ongoing dedication and thank them for the sacrifices that many have had to make to safeguard our business. I am confident that Gemfields has now successfully negotiated the worst of the COVID-19 storm and will enjoy smoother sailing in the post-pandemic world.

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

MOZAMBIQUE

Principal operations at MRM were suspended on 22 April 2020 and remained suspended until March 2021. As a result of running the mine for just four months in 2020, MRM's production figures for the year were severely impacted. However, we take some comfort from the 1.3 million carats of ruby and corundum that were recovered during 2020 (versus 2.2 million carats in 2019). Our production of "premium ruby", the driving force behind our revenue, was 28,700 carats in 2020 (versus 81,300 premium carats in 2019). Long experience has taught us that coloured gemstone mining characteristically displays considerable volatility of both gemstone quality and ore grade. Total rock handling at MRM for 2020 was 1.9 million tonnes, down from the 7.2 million tonnes during 2019.

MRM held no ruby auctions during 2020 due to the far-reaching fallout arising from COVID-19. In 2019, MRM generated

USD121.5 million in auction revenues from two auctions. All significant capital expenditure, including the second ore treatment plant, was postponed as a result. The timing of capital expenditure will be reviewed as we gain better insight into sales during 2021. Total capital expenditure during 2020 was USD3.9 million versus USD20.5 million in 2019. The 2020 capital expenditure was made up of USD1.3 million invested in expansion and exploration projects and USD2.6 million invested in existing mining and ancillary equipment replacements, including the completion of the Resettlement Action Plan ("RAP"). The RAP represents an important social project for the mine and its local communities and MRM was pleased to be able to continue its work on the RAP despite COVID-related restrictions. The RAP project entailed the construction of 105 houses (plus public infrastructure, a school, church, mosque and trading market) for the 105 families which were resettled from a village within MRM's concession at the end of 2020.

Since the suspension of principal operations, MRM has continued with security, maintenance and other essential services in order to ensure that MRM is well placed to resume normal operations. Those employees at MRM not required for the ongoing critical services were placed on suspended contracts under prevailing Mozambican law and received reduced remuneration (subject always to minimum wage considerations) with the same applying to MRM's board of directors. These measures reduced the overall wage bill at MRM by approximately 25%. The cost savings implemented during the crisis have resulted in cash operating expenditure being reduced from approximately USD2.9 million per month (the monthly average for the eight months to 31 December 2019) to circa USD1.4 million per month (the monthly average for the eight months to 31 December 2020).

In the interests of improving health and well-being, MRM introduced a COVID-19 control programme using PCR testing for employees residing at MRM. The implementation of the COVID-19 control programme contributed significantly to the reduction of cases in MRM's residential areas and in mitigating the risk of community transmission.

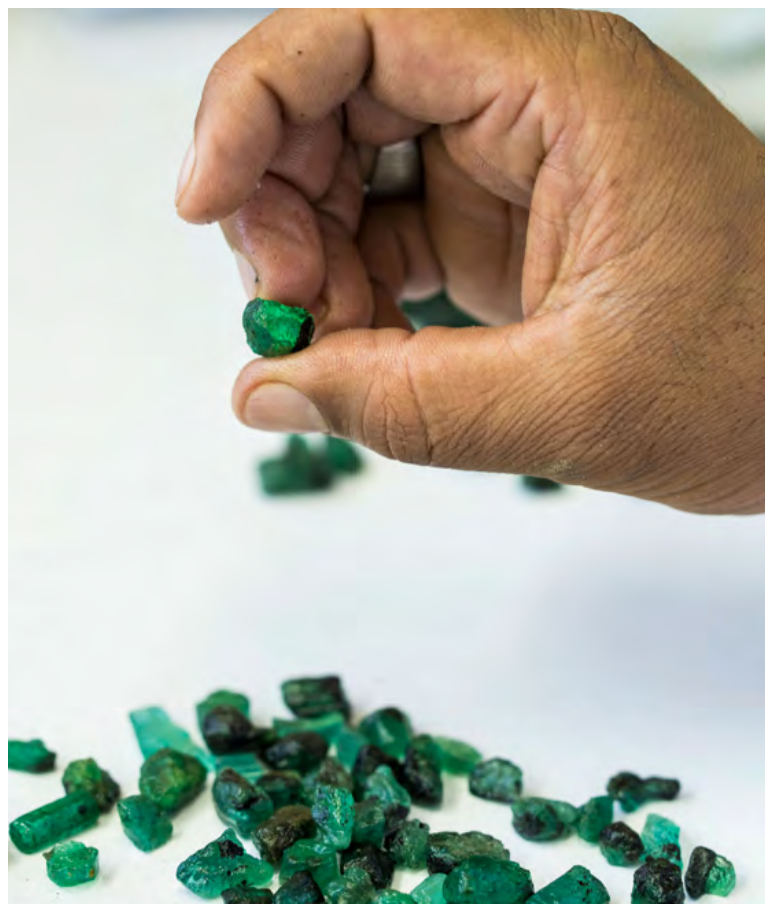
In recent months, the disturbing developments surrounding the insurgency in the north of Cabo Delgado province have garnered increased media exposure. While at this stage the insurgency is not regarded as an imminent risk to MRM's operational continuity, we continue to monitor the situation closely. We have observed an increase in displaced persons arriving in our district, with a consequent rise in illegal mining activity and incidents linked to the collapse of informally excavated pits. The Group has appropriate strategies in place, relating to site safety and the protection of MRM's workforce, in the event the risk level heightens. Our thoughts are with the estimated 700,000 displaced persons who have been affected by these appalling events.

ZAMBIA

Principal operations at Kagem in Zambia were suspended from 30 March 2020 and remained suspended until March 2021. Thanks to the sterling efforts of our team in Zambia, Kagem achieved remarkable production of "premium emeralds" during the only operating quarter of the year. Production in the premium emerald category was 133,900 carats (versus 204,600 premium carats during the whole of 2019). Overall production for 2020 amounted to 9.4 million carats (versus 36.3 million carats in 2019). Total rock handling at Kagem was 2.3 million tonnes in 2020, down from 12.6 million tonnes during 2019.

Kagem was able to host only one regular-format auction in 2020, in Lusaka in February, yielding USD11.4 million from the sale of commercial-quality emeralds. As a direct consequence of the COVID-19 pandemic, no further regular-format emerald auctions were held during the year. Kagem adapted to the new environment by holding a series of five small emerald auctions during November and December 2020. Selected lots were made available for in-person and private viewings by customers in Tel Aviv, Singapore and Jaipur, with the auctions taking place via our new, specifically adapted, online bidding platform. These auctions saw 46 companies placing bids and generated total revenues of USD10.9 million. Our new online bidding platform provides important flexibility and back-up for 2021 whilst we continue to navigate the months ahead. Kagem was able to supplement its 2020 revenues by expanding its direct sales programme for lower-quality gemstones, bringing in approximately USD4.7 million of additional revenue through Gemfields India.

During 2020, and as a result of the suspension of principal operations and the focus on cash preservation, just USD0.9 million was invested in replacing mining and ancillary equipment as well as in infrastructure improvements at Kagem. This capital expenditure was significantly below the USD4.3 million invested in 2019. Those Kagem employees not involved in the ongoing delivery of critical services were placed on reduced remuneration from May 2020, under Zambia's New Employment Code Act. Reductions were also applied to Kagem's board of directors. These measures reduced the overall wage bill at Kagem by approximately 20%. Kagem's cost-saving measures during the crisis resulted in



Responsibly sourced rough emeralds, Kagem Mining, Zambia

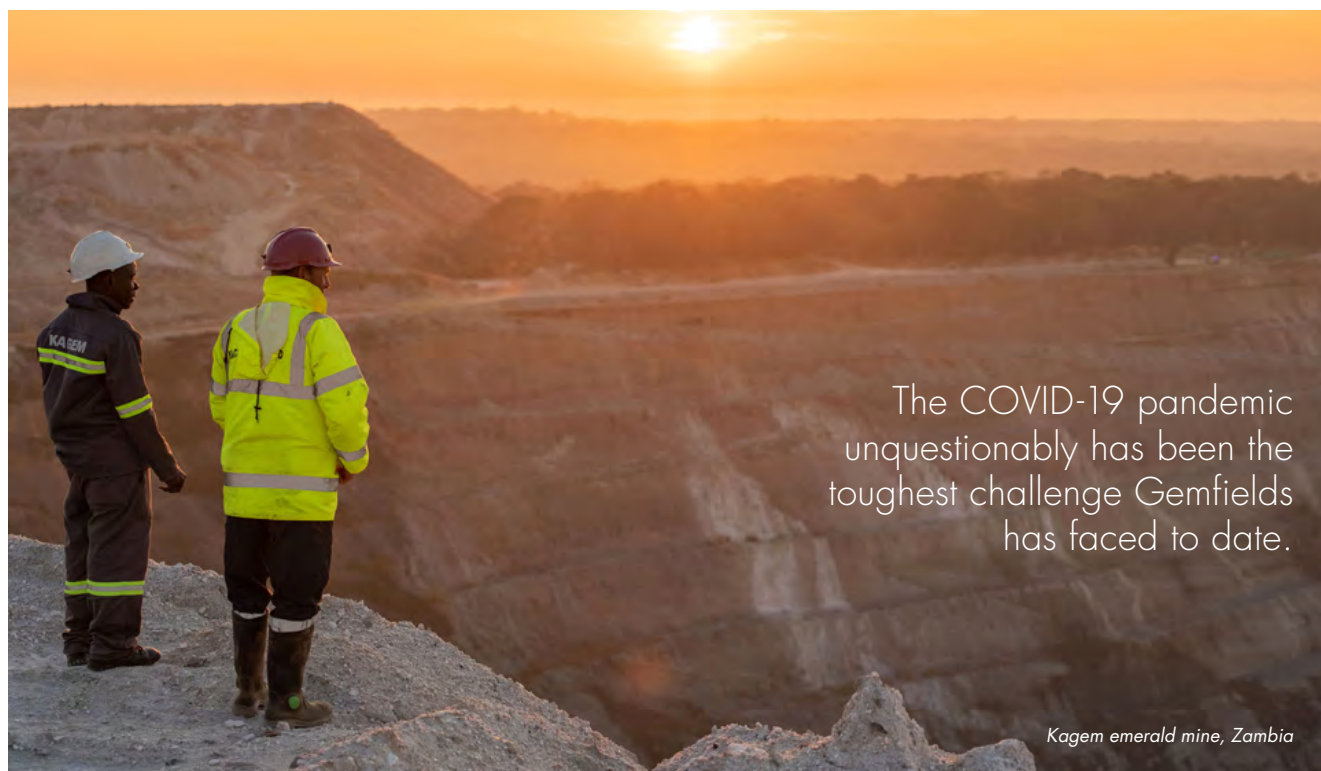
cash operating expenditure being reduced from approximately USD3.6 million per month (the monthly average for the nine months to 31 December 2019) to circa USD1.3 million per month (the monthly average for the nine months to 31 December 2020).

As a result of the protocols laid down by the Government of the Republic of Zambia ("GRZ") and the World Health Organization ("WHO"), which Kagem strictly adhered to, the mine reported no onsite case of COVID-19 during 2020.

FABERGÉ

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

Fabergé's revenues were severely impacted in 2020 due to the extended periods of closure of directly operated and partner-operated boutiques during the various national lockdowns. Many of Fabergé's planned events and exhibitions were cancelled due to COVID-19.



The COVID-19 pandemic unquestionably has been the toughest challenge Gemfields has faced to date.

Kagem emerald mine, Zambia

During 2020, Fabergé generated revenues of USD7.1 million (USD10.5 million in 2019) and recorded an EBITDA loss of USD3.4 million (versus a loss of USD6.5 million in 2019). Encouragingly, operating costs reduced by more than 20% from the prior year, with average monthly operating expenses of USD0.6 million during 2020 (versus USD0.8 million in 2019). Due to the overall decline in market conditions resulting from the lingering impact of COVID-19, the Group is recognising an impairment loss of USD11.5 million, as assessed by an external independent valuation expert, against Fabergé's intangible assets.

OTHER PROJECTS

Due to the pandemic, principal operations at Nairoto Resources Limitada ("NRL"), our gold exploration joint venture project with Mwiriti Limitada (Gemfields' partner at MRM), were suspended on 7 May 2020. The passing of control for this project, including all operating management for the twelve licences, was treated as an asset acquisition in the current year. The timing and scale of activities at NRL will be tailored to align with the extent of our group-wide recovery in the year ahead.

In Ethiopia, the operations of Web Gemstone Mining ("WGM"), in which Gemfields own a 75% stake, remain suspended given the current uncertainty created by the COVID-19 pandemic and the ongoing instability in the country.

Gemfields also owns 100% of Oriental Mining SARL, a company which holds assorted licences in Madagascar, including for emeralds and sapphires. We will seek to continue preliminary work on identified prospects in Madagascar as and when circumstances permit.

INVESTMENTS

Sedibelo Platinum Mines Ltd ("Sedibelo"), in which the Group currently has an indirect 6.54% shareholding on a see-through basis, has focussed on optimising its revenue stream as precious metal prices increase whilst minimising production costs and optimising operating efficiencies. Sedibelo's safety record remains unsurpassed in the industry, with over 6.0 million fatality-free shifts over more than a decade of operations.

Sedibelo dispatched 87,000 4E PGM ounces during the nine months to September 2020, down 9% on the comparative period in 2019. An increase in the US dollar-denominated 4E PGM basket price and the weakening of the South African rand against the US dollar helped revenues increase by 37% to USD179 million for the nine months to September 2020 and further enhanced operating margins. As a result of the upsurge in the value of palladium and rhodium, the US dollar 4E PGM basket price increased to USD1,886 for the first nine months of 2020 (versus USD1,219 for the comparative period). The most recent independent valuation report has reduced the levels of subjectivity involved in our assessment of the value of Sedibelo.

During the year, we engaged advisors to market and sell the Group's 23.65% equity holding in Pallinghurst Ivy Lane Capital S.à r.l. ("Ivy Lane"), the Luxembourg holding company through which Gemfields holds its stake in Sedibelo. The sales process is ongoing and we remain hopeful that we will be able to achieve an orderly sale of our indirect interest in Sedibelo in order to focus on our core business of coloured gemstones. Encouragingly, the management of Ivy Lane has indicated an intention to "unbundle" Ivy Lane, such that its shareholders would come to hold their stakes in Sedibelo directly. This development would simplify Gemfields' sales process.

With the lack of appetite so far in our sales process, as well as the inclusion of additional financial multiples in the independent third party's valuation methodology, a fair value write-down has been recognised against the Group's Sedibelo investment during the year.

RESULTS

Overall, the Company generated an EBITDA loss of USD30.0 million and recognised negative Free Cash Flow (as defined in the Financial Review) of USD56.1 million, before working capital movements. As at 31 December 2020, the Company was in a net debt position of USD12.6 million before auction receivables of USD8.9 million (31 December 2019: net cash of USD25.4 million before auction receivables of USD56.7 million). Gemfields was fortunate to enter the pandemic with a strong balance sheet and has applied measures to progressively reduce costs as the pandemic endured.

Gemfields generated Group revenues during the year of just USD34.6 million (2019: USD216.2 million), predominantly derived from our emerald auction revenue and the direct sales of our lower-quality emeralds and beryl in India. Wholly owned jewellery brand Fabergé contributed USD7.1 million of revenues during the year.

Gemfields' focus during 2020 was centred on cash preservation given the pandemic's impact on the Group's ability to generate revenue. On 1 May 2020, all UK staff members accepted a 20% remuneration reduction linked to a four-day working week. Remuneration payable to the Board of Directors of the Company was also reduced by 20%. Similar measures were also extended to Gemfields' mining operations. Overall, the Group's monthly operating costs dropped from approximately USD12.1 million per month (the monthly average during the year to 31 December 2019) to an average of below USD5.0 million per month in the three months ending 31 December 2020, a remarkable achievement by the team.

Our Sedibelo investment recognised an unrealised fair value loss of USD27.9 million during the year, driven by the findings from our independent third-party valuation report.

The Group recognised a taxation credit for the year of USD6.0 million (versus a USD28.2 million taxation charge in 2019), consisting of a current tax charge of USD2.4 million, offset by a deferred tax credit of USD8.4 million.

Normalised earnings for the year, after removing impairment charges and fair value movements on Sedibelo, equate to a loss of USD53.8 million (versus earnings of USD25.5 million in 2019).

OUTLOOK

2020 was a year unlike any that Gemfields has had to face to date. COVID-19 had a sudden and severe impact on the Group's 2020 financial results as well as on many of our downstream clients and end customers. However, the recent success of our multi-city mini-auctions, deploying a new online bidding platform, combined with a gradual easing of travel restrictions, provide the Group with more flexibility for 2021. We will continue to use this modified auction format to run mini-auctions of both emeralds and rubies over the coming months. We have been able to continue paying our employees and suppliers, limiting redundancies throughout the Group and continuing our significant contributions to the host country economies in which we operate. I believe that the decisions we have taken in 2020 best position the Group, and our sales of emeralds and rubies, for a recovery in 2021. Despite this, as Gemfields is highly dependent on revenue from gemstone auctions, any further complications to our 2021 auction programme would put severe strain on the Group's finances. In addition, the Group's financial position remains sensitive to a number of material uncertainties surrounding the Group, including the global condition of the gemstone market, the ability of the Group's mining operations to continue uninterrupted and the continuation of the Group's debt facilities (as disclosed in the Going Concern section of Note 1 to the Consolidated Financial Statements).

We look forward to firing up all the mining engines during the course of March and April 2021 and in steering the recovery of the Group, delivering an optimal 2021 on behalf of all of our stakeholders.

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

I would like to thank all my colleagues across the Group, our stakeholders, partners, shareholders, host countries and the Board of Directors for their support during these extraordinary times.

Sean Gilbertson
Chief Executive
29 March 2021

Timeline of Events

2017

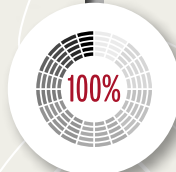
JUNE–SEPTEMBER

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



JUNE

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



JULY

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



JULY–AUGUST

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.



2018



MARCH

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.



Jupiter Mines Limited

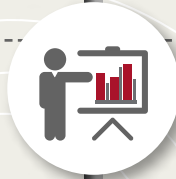


ASX
AUSTRALIAN STOCK EXCHANGE

MARCH

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.



2018

JUNE

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

GEMFIELDS



2019

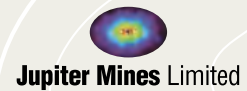


APRIL

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

JUNE

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



DECEMBER

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



2020



FEBRUARY

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

Board of Directors



MARTIN TOLCHER (57)

Chartered FCSI

Non-Executive Chairman
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.

Mr Tolcher was appointed as non-executive chairman of Gemfields on 25 November 2019.



SEAN GILBERTSON (48)

BSc (Mining Engineering)

Chief Executive Officer – Executive Director

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

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

Mr Gilbertson was a co-founder of the Pallinghurst Group in 2005 and bore responsibility for Pallinghurst's coloured gemstone strategy from 2006 to 2017. After the unbundling of the Pallinghurst Group in 2017/18, Mr Gilbertson was appointed CEO of Gemfields Group Limited on 31 March 2018 and remains CEO of Gemfields Limited, Fabergé Limited and Kagem Mining Limited, on whose boards he has served for more than a decade. Mr Gilbertson is a British and South African citizen.



DAVID LOVETT (38)

BCom (Economics & Marketing), ACA

Chief Financial Officer – Executive Director

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

Mr Lovett joined Gemfields' finance team in 2008. He has acted as a senior financial manager across a number of Gemfields' operating subsidiaries during his 12-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 (79)

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

Non-Executive Director

Dr Christo Wiese is chairman of Shoprite Holdings Limited, Africa's largest fast-moving consumer goods retail company with a total of more than 2,400 outlets trading in 15 countries in Africa and the Indian Ocean Islands and employing more than 140,000 people.

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

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

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

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

**LUMKILE MONDI (58)**

BCom (Hons) in Economics, MA (Economics)

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

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

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

Mr Mondi is a South African citizen.

**KWAPE MMELA (50)**

LLB, MPhil (Business Research)

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

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

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

Mr Mmela is a South African citizen.



CAREL MALAN (35)

Chartered Accountant (South Africa)

**Independent Non-Executive Director
Chair of the Audit Committee**

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

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

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

MARY REILLY (67)

ACA, FCA, BA (History)

**Independent Non-Executive Director
Member of the Audit Committee**

Mary Reilly has over 30 years’ international experience as a chartered accountant and was a partner in Deloitte, working across various sectors and disciplines including luxury retail, manufacturing, business services, financial services, corporate governance and public sector. Since retiring from Deloitte, Ms Reilly has had a varied and interesting portfolio of Non-Executive Directorships where she has chaired Audit and Risk Committees. Her current roles are at Travelzoo, a NASDAQ listed global internet media company, Mitie plc, a prominent facilities management and professional services company and Essentra plc, a global FTSE 250 company and a leading provider of essential components and solutions.

Amongst her charitable interests, Ms Reilly is also a Trustee of the Institute of Imagination, the Invictus Games Foundation and the PDSA.

Past appointments include chairing the London Development Agency, the CBI London Regional Council and the Finance and Audit Committee of London 2012, the organisation which brought the Olympics to London.

Ms Reilly was appointed as an Independent Non-Executive Director of Gemfields on 4 December 2020.

Responsibly sourced rough emerald, Kagem Mining, Zambia



The first quarter saw the Zambian operations produce an exceptional quantity of premium grade emeralds, setting the Group up well for the year ahead.

PERFORMANCE

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Marketing and Communications



Walk For Giants capsule collection presented by Gemfields X Space For Giants

While marketing efforts throughout 2020 were severely hampered by COVID-19 and a group-wide focus on cash preservation, we benefited from previously secured long-term projects that came to fruition during the period, such as the Walk for Giants jewellery campaign, a Chinese consumer market research report and a fashion partnership with British couture brand Ralph & Russo, maintaining our focus on key consumer markets in the US and China. Over and above these activations, our aim to build demand for coloured gemstones around our strategic pillars of education, leadership and visibility was met with minimal expenditure through a largely digital medium.

The team has now established itself, following periods of considerable staff turnover that were experienced pre-2018, and boasts experience and dexterity in its armoury. Given the unique nature of the Gemfields business, and the sectors across which the team operates, this has proved critical in terms of executing effective marketing and communication campaigns, securing seamless channel utilisation, reacting to the unexpected and maximising the effectiveness of our expenditure. While the year did not present the opportunities to harness these strengths in the manner we expected, they served in the rapid reimagining of existing assets and creative development of content, maintaining a

presence for coloured gemstones across international markets, despite unprecedented adverse conditions.

One such example was the release of four short films, reshaped to capitalise on the extraordinary social media usage we saw during the worldwide lockdowns between April and July. These were shared by both Gemfields and Fabergé in order to reach a wider audience. April's release coincided with World Earth Day to highlight the factors underpinning Gemfields' responsible sourcing. May's film celebrated emeralds and July's was dedicated to rubies, the respective birthstones of each month. June provided a buyer's

guide to dispel the rumours and perceived complexity that can hinder the purchase process.

Retaining focus on a key market, Gemfields undertook consumer research in China to better understand the market's attitudes towards coloured gemstones and shape our future marketing efforts, in order to capitalise on the strength and encouraging growth of this market – from both consumer and trade perspectives. The results provided some clear areas to focus on: improving visibility of contemporary jewellery pieces; offering how-to-wear styling advice to consumers; and amplifying messaging around responsible sourcing. We launched the research project in July, calling upon others in the industry to work with us on these endeavours to benefit the industry at large. The digital launch of Sustainability: The Future of Coloured Gemstones in China was attended by 10,831 people from across the industry and attracted an unprecedented level of press coverage for Gemfields across Chinese media.

If there was one hero moment of the year, though, it was our Walk for Giants campaign. In partnership with conservation charity Space for Giants, we launched a capsule collection of 44 jewellery pieces from 12 different brands, showcasing Zambian emeralds and Mozambican rubies in high and fine jewellery creations. Following a series of preview events, including a closed-room media event at Paris Couture week in January and subsequent virtual product previews to markets in India, Middle East, US and China, the capsule collection launched in August alongside Net-a-Porter's apparel offering, buoyed by images of models Arizona Muse and Selena Forrest taken by photographer Francesco Carrozzini and overseen by creative director Riccardo Ruini. Fabergé's five exclusive pendants for the collection sold out within the month. The Walk for Giants itself – a trek to be undertaken by influential ambassadors and shared through social media and luxury fashion titles – has been postponed until travel resumes, but promises to be another opportunity to boost the visibility of coloured gemstone jewellery pieces in esteemed company, and to highlight their responsible sourcing credentials.

As lockdowns intensified, rather than easing, we switched our attention to hosting online masterclasses for editors and journalists with independent jewellery specialist Joanna Hardy, in order to raise the profile of coloured gemstones ahead of the Christmas gifting period. We shifted our gifting concept from unsustainable physical gifts to charitable donations via an email link to the newly launched Gemfields Foundation. Also in the virtual world, Ellie Goulding wore a Ralph & Russo couture gown featuring 150 Gemfields Zambian emeralds to the first-ever digital Green Carpet Fashion Awards, and Gemfields partnered with the Jewellery Association Show ("JAS") to launch the Jewellery Eminence Awards – the first-ever jewellery awards to be completely virtual, from submission and judging, through to announcement of the winners. The move injected some confidence into the industry as tradeshows continued to cancel.



Walk For Giants capsule collection presented by Gemfields x Space For Giants



Ralph & Russo x Gemfields couture gown, featuring over 150 responsibly sourced Zambian emeralds from Gemfields

Behind the scenes, renewed brand guidelines, an overhaul to our existing consumer website (due to go live in the second quarter of 2021) and newly researched white papers to expand our position as industry leaders, have all progressed. Into 2021, we aim to develop our brand partnerships and expand on our digital and virtual activations, directing our attention towards more active social media communications and developing captivating methods to impart education, lead the sector and amplify visibility of coloured gemstones, in order to drive consumer demand.

Gemfields Foundation



Gemfields prides itself on its approach to responsible sourcing. With this in mind, and reacting to demand from visitors to Gemfields' operations in remote African areas who have expressed interest in becoming involved in these communities, Gemfields has created the Gemfields Foundation (the "Foundation"). This charitable vessel aims to facilitate more activations in sub-Saharan Africa to assist wildlife conservation and alleviate poverty in local communities. The newly formed Foundation is the charitable arm of Gemfields, through which donors can directly support community and conservation projects in Africa, magnifying the scale of the work already carried out by Gemfields itself.

Over the years, Gemfields has facilitated visitors' requests to fund charitable projects and provided both expertise and management to bring them to life alongside core business activities. With the Foundation, Gemfields is providing a formal mechanism by which to expand the number and scale of these projects. Gemfields Foundation is a UK-registered charity that functions quite unlike most charities: 100% of donor funds are directed to the underlying charitable projects. All overhead, administrative, travel and management costs are borne fully by Gemfields Limited and its subsidiary companies. The result is a charitable endeavour that enjoys, at no cost to donors, excellent in-country experience, personnel, infrastructure, support and community liaison teams, uniquely positioning the Foundation to deliver impactful projects in a highly efficient and timely fashion.

Governed by an international board of trustees originating from five countries, the Foundation provides a vessel through which donors can leverage proven on-the-ground delivery capability to swell the benefits which precious African gemstone resources bring to their place of origin and to their host communities.

Throughout 2020, the Foundation readied for launch, completing administrative processes, appointing a managing director in November and holding the first trustee board meeting in December, ahead of launch in January 2021.

The board is independently chaired by private wealth and family office executive Philippe Lamblin. The remaining six trustees are Singapore-based Richa Goyal Sikri, a business strategist, journalist, gem enthusiast and curator of related travel experiences; chairman of Kagem Mining Limited, Dr Sixtus Mulenga; chairman of Montepuez Ruby Mining, Samora Machel Jr.; Gemfields' CEO, Sean Gilbertson; its Director of Sustainability, Policy & Risk, Jack Cunningham; and Director of Marketing & Communications (and Gemfields Foundation Managing Director), Emily Dungey. Independence from the Gemfields Group is retained by policies surrounding conflicts of interest and decision making, for example individual voting rights on decisions are only granted where there is an absence of conflicting interest.

The Foundation website (gemfieldsfoundation.org) met its target of being ready for launch in January 2021. The site aims to communicate the credibility and experience of Gemfields' on-the-ground team when it comes to delivering impactful projects at scale, as well as offering updates on projects and a donate-now functionality.

The year 2021 will see the Foundation trustees select the first portfolio of projects for which to fundraise and action, and the commencement of both communications and fundraising efforts.

The Foundation submits a separate annual report to the UK Charity Commission and will have its accounts independently audited each year.

Donors can leverage proven on-the-ground delivery capability to swell the benefits which precious African gemstone resources bring to their place of origin.

Agricultural projects, Zambia



Operational Review

ZAMBIA

OPERATIONS IN ZAMBIA COMPRISE THE FOLLOWING:

Kagem Mining Limited (“Kagem”), the world’s single largest producing emerald mining company, accounts for approximately 25% of global emerald production. The 42.37 square 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**, our flagship operation, an open-pit mine extending over 2.2 km of strike length which contributes to about 75% to 80% of our gemstone production;
- **Mbuva-Chibolele** (“Chibolele”), located on the prolific Fawya-Fawya – Pirala Belt in the NRERA within the Kafubu area of the Copperbelt Province of Zambia, is an upcoming open-pit mine. This pit was recently acquired by Kagem from Gemfields Mining Limited (a 100% subsidiary of the Group). It extends to about 450 metres in strike length and is under expansion. In future, it is estimated that this pit will be a major contributor to growth; and
- **Fibolele**, another open-pit mine with 600 metres of strike length which has been under active production for over six years.

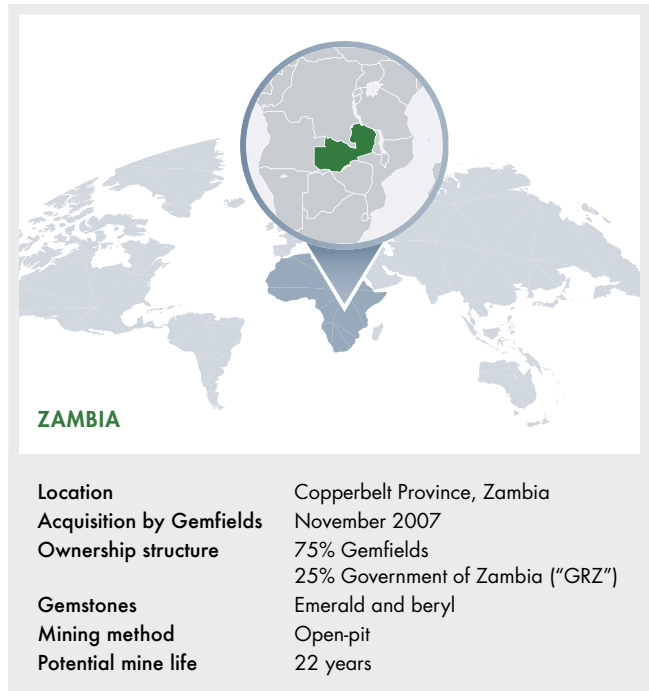
KAGEM

Merger of Gemfields licences into Kagem

Kagem and Gemfields Ltd entered into a Licence Transfer Agreement (“LTA”) on 17 September 2018, whereby an asset portfolio of Zambian gemstone licences controlled by Gemfields would be transferred to Kagem. The licences to be transferred included the well-known Kamakanga and Chibolele. The licence transfer was completed by the Cadastre Department, Ministry of Mines and Mineral Development, Zambia, on 14 February 2020.

COVID-19 effect on Kagem operations

The pandemic has brought concerns for the health and safety of our staff to the forefront and their well-being remains a top priority for Kagem and the Gemfields group.



Kagem has a unique situation of running a mine camp with approximately 1,000 employees who move in and out of the mine site every week, compounded by its remote location in Lufwanyama district. This poses a significant risk from a social distancing perspective and puts all employees at a very high risk of contracting COVID-19. For these reasons, it was decided to suspend critical operations from 30 March 2020, pausing an excellent run of premium emerald production. Kagem took all the necessary steps with the GRZ to preserve and protect the mining rights and its ability to operate these licences despite the suspension of principal operations. The sort house was partially reopened in June 2020 to clear the backlog of sorting, grading and referencing of emeralds. The global pandemic and the Zambian COVID-19 situation were reviewed at regular intervals to decide if it was safe to restart operations. The recommencement of operations began with the wash plant starting on 17 March 2021 and full-scale mining is to begin in April 2021.

Zambia's Copperbelt Province (Kitwe, Ndola, Luanshya, Lufwanyama, Kalulushi and Chingola) – where most of Kagem's employees reside – remained severely impacted. However, no cases of COVID-19 were reported in the mine camp as Kagem strictly adhered to the protocols laid down by GRZ and the World Health Organization ("WHO"). In December 2020, the president of Zambia cautioned the nation against a potential second wave in the country amid the rising number of daily cases. Later that month, it was confirmed that the new strain of the virus, initially reported in South Africa and the United Kingdom, had been reported in Zambia.

Auction results

In February 2020, Kagem conducted a commercial-quality ("CQ") auction in Lusaka, Zambia, generating USD11.4 million revenue at an average of USD4.01 per carat. The COVID-19 pandemic meant that no further traditional auctions were held until a series of smaller auctions in November and December 2020. These auctions saw 46 companies placing bids and generating total revenues of USD10.9 million with an overall average value of USD59.84 per carat. The auction saw 80% of the offered carats being sold (or 86% of the number of lots offered) indicating that demand remained firm for certain grades.

The pandemic continued to have a devastating impact on the diamond and coloured gemstone industry. The travel restrictions, quarantine periods and congregation limits crippled the traditional gem trading hubs of Jaipur and Hong Kong, where business is severely muted. Both the Hong Kong and Geneva gem and jewellery shows scheduled for November were cancelled, meaning that Gemfields' customers could not view the gemstones cut from Kagem's November 2019 auction at any tradeshow in 2020.

With India becoming the hotspot of the COVID-19 pandemic with high infection rates and several cutting factories remaining closed, customers were not comfortable taking flights in 2020 due to health concerns, and countries like Singapore remained closed to foreigners for business visits until year end.

Kagem's (Chama, Fibolele and Chibolele) key operational parameters for the year ended 31 December 2020 are summarised in the table below. Chibolele is included within the Kagem parameters following its transfer to Kagem, effective 21 November 2019. Kagem's 2019 production therefore includes Chibolele production metrics from 1 November 2019 to 31 December 2019.

Kagem production summary

	12 months to 31 December 2020	12 months to 31 December 2019
Gemstone production (premium emerald) in thousand carats	133.9	204.6
Gemstone production (emerald and beryl) in million carats	9.4	36.3
Ore production (reaction zone) in thousand tonnes	46.4	159.0
Grade (emerald and beryl)/reaction zone) in carats/tonnes	202.0	228.0
Waste mined in million tonnes	2.3	12.5
Total rock handling in million tonnes	2.3	12.6
Stripping ratio	49.0	77.0

With the aim of achieving some sales by the end of December 2020 and at the same time test the market, Gemfields decided to hold a series of five small online auctions between November and mid-December 2020. These auctions took place over a six-week period with customers viewing the auction offering in Jaipur, Dubai and/or Tel Aviv. Each auction consisted of several schedules and took place over a five-day period, with bids being accepted via Gemfields' new online auction platform, BidGemmer, or by email. Unsold schedules were returned to Kagem.

This is the first time customers were able to bid for rough Zambian emeralds via BidGemmer, demonstrating Kagem's ability to innovate during a time when usual Gemfields-style auctions are not possible. With Gemfields' core values of transparency, integrity and legitimacy, the auctions were fully monitored by the Zambian Ministry of Mines and the Zambia Revenue Authority via a live Microsoft Teams meeting.

Gemfields' 36 auctions of emeralds and beryl mined at Kagem since July 2009 have generated USD657.4 million in total revenues.

Mining

The Chama open-pit mine is supported by a JORC-compliant Resources and Reserves Statement produced by SRK Consulting (UK) Limited ("SRK") as at 31 July 2019. The CPR supports the reporting of Mineral Resource and Ore Reserve estimates in accordance with the 2012 edition of JORC. The present CPR forms part of the requirements of the Group for a dual listing on the Alternative Investment Market ("AIM") of the London Stock Exchange ("LSE") and confirms a 22-year open-pit Life of Mine Plan ("LoMP") with 755 Mct of reserves of gemstone indicating that the mine is well positioned for growth in production.

The mining operations at Kagem comprise a number of historically mined open pits, as well as the current open-pit operations situated mainly in the Chama pit area and the bulk sampling operations in the Libwente and Fibolele areas. The mining method comprises



Responsibly sourced rough emeralds, Kagem Mining, Zambia

conventional open-pit operations: drill and blast, excavate and load and haul to in-pit backfill, waste rock dump locations and the various ex-pit stockpiles, and a stockpile at the wash-plant facility. The upper 20 metres to 30 metres of weathered material is free dig, with the remainder of the waste rock requiring drilling and blasting.

Mining operations were well on track during the first quarter of the year until the full impact of COVID-19 led to the suspension of principal operations from 30 March 2020. Kagem recommenced operations at the wash plant from 17 March 2021 where the existing stockpile is being processed, with full-scale mining expected to start in early April 2021.

Up until the suspension of principal operations in March 2020, Kagem continued work in all three pits: Chama, Fibolele and Chibolele. Three sectors were worked at Chama pit (F10, Chama and FF-Mboyonga), exposing the emerald-bearing TMS rock for mining. In addition, certain sections of the pit were further cleared and de-ramped at Chama, allowing a consistent production profile. The efficiencies achieved from redesigning the pit continued, with a larger, more efficient fleet being deployed in the pit. Fibolele was mined all along the 600m strike length. The adjacent pit was dewatered so that the present working pit can be extended along the strike direction. Chibolele was mined at two productive sectors and a pushback for western extension was initiated.

Given the circumstances and impact of COVID-19, total rock handling has been impacted severely and fell to 2.3 million tonnes for the year compared to 12.6 million tonnes during the prior year.

Production

Kagem's achieved production in 2018 (35.5 million carats) and 2019 (36.3 million carats) was above expectations and unprecedented, especially for premium emerald production. The premium emerald production in 2018 and 2019 was 225,715 carats and 204,630 carats, respectively. The first quarter of 2020 was a continuation of that trend with an upward trajectory. All the production points were highly fertile and were in active production when the principal operations were suspended.

Gemstone production for the year was 9.4 Mct of emerald and beryl, with 133,862 carats of premium emerald. This is a sharp fall from the previous year as the operation was suspended since March 2020. Chama pit leads the production and quality; however, Chibolele significantly contributed to improved qualities this year with premium emeralds from the M2 sector. These 133,862 carats of premium emerald represent a 65% increase over the same period of production in 2019 and equate to almost 100% of the total 2020 annual business plan target. Of the total production, Chama pit contributed 7.88 million carats, Chibolele contributed 1.38 million carats and Fibolele provided 0.13 million carats.

Despite considerable technological advances and continuous monitoring of geological signatures, the difficulty in predicting the distribution of minerals necessary for emerald formation remains.

Processing

The washing plant processed a total of 40,794 tonnes of ore at a feed rate of 46 tonnes per hour (“tph”), generating five tonnes of emeralds for sorting and grading.

Spillage reduction, better visibility and efficient picking remained the prime objective for the wash plant, for which a thorough audit was carried out at all material transfer points and appropriate sealing of the potential spillage executed and monitored. Increased illumination for better visibility and efficient picking was implemented. A batch processing concept for a lower belt speed on high-grade ore feed has been implemented for high-quality picking efficiency. By maintaining a feed rate in the range of 44–47 tph for two consecutive years, the product recovery through optimised feed split and laminar flow has continued.

Operating costs

Total operating cost, as defined below, for the year was USD33.4 million (December 2019: USD61.7 million), with a unit operating cost of USD14.48 per tonne of rock handled compared to USD4.90 in 2019. The cash rock-handling unit cost (defined as total cash operating costs divided by total rock handled) was USD9.48 per tonne for the year, with a total cash cost of USD21.8 million compared to USD38.9 million and USD3.07 per tonne in 2019, as the operations were suspended from April 2020 to December 2020 leading to lower production than during the prior year.

Total operating cost includes mining and production cost, selling, general and administrative expenses, and depreciation and amortisation, but excludes the change in inventory (see Note 3 to the Consolidated Financial Statements). Cash operating costs include mining and production costs, selling, general and administrative expenses, and exclude intercompany auction, marketing, and management fees, depreciation, amortisation and mineral royalties.

Tax regime

With effect from 1 January 2020, the Government of Zambia made a change to the country’s tax regime with regards to export duty. The change relates to the removal of the 15% export duty on revenue that was in place in 2019.

Capital expenditure

During the year, USD0.9 million was invested in the replacement of mining and ancillary equipment as well as in infrastructure improvements. The capital investment was significantly below the USD4.3 million made in 2019, mainly due to the suspension of operations from April 2020 as the Group prioritised employee safety and cash conservation.

Infrastructure

During the year many projects like building of housing blocks, refurbishing the staff mess, building a green-top football pitch and some other small projects were taken up in order to expand and upgrade the camp infrastructure. But due to implementation of strict COVID-19 isolation protocols, most of these projects could not be completed on time. However, work continued to make the camp and residential areas acceptable for the management of COVID-19 when the mines resume operations.

Geology and exploration

During the period that operations continued in the year, the geological understanding of the ore body and mineralisation was further advanced by using the 2019 Resources and Reserves Statement and the LoMP produced by SRK. Continuous review of the geological modelling was supported by face mapping, geophysics and geochemistry data, allowing the creation of an updated geological model which now includes detailed block modelling. With an updated block model, the geologists and miners have more accurate data to increase the efficiency of production.

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

Protection services

In addition to the steps taken to upgrade the security system in and around the pits in the previous years, in 2020 an additional CCTV tower was erected to establish more focussed surveillance at Chama contact points, radio communications were improved, and patrol teams specific to particular zones were formed and deployed. A new palisade fence was erected around the sort house to enhance security.

Proactive drone flights have been used to assist the ground patrol teams. Several flights were also taken to identify illegal mining. It has proven to be very successful and mostly night flights took place to further deter illegal mining and reduce the number of trespassers moving across the concession. The operation suspension was likely to see an increase in illegal activities; however, the robust digital and physical surveillance kept it well under control.

Health, safety and environment

Kagem continues to mine in a responsible, transparent and safe manner whilst sticking to the tenets of legitimacy, transparency and integrity as an essential part of health, safety and environment (“HSE”) and its commitment to mining safety and environmental conservation. We aim at a zero-harm (injury-free) culture and our efforts can never be overemphasised as the health and safety of our employees is not only considered critical to the operation but is also ultimately the responsibility of each individual.

The year got off to a good start with respect to compliance with HSE standards as the sound track record continued. This trend was maintained throughout. Monitoring of water quality and volumes discharged from our operations continued with biannual returns being submitted to the Zambia Environmental Management Agency in compliance with the discharge licence conditions issued. A biodiversity assessment/study is being conducted by the School of Natural Resources of the Copperbelt University. Kagem's incidents are reported in the main Sustainability and Corporate Responsibility section.

The strategy of rolling out a combined, all-inclusive General Site Induction ("GSI"), which all employees and long-term contractors are expected to undergo, to instill health and safety values and norms in everyone working within the Kagem mine site, continued yielding positive results.

Managers continued to lead by example by conducting and taking part in safety talks to increase and enhance the communication between employees and management. In addition, when operations resume, managers will continue to carry out night shift visits to the mining operations to appreciate the challenges under which the night crew members have to operate, and consequently, they will play a leading role in overcoming and finding solutions to the night-time safety challenges.

During 2020, Kagem recorded zero lost-time injuries ("LTIs") compared to one such injury in 2019.

Sustainability and Corporate Responsibility ("SCR")

The sustainability and corporate responsibility activities aim to position Kagem in good standing with local communities and to ensure that its policies impact positively on people and complement Government in reducing poverty levels and suffering amongst the people. Our approach is community participation in line with Government policy.

Due to the reduced cash available for community projects in the recent past, sustainability and corporate responsibility continued to be unavoidably scaled back during the year. Kagem's Community Development Strategy ("CDS") maintained engagement within the two Chiefdom areas. Kagem completed the construction of new toilet blocks for a local community school, Kapila, and at the end of the year, commissioned the construction of a local community school. Kagem also managed to donate 50 bags of D-compound and 50 bags of urea fertilisers to Chief Lumpuma's cooperatives for the 2020 farming season. No other major health, agricultural or educational projects were undertaken this year in view of the cash constraints facing the business.

Despite 2020 being a very difficult period financially due to the negative impact of the COVID-19 pandemic, Kagem did not completely give up on its responsibilities to wider society and the environment. In line with the company's SCR framework, and in

Gemfields has spent the year adapting its approach, policies and controls in order to best navigate the changing circumstances and uncertainty brought about by COVID-19.

Seedling nurseries, Kagem Mining, Zambia



an effort to support the Government efforts towards the fight against and management of the COVID-19 pandemic, the company donated assorted health and sanitation materials to Lufwanyama District Hospital and Nkana Clinic to prepare against the spread of COVID-19. More than 500 COVID-19 awareness posters were also distributed in surrounding communities and in the Ministry of Health Copperbelt provincial offices in Ndola to assist Government in creating awareness among citizens.

Human resources

A total of 776 people were directly employed by Kagem in 2020, compared to 779 in 2019; there were 1,065 contracted employees compared to 1,103 in the prior year. During the period whilst the principal operations were suspended, all direct employees remained employed and were on reduced salaries in accordance with the Zambian labour laws.

Staff welfare activities were focussed on improving social amenities around the workplace and employee housing. During the year, staff members were trained in various fields, including safety, health, environment, and quality; medical; human resources; management development and team building; engineering; finance; IT; and mining. Training programmes were conducted by both external and in-house trainers, with 99.7% of the workforce being trained at the mine site, and 0.3% being trained off-site in Zambia. Four Zambian students completed their internships at Kagem in various departments, such as Engineering, Geology and Mining.

Kagem pledged scholarships for students in the Schools of Engineering and Mining at the University of Zambia (“UNZA”) and Copperbelt University (“CBU”) to develop more coloured gemstone industry-oriented graduates with good technical and practical knowledge. There were two sponsored students at both institutions by the end of 2020. Kagem also witnessed the graduation of our CBU-sponsored student in Mining Engineering and our UNZA-sponsored student in Geology. They have since joined Kagem as per the Memorandum of Understanding.

The process of delaying the restarting of principal operations until March 2021 was successfully done through engaging the Minister of Mines, the Labour Commissioner, national unions and branch unions, as well as effectively communicating with the entire workforce and contractors.

Events after balance sheet date

In March 2021, the wash plant and sort house operations commenced, making use of existing stockpiles, with full-scale mining operations expected to begin in early April 2021 once all COVID-19 necessary protocols are met. Kagem presently has sufficient inventory to support the March and April 2021 high-quality auction and a commercial-quality auction expected to take place in June. On 15 March 2021, Kagem commenced with another series of mini-auctions, this time significantly larger than those held in November and December 2020. Viewings are expected in Dubai, Jaipur and Tel Aviv, with results to be announced towards the end of April 2021.



Operational Review

MOZAMBIQUE

RUBY OPERATIONS IN MOZAMBIQUE COMPRISE THE FOLLOWING:

- **Montepuez Ruby Mining Limitada (“MRM”).** The Montepuez ruby deposit, which is located in the northeast of Mozambique within the Cabo Delgado Province, is believed to be the most significant recently discovered ruby deposit in the world and covers an area of 349 square kilometres. MRM is 75% owned by Gemfields and 25% owned by local Mozambican minority partner, Mwiriti Limitada.
- **Megaruma Mining Limitada (“MML”)** 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”)** is registered in Mozambique, with Gemfields holding an 80% interest. The mining area covers 116 square kilometres and shares its western boundary with the southern licence of MML.
- **Campos de Joia Limitada (“CDJ”).** CDJ is a Gemfields holding company in Mozambique which has four licences at present, totalling an area of 452 square kilometres.

MONTEPUEZ RUBY MINING (“MRM”)

All but critical operations at MRM were suspended from 22 April 2020 until March 2021 when the wash plant recommenced. Security, maintenance and other essential services continue to ensure that MRM is properly secured and well placed to resume normal operations as soon as it is both safe and practicable to do so.

Employees not required for ongoing critical services have been placed on suspended contracts under prevailing Mozambican law and will, for the time being, receive reduced remuneration (subject always to minimum wage considerations). The rest of the employees are also on a solidarity salary reduction, but at a lowered rate. The same applies to MRM’s Board of Directors. These measures have reduced the overall wage bill at MRM by approximately 25%.



In further efforts to improve the health and wellness of our people, in addition to well-established social distancing measures, MRM introduced a COVID-19 control programme using PCR testing to track that individuals did not become COVID-19 symptomatic during their rostered leave period. The aim was to reduce the risk of transmission to both community (family and friends) and employees, and cut transmission chains.

The programme involved mandatory mass testing of all employees residing in the accommodation camp on their immediate departure from or return to work after their rostered leave period.

The implementation of the COVID-19 control programme contributed significantly to the reduction of cases in MRM residential camps and the mitigation of further transmission.

In late August 2020, the COVID-19 control programme was supplemented with the introduction of surveillance and screening programmes. These involved using ultra-sensitive rapid detection tests to identify COVID-19 antibodies in order to assess the level of employees' exposure to the virus as a prevalence indicator for strengthening the control and monitoring programmes.

As from December 2020, MRM procured rapid antigen test kits which will replace some of the PCR testing being undertaken, at a lower cost and with a faster turnaround time. All these actions will ensure that the recommencement of principal operations is safer and more assured.

Auction results

The global travel restrictions since the beginning of the year prevented MRM from holding any auctions, although it still holds enough stock for one mixed-quality and one low-quality auction.

In 2019, MRM held two mixed-quality auctions in Singapore, one in June and the other in December, where revenues of USD50.0 million and USD71.5 million were achieved, resulting in a total of USD121.5 million. The auctions realised average prices per carat of USD51.99 and USD77.12, respectively.

Mining

The Montepuez ruby deposit was reviewed and all technical information updated as of 1 July 2019 to support a dual listing on the AIM market of the London Stock Exchange. As a result, a Resources and Reserves Statement was produced by SRK as at 31 December 2019, which confirms a 14-year open-pit MRM LoMP and that the mine is well positioned for growth in production.

The mining operations at MRM comprise several shallow, open-pit pits split between three main operating areas: the Mugloto Block, the Maninge Nice Block and the Glass Block. Mining is carried out as a conventional open-pit operation utilising excavators, loaders and articulated dump trucks. Loaded trucks haul ore to

stockpiles adjacent to the processing plant, while waste is backfilled into mined-out areas, thereby returning the area to its natural aesthetic.

With the impact of the pandemic, principal operations including mining were suspended on 22 April 2020. This drastically reduced the level of rock handling for the year. During the period January to March 2020, total rock handling averaged 539kt per month compared to 387kt per month during the same period in 2019, an increase of 39%.

Total rock handling during the year equated to 1.9 million tonnes, comprising 0.2 million tonnes of ore and 1.4 million tonnes of waste material at an overall stripping ratio of 6.2. The remaining 0.3 million tonnes of other material were handled, which included slimes handling, waste dump rehandling and road improvements. As with the previous year, production was primarily focussed on the Mugloto Block (57.4%) in order to extract higher-quality ruby-bearing ore, with the remainder coming from the Maninge Nice Block (29.2%) and Other Materials Handling ("OMH") (13.4%).

Processing

During the year, 229,600 tonnes of ore were primarily mined from two different blocks, namely Mugloto and Maninge Nice, with 346,400 tonnes processed. Of this total processed, 345,800 tonnes were washed by the main processing plant and 600 tonnes by the exploration processing plant.

The average monthly throughput in the treatment plant prior to the suspension of operations was 86,605 tonnes, which was 40% higher than for the same period the previous year. This was a result of the process improvements made during 2019.

Production

A total of 1.3 Mct of ruby and corundum were produced during the year, with a focus on high-quality, low-occurrence deposits which provide premium rubies. The total carats produced at the

MRM's key operational parameters for the year to 31 December 2020 are summarised in the table below.

Montepuez production summary

	12 months to 31 December 2020	12 months to 31 December 2019
Gemstone production (premium ruby) in thousand carats	28.7	81.3
Gemstone production (ruby and corundum) in million carats	1.3	2.2
Ore mined (primary and secondary) in thousand tonnes	229.6	1,071.6
Ore processed (primary and secondary) in thousand tonnes	346.4	845.7
Grade (ruby and corundum/ore processed) in carats/tonnes	3.6	2.6
Waste mined in thousand tonnes	1,690.0	6,080.4
Total rock handling in thousand tonnes	1,920.0	7,152.0
Stripping ratio	6.2	4.9



Operations, Montepuez Ruby Mining, Mozambique

end of April was 79% higher than during the same period last year. Of the 1.3 Mct of production for the year, 1.2 Mct were recovered from Mugloto secondary ore with the remainder from the reprocessed concentrates.

The overall ore grade realised during the period was 3.6 carats per tonne compared with 2.6 carats per tonne in the year to December 2019.

Operating costs

Total cash operating costs were USD20.8 million (2019: USD32.8 million) with unit operating costs of USD10.8 per tonne of total rock handled (2019: USD5.9 per tonne).

The unit cash operating cost was at USD3.81 in March 2020, the last full month of operation during the year. This is the lowest monthly unit operating cost since inception, which is a direct outcome of the building up of operational capabilities with the existing infrastructure.

Cash operating costs include mining and production costs, selling, general and administrative expenses, and exclude inter-company auction, marketing, and management fees, depreciation, amortisation and mineral royalties. Total operating cost includes mining and production cost, selling, general and administrative expenses, and depreciation and amortisation but excludes the change in inventory.

Capital expenditure

Total cash capital expenditure for the year was USD3.9 million, comprising USD1.3 million invested in expansion and exploration

and USD2.6 million in existing mining and ancillary equipment replacements and the Resettlement Action Plan (“RAP”).

Non-committed capital expenditure was indefinitely postponed and where possible committed expenditure was delayed to 2021 as a result of the pandemic.

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 MRM 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.



Sampling, Montepuez Ruby Mining, Mozambique

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 relatively large volume of stones and are therefore considered a high-incidence but lower-quality deposit. In contrast, the production from secondary gravel bed deposits at the Mugloto and Glass pits is tumbled, deep red in colour, more transparent and contains fewer inclusions. However, as these secondary deposits provide fewer gemstones than the primary deposit, they are considered low-incidence but high-quality deposits.

During the year, exploration was mainly focussed in the Mugloto Block and continued towards the north of Northern Shear to explore the source of the Mugloto premium rubies. The block was identified based on previous inclined/vertical drilling, airborne geophysics and interpretation of a secondary deposit. The drilling continued to the north of Northern Shear to confirm mineralisation, which resulted in a successful delineation of lenses of primary mineralisation with low-quality ruby. A total of 1,128 metres of core drilling was completed during 2020 (11,418 metres in 2019). A total of 57,578 metres of core drilling and 21,012 metres auger drilling has been completed since inception.

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

A total of 9,155 tonnes of ore was processed in the exploration plant since its inception.

Infrastructure

A new 30 metre diameter thickener was commissioned during December 2019 and this enhanced processing capacity during the limited period of operations in 2020.

The Namanhumbir residential camp, popularly known as MRM Village, has a clinic, a newly upgraded gymnasium, recreational facilities and various outdoor sports facilities (including volleyball, tennis, futsal, badminton and cricket), providing improved living conditions at the camp.

Construction of a new two-storeyed office building in the central mining area commenced during the year, with the objective of bringing management closer to the operational site. Completion of this project has been delayed due to the pandemic.

Protection services

Security operations continue to make good progress in registering a significant decline in artisanal mining activity within and around the concession area. Incorporation of supportive security-enhancement equipment, including lighting towers and wireless cameras, has improved surveillance across the site. Patrol teams are using body cameras, which has resulted in improved monitoring of the MRM concession and adherence to the Voluntary Principles on Security and Human Rights (“VPSHR”). Training also continued regarding VPSHR, social media awareness, conflict resolution and juveniles in artisanal mining. The training was delivered by reputable third-party trainers to MRM employees. The Protection

Services Department is continuing with various enhancement projects, such as the incorporation of drones, to ensure the safety of people, products, equipment, reputation and information.

In February 2020, MRM experienced a coordinated incursion by approximately 800 artisanal miners, vastly outnumbering the MRM security personnel and Mozambican police present at that location at the time. These artisanal miners were seeking ruby-bearing gravels and, despite repeated warnings from MRM personnel, commenced undercutting the outer edge of the mining pit. This led to several ground collapse incidents in which 11 artisanal miners died. MRM personnel provided humanitarian assistance, where possible. In addition to notifying the authorities, MRM invited members of the Mozambican press and media to visit MRM and its surrounding villages to provide first-hand coverage of the activity and to report on the strikingly coordinated nature of the influx and its possible causes. In a subsequent press conference held by the Inspector General of the Ministry of Minerals, Resources and Energy (“MIREM”), the involvement of organised networks in ruby smuggling was noted. Mozambican newspaper articles have since cited artisanal miners who claim to have made payments to factions within the Mozambican police in order to gain access to MRM. Greater presence of the media and of Mozambican authorities at the mine and in surrounding areas and villages has resulted in MRM’s mining pits, including Maninge Nice 3, presently being clear of artisanal miners and as such day-to-day operations remain unaffected.

The Islamic insurgency in the northern part of the Cabo Delgado province is thought to have originated from 2017. The insurgent activities are concentrated in the central part of the coastal region of the province, which is approximately 250 kilometres geographically northeast of the MRM concession. Whilst the exact causes of this insurgency are unclear, it is widely believed that it is now an attempt to create an Islamic “caliphate”. The insurgency has naturally attracted the attention of the Government of the Republic of Mozambique which, at the time of writing, is seeking regional and international support to counter this significant threat. More than half a million people have been displaced from the region to escape the threat to their lives and livelihoods and are seeking refuge in the southern part of the province, including the Montepuez area, and in other provinces of Mozambique.

Both MRM’s Protection Services team and the Group’s senior management regularly track developments in the region, and the likely resulting risks that are posed to the site’s assets and its people, via third-party advisors and security experts. The Group does not currently view the insurgency as posing a direct or imminent risk to the operation and further information about risk mitigations relating to site safety and asset protection can be found in the Risk and Uncertainties section of this report. Whilst the impact of the insurgency on the operation would be severe if it reached the MRM concession area, it is considered to be highly unlikely in the short and medium term. The indirect impact on MRM due to the

presence of thousands of displaced people in the vicinity of the concession is one risk the operation has already been exposed to for much of the period.

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

Health, safety and environment

Health and safety policies and procedures continue to evolve and improve across the operation in order to create a safer and healthier working environment at MRM. Safety training has focussed on toolbox talks, risk-assessing work environments and improving the culture associated with near-miss reporting. Seven lost-time injuries occurred during the period. Of these, five were caused as a result of attacks by illegal miners on security personnel. Of the remaining two, only one was directly attributable to operational health and safety (working from heights accident). From the perspective of reducing the frequency rate of injuries, a series of internal and external health and safety training modules was incorporated into the health, safety and environment programme, with the focus being risk management framework design and implementation, fostering job hazards analysis (“JHA”) and first aid, firefighting and safe driving. The Site Risk Register on the internal reporting platform has been updated to ensure the risk and controls remain current.

MRM made good progress in post-mining environmental rehabilitation, with a total of 350 locally grown saplings replanted over an area of 1.26 ha of backfilled area. A senior industry professional was appointed as the Head of Department of Health, Safety and Environment at the end of the period to push forward standards, policies and procedures and to drive the implementation of an integrated management system (“IMS”). This IMS project, comprising ISO 9001 (quality), ISO 14001 (environment) and ISO 45001 (health and safety), is at 25% implementation completion. MRM also made progress regarding its mitigation of biodiversity impacts by conducting a biodiversity assessment across the concession.

In late December 2020, a regulatory independent environmental compliance audit was conducted, with the objective of complying with conditions defined in the environmental licence, environmental social management plans and monitoring programme requirements approved by the Ministry of Land, Environment and Rural Development (“MITADER”), Environmental, Social and Health Impact Assessments (“ESHIA”), the Resettlement Action Plan (“RAP”), and applicable Mozambican legislation and international standards guidelines. The results of the audit have provided a number of suggested improvements that MRM’s management team are reviewing before actioning.

The Resettlement Action Plan represents an important social project for the mine and its local communities and MRM was pleased to be able to continue its work on the RAP despite COVID-related restrictions.



Education projects, Mozambique

Sustainability and corporate responsibility

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

A key focus for the team has been the ongoing completion of the RAP. During the period the overall construction consisting of 105 houses for the families to be resettled, road and public infrastructure, water and power reticulation was completed on schedule. The Government institutions were relocated, and the beneficiaries moved into their new homes by the beginning of December 2020. The inauguration of the RAP project is scheduled to take place in April 2021. Additionally, MRM inaugurated a vocational training centre ("VTC"), entering into an agreement with the Government's official training institute. A total of 130 individuals have been trained through the VTC since inception. The training had to be stopped in March 2020 due to the COVID-19 outbreak and resumed in December 2020.

Legal

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

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

Gemfields still maintains that it is not liable for the alleged abuses set out in the claims but took the view that the agreed settlement best balanced the interests of the various stakeholders and avoided tainting MRM's relationship with sections of the local community. Had Gemfields prevailed at trial (which it fully expected to do), none of its own, and likely very substantial, legal costs would have been recoverable from the claimants or from Leigh Day.

As part of the settlement MRM also set aside a fund of GBP500,000 for a new agricultural project in order to provide long-term sustainable benefits, including skills training to foster economic activity and employment for the Ntoro/Namucho community. In the absence of the requisite support from the beneficiaries of the project, the amount was paid to Leigh Day for onward distribution to the beneficiaries.

In order to further its ongoing commitment to transparency and support for the local community, Gemfields agreed to establish a new and independent operational grievance mechanism (“OGM”) in keeping with industry best practice and as advocated by the UN Guiding Principles on Business and Human Rights.

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.

The OGM was soft launched in October and entered a pilot phase. The formal launch, with an associated public awareness campaign, occurred in early February 2021.

Human resources

As at 31 December 2020, 1,293 people were employed by MRM, of whom 622 were directly employed and 671 were employed through contractors. During the 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.

Events after balance sheet date

In March 2021, the treatment plant and sort house operations commenced, making use of existing stockpiles, with full-scale mining operations expected to begin in early April 2021. MRM presently has sufficient inventory to support the mixed-quality ruby auction which commenced in March 2021. On 15 March 2021, the first-ever series of ruby mini-auctions commenced (similar to those held by Kagem in November and December 2020), with viewings expected in Dubai, Jaipur and Bangkok over a period of six weeks and with online bidding concluding on 8 April 2021.

MEGARUMA MINING LIMITADA (“MML”)

MML is a joint venture between Gemfields Mauritius Ltd (a wholly owned subsidiary of Gemfields Limited), with 75% of the share capital, and EME Investments SA, Mozambique, with 25% share capital. MML holds two ruby-mining licences, 7057C and 7049C, located in the Montepuez District of Mozambique, with each sharing a boundary with the existing MRM licence and covering approximately 155 and 191 square kilometres of area, respectively.

Based on the findings of auger drilling done during 2017 and 2018, eight potential bulk sampling locations were identified in

7057C, which shares its eastern border with MRM. In 2020, a total of 113,200 tonnes of rock were handled, including 12,400 tonnes of ore, of which 10,100 tonnes were treated in the processing plant, resulting in the recovery of 574 carats of ruby of varying grade. The original DUAT (land rights for mining activity) certificate over an area of 9,888.98 ha was received for this licence in February 2020.

Bulk sampling operations were suspended with effect from 23 April 2020 as a result of the pandemic.

With regards to concession 7049C, which shares its northern boundary with MRM, exploration activities were deferred due to force majeure conditions. Measures are in place to comply with the statutory requirements, such as licence boundary demarcation and fixing of control points. The Environmental Licence (Category B Certificate) was obtained in March 2019. To initiate the developmental activities in the licence area, an extension of the Environmental Licence was applied for in December 2020 and is anticipated to be obtained in March 2021.

In order to align with the new mining policy of having a unique tax identity for each licence, this title was transferred to a newly registered company, Novo Megaruma Mining Lda.

EASTERN MINING LIMITADA (“ERM”)

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

The Environmental Licence (Category B Certificate) was awarded by the Ministry of Land, Environment and Rural Development (“DPTADER”) in favour of ERM to commence exploration and bulk sampling activities in 8277C, valid for five years until December 2024. The demarcation of boundary and ground control points work was completed in 2019. The DUAT application which was filed in November 2019 was approved by the Secretary of State and the application is under process in Maputo for approval by the Minister. The camp establishment and procurement of heavy earth-moving machinery initiated in 2020 had to be postponed due to the impact of the pandemic. The bulk sampling is now expected to commence in the second quarter of 2022.

CAMPOS DE JOIA (“CDJ”)

CDJ is a Gemfields holding company in Mozambique and has four licences at present – 7427C, 6114L, 9059L and 9060L – totalling an area of 456 square kilometres. The first one is a mining title and is located 10 kilometres to the north-west of MRM, and

the remaining three are contiguous exploration licences located immediately to the south of the southern MML concession.

In order to align with the new mining policy of having a unique tax identity for each licence, the three exploration licences were transferred to three newly registered companies, Novo Campos De Joia 1, 2 & 3, awaiting issuance of certificate.

Due diligence studies and airborne surveys have been completed and exploration activities were completed in 2019, with any further exploration likely to resume in 2022.

The DUAT application which filed in June 2020 was signed off at district level at Montepuez and is under process at the Provincial Governor office at Pemba.



Sampling, Montepuez Ruby Mining, Mozambique

As a result of running the mine for just four months in 2020, MRM's production figures for the year were severely impacted. However, we take some comfort from the 1.2 million carats of ruby and corundum that were recovered during 2020 (versus 2.2 million carats in 2019).

Operational Review

FABERGÉ LIMITED

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, international wholesale partners, faberge.com and other online marketplaces as well as boosting the international presence and perception of coloured gemstones through its consumer-focussed marketing campaigns.

The fall in revenue and the overall decline in market conditions resulting from the impact of COVID-19 have meant that the fair value of Fabergé, measured by an external valuation expert on a revenue multiple basis using comparable companies, has decreased. Consequently, an impairment loss has been recognised of USD11.5 million against the intangible assets.

POINTS OF SALE

For the year to 31 December 2020, Fabergé directly operated three points of sale: a by-appointment boutique at group HQ in London; a concession in Harrods Fine Jewellery Room, London; and a stand-alone boutique located in The Galleria Mall, Houston, Texas, United States of America ("USA"), the state's premier retail destination.

In addition to its directly operated stores, Fabergé also has partner-operated stand-alone boutiques located at: The Dubai Mall, UAE; Kiev, Ukraine; and Heydar Aliyev International Airport, Baku, Azerbaijan. Fabergé also continued to expand its global presence during the period via new agreements with multi-brand retail partners. At the end of the year, Fabergé products were available in Australia, Austria, Abu Dhabi, Andorra, Azerbaijan, Bahrain, Belgium, Canada, Czech Republic, Dubai, Finland, France, Germany, Greece, Holland, India, Italy, Jordan, Japan, Kuwait, Malta, Moldova, the Netherlands, Norway, Qatar, Romania, Saudi Arabia, South Africa, Switzerland, Thailand, UK, Ukraine and the USA. The total number of Fabergé points of sale increased from 75 to 81 during the period.

Coronavirus had a material impact on Fabergé's business in 2020 as its own-operated boutiques and partner-operated boutiques



Fabergé Colours of Love Cosmic Curve Rings featuring Gemfields Zambian emeralds and Mozambican rubies

were forced to close for periods throughout the year. Fabergé's key manufacturers also had to close and halt operations and almost all planned events and exhibitions for the year had to be cancelled.

FINANCIAL PERFORMANCE

Fabergé achieved revenues of USD7.1 million in the year to 31 December 2020 (2019: USD10.5 million). During the same period, Fabergé recorded an EBITDA loss of USD3.4 million (2019: USD6.5 million) with average monthly operating expenses of USD0.6 million (2019: USD0.8 million) and a sales margin of 54% (2019: 31%) before any inventory provisions. The sales margin of 54% for the year was above that of the prior year due to a greater proportion of direct sales (60% of revenue from direct sales in 2020 vs 51% in 2019) and a low-margin Sample Sale which was held in 2019 but not 2020.



A Fabergé Workmaster applies turquoise enamel to a locket from the Heritage collection

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

Operating costs reduced overall by USD2.2 million against the prior year in response to the COVID-19 crisis and associated temporary decline in sales, with USD1.0 million savings achieved in lowering sales, marketing and advertising activity; 20% salary cuts across the workforce from April 2020 achieving USD0.3 million savings; USD0.3 million reduction in travel costs; USD0.2 million in rent costs primarily due to waived costs whilst stores were closed; and USD0.5 million of other savings.



Behind the scenes The Centenary Egg Objet is decorated with diamonds and Gemfields' Zambian emeralds and Mozambican ruby

Operational Review

NEW PROJECTS AND OTHER ASSETS

ETHIOPIA

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

The political and security situation in Ethiopia remains unsettled. The elections originally scheduled for May 2020 were delayed until August 2020 and have since been delayed until June 2021 following the COVID-19 pandemic. It is also possible that the recent unrest in Tigray region may have an extended impact on the stability of federal politics. Given the prevailing security conditions in the region and the pandemic situation, it is highly likely that there will be an adverse knock-on effect on the Return To Work (“RTW”) plan of WGM.

In April 2020, the Government of Ethiopia declared a five-month state of emergency to control the virus. Although the move fell short of a full lockdown, there are severe restrictions in place. In July 2020, the WHO stated that Ethiopia was one of ten African countries accounting for 88% of all reported COVID-19 cases in the African region. The virus has had a negative impact on the Ethiopian economy, mainly driven by a drop in tourism, air travel and exports. Ethiopia has experienced a steep increase in both confirmed cases and related deaths of COVID-19 in recent months.

Given the impact of COVID-19 on Gemfields’ businesses across the Group, significant efforts have been made to reduce spending as much as possible on non-core and developmental projects, including WGM. All operations (including RTW) have been postponed until at least 2022, with the exception of critical business functions, regulatory obligations and essential community engagement.

WGM received a request for support during the COVID-19 pandemic from the local communities living in the vicinity of the licence area. Working in conjunction with the zonal administration, a shipment of medical and food essentials was delivered directly to the Web Village Administration on 2 June 2020, with instructions to distribute to the most vulnerable and needy members of the community.

WGM has not had access to the licence area in an operational capacity since the 2018 licence invasion but has regularly engaged with key stakeholders and members of the community as part of its RTW strategy. The licence area was initially occupied by up to 1,000 people at the time of licence invasion in June 2018, predominantly at the ore stockpile and at the bulk sampling pit where they were actively mining for emerald. The number has since fallen significantly to less than ten.

WGM’s exploration licence was renewed by the Ministry of Mines for a further one year in January 2020 without relinquishment of any licence area on force majeure grounds. A renewal application for 2021 was submitted to the Ministry of Mines in November 2020.

Gemfields’ long-running applications for two new exploration licences have finally been accepted for processing by the Ministry of Mines for sapphire in Chila, Tigray region (to the north of the country), and emerald at Shakiso, Oromia region (to the south of the country). There are no immediate plans to develop either licence until ground conditions and the prevailing global pandemic disruption have normalised.

MADAGASCAR

Oriental Mining SARL, a 100% subsidiary of Gemfields, holds a number of concessions for a range of minerals, including emerald and sapphire, which comply with all statutory and regulatory obligations. Gemfields was planning to commence preliminary investigations with regard to several permits in 2020. However, the global travel restrictions and the cost-saving measures implemented across the Group in response to the coronavirus pandemic mean that developmental activities in Madagascar have been postponed until further notice.



Due to the pandemic, principal operations at Nairoto Resources Limitada, our gold exploration joint venture project with Mwiriti Limitada, were suspended on 7 May 2020.

MOZAMBIQUE

Nairoto Resources Limitada (“NRL”) is registered in Mozambique, with Gemfields holding a 75% interest and Mwiriti 25% – the Group’s 25% existing partner in MRM. The company is in the process of obtaining full title of six mining and six exploration licences totalling 1,960 square kilometres of area, which until operations were suspended were being operated and managed under the control of the Group. The licences are located about 30 kilometres to the north of the MRM concession and hold exploration potential for gold (both primary and secondary), ruby and allied minerals.

The newly set up camp premise is located close to some of the initial target locations. The camp can be accessed using an all-weather 70 kilometre long gravel road that connects Montepuez to Nairoto.

SRK has been engaged to provide advisory and technical support with an initial focus on secondary gold resources, leading eventually to the identification and evaluation of the primary source.

Two small five tonnes per hour (“tph”) pilot treatment plants, complete with concentration tables, are in operation to support

the exploration activity. Panning of stream samples collected from across the licence area confirms the presence of visible secondary gold. Geological mapping and exploratory pitting exercises were being carried out but following the onset of COVID-19 all operations were suspended from May 2020, with only essential services currently in place at camp.

An RFQ document was developed and released to various vendors inviting technical and commercial bids for setting up a 150 tph treatment plant. Three samples were also collected for beneficiation test work of the secondary ore. However, given the COVID-19 pandemic, the procurement process has been put on hold.

NRL supported the local authorities in combating the pandemic by donating face masks and sanitisation items to the local communities. NRL also assisted the local communities in restoring some of the pre-existing but non-functional hand pumps.

As part of the Group’s commitment to conservation and protection of wildlife, NRL signed a Memorandum of Understanding with Quirimbas National Park (“QNP”) to support it in its operations once it was capable.

Financial Review

A summary of the key financial indicators of the Group for the year ended 31 December 2020 is shown in the table below.

in thousands of USD	2020	2019
Revenue	34,567	216,233
EBITDA ¹	(30,042)	80,892
(Loss)/profit after tax	(93,227)	39,131
Net cash flow (utilised in)/ generated from operating activities	(20,166)	36,688
Free cash flow ²	(56,101)	31,100
Net (debt)/cash	(12,643)	25,391

¹ Earnings before interest, taxation, depreciation and amortisation.

² Free cash flow is calculated as cash flow from operating activities less sustaining and expansionary capital expenditure excluding any working capital movements. A full breakdown can be seen in Note 3: Segmental Reporting to the Consolidated Financial Statements.

The Group's primary financial Key Performance Indicators ("KPIs") are revenue, free cash flow (before working capital movements) and net (debt)/cash. For a reconciliation of the above KPIs, see Note 3 to the Consolidated Financial Statements.

The Group's results and financial performance have been severely impacted by the COVID-19 pandemic. The principal operations at Kagem were suspended on 30 March 2020 and MRM's operations were suspended on 22 April 2020. In addition, the various jurisdictional restrictions on the movements of goods and people have prevented our customers from selling their inventory at the world's prestigious gem and jewellery shows, thereby reducing their desire to purchase any further inventory from the Group. This liquidity crunch, along with the global travel restrictions, has meant that the Group has been unable to hold any traditional auctions since the commercial-quality emerald auction held in February 2020. In November and December 2020, however, a series of sequential emerald mini-auctions were held, whereby bids were placed online after multi-city, in-person viewings of the gemstones by customers, generating total revenues of USD10.9 million. Based on the success of the mini-auction process and the robust prices achieved, the Group's emerald revenues for 2021 are expected to be reasonable even if the traditional auction process remains impossible.

No ruby auctions took place during 2020. However, a series of auctions, similar to those held for emeralds in late 2020, commenced in March 2021 and are expected to complete in early April 2021.

Revenue

in thousands of USD	2020	2019
Kagem	22,300	78,965
MRM	–	121,524
Fabergé	7,144	10,517
Other	5,123	5,227
Total	34,567	216,233

In February 2020, Kagem conducted a commercial-quality ("CQ") auction in Lusaka, Zambia, generating USD11.4 million revenue at an average of USD4.01 per carat. The COVID-19 pandemic meant that no further traditional auctions were held in 2020. The travel restrictions, quarantine periods and congregation limits also crippled the traditional gemstone shows, limiting the downstream sales.

With the aim of testing the market and achieving revenue by the end of December 2020, a series of five small emerald auctions took place between November and mid-December 2020. Selected lots were made available for in-person and private viewings by customers in Jaipur, Singapore and Tel Aviv. Each mini-auction consisted of several schedules and took place over a five-day period, with bids being accepted via Gemfields' new online auction platform or by email.

This is the first time customers have been able to bid for rough Zambian emeralds via an online bidding platform. This demonstrates Kagem's ability to innovate during a time when traditional auctions are not possible. With Gemfields' core values being transparency, integrity and legitimacy, the auctions were fully monitored by the Zambian Ministry of Mines and the Zambia Revenue Authority via video conferences.

The auction saw 46 companies placing bids and generated total revenues of USD10.9 million, with an overall average value of USD59.84 per carat. These auctions saw a good turnout with only four out of 28 schedules being held back as the bid prices were

David Lovett
Chief Financial Officer



below the acceptable reserve prices. This indicates that rough emerald prices and demand have held up well. Winning bids were in line with and, in some cases, higher than, pre-COVID prices and the number of bids per schedule increased which demonstrates good demand. The product mix with these auctions was considerably different to a typical high-quality auction with only one premium grade being offered (as Kagem tested the market). The price per carat achieved therefore does not reflect that of a typical high-quality auction which has large quantities of premium emeralds.

In 2019, Kagem's four emerald auctions generated total revenues of USD79.0 million at average prices per carat for the HQ and CQ emerald auctions of USD78.63 and USD4.61, respectively.

From a total of 36 auctions of emeralds and beryl mined at Kagem since July 2009, revenue of USD657.4 million has been generated.

No auctions were held by MRM in the period as COVID-19 necessitated travel restrictions around the globe. In 2019, MRM recognised auction revenues of USD121.5 million for the year from two mixed-quality auctions held in Singapore in June 2019 and December 2019, which generated USD50.0 million and USD71.5 million at average realised prices of USD51.99 and USD77.12 per carat, respectively.

Fabergé generated revenues of USD7.1 million in the period, below the USD10.5 million achieved in 2019, as a result of the lockdowns imposed across the globe to combat COVID-19.

Other revenue represents the direct sales of low-quality emeralds and beryl in India and the sale of historically purchased cut and polished inventory in the UK and South Africa.

COSTS

All but critical operations at Kagem and MRM were suspended in March and April 2020, respectively. Operations recommenced in early 2021, with MRM's wash plant and sort house starting in mid-February and those at Kagem from mid-March 2021. Full-scale mining operations are anticipated to start at the beginning of April 2021, with full capacity expected to be achieved by the end

of the month. At the corporate level, all UK staff members, including the Company's Board of Directors, received a 20% remuneration reduction from 1 May 2020. In addition, all significant marketing, travel and other discretionary spend has been suspended or significantly curtailed.

As a result of the above measures, the total mining and production costs, and selling, general and administrative costs for the Group reduced from USD155.9 million in 2019 to USD70.2 million during 2020.

Total mining and production costs (excluding mineral royalties, production taxes, export duty and impairment charges and reversals) of USD37.7 million represent a 41% fall from the USD63.4 million incurred in 2019. The lower costs reflect the suspension of all but critical operations at Kagem and MRM in early 2020.

Mineral royalties and production tax, which are calculated as 10% on all ruby revenues in Mozambique and 6% on all emerald sales in Zambia (including intercompany transfers), were USD1.7 million for the Kagem auctions (2019: USD17.1 million). In 2019, Kagem was subject to a 15% export duty which cost USD12.4 million. The export duty was suspended in 2020 and therefore no equivalent charge has arisen in the current year.

On the acquisition of Gemfields plc (now Gemfields Ltd) in 2017, the purchase price allocation resulted in an uplift to the mining assets at Kagem and MRM, representing the excess purchase consideration. The mining assets are amortised on the unit of production basis, resulting in an amortisation charge of USD3.9 million (2019: USD17.4 million). The reduction is a result of the cessation of mining, and therefore amortisation, since March 2020. Depreciation on property, plant and equipment during the year, excluding the mine assets, was USD17.1 million (2019: USD17.5 million).

Selling, general and administrative expenses of USD29.7 million were significantly below the USD56.8 million in the prior year. As discussed above, suspension of all but critical operations resulted in significant drops in labour, marketing and advertising, professional fees and travel costs.

Total operating costs at Fabergé were USD7.3 million for 2020 compared to USD9.7 million for the prior year, reflecting cost savings implemented to deal with the impact of COVID-19 on the market.

The cost base of the Group in the current year has also been impacted by fluctuations in foreign currency exchange rates in our key operating locations. The US dollar average rate over the year strengthened by 43% against the Zambian kwacha (“ZMW”); 12% against the Mozambican metical (“MZN”) and depreciated by 1% against pound sterling (“GBP”).

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

The EBITDA loss incurred in 2020 of USD30.0 million is primarily due to the significantly lower gemstone auction revenues as a result of COVID-19. The year 2019 saw EBITDA of USD80.9 million, reflecting record-breaking revenues of USD216.2 million.

IMPAIRMENT CHARGES AND WRITE-OFFS

The impairment charges recognised during the year amount to USD13.5 million (2019: a reversal of USD13.2 million), comprising mainly the impairment of the Fabergé intangibles along with impairments recognised against Fabergé’s slow-moving inventory.

COVID-19 has resulted in a significant reduction in revenues at Fabergé, as well as a less positive outlook on the global luxury goods and retail sectors. The Group determined these events to be indicators of impairment, as prescribed under IAS 36 *Impairment of assets* and accordingly, an impairment review was performed on the Fabergé cash generating unit (“CGU”). The impairment review at 31 December 2020, which was based on the same methodology as that performed at 31 December 2019 and at 30 June 2020, is a market approach using comparable company revenue multiples. The result of the review completed was the recognition of a USD11.5 million impairment loss against the Fabergé CGU, resulting from the fall in revenues across both Fabergé and its assessed comparable companies, along with the current depressed market conditions. Full details can be found in Note 12: *Intangible assets* to the Consolidated Financial Statements.

In December 2019, the Government of Zambia enacted into law an indefinite suspension of the 15% export duty effective from 1 January 2020. Given this suspension, the recoverable amount of Kagem was reassessed at 31 December 2019 to USD335.8 million, which was well in excess of the carrying value, resulting in an impairment reversal of USD21.6 million.

FAIR VALUE AND OTHER GAINS AND LOSSES

The USD27.9 million fair value loss arose from the revaluation of the Group’s investment in Sedibelo Platinum Mines Limited

(“Sedibelo”). Sedibelo is a producer of platinum group metals with interests in the Bushveld Complex in South Africa. In November 2020, the Group engaged a third-party broker to commence the marketing and sale of this stake. Initial discussions with prospective buyers have commenced. The Group’s Sedibelo holding structure, via a Luxembourg holding entity, adds further complications to the sales process, which remains ongoing.

In considering the valuation of the Group’s investment in Sedibelo at 31 December 2020, the Directors consider the most appropriate valuation methodology to be a market comparable analysis based on the Enterprise Values of Sedibelo’s peer group. This method values Sedibelo based on various financial and non-financial multiples, including mineral resources (per 4E ounce), mineral reserves (per 4E ounce), production (per ounce), revenue and EBITDA of its peer group of listed comparable companies. A discount for the lack of marketability (“DLOM”), which takes into account that SPM is an unlisted company, has also been applied to the valuation. In arriving at the valuation, the Directors have also considered the impact of the Group’s desire to seek an orderly disposal of its minority holding in Sedibelo.

The USD27.9 million fair value loss in the year arose as a result of a reduction in the estimated value of the investment, based on an independent third-party report, from USD57.5 million at 31 December 2019 to USD29.6 million at 31 December 2020.

As the timing of the sales process is uncertain and the investment is not being actively marketed at a specific price, the Group’s investment in Sedibelo does not meet all the requirements of IFRS 5 *Non-current assets held for sale and discontinued operations*, in order for the investment to be presented as an asset held for sale on the Group’s balance sheet at 31 December 2020.

In 2019, fair value and other gains and losses also included transactions with the Group’s then investment in Jupiter Mines Limited (“Jupiter”), an Australian-listed company whose main asset is a 49.9% interest in the Tshipi é Ntle manganese mine. The fair value gains in 2019 relating to Jupiter amounted to USD4.6 million and arose on the remeasurement at disposal driven by exchange rate movements between the AUD/USD and share price movements.

FINANCE INCOME, EXPENSES AND FOREIGN EXCHANGE DIFFERENCES

Net finance expenses (exclusive of exchange differences) were USD2.9 million compared to USD3.3 million in 2019, representing interest on the USD28.0 million Kagem ABSA facilities, the overdraft facilities at MRM and the computed interest of lease liabilities under IFRS16 *Leases*, which were offset by interest earned on cash balances across the Group. The facilities’ interest rates remain consistent with previous periods, with the balances fluctuation giving rise to the movement.



Operations, Kagem Mining, Zambia

The net foreign exchange loss of USD2.9 million (2019: USD1.2 million) reflects the movement of the USD against the GBP, the MZN and the ZMW. In the current year, the USD average rate strengthened by 43% against the ZMW, 12% against the MZN and weakened 1% against the GBP, leading to losses on the net foreign currency assets at Kagem, MRM and Fabergé.

TAXATION

The tax credit for the year was USD6.0 million (2019: charge of USD28.2 million), calculated on a loss before tax of USD99.2 million (2019: profit of USD67.4 million), resulting in an effective tax rate of 6.0% (2019: 41.9%). The tax credit for the year consisted of a current tax charge of USD2.4 million and a deferred tax credit of USD8.4 million. The overall credit arises as deferred tax assets recognised on losses, primarily at Kagem and MRM, were offset by non-deductible impairment and fair value losses realised in the UK entities and withholding taxes on dividends paid within the Group.

In the prior year, the 41.9% effective tax rate reflects the non-deductible mineral royalty tax at Kagem and the non-recognition of tax losses, including those incurred in Zambia and at Fabergé. These factors all applied upward pressure on the tax rate.

A change to the main UK corporation tax rate, announced in the budget on 11 March 2020, was substantively enacted for IFRS purposes on 17 March 2020. The rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%. The effect of this change is a deferred

tax credit relating to UK tax losses which are now recognised at 19% rather than 17%.

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

in thousands of USD, unless otherwise stated	2020	2019
(Loss)/profit before taxation	(99,202)	67,373
Income tax credit/(charge)	5,975	(28,242)
Effective tax rate %	(6%)	42%
Cash tax paid	15,003	9,692

The tax paid of USD15.0 million is higher than the USD2.4 million charge for the year largely due to the timing of tax advance payments and the settlement of final payments on 2019 liabilities at Kagem of USD1.3 million and at MRM of USD13.6 million.

NET (LOSS)/PROFIT AFTER TAXATION

The Group made a loss after tax of USD93.2 million compared to a profit of USD39.1 million in the prior year. The loss in the current year is due to the impact of COVID-19 on the Group's activities, primarily on its ability to hold traditional auctions which resulted in severely reduced revenues. The cost savings initiated by the Group at the start of the second quarter of 2020 could not offset the fall in revenue.

The COVID-19 pandemic and its impact on global markets also resulted in the Group recognising a USD11.5 million impairment of the Fabergé CGU and inventory provisions of USD1.1 million. In addition, the Group recorded a USD27.9 million fair value loss on the revaluation of its Sedibelo investment as a result of a change in the valuation approach and the lack of appetite achieved so far in the Sedibelo sales process. During 2019, the Group recognised an impairment reversal of USD21.6 million against Kagem, fair value gains of USD7.1 million and inventory provisions of USD7.4 million.

Losses per share for the year ended 31 December 2020 were USD0.07 compared with earnings of USD0.02 in 2019, reflecting the COVID-19 induced losses on a stable weighted average number of shares in issue.

Headline losses per share were USD0.06 compared with headline earnings per share in 2019 of USD0.01.

CAPITAL EXPENDITURE

In a year that saw reduced operations and significant cash-saving measures being implemented as a result of the COVID-19 pandemic, capital expenditure was USD8.6 million, significantly lower than the USD30.8 million spent in 2019. Of the USD8.6 million, USD3.9 million was spent at MRM primarily on improvements to the IT infrastructure and the existing wash plant, with USD2.3 million spent at Nairoto on infrastructure and equipment, USD1.5 million spent on the development of the MML licence in Mozambique and USD0.9 million at Kagem, primarily on final payments on mining equipment and machinery.

In 2019, USD20.5 million was spent at MRM, comprising USD13.2 million invested in expansion and exploration, as well as improvements to the existing wash plant, USD2.7 million in existing mining and ancillary equipment replacements, and USD4.6 million associated with the RAP. At Kagem, USD4.3 million was invested in replacement mining and ancillary equipment, particularly heavy earth-moving equipment and infrastructure improvements. The remainder of USD6.0 million was spent on development projects, mainly in Ethiopia and Mozambique.

CASH FLOWS

Cash and cash equivalents fell by USD34.4 million during the year to USD43.9 million, as COVID-19 took its toll on the Group's cash reserves.

Free cash flows

in thousands of USD	2020	2019
EBITDA ¹	(30,042)	80,892
<i>Add back:</i> Change in inventory	(2,421)	(9,255)
Taxation paid (excluding mineral royalties and export duty)	(15,003)	(9,692)
Capital expenditure	(8,635)	(30,845)
Free cash flow before working capital movements²	(56,101)	31,100

¹ Earnings before interest, taxation, depreciation and amortisation.

² Free cash flow is calculated as cash flow from operating activities less sustaining and expansionary capital expenditure excluding any working capital movements. A full breakdown can be seen in Note 3: Segmental Reporting in the Consolidated Financial Statements.



Operations, Kagem Mining, Zambia

The Group utilised USD5.2 million in operations during the current financial year, as the impact of COVID-19 on revenues was only partially offset by the significant cost-cutting measures. Despite the lower revenues and losses made, the Group was still obligated to pay USD15.0 million in taxes, mainly USD13.6 million at MRM and USD1.3 million at Kagem, primarily related to the prior period's tax liabilities and advance payments required in Mozambique.

Capital expenditure was USD8.6 million, as discussed above.

As a consequence of the drastically reduced EBITDA, free cash flow before working capital movements fell to a cash outflow of USD56.1 million compared to a cash inflow of USD31.1 million in 2019. Working capital movements are an inflow of USD27.3 million and largely relate to high auction receivables following the November 2019 emerald and December 2019 ruby auctions.

Other cash flows

During the year, the Group utilised USD13.2 million in investing activities with capital expenditure of USD8.6 million and advances made to Mwiriti, the Group's partner in Mozambique, being partially offset by interest received.

The Group's financing activities saw an outflow of USD1.1 million, driven by the USD2.0 million principal repayment of the loan held by Kagem, along with utilisation of its overdraft facilities at MRM, principal lease payments and USD3.0 million interest paid.



Operations, Kagem Mining, Zambia

FINANCIAL POSITION

The Group's balance sheet is summarised below:

in thousands of USD	2020	2019
Non-current assets	457,927	507,399
Current assets	198,783	276,754
Total assets	656,710	784,153
Non-current liabilities	(114,185)	(130,059)
Current liabilities	(59,509)	(75,151)
Total liabilities	(173,694)	(205,210)
Net assets	483,016	578,943

in thousands of USD	2020	2019
Property, plant and equipment	362,734	376,913
Intangible assets	51,461	55,200
Unlisted investments	29,600	57,500
Inventory	117,839	110,694
Auction receivables	8,910	56,654
Cash and cash equivalents	43,862	78,218
Other assets, including deferred taxation	42,304	48,974
Total assets	656,710	784,153

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment primarily relates to the mining assets – evaluated mining properties and deferred stripping costs of USD313.4 million, with the remainder being land, buildings, plant and machinery. The USD303.9 million of evaluated mining properties relates to the recognition of the fair values of Kagem and MRM at the date that GGL acquired Gemfields Limited in July 2017. These assets are amortised on the unit-of-production basis over the life of the mine. At 31 December 2020, the carrying values of the assets were USD140.7 million at Kagem and USD163.2 million at MRM, with amortisation having ceased when production was temporarily suspended in early 2020. At 31 December 2019, the assets had carrying values of USD141.9 million and USD151.5 million, respectively.

The remaining land, buildings, plant and machinery of USD49.3 million includes mine buildings such as camps, treatment plants and the sort houses, along with the heavy earth-moving machinery at each operation.

INTANGIBLE ASSETS

Intangible assets of USD51.5 million consist of USD28.5 million representing the Fabergé trademarks and brand, USD22.9 million related to unevaluated mining assets across the Group and USD0.1 million of software.

In June 2020, the Group recognised a USD11.5 million impairment against the Fabergé long-lived intangibles, following an independent third-party valuation to determine fair value less costs to sell of the CGU based on a market approach using comparable company revenue multiples. See the impairment section above for further details. At 31 December 2019, the Fabergé-related intangibles were carried at USD39.9 million.

Other intangibles consist of unevaluated mining assets of USD22.9 million, being spent on the exploration and evaluation assets in Ethiopia and Mozambique (MML, ERM and Nairoto). The balance increased in the year from USD15.0 million in 2019, as work continued at MML, ERM and Nairoto until April 2020, when all operations were suspended because of COVID-19.

LISTED AND UNLISTED INVESTMENTS

The Group holds an equity interest in Sedibelo, a producer of platinum group metals with interests in the Bushveld Complex in South Africa. The Sedibelo valuation at 31 December 2020 of USD29.6 million is after a fair value loss of USD27.9 million, discussed in detail earlier in this report.

In 2019, the Group's listed investment represented the 7.44% holding in Jupiter, which was sold for USD30.4 million.

INVENTORY

in thousands of USD	2020	2019
Rough emeralds and beryl	39,290	45,525
Rough rubies and corundum	31,639	22,277
Fabergé jewellery and watches	33,413	30,743
Cut and polished product	5,616	5,409
Spares and consumables	7,881	6,740
Total	117,839	110,694

The USD7.1 million increase in inventory primarily reflects higher inventory levels at MRM and Fabergé being offset by a fall in inventory at Kagem. At MRM, with no auctions being held throughout 2020, the increase of USD9.4 million represents production until operations were suspended in April 2020. Fabergé inventory reflects current purchases that have yet to be sold and is after an impairment loss of USD1.1 million, which primarily arose on slow-moving stock items written down to their net realisable value at 31 December 2020. At Kagem, the inventory sold at the February 2020 CQ and mini-auctions during the year exceeded production from the first three months of the year before operations were suspended resulting in a reduction of USD6.2 million.

The value of rough gemstone inventory held at net realisable value of USD0.8 million principally relates to by-products and direct sale material that is not sold at auction.

AUCTION RECEIVABLES

The auction receivables outstanding of USD8.9 million at 31 December 2020 principally relate to the emerald virtual auctions held in November and December 2020. The full outstanding amounts were received by 22 March 2021. The USD56.7 million at 31 December 2019 related to the December 2019 ruby auction and November 2019 emerald auction and was all received during 2020.

In early 2020, one of the December 2019 ruby auction customers defaulted on their payment, resulting in a breach of contract, with the goods being returned to MRM. This is the first time in the Group's history that a customer has defaulted on payment, and management believes this event to be a one-off. In December 2020, the Group sold the goods from this defaulted auction package to a different customer for the same price. At 31 December 2020, a receivable of USD1.0 million remained outstanding in relation to this sale and as at the date of these financial statements, the full balance had been paid.

OTHER ASSETS

Other assets of USD42.3 million (2019: USD49.0 million) consist of USD13.7 million of VAT receivables across the Group, deferred tax assets of USD3.0 million related to losses incurred at Kagem and MRM during 2020, related party receivables of USD6.7 million, trade receivables at Fabergé of USD4.1 million, other receivables including prepayments of USD10.6 million and a current tax receivable of USD4.2 million at MRM. The major movements in the year come from the fall in VAT receivables as amounts were set off against other taxes at Kagem, whilst MRM received some cash refunds. The related party receivable from Mwiriti also reduced during the year. Offsetting these changes was the recognition of the USD4.2 million tax receivable at MRM relating to advance payments for 2020, which can only be offset against other taxes once approval is granted – MRM are looking to obtain the necessary permissions.

Liabilities

in thousands of USD	2020	2019
Deferred tax liabilities	79,236	92,177
Borrowings	56,505	52,827
Provisions	7,631	9,423
Trade and other payables	17,303	29,850
Current tax payable	4,274	16,282
Other liabilities, including lease liabilities	8,745	4,651
Total liabilities	173,694	205,210



Gemfields' Propriety Grading System, Kagem Mining, Zambia

DEFERRED TAX LIABILITIES

The deferred tax liabilities arise from the evaluated mining property and inventory at Kagem and MRM recognised on the IFRS 3 *Business combinations* fair value uplift on acquisition of Gemfields Limited by the former Pallinghurst Resources Limited (now Gemfields Group Limited) in 2017.

PROVISIONS

Provisions include USD2.0 million of environmental provisions for the rehabilitation and restoration of mined areas at Kagem and MRM; the Resettlement Action Plan ("RAP") provision at MRM of USD1.1 million and USD4.5 million other provisions for future legal claims and employee end-of-contract benefits. The RAP provision relates to MRM's 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. As the RAP was almost complete at 31 December 2020, the balance owing for the construction reduced. End-of-contract benefits are payable in more than one year's time for some of the Group's employees who are on fixed-term contracts and are calculated based on their legal and contractual benefits.

TRADE AND OTHER PAYABLES

Trade and other payables have fallen, reflecting the suspension of principal operations and limited activity in 2020 compared to 2019.

CURRENT TAX PAYABLE

The current tax payable of USD4.3 million consists of USD2.3 million payable by MRM and USD2.0 million payable by Kagem. Both amounts relate to the final tax payments for the 2019 year end that remained outstanding as the Group negotiated COVID-19. In respect of MRM, advance payments on account for 2020 were made of USD4.2 million. These cannot be offset against outstanding tax liabilities without authorisation. MRM are looking to obtain the relevant approvals to offset these amounts.

OTHER LIABILITIES

Other liabilities include USD3.7 million of lease liabilities related to property leases held at various entities across the Group. The balance also includes a USD5.0 million payable due to the Group's partner in Nairobi, Mwiriti Ltda, in relation to operating and capital expenses incurred on behalf of Nairobi before control of the 12 mining licences passed to the Group.

BORROWINGS AND NET DEBT

in thousands of USD	2020	2019
Cash and cash equivalents	43,862	78,218
Current borrowings	(33,005)	(24,827)
Non-current borrowings	(23,500)	(28,000)
Net/(debt) cash	(12,643)	25,391

The fall in cash and cash equivalents to USD43.9 million reflects the significant reduction in revenues resulting from the impacts of COVID-19.

At 31 December 2020, the Group held USD56.5 million in borrowings, a slight increase from 2019 of USD3.7 million. These financing facilities are used to support the working capital and other funding requirements of the Group, and to sustain its operations, as well as any planned growth and expansion.

During the second half of 2019, Kagem renegotiated its facilities with ABSA Zambia, formerly Barclays Zambia, for a five-year period. The facility consists of a USD20.0 million five-year-term loan and a USD10.0 million revolving credit facility that has an initial three-year term but is extendable for an additional two years upon agreement by both parties. Both facilities bear interest at three-month USD LIBOR plus 5.5% per annum. Following the repayment of USD2.0 million in December 2020, the facility stood at USD28.0 million at 31 December 2020 with USD4.5 million being payable in December 2021.

Kagem has received a waiver of all financial covenants contained within the ABSA Zambia loan agreements for the 31 December 2020 measurement date. Based on the current period forecasts, as discussed in the Going Concern section, in the event that the revenue targets are achieved, it is expected that there will be no breach of the covenants that are to be measured in December 2021.

MRM has the following facilities:

- A USD15 million unsecured overdraft facility entered into with ABSA Mozambique (formerly Barclays Bank Mozambique S.A.) in April 2016. The facility has an interest rate of three-month USD LIBOR plus 4.0% per annum. At 31 December 2020, USD14.2 million (31 December 2019: USD12.9 million) was drawn. The facility is renewed annually with the next renewal expected in December 2021.
- A USD15 million overdraft facility entered into with Banco Commercial 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 USD LIBOR plus 3.75% per annum. At 31 December 2020, USD14.3 million (31 December 2019: USD10.0 million) was drawn. The facility is renewed annually with the next renewal expected in September 2021.

- In March 2021, BCI granted a new USD8.9 million facility to MRM on similar interest rates to the USD15 million overdraft facility discussed above. Under the new facility USD8.9 million can be drawn immediately but must be paid back by the next auction or within six months of drawdown, whichever is the earliest. Upon repayment, MRM, with agreement from the bank, will then have access to a four-year facility of USD15 million to use for working capital purposes.

For an analysis of the outstanding facility liabilities at year-end, see Note 17: *Borrowings* in the Consolidated Financial Statements.

GOING CONCERN

Like many businesses, the potential financial impact of COVID-19 has been given significant consideration when assessing the going-concern assumption. The situation unfolding across the globe is changing daily. It is clear that the pandemic has had, and will continue to have, an adverse impact on the Group’s operations, customers and suppliers.

The critical assumption for the Group is the timing of cash inflows from its emerald and ruby auctions and continued support from the Group’s lenders. Subject to continued support from the Group’s lenders and also achieving the anticipated level of revenues from online or traditional auctions, the Group is expected to be able to continue to meet its obligations as they fall due for a period of at least twelve months from the date of this report. The Group’s expectation is that, if needed, it will draw down on all existing borrowing facilities and that all of its existing debt facilities will remain in place throughout the forecast period.

However, as disclosed in the Going Concern section of Note 1 of the Consolidated Financial Statements, there is a risk that the planned auctions fetch lower than expected revenues or that lenders withdraw their support. In this case, the Group would seek to initiate various cost-saving initiatives and will seek to secure continued funding from current lenders, pursue an asset sale programme of non-core assets and consider, should it become necessary, fund-raising through a potential rights issue. The timing and quantum of the auctions along with the ongoing support from lenders therefore creates a material uncertainty. Despite this, it remains appropriate to present the Consolidated Financial Statements on a going-concern basis.

David Lovett
Chief Financial Officer
29 March 2021

Gemstone Resources and Gemstone Reserves Summary

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

This section is a condensed overview of GGL’s Gemstone Resources and Gemstone Reserves Report 2020, which contains a comprehensive review of the Gemstone Resources and Gemstone Reserves for Kagem and MRM as at 31 December 2020 and details the location, geology, mining, processing, and operational statistics at Kagem and MRM. The complete Gemstone Resources and Gemstone Reserves Report 2020 and the Competent Person’s Report (“CPR”) for Kagem and MRM, from which the 2020 Report was compiled, are available online at www.gemfieldsgroup.com.

GGL’s attributable Gemstone Resources and Gemstone Reserves are reported according to, and in compliance with, the SAMREC Code (2016 edition), with special reference to sections 60 to 72 of SAMREC related to the reporting of results for diamond and other gemstone properties.

Operations at Kagem and MRM were suspended from April to December 2020 due to COVID-19 restrictions.

As at 31 December 2020, GGL had total attributable mineral resources of 1,117 million carats (“Mct”) of combined emerald and beryl at an average value of USD5.10/ct, and 497 Mct of ruby and corundum at an average value of US\$17.68/ct.

All Gemstone Resources are inclusive of the Gemstone Reserves. Rounding-off of figures in this report may result in minor computational discrepancies. Where these occur, the Competent Persons (“CPs”) do not consider them to be material.

COMPETENT PERSONS AND CONSENT

The “CPs” in terms of SAMREC who take responsibility for the reporting of Gemstone Resources and Gemstone Reserves for Kagem and MRM in this report are, respectively:

- Anirudh Krishna Sharma, MSc (Geology) MAusIMM (CP), Head of Production, Planning and Exploration with Kagem Mining Limited, is a Chartered Professional (CP Geology) member of the Australasian Institute of Mining and Metallurgy (“AusIMM”) and is the Competent Person responsible for the reporting of the Gemstone Resources and Gemstone Reserves at Kagem in this report. Anirudh has more than five years’ relevant experience in this style of mineralisation.

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

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

The CPs have confirmed to GGL in writing that the contents of this report are consistent with the CPR for Kagem and MRM and production records for the period 1 July 2019 to 31 December 2020 and comply with the requirements of Section 12 of the JSE Rules and the SAMREC Code.

The Competent Persons further consent to the disclosure of the 2020 Gemstone Resource and Gemstone Reserve Statement in the form and context in which it is presented.

This report contains statements of a forward-looking nature which involve various uncertainties that may cause the actual results to differ materially from those 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

LSGL over an area of 42.4 square kilometres issued on 27 April 2010. The licence was renewed on 10 December 2019 for a further 25 years, which is then valid until 26 April 2045. A large-scale mining licence 8749HQ LML for the Chibolele mine was renewed on 30 August 2019 for 25 years and transferred to Kagem on 1 October 2019.

The emerald deposits are hosted by talc-magnetite schists (“TMS”) of the Muva Supergroup. The Gemstone Resources are reported within an optimised pit shell using the same input parameters as those in the mining study, but with a 30% mark-up on the anticipated prices to reflect an optimistic view. All grades quoted reflect beryl and emerald, expressed as carats per tonne.

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

The steeply dipping reaction zones (“RZs”) are mined using manually intensive methods with the assistance of hydraulic excavators under close supervision, 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 practical pit design for the Chama pit uses five sequential cutbacks which aim to provide flexibility in mining locations and balance high strip ratio–higher confidence ore with lower strip ratio–lower confidence ore.

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

The auctions in 2020 realised USD22.3 million from the sale of 3.04 Mct of high- and commercial-grade quality emeralds.

The current life-of-mine (“LoM”) plan provides for plant feed of 146,000 tonnes per annum (“ktpa”) projected to extend to 2044. With an average feed grade of 209 ct/t, Kagem projects to recover 755 Mct over the LoM.

Kagem has obtained the necessary environmental licences in terms of the Environmental Management Regulations (SI 112 of 2013). Bi-annual reports on noise and water monitoring and waste management are submitted to the Zambian Environmental



Responsibly sourced rough emerald, Kagem Mining, Zambia

Management Agency (“ZEMA”). The annual update of the environmental management plan (“EMP”) includes a section on closure cost, which is required as part of the audit to assess the annual cash contribution Kagem needs to pay to the Environmental Protection Fund (“EPF”) (per the Mines and Minerals Act).

The authorities conducted an EPF audit of the mine in January 2020 and revised the closure cost and guarantee value. Kagem planned to contest these values and initiated the work with the aid of a consultant in February 2020. With the mining operations suspended in March 2020 due to COVID-19, all communication and counter response was delayed until operations resume. Since Kagem plans to resume operations in March 2021, it has initiated discussions with authorities and will present its counter response to the audit observation. The matter is expected to be concluded by Q3 of 2021.

In the interim, Kagem considers that the calculated closure cost of December 2019 of approximately USD1.1 million is appropriate. As Kagem is deemed to be largely compliant with its obligations, it only has to contribute 5% of the closure cost to the EPF in any one year. Kagem currently has a Payment Guarantee (No. 339020015174) with Standard Chartered Bank for USD349,238.19 based on the 2015 EPF audit as per liability assessment no. MSD/20/1/17. These values will be revised in December 2021 according to the outcome of the discussions with the authorities.

For the year ended 31 December 2020, Kagem recovered 9.4 Mct from 46,000 tonnes (“kt”) of RZ ore at a grade of 202 ct/t. The unit operating cost for 2020 of USD11.44/t (against a budget of USD4.24/t; actual USD3.35/t in 2019) reflects the impact of the COVID-19 lockdown from 25 March 2020, which halted all operations.

KAGEM GEMSTONE RESOURCES AND GEMSTONE RESERVES

The Kagem Gemstone Resources and Gemstone Reserves Statement attributable to GGL (75% basis) at 31 December 2020 is set out in the table below. Gemstone Resources are reported at a bottom screen cut-off of 3 mm and are inclusive of the Gemstone Reserves.

No Inferred Resources are included in the LoM plans, which support the Gemstone Reserve declaration.

Kagem Attributable Mineral Resource and Ore Reserve Statement at 31 December 2020:

Mineral resource (Attributable to GGL)	Tonnage (kt)	B+E grade (ct/t)	Contained B+E (Mct)	Ore reserves (Attributable to GGL)	Tonnage (kt)	B+E grade (ct/t)	Contained B+E (Mct)
Chama				Chama			
Measured	281	260	73	Proved	210	202	42
Indicated	2,783	270	746	Probable	2,130	218	465
Total measured + indicated	3,063	267	818	Total gemstone reserve	2,340	217	507
Inferred	–	–	–				
Fibolele				Fibolele			
Measured	–	–	–	Proved	–	–	–
Indicated	92	160	14	Probable	69	139	10
Total measured + indicated	92	160	14	Total gemstone reserve	69	139	10
Inferred	900	160	144				
Libwente							
Measured	–	–	–				
Indicated	–	–	–				
Total measured + indicated	0	0	0				
Inferred	150	46	7				
Stockpiles				Stockpiles			
Measured	226	139	32	Proved	226	139	32
Indicated	–	–	–	Probable	–	–	–
Total measured + indicated	226	139	32	Total gemstone reserve	226	139	32
Inferred	–	–	–				
Chibolele							
Measured	–	–	–				
Indicated	–	–	–				
Total measured + indicated	–	–	–				
Inferred	512	200	102				
Total M+I mineral resources	3,380	260	864	Total gemstone reserves	2,665	208	548
Total inferred mineral resources	1,562	162	253				

Gemstone mineral resource Grade and value	Recovered grade (ct/t)				2020 Parcel value (USD/ct)
	Chama	Fibolele	Chibolele	Libwente	
Premium emerald	3.8	0.0	0.38	–	59.84
Emerald	76.9	6.3	41.50	–	4.01
Beryl-1	74.4	10.0	58.00	–	0.11
Beryl-2	74.5	14.1	72.75	–	0.01

The comparative Kagem Gemstone Resource and Gemstone Reserve statement attributable to GGL (75% basis) at 31 December 2019 is set out below. The key differences between the 2019 and 2020 Gemstone Resource and Gemstone Reserve estimates are explained as follows:

• **Gemstone Resources:**

- » Addition of the Chibolele Inferred Gemstone Resources;
- » Small reduction in Measured Gemstone Resources at Chama due to mining depletion; and

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

Mineral resource (Attributable to GGL)	Tonnage (kt)	B+E grade (ct/t)	Contained B+E (Mct)	Ore reserves (Attributable to GGL)	Tonnage (kt)	B+E grade (ct/t)	Contained B+E (Mct)
Chama				Chama			
Measured	307	250	79	Proved	236	203	48
Indicated	2,783	270	746	Probable	2,130	218	465
Total measured + indicated	3,090	270	825	Total gemstone reserve	2,366	217	513
Inferred	–	–	–				
Fibolele				Fibolele			
Measured	–	–	–	Proved	–	–	–
Indicated	95	160	14	Probable	72	135	10
Total measured + indicated	95	160	14	Total gemstone reserve	72	135	10
Inferred	900	160	144				
Libwente							
Measured	–	–	–				
Indicated	–	–	–				
Total measured + indicated	–	–	–				
Inferred	150	46	7				
Stockpiles				Stockpiles			
Measured	225	139	32	Proved	225	139	32
Indicated	–	–	–	Probable	–	–	–
Total measured + indicated	225	139	32	Total gemstone reserve	225	139	32
Inferred	–	–	–				
Libwente							
Measured	Not reported on in 2019						
Indicated							
Total measured + indicated							
Inferred							
Total M+I gemstone resources	3,404	260	871	Total gemstone reserves	2,663	208	555
Total inferred gemstone resources	1,050	145	151				

Note: A CPR compiled for Gemfields presented a Probable Gemstone Reserve of 82 kt grading 174 ct/t at February 2016. This was all extracted before the end of 2020.

Gemstone mineral resource Grade and value	Recovered grade (ct/t)				2019 Parcel value (USD/ct)
	Chama	Fibolele	Chibolele	Libwente	
Premium emerald	1.4	0.1	0.2	–	64.63
Emerald	72.5	57.8	27.8	–	4.19
Beryl-1	84.9	108.3	37.7	–	0.11
Beryl-2	67.0	116.9	59.0	–	0.01

» Small reduction in Indicated Gemstone Resources at Fibolele due to mining depletion, partially offset by an increase in Gemstone Resources in Stockpiles.

- **Gemstone Reserves:**

- » Small reduction in Proved Gemstone Reserves at Chama due to mining depletion; and
- » Small reduction in Probable Gemstone Reserves at Fibolele due to mining depletion, partially offset by an increase in Proved Gemstone Reserves in Stockpiles.

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 LoM plan production requires a ramp-up from 7.2 Mtpa total ore and waste in 2019 to 13.5 Mtpa by 2024, with ore mining increasing from 1.1 Mtpa in 2019 to 2.7 Mtpa by 2024, and is projected to extend to 2030 with LoM of 10 years. The expected average stripping ratio for the LoM is 3.8 tonnes per tonne (“t/t”).

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

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

A new upgraded processing plant, including a scrubber, rated at 200 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 and a double-deck, wet screen to remove +25 mm stone fraction and -1.6 mm fines.

After washing and separation in the plant, the resulting gravity concentrate is sorted by hand in the high-security area under strict supervision. MRM commissioned a new recovery house in

February 2019 incorporating automatic colour sorting machines. After removal of fines, the remaining gemstones are then subdivided into five broad quality categories.

The auctions in 2019 realised USD121.5 million from the sale of 1.89 Mct of higher-, medium- and commercial-quality rubies. No auction sales were held during 2020.

MRM holds a valid approval for its Resettlement Action Plan (“RAP”), an authorised land use permit (“DUAT”) valid until 2036 and a Category “A” Environmental Licence for the mine site and an industrial park in Maputo valid until August 2024 and April 2023, respectively.

The costs of on-going rehabilitation for mined out areas are included in the financial model projections for MRM. The additional cost of removal of equipment from site, rehabilitation of remaining disturbed areas and staff retrenchment costs has been reassessed and the closure provision reduced to USD8 million.

For the year ended 31 December 2020, MRM recovered 1.3 Mct from 346 kt ore at an average grade of 3.6 ct/t. The unit cash operating cost per total rock handled was USD16.00/t in 2020 (budget USD5.89/t, actual USD4.58/t in 2019) reflecting the impact of the COVID-19 lockdown from 25 March 2020, which halted all operations.



Responsibly sourced rough ruby, Montepuez Ruby Mining, Mozambique

MRM GEMSTONE RESOURCES AND GEMSTONE RESERVES

The MRM Gemstone Resources and Gemstone Reserves statement attributable to GGL (75% basis) at 31 December 2020 is set out below. Gemstone Resource grades are quoted with a bottom cut-off stone size of 1.6 mm and are inclusive of Gemstone Reserves. The stockpile grades are derived from the reported grades for the respective source materials.

No Inferred Resources are included in the LoM plans, which support the Gemstone Reserve declaration.

MRM Attributable Gemstone Resource and Gemstone Reserve Statement at 31 December 2020:

Gemstone resource (Attributable to GGL)	Recovered			Gemstone reserves (Attributable to GGL)	Recovered		
	Tonnage (kt)	Grade (ct/t)	Contained (Mct)		Tonnage (kt)	Grade (ct/t)	Contained (Mct)
Maninge Nice				Maninge Nice			
Indicated – primary	855	96.1	82.1	Probable – primary	843	97.7	82.3
Indicated – secondary	354	50.3	17.8	Probable – secondary	373	50.1	18.7
Total indicated	1,209	82.7	99.9	Total probable reserve	1,215	83.1	101.0
Inferred – primary	180	97.8	17.6				
Inferred – secondary	10,050	12.7	127.8				
Inferred – total	10,230	14.2	145.4				
Mugloto				Mugloto			
Indicated – primary	0	0	0	Probable – primary	0	0	0
Indicated – secondary	9,193	3.0	27.3	Probable – secondary	9,100	2.8	25.6
Total indicated	9,193	3.0	27.3	Total probable reserve	9,100	2.8	25.6
Inferred – secondary	13,800	14.8	203.6				
Glass				Glass			
Indicated – secondary	4,725	2.4	11.3	Probable – secondary	4,756	2.2	10.5
Total indicated	4,725	2.4	11.3	Total probable reserve	4,756	2.2	10.5
Inferred – secondary	6,075	0.9	5.4				
Stockpiles				Stockpiles			
Indicated – Primary	30	96.1	2.9	Indicated – Primary	30	96.1	2.9
Indicated – Secondary ¹	656	8.4	5.5	Indicated – Secondary	656	8.4	5.5
Total indicated	686	12.2	8.4	Total probable reserve	686	12.2	8.4
Total indicated gemstone resources	15,202	9.4	142.8	Total gemstone reserves	15,758	9.2	145.5
Measured resource	30,105	11.8	354.5				

¹ Combination of material from Maninge Nice, Mugloto and Glass.

Gemstone grade and value	Recovered grade (ct/t)			Jun'20 Parcel value ² (USD/ct)	Dec'20 Parcel value ² (USD/ct)
	Maninge Nice	Mugloto	Glass ¹		
Maninge Nice					
Premium ruby	–	0.035	–		
Low premium ruby + ruby	–	0.181	–		
Low ruby	–	0.310	–	No sales occurred	No sales occurred
Corundum	–	0.136	–		
Sapphire	–	0.083	–		
Low sapphire	–	0.807	–		
–4.6 mm	–	0.000	–		
Reject with some low sapphire	–	–	–		

¹ No production from Glass and Maninge Nice during 2020.

² Parcel values per 2019 auctions still apply.



Sampling, Montepuez Ruby Mining, Mozambique

The comparative MRM Gemstone Resource and Gemstone Reserve statement attributable to GGL (75% basis) at 31 December 2019 is set out below. The key differences between the 2019 and 2020 Gemstone Resource and Gemstone Reserve estimates are explained as follows:

- **Gemstone Resources:**
 - » A stockpile of mined ore is now included in the 2020 Gemstone Resource estimate;
 - » A 764 kt and 4.0 Mct reduction in Indicated Gemstone Resources at Mugloto, due to mining depletion and changes to resource shells;
 - » A 91 kt reduction in stockpiled material and increase in average grade, due to a changed split of primary and secondary stockpiled material;
 - » No change in tonnage, grade or contained gemstones for the Inferred Gemstone Resources;
- » The Gemstone Resource grades at the other pits and material types have largely remained unchanged since December 2019.
- **Gemstone Reserves:**
 - » A stockpile of mined ore is now included in the 2020 Gemstone Reserve estimate;
 - » A 263 kt and 0.9 Mct reduction in Probable Gemstone Reserves due to mining depletion, mainly from Mugloto secondary material;
 - » A 91 kt reduction in stockpiled material and increase in average grade, due to a changed split of primary and secondary stockpiled material;
 - » The Gemstone Reserve grades at the various pits and material types have remained unchanged since December 2019, although the average grade for the total declared Gemstone Reserves at Maninge Nice increased since only secondary material at lower grade was mined.

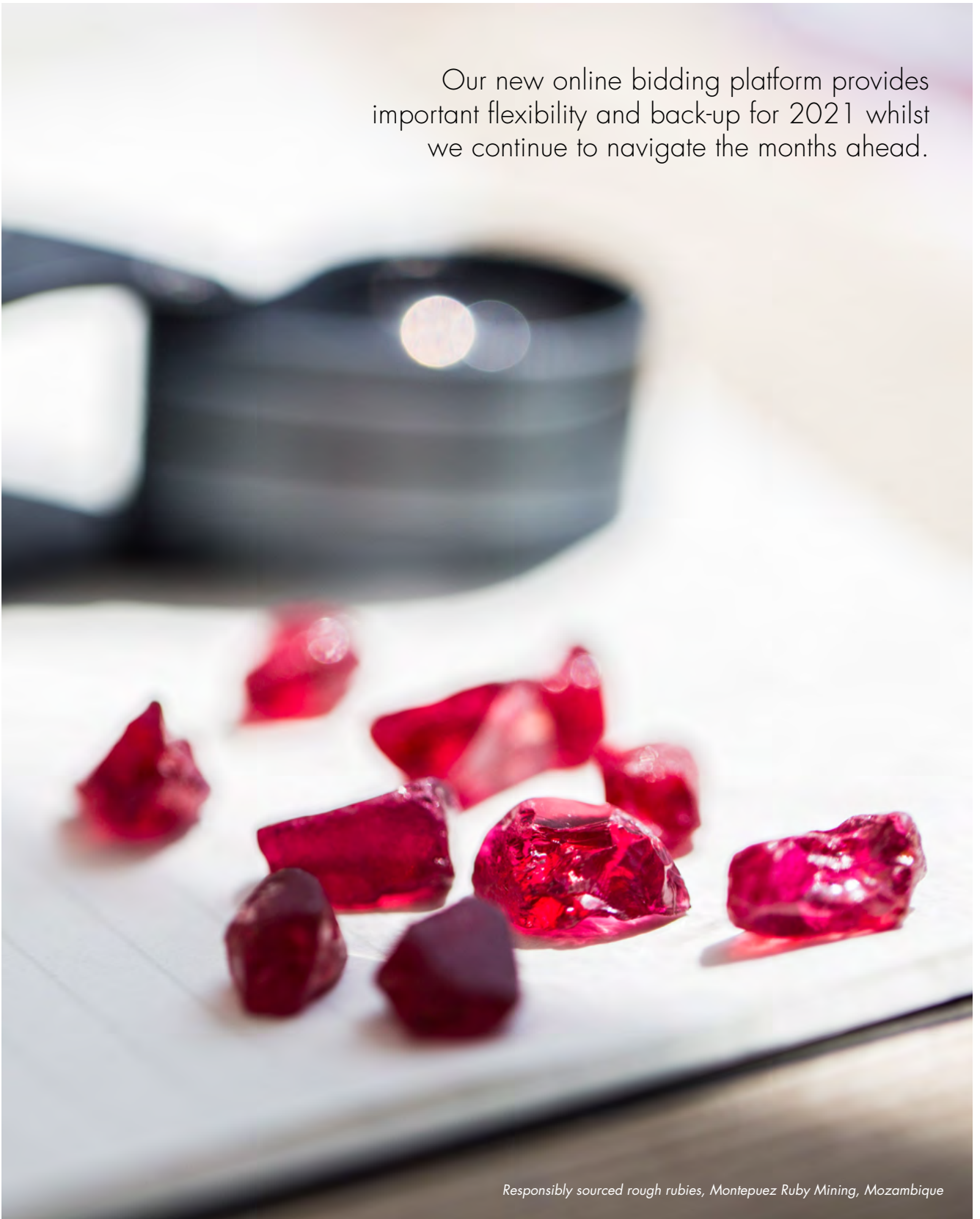
MRM Attributable Gemstone Resource and Ore Reserve Statement at 31 December 2019:

Gemstone resource (Attributable to GGL)	Recovered			Gemstone reserves (Attributable to GGL)	Recovered		
	Tonnage (kt)	Grade (ct/t)	Contained (Mct)		Tonnage (kt)	Grade (ct/t)	Contained (Mct)
Maninge Nice				Maninge Nice			
Indicated – primary	855	96.1	82.1	Probable – primary	843	97.7	82.3
Indicated – secondary	373	50.3	18.7	Probable – secondary	392	50.1	19.6
Total indicated	1,228	82.2	100.9	Total probable reserve	1,235	82.6	102.0
Inferred – primary	180	97.8	17.6				
Inferred – secondary	10,050	12.7	127.8				
Inferred – total	10,230	14.2	145.4				
Mugloto				Mugloto			
Indicated – primary	0	0	0	Probable – primary	0	0	0
Indicated – secondary	9,346	2.9	27.3	Probable – secondary	9,253	2.8	26.1
Total indicated	9,346	2.9	27.3	Total probable reserve	9,253	2.8	26.1
Inferred – secondary	13,800	14.8	203.6				
Glass				Glass			
Indicated – secondary	4,725	2.4	11.3	Probable – secondary	4,756	2.2	10.5
Total indicated	4,725	2.4	11.3	Total probable reserve	4,756	2.2	10.5
Inferred – secondary	6,075	0.9	5.4				
Stockpiles				Stockpiles			
Indicated – Primary	30	96.1	2.9	Indicated – Primary	30	96.1	2.9
Indicated – Secondary	747	6.7	5.0	Indicated – Secondary	747	6.7	5.0
Total indicated	777	10.2	7.9	Total probable reserve	777	10.2	7.9
Total indicated gemstone resources	16,076	9.2	147.4	Total gemstone reserves	15,021	9.1	146.4
Measured resource	30,105	11.8	354.4				

Gemstone grade and value	Recovered grade (ct/t)			Jun '20 Parcel value (USD/ct)	Dec '20 Parcel value (USD/ct)
	Maninge Nice	Mugloto	Glass		
Maninge Nice					
Premium ruby	0.049	0.098	–	1,383	1,391
Low premium ruby + ruby	0.356	0.477	–	74	74
Low ruby	2.619	0.101	–	3	2
Corundum	1.063	0.070	–	3	2
Sapphire	0.275	0.034	–	–	–
Low sapphire	4.883	0.321	–	–	–
–4.6 mm	8.001	0.768	–	–	–
Reject with some low sapphire	n/r	n/r	–	–	–


n/r = not recorded

Our new online bidding platform provides important flexibility and back-up for 2021 whilst we continue to navigate the months ahead.



Responsibly sourced rough rubies, Montepuez Ruby Mining, Mozambique

Operations, Kagem Mining, Zambia



We look forward to firing up all the mining engines during the course of March and April 2021 and in steering the recovery of the Group, delivering an optimal 2021 on behalf of all of our stakeholders.

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About the Group

STRUCTURE

Gemfields Group Limited (“Gemfields”, the “Company”, “GGL” or the “Group”) is incorporated in Guernsey under company registration number 47656 and is subject to the Companies (Guernsey) Law, 2008. The Company changed its name from Pallinghurst Resources Limited by Special Resolution effective 26 June 2018. The “Group” is Gemfields Group Limited, all entities controlled by the Company (its subsidiaries), and any associates or joint ventures. Gemfields’ primary listing is on the JSE, and its secondary listing is on the AIM market of the LSE. The Company de-listed from trading on the Bermuda Stock Exchange (“BSX”) effective from 1 July 2020. The Group’s main objective is to carry on the business of an operating mining group.

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

This Annual Report is for the year ended 31 December 2020 (the “Annual Report”) and covers the Group. The Consolidated Financial Statements contained within the Annual Report also cover the Group and are for the year ended 31 December 2020 (the “Financial Statements”).



Responsibly sourced rough emeralds, Kagem Mining, Zambia

SHAREHOLDERS

Gemfields has no single controlling shareholder; the largest shareholder is Dr Christo Wiese, a Director of the Company who holds an interest of 13.72%. Gemfields’ shareholder base, as at 31 December 2020, is set out in the table below.

Directors of the Company ¹	18.15%
Fidelity International Limited	11.47%
Oasis ²	8.11%
Rational Expectations	7.98%
Ophorst Van Marwijk Kooy Vermogensbeheer N.V.	7.53%
Ninety One Group	5.84%
Solway Finance Limited	5.77%
Old Mutual PLC ³	5.75%
Other shareholders	29.40%

¹ The Directors and management category includes shareholdings of Executive Directors and Non-Executive Directors and their family cross-holdings*.

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

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

* Dr Wiese holds indirect interests in GGL shares via various entities, totalling 13.72%. In addition, certain shares are held by members of Dr Wiese’s immediate family, totalling a further 0.19%.

RECENT CORPORATE CHANGES

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

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

Ms Mary Reilly was appointed as an Independent Non-Executive Director of Gemfields on 4 December 2020 and replaced Mr Martin Tolcher as a member of the Audit Committee.

Sustainability and Corporate Responsibility



Agricultural projects, Zambia

Despite the impact of COVID-19 on the Group, our approach to sustainability and corporate responsibility (“SCR”) remained consistent during the year. The overarching strategy set by the Group and then implemented locally by dedicated teams on the ground continued. The Group’s SCR programme of work has therefore not materially changed, and still extends beyond purely operational matters relating to the community, conservation, and health, safety and environment (“HSE”) and covers a range of associated issues – from human rights and security, product disclosure, Government or industry relations to policies, procedures, and risk management.

COVID-19 significantly affected much, if not all, of the practical implementation of the period’s budgeted and agreed projects in the communities, as operations were suspended, employees remained in their home countries with restrictions to site access, and cash preservation was made a priority. As such there is little new to be reported for this year. Nevertheless, the Group prides itself on continuing to strive to be as responsible to its stakeholders as possible despite these challenges.

RESPONSIBLE BUSINESS VALUES

The focus of the Group’s SCR remained unchanged in the year under review. The strategic approach and operational implementation are still concerned with addressing the main social, environmental, health and safety impacts at our mining operations. But we also continue to act as a champion and leader to the downstream coloured gemstone supply chain, supporting efforts to communicate with consumers of jewellery and other luxury products that use our gemstones. The three responsible business values are now firmly at the core of the company.

We look forward to progressing Gemfields’ vision of being the global leader in African emeralds, rubies and sapphires, promoting transparency, trust and responsible mining practices.

Legitimacy: *We go over and above accepted practices*

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

Transparency: *To lead we must be transparent*

As well as leading with our own standards and initiatives through our downstream supply chain, we are working with partners to standardise strong, transparent practices across the industry.

Integrity: *We are committed to embedding tangible operational actions*

We take this approach from the mines onwards, to support sales and marketing of our product. Our proprietary grading system provides our partners with trusted evaluation and declaration of treatment.

ENGAGEMENT

Fundamental to our approach to SCR is stakeholder engagement at different levels of the organisation, whether at local operations directly with communities or via head office enquiries.

For a mining company, securing social licence to operate in each country of operation relies on ongoing good stakeholder relations, particularly with the community. As such, we cannot expect our mining operations to continue based solely on their legal licences. Therefore, local teams engage a range of directly affected stakeholders including but not limited to local community members; local leadership; women's, youth and other minority groups; and informal business associations and cooperatives. Their feedback is essential in taking the temperature of the sentiment held by the

community towards the company. That way, we can effectively mitigate risks to community tensions, thus safeguarding the ability of the operation to continue.

This localised community engagement process at each of our operations differs depending on the proximity of the affected community, the size of the operation, and the immediate community risks that have been assessed. Local team members record the types of community engagement, the feedback or grievances raised and keep an ongoing log of these in order to determine if and how to respond.

At MRM the community engagement process is most developed and structured, whereas at the development sites and Kagem the process is more informal. As part of the engagement process at MRM, there is a primary entry point by which formal and informal community engagement feedback is assessed and triaged if necessary. This "tier 1" entry point is a component of MRM's wider grievance mechanism, the second part of which independently assesses serious alleged grievances in the community. Local teams engage more formalised groups of stakeholders such as local, district and provincial-level government; local civil society groups; state security service representatives; and representatives of national and international governments. These engagements are both formal and informal but typically are held face-to-face (during the last period as a result of COVID-19 restrictions, face-to-face meetings have been limited and have been in accordance with social distancing requirements). MRM's local community liaison office in Namanhumbir provides a safe space for members of the community to meet the MRM community team to raise any concerns they have.



*MRM's recently completed community liaison office
in the heart of Namanhumbir, Mozambique*

At the Group level, engagement is conducted in a more ad hoc manner depending on the nature of the engagement and, given that the Group has other interests besides mining, the stakeholders can be broader in their interests. There are a few international advocacy groups based outside the operational countries that require regular systematic engagement, but from time to time, such groups have been contacted on specific matters. Examples of these stakeholders include the British High Commission representatives of Zambia or Mozambique, their colleagues in the UK's Foreign, Commonwealth and Development Office, and the International Committee of the Red Cross.

IMPLEMENTING STRATEGY AND LEGACY

Before we start full mining operations, we work with the relevant authorities in carrying out social and environmental risk assessments, as well as mapping and conducting initial engagement with the community as to our plans. We recognise that we will only be able to operate for the full life of the mine by securing a social licence to operate and that this means maintaining open, accessible and 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”).



Alignment of the strategy to the SDGs is an important step forward in the development of our approach and reporting; however, we are aware that best practice is to track the impact our actions have in helping to meet the individual goals. We liaise with third parties to try and measure social impacts such as agricultural yields, the number of patients visiting healthcare facilities, or the impact our philanthropy has on conservation efforts. However, this is an area of work that we do not have sufficient capacity to pursue more comprehensively at this stage and 2020 is no exception given the impact of COVID-19 on the operations’ core functions. Below are examples where we have collected some data during the year for specific projects.

GOVERNANCE AND DELIVERY

HSE and community risks are ultimately the accountability of the Gemfields Board, and are on the list of strategic risks of most concern to the Board. Risk management is discussed in more detail in the Risk and Uncertainties section. Strategic direction-setting, management of policies, and guidance on delivery are delegated through a Group-level director who bridges between the corporate office, the management at the operations and laterally across relevant functional business units. Each fully functional operation has an HSE and community team that is accountable locally to its management team, whilst also receiving functional and technical guidance from the Group director. As a result of the suspension of all but critical operations due to COVID-19, the community team at Kagem was necessarily scaled back, whilst at MRM, despite some challenges meeting the national restrictions, the team functioned

<p>SDG 1 End poverty in all its forms</p> <p>Recognising that as an employer and major tax payer in the countries of operations we can contribute to job creation, economic development and offer opportunities for uplifting people out of poverty through sustainable development projects.</p>	<p>SDG 2 Zero hunger</p> <p>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.</p>	<p>SDG 3 Good health and well-being</p> <p>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.</p>	<p>SDG 4 Quality education</p> <p>Recognising that we operate in areas with very low literacy and numeracy levels, we can contribute to improving educational access and address gender disparities by opening access to both boys and girls.</p>	<p>SDG 5 Achieve gender equality</p> <p>Recognising that women and girls play an important role in our community and organisation and that we can contribute to their empowerment through employment and active participation in collaborative projects.</p>	<p>SDG 15 Life on land</p> <p>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.</p>

in the year largely unaffected. These teams are responsible for implementing HSE and community plans in agreement with the Group-level director and in collaboration with local stakeholders.

COMMUNITY DEVELOPMENT 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. Therefore, the approach to sustainable development in our countries of operation starts with community engagement rather than being directed by the company. It is critical that we recognise customary and cultural rights over land and resources, and that there can be expectations about what a company can reasonably provide the community. Therefore, managing our relationship with communities in a free, open and inclusive way is a priority and directs how our community development expenditure is used. We engage the local community continuously not just to listen to their concerns or grievances, but also to canvass their views on community development projects. Our dedicated community teams at the operations liaise and cooperate with the local communities who assist in the selection and successful implementation of community projects. Each community strategy follows this consistent approach so as to share the benefits of our business.

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

Community development is focussed on three core areas: rural health access, education, and income-generating livelihoods. These three areas are consistently cited as the most significant indicators of poverty, as they underpin economic development in the developing world, and are the aspects the communities tell us are most in need of investment. As described above, these focus areas are aligned to the relevant SDGs.

Healthcare access SDG 3

Addressing health impacts in the developing world is a serious challenge. The prevalence of chronic diseases such as typhoid, dysentery, HIV/AIDS, malaria and unexpected pandemics such as COVID-19 can affect the long-term health of any community.

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

Mobile health clinics, Mozambique

The two mobile health clinics established by MRM in partnership with the Mozambican Government provide basic health services to communities that are situated far away from the only existing health centre in the village of Namanhumbir. The focus of mobile clinics has been the immunisation of community members for various diseases and the provision of preventive medical services, especially maternal and children’s health. More complex cases are always referred to the health centre. During the year, a total of 25,689 consultations were held at the mobile health clinics across ten communities served by them. Of these, 62% of the consultations were part of an expanded immunisation programme, 27% related to maternal and child health and the remaining 11% to external consultations covering issues such as acute malnutrition, dysentery, malaria and diarrhoea.

COVID-19 had an impact on the frequency of visits, but the comparison to 2019 is not absolute, as, in 2020, visits by the mobile health clinics were conducted bi-weekly rather than weekly. It is estimated that compared to 2019, there was a reduction of 14% in the number of consultations, thought to be due to the restrictions imposed on the mobility of community members. Despite the Government encouraging hospital visits for follow-ups, it is understood that community members stayed away from hospitals out of fear of COVID-19 infections. It was calculated that although there was a reduction of about 18% of the total number of vaccinated children, there was actually an 8% increase in the total number of children fully vaccinated. In terms of maternal and child health, there was a 37% increase in prenatal consultations, an 81% increase in the distribution of mosquito nets and a near 80% increase in family planning.

Donation of an ambulance, Mozambique

To support the Government in improving the quality of healthcare provided to the approximately 38,000 inhabitants in the administrative area of Namanhumbir, MRM delivered an ambulance to the Namanhumbir health centre. The vehicle, a Toyota Landcruiser Hardtop 4x4, was donated in response to the unanimous request of the inhabitants of the seven communities immediately within or adjacent to the MRM concession area. The ambulance is especially important to transport pregnant women from different communities at a distance from the health centre so



Ambulance donated to local health centre, Namanhumbir, Mozambique

that they can have a delivery at the centre, thereby reducing maternal and child mortality.

Education and training SDGs 4 and 5

The Group's countries of operation in Africa have very low levels of basic literacy and numeracy. As education and training are fundamental to development, access to school and training is critical. Often the distances that are travelled by children and adults can affect access, and the quality of the teaching, or lack of infrastructure, and the cost of attendance can all undermine educational development. We have a track record of funding and then constructing new schools and improving existing community schools. Adult learning is also a very important factor in rural economic development and we have therefore helped groups to gain access to school infrastructure for after-school classes and helped to provide adult training opportunities.

Masasa Primary School, Zambia

As described, there was little community development activity of note at Kagem due to the impact of COVID-19. However, one project that was delayed, but continued piecemeal, was the construction of Masasa Primary School, fully funded by Kagem. The Masasa project comprises the expansion of an already existing



Education projects, Zambia

community school and modernisation of infrastructure. The new extension project is the construction of a 1x3 classroom block, 2x3 bedroom staff accommodation and two ablution and shower rooms at the site. The structures were approved by the Government and meet Zambian Government standardised design. During the year, construction was delayed due to COVID-19; however, it is anticipated the project will be completed in the first half of 2021.

Vocational Training Centre, Mozambique

Adult vocational training has been one of the main pillars of MRM's SCR commitment since 2018. The professional Vocational Training Centre ("VTC") built by the company offers young local people the opportunity to train in skills for a professional life, or to facilitate the possibility to start their own small businesses. Such skills are essential to contribute to broader sustainable development and livelihoods. In this period, the VTC training provider, the Mozambique Government's vocational training department, planned to train 300 trainees in 2020 but this was not fully possible due to the interruption of classes in the first semester from the COVID-19 pandemic. The first group of students was made up of 100 young people divided into five classes of plumbing, domestic electrical installation, and civil construction painting. The same group started classes in February 2020 but these were interrupted in March due to the country's state of disaster. During the state of disaster, the VTC was required to comply with COVID-19 prevention requirements, and after inspections by Government entities it was authorised to resume classes. Classes started again in December, but due to the long period of interruption, only 67 students returned. Further efforts will be made by the trainer to resume in 2021.

Financial literacy training, Mozambique

With an objective of improving financial awareness and the financial decision-making ability of households residing in the vicinity of MRM, a financial literacy project was started and continued throughout the year. The project is implemented through a partnership with a financial development organisation. Within this project, community stakeholders benefit from training in business management, savings, credit, leadership and financial conflict management. As a result of this training, four savings and revolving credit groups have been created, constituting approximately 90 members, most of them women, from the communities of Namanhumbir, Nanune, Nanhupo A and Nsewe. The saved funds were also used as credit for members to finance diverse business initiatives of the group's members. In total, the group's combined savings amounted to over USD1,500 and generated nearly USD190 of interest from the loans granted to other members of the group.

Sustainable livelihoods SDGs 1, 2 and 5

The legacy of our presence in the communities affected by our mining operations is a primary focus and concern for our teams on the ground. The lack of a regular and reliable income is the most pressing issue for these communities. We cannot provide job



A Nanune community agriculture association member harvesting sesame, Nanune village, Mozambique

opportunities for all members of the community, and in remoter areas forms of income such as subsistence farming are 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 and in many areas where mining occurs, land access can be a major source of food insecurity and risk. Our approach is to support high-impact income-generating projects, in particular with farming or business associations, that help share the risk amongst community members. By collaborating with these associations, we can negotiate fairly and transparently assist by providing training for all members (see above regarding financial literacy training).

For agricultural projects, each mining operation provides farmers with an immediate market for selling their produce, whether vegetables, eggs 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, although we continue to provide help should it be needed. However, the intention is that the community takes ownership of these projects in the long term in order to manage for 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 participation opportunities.

Conservation Agriculture Project, Mozambique

Since 2017, MRM has been investing in agriculture through a community agricultural programme that focuses on an enhanced yield method known as "conservation farming". The Conservation Agriculture Project has significantly helped local families of Namanhumbir to overcome food insecurity issues and constraints.

During the year, approximately 10.5 tonnes of certified maize, sesame, peanut and bean seeds, and 20 tonnes of organic fertiliser, were distributed among the 414 participating farmers across the seven communities within and adjacent to the MRM concession area. This effort resulted in an increase in production areas, productivity and the quantity of food crops produced, part of which has been supplied by MRM, resulting in much-needed income.

One of the key pillars of this project is the set-up of an agrarian extension network, consisting of seven qualified agrarian technicians, one for each community. These technicians were responsible, among other activities, for:

- Distribution of agricultural inputs (seeds and fertiliser) and monitoring of the sowing process and plant health;
- Training of the lead farmers in the management principles of farming associations and farm institutional organisation;
- Training in production and productivity techniques;
- Training in harvesting, post-harvesting and storage/produce conservation techniques;
- Training of producers in the construction of low-cost silos and granaries;
- Training in seed conservation techniques for subsequent agricultural campaigns.

The 2020 results were very satisfactory compared with the previous agricultural campaign and sales of vegetables and fruits from the communities to the company almost tripled, thanks to improvements in the agricultural project. The participating households substantially increased their production and productivity of all crops, especially maize production, which increased 53% from 1.5 t/ha (tonnes/hectare) to 2.3 t/ha. Bean productivity increased 70% and peanut and sesame productivity increased 11% and



Delivery of bicycles for the community members of Mpene and Nthoro

7%, respectively. However, as a result of the negative impact of COVID-19, the chicken associations' production fell by 55% and sales to MRM decreased by 35% compared to the previous year. In 2020, 48 small local suppliers, including individuals, companies and agricultural associations, in total sold products (including COVID-19 cloth masks, chickens, vegetables and other agricultural products) valued at over USD15,000 directly to MRM.

Rural mobility project, Mozambique

In 2020 MRM created a rural mobility project in which it donated 150 bicycles that support the members of the seven neighbouring communities in their travels for daily activities related to access to agricultural land, health services and markets for purchasing or selling products.

Support for COVID-19 prevention

Both our main operations, Kagem and MRM, provided support for COVID-19 prevention.

Despite 2020 being a very difficult period financially due to the negative impact of the COVID-19 pandemic, Kagem did not completely give up on its responsibilities to wider society and the environment. In line with the company's SCR framework, and in an effort to support Government efforts towards the fight against and management of the COVID-19 pandemic, the company donated assorted health and sanitation materials worth nearly USD5,000 to Lufwanyama District Hospital and Nkana Clinic to prepare against the spread of COVID-19. More than 500 COVID-19 awareness posters were also distributed in surrounding communities and in the Ministry of Health's Copperbelt provincial offices in Ndola to assist Government in creating awareness among citizens.



The company responded to requests for COVID-19 prevention measures such as masks and cleaning products

As part of MRM's contribution to the fight against COVID-19, the Company made interventions at different levels. At the provincial and district levels MRM donated kits of personal protective equipment for health technicians, comprising coveralls, N95 masks, surgical masks, disposable caps, ruffles, thermometers, sodium hypochlorite, oxygen cylinders, oxygen concentrator, diesel, glasses and sprayers for disinfecting hospitals. At the local level, tailors from the village of Namanhumbir were mobilised to produce cloth COVID-19 masks for MRM (using material supplied by MRM) and, in total, 14,000 of these masks were donated to local communities. In addition, hand hygiene kits were donated to all communities in the administrative area of Namanhumbir. Nairoto Resources Limitada supported the local authorities in combating the pandemic by donating sanitising items and face masks for the local communities. Seven tailors in Nairoto, Ntele and Namoro villages produced a total of 2,240 face masks. In addition, NRL also donated sanitisation kits, including 17 handwashing buckets and nine boxes of soap.

All these kits and face masks were handed over to the chief of Nairoto administrative post. The chief and the health technician of Nairoto health centre distributed the items to the community. NRL supported the distribution wherever required.

In consultation with the local authorities, Web Gemstone Mining procured essential food and medical provisions, including flour, oil, sugar and hand sanitiser, to support the most vulnerable members of the community. These items were provided to the Web Kebele Administrator for onward distribution and use by the most needy and vulnerable people within the community, whose lives were most disproportionately affected by the pandemic.

HEALTH, SAFETY, AND ENVIRONMENTAL REHABILITATION

The health and safety of colleagues is a priority and we aim to minimise accidents, incidents and lost-time injuries to drive a risk-aware and zero-harm culture. Identification of hazards through near-miss reporting, investigation of health and safety incidents and training are the main points of focus of the local HSE teams. At both Kagem and MRM, the progress made in the previous period towards integrating management systems to certified status necessarily slowed as operations largely shut down. The centralised reporting system has seen a considerable increase in the number of incidents, accidents and near misses (“IANM”) reported at site level. This system of transparent feedback assists operations in continuous improvement as well as accountability for following policies and procedures and the recording of any data or evidence for investigations.

A summary of this period’s IANM performance is presented below:

Entity	Total IANM reported	Near misses reported	Lost-time injuries	Fatalities
Kagem	1,298	5	0	0
MML	6	2	0	0
MRM	812	16	7	0
ERM	3	0	0	0
NRL	16	0	0	0
Fabergé	2	0	0	0
Total	2,137	23	7	0

As with safety, the operations are also focussed on improving environmental performance and compliance. Due to the COVID-19 restrictions to operations, progress in rolling out and meeting the ISO14001 standard has been delayed. One important aspect of our mining operations is back-filling pits no longer actively producing ore. By collecting seeds from the top-soil and growing indigenous plants in nurseries, we are able to replant these areas whilst simultaneously mining elsewhere, so the land is reclaimed immediately. At MRM a total of 350 saplings were planted in an effort to rehabilitate an area of nearly 1.3 hectares (13,000 square metres). At Kagem, similar efforts to rehabilitate dump sites resulted in the planting of 234 saplings covering an area of 0.37 hectares (3,700 square metres).

In addition, beyond our statutory requirements to rehabilitate the environment in accordance with the mine plans, we continued to support conservation organisations in Zambia and Mozambique and made annual conservation funding contributions to the Zambia Carnivore Programme and the Niassa Lion Project and the Quirimbas National Park in Mozambique.

GREENHOUSE GAS DISCLOSURE

During the year, the Group undertook its first exercise to account for and disclose its greenhouse gas (“GHG”) footprint. Its calculation and methodology were independently verified by internal audit. Any implicit assumptions are set out alongside the data below.

Baseline and footprint boundary

It was agreed to account and disclose the prior year’s GHG emissions (for the purposes of this exercise, the 2019 full accounting year is set as the baseline year) as well as for the 2020 accounting year. As described by the World Resources Institute,¹ there are three scope elements of a corporate GHG footprint to account for. Scope 1 emissions are those arising directly as a result of fuel combustion by a company. Scope 2 emissions are those arising indirectly as a result of grid electricity consumption and Scope 3 emissions arise indirectly from the supply chain or from business travel and hotel usage. The Greenhouse Gas Protocol (“GHG-P”) framework gives guidance that companies may self-set boundary and scope measurements according to their level of operational influence, the materiality of where and how emissions arise, as well as the availability and reliability of data. Therefore, the Group’s footprint boundary scope is necessarily limited to Scope 1 and 2 and by entity, to the Group’s main operational sites and the London office only. The following boundary and scope elements are excluded from the calculation due to materiality, availability and reliability of data:

- exploration sites (MML, ERM, CDJ, NRL and WGM);
- offices or non-operations sites (e.g. the Fabergé Boutique, Fabergé facility in Geneva, the Gemfields India office);
- combustion of site incinerator waste and emissions from septic tanks;
- supply chain, business travel and hotel usage.

We will aim to expand and improve data collection for the 2021 period by requesting improved data from our sites as well as from service providers such as travel agents and landlords, and be in a position to report an expanded boundary and scope in future reports, subject to the ongoing data collection constraints.

Calculation methodology and emissions factors

The methodology followed the prescribed and established approach to corporate GHG calculation and disclosures set out by the GHG-P. Emissions factors used were a combination of standardised factors (2017 GHG-P)² and country-specific factors for Scope 2 in Zambia and Mozambique from the Institute for Global Environmental Strategies (“IGES”) list of grid emissions factors.³

¹ <https://www.wri.org/resources/charts-graphs/operational-boundaries-ghg-emissions>

² https://ghgprotocol.org/sites/default/files/Emission_Factors_from_Cross_Sector_Tools_March_2017.xlsx

³ September 2020, <https://www.iges.or.jp/en/pub/list-grid-emission-factor/en>

Greenhouse gas report

The table below outlines our GHG emissions for 2019 and 2020. As can be seen, COVID-19 had a material impact on GHG emissions between these two years, and this is reflected in a reduction in 2020 emissions due to national lockdowns, operational shut-downs and travel restrictions.

GHG emissions 2019 and 2020 (CO₂-e tonnes)

Period	2019		2020	
	Scope 1	Scope 2	Scope 1	Scope 2
<i>GHG-P Scope</i>				
Kagem	24,063	2,823	6,152	1,917
MRM	14,420	3,453	6,084	2,196
Gemfields Ltd (London)	21	20	17	17
Total	44,800		16,383	

The biggest contribution (83%) to the Group's 2019 GHG emissions results from fleet fuel consumption. Each operation is reliant on a fleet of light and heavy earth-moving equipment for which there are currently few cost-effective technological alternatives. Kagem's heavy fleet is larger than MRM's due to the nature of rock handling to extract the ore and this accounts for the greater emissions in Zambia. Indirect emissions arising from site electricity consumption contribute a smaller percentage to the Group's 2019 emissions (14%). As described, there are currently a number of exclusions from the Group's GHG footprint. For 2020, GHG emissions were down by 63% as a result of the near total shut down of the operations and limited use of facilities and fleet.

The reduction in emissions between 2019 and 2020 is larger at Kagem than at MRM and this is directly related to the lower utilisation of fleet at Kagem. It is not expected that emissions will approach similar levels to 2019 in the following year as the impact of COVID-19 will continue and operations will not return fully until later in 2021. An assumption was made regarding the Gemfields Ltd data for both 2019 and 2020. The 2019 data are comprised of actual energy-use data from its present office location from July 2019 to December 2019. Prior to April 2019, Gemfields Ltd occupied a different office location (for which no data were obtainable). As such, actual 2019 data for the first three months are based on seasonal assumptions. In a similar fashion, the first eight months of 2020 are based on actual data, whereas the last four months are based on seasonal assumptions.

Taskforce on Climate-Related Financial Disclosures

With transparency and responsibility at the core of what we do, we are supportive of the Taskforce on Climate-Related Financial Disclosures ("TCFD").⁴ Climate change risk in our countries of operations may result in higher temperatures, increased use of electricity to cool sites and increased risk of extreme weather events

(such as that experienced in Mozambique with Cyclone Idai and Cyclone Kenneth in 2019). The internally verified carbon report was presented to the Board and it contained recommendations of voluntary alignment to TCFD over the next few years. Whilst TCFD is primarily aimed at premium listed companies, we believe it is important to set the Company on the right path towards contributing to a lower-carbon future, and as such we will aim for future processes and disclosures to align with the TCFD. Gemfields would seek to reposition climate risk and opportunity to make it a part of everything we do.

COLLABORATIVE INDUSTRY INITIATIVES AND LEADERSHIP

Gemstones and Jewellery Community Platform

In 2020, Gemfields continued to be heavily involved in one particular initiative, known as the Coloured Gemstones Working Group ("CGWG"). Five years ago, this unique alliance between luxury brands and coloured gemstone miners was created with Gemfields as a founding member. Today the group comprises Gemfields, Tiffany & Co, Muzo, Swarovski, Chopard and the combined brands under LVMH, Kering and Richemont. The CGWG unites regularly to push forward its commitments to catalyse positive change in the responsible sourcing of coloured gemstones. In this period, the CGWG shared the resources it has been developing since 2015, publicly. The Gemstones and Jewellery Community Platform ("GJCP") now offers the industry access to practical and theoretical resources for the coloured gemstone and jewellery industry to embed responsible business practices and give greater certainty to the market regarding transparency and traceability.

More information can be found at <https://gemstones-and-jewellery.com/>



Responsibly sourced rough rubies, Montepuez Ruby Mining, Mozambique

⁴ <https://www.fsb-tcdf.org/>

Risks and Uncertainties

RISK GOVERNANCE

Risk inherently exists throughout the Group, and Gemfields accepts that risk is a constant feature of the Group's operations and investments. This means that understanding the principal risks, and ensuring we have sufficient controls in place to mitigate risks, is critical to our continued growth and success.

The Gemfields Board is responsible for the oversight of risk across the Group and risk management is operationalised through the management line. The Group follows the "three lines" model with regards to management of risk.

First line: The Group's senior management, primarily at operational level, is responsible for managing risks through mitigating controls at sites or within their functional areas.

Second line: A Group-level risk management function exists to facilitate the risk management process. Compliance with internal controls rests with a complement of Group functions, including HR, finance, legal, sustainability and security.

Third line: A Group-level internal audit function provides independent assurance on the effectiveness of governance, risk management and internal controls, including the first two lines of defence. The internal audit function is independent and reports functionally to the head of the Audit Committee.

To support the Board's view of risk and the three lines model, a revised Enterprise Risk Management ("ERM") framework and operational reporting system was completed in the period. This is an update to a previous manual system in place since the introduction of the Group's ERM framework in 2015. In addition, a subcommittee of the Audit Committee, the Risk Council (further described), continued to meet during the year.

RISK APPETITE

During this year, the Gemfields Board reviewed and approved the Group's risk appetite statement.

Gemfields operates in a sector that is inherently high risk. In particular we are exposed to key macro-level risks such as the global economic outlook and political instability. More directly, risks such as geology, financing the expansion of operations and exploration sites, social licence to operate, safety and environmental compliance, security, and the demand for rough gemstones and jewellery are important factors affecting the Group's operations. We aim to balance a high inherent risk appetite against a low appetite for risks which will materially impact the business such as bribery, corruption or human rights risk. We will support this inherently high-risk appetite with a pragmatic level of investment, and policies and controls that are suitable for a business of our size. These policies and controls will facilitate growth, decision-making, support the entrepreneurial culture we value and help us drive an acceptable return on investment.

PRINCIPAL RISKS TO THE GROUP

The Group's main operating activities are its mining interests in Zambia and Mozambique with a number of development projects, as well as other non-mining assets. The performance of the Group's investments, primarily the sale of gemstones, is fundamental to the Group's long-term prospects. Before investing in the Group, prospective investors should consider the following Principal Risks. This list of Principal Risks describes what the Board considers are most strategic and material to the Group. During the year the Board reviewed and consolidated previously reported Principal Risks. The Principal Risks described below were approved by the Board at the end of the year and represent those that are viewed as representing a present and continuous exposure to the Group. Within the ERM, operational risks are considered through the risk management process and as occurring over a six-month period.


The table provided displays a description of each Principal Risk alongside risk ratings, movements and mitigations. The ratings are presented in a "red, amber, yellow, green" format, with red



representing the highest risk, and green the lowest. To provide a geographic and operational comparison, country-level Principal Risk ratings for Zambia and Mozambique are presented. These were derived at the time of writing by aggregating operational risk ratings from the ERM (each linking to a Principal Risk) to provide the overall rating. Any discrepancy between Principal Risk rating

and country-level rating is due to the difference between a strategic/top-down and operational/bottom-up perception of risk within the Group. Three newly described stand-alone risks resulting from the Principal Risk review and consolidation exercise are presented in the table: Environmental, Climate, Weather; Illegal miners & Trespassers; and IT, Digital & Data.


Principal risk	Risk description	Principal Risk rating and movement	Risk mitigation	Zambia rating	Mozambique rating
Communication, Reputation, Ethics	<p>Gemfields has a public-facing brand identity and is well known in the industry both as a mining company and owner of the jewellery brand Fabergé. As an active communicator and promoter of coloured gemstones, both championing responsible mining and supply chain transparency in line with the Group’s values, the Group must uphold this identity. The Group’s exposure to unethical practices such as bribery and corruption risk is high in its countries of operation. Mining and resource extraction are considered a high-risk industry when it comes to ethics and business conduct.</p> <p>Failure to be aware of the risks and manage these could cause reputational damage, or legal or financial penalties, even if entirely unfounded and unproven.</p>	↑	<ul style="list-style-type: none"> Well-established head office functions such as communications, legal, policy and risk, HR and teams at site level. Policies and standard operating procedures established for the Group and replicated at site level. Independent systems in place to handle ethics issues including internal whistle-blowing, external grievances and incident reporting. Culture of transparency and accountability to meeting internal policies and procedures and external regulations and laws. 		

Principal risk	Risk description	Principal Risk rating and movement	Risk mitigation	Zambia rating	Mozambique rating
<p>Community and Social</p>	<p>The Group’s operating mining sites in Africa require the continuous management of stakeholder relations. Most importantly, this includes the acceptance and support of a wide range of local community stakeholders, most significantly the communities in and around concessions.</p> <p>Failure to engage with and share the benefits of our operations with local communities, such as creation of jobs, local procurement or sustainable development projects, may contribute to or exacerbate negative sentiment, tensions or, at worst, lead to strikes, disruptions or incursions into our operations. Long term, these failures may undermine our social licence to operate regardless of the legal rights we may have.</p>		<ul style="list-style-type: none"> • Locally developed teams at site, specifically responsible for community relations, engagement and sustainable development projects. • Well-established head office function specialising in sustainability and corporate responsibility. • Social policies for the Group, replicated with site-specific procedures. • Community relations and grievance management systems to record and remedy community complaints, grievances and allegations. • Annual ring-fence of operational budget for investment in community development projects. 		
<p>Environmental, Climate, Weather</p>	<p>The Group’s operations are primarily Africa-based and are subject to environmental risk. Environmental, climate and weather-related risks manifest in different ways outside the Group’s control and include extreme weather events (such as hurricanes or cyclones), unseasonal or extreme levels of rainfall and higher than average humidity and heat. All of these can have a major impact on the operations’ ability to carry out the physical mining process. In addition to the physical impact, this risk directly affects our workforce, from working in rising temperatures to coping with extreme weather events, and an additional cost of operations.</p> <p>Failure to plan strategically for climate change risk and a more extreme operating environment will likely increase the Group’s operating costs.</p>	<p style="writing-mode: vertical-rl; transform: rotate(180deg);">New stand-alone risk</p>	<ul style="list-style-type: none"> • Contingency plans to respond to extreme weather emergencies. • Physical preparation and protection of site assets and mine plans in accordance with geology and effects of corrosion, groundwater and slippages. • Consideration of the use of renewable energy and fuel efficiency measures at operations to reduce operating costs and use of fossil fuels. • Improvements in external disclosures regarding climate risk. • Emergency evacuation systems for expatriate employees. • Emergency preparedness plans for a range of extreme events. 		

Principal risk	Risk description	Principal Risk rating and movement	Risk mitigation	Zambia rating	Mozambique rating
Financial, Economic, Markets, Business	<p>During times of economic uncertainty or hardship the demand for gemstones may fall. The macro-economic environment may also result in buyers delaying or defaulting on payments. Reduced auction sales as a result of an economic downturn will have an adverse effect on the profitability and cash flow of the business. The Group may need to raise funds, which may not be available on acceptable terms.</p> <p>Failure to address falls in revenue or stem the costs of production will result in the Group experiencing significant losses and the Group may be forced to curtail or suspend some or all of its capital projects and/or operations.</p>	No change	<ul style="list-style-type: none"> Proprietary grading system developed as a transparent and reliable system for the market to value gemstones. Long-developed relationships with “authorised auction partners”. Partnerships with luxury brands to market coloured gemstones to end-consumers. Active financial management and consideration by management of different financing options. 		
Health, Safety and People Protection	<p>Health and safety risks and the protection of employees are inherent to the mining industry, as well as to the countries of our operations. Our employees operate in hazardous operational environments, and at development sites that are remote they are also exposed to safety risks as a result of incursions and external movements of people through the concession who may seek to exploit the operations. Socio-political events may give rise to increased exposure to regional or even national conflict.</p>	No change	<ul style="list-style-type: none"> Locally developed teams at site specifically responsible for HSE risk management and training. Development of integrated HSE management systems to meet international standards. HSE measures, training and compliance with policies and procedures continuously reviewed and implemented with management support. Internal system for reporting of incidents, accidents and near-misses. Conflict analysis and risk assessment of operations in the context of conflict situations. 		

Principal risk	Risk description	Principal Risk rating and movement	Risk mitigation	Zambia rating	Mozambique rating
<p>Health, Safety and People Protection</p>	<p>Tribal or religious tensions, civil war, political demonstrations, terrorist insurgency or direct acts of aggression against the Group’s operations could affect safety in direct and indirect ways.</p> <p>Failure to maintain adequate health and safety standards, plans or measures to protect employees may result in the general deterioration in safety performance or, in more extreme cases, incidents can result in severe injury, loss of life, loss of time or disruption, or in worst-case scenarios, significant loss of control of a concession.</p>		<ul style="list-style-type: none"> • Emergency evacuation systems for expatriate employees. • Emergency preparedness plans for a range of extreme events. 		
<p>Illegal Miners and Trespassers</p>	<p>Theft, as a result of both internal collusion and illegal mining, is an inherent risk factor in the gemstone industry. Organised criminals can exploit situations of poverty, creating indebted servitude. The risk from illegal mining is severe and significant, particularly as gemstone mineral-bearing rock can be easily accessible. Artisanal miners can gain easy access to sites where physical barriers on large concessions are not viable and they operate without licences to illegally extract gemstones which would otherwise be retrieved and sold by the Group. This situation presents the opportunity for gemstones finding their illegitimate way out of the country and onto the black market.</p> <p>Failure to protect the site from this loss of gemstones from the licence area consequently impacts the profitability of the Group. Furthermore, the presence of illegal miners and security forces who protect the assets can contribute to security risks such as increased likelihood of apprehension, detention or conflict.</p>	<p style="text-align: center; color: red; font-weight: bold;">New stand-alone risk</p>	<ul style="list-style-type: none"> • Security measures and systems are constantly reviewed and revised in order to minimise the risk. • Engaging local authorities, communities and security and police forces in seeking to protect the Group’s employees, equipment and mining assets. • Multilayered security approach across our operations with a mix of internal and external providers working with the local police and security forces in each geography, technology and system. • Security measures constantly reviewed and implemented in order to minimise the risk. • Community relations and grievance management systems in place to record and remedy community relations issues. 		

Principal risk	Risk description	Principal Risk rating and movement	Risk mitigation	Zambia rating	Mozambique rating
IT, Digital and Data	<p>The Group has complex communications infrastructure and IT systems between head office and the sites that can be subject to attempted breaches, deliberate damage, outages and delays. The Group also has a proprietary database and IT system that is used in combination for customer relationship management, online sales, inventory management, as an incident reporting system, employee data management and a depository for key company documents.</p> <p>Failure to protect the company from breaches of the security and communications systems can result in the loss of data, communications or simply weaken the security system and require improvements to be made.</p>	New stand-alone risk	<ul style="list-style-type: none"> Well-established and experienced head office IT team. Site-level IT functions responsible for implementation and management of IT risk at site level. IT policies and standard operating procedures. Multifaceted IT security system that undergoes continuous assessment and improvement. Adoption of cyber security standards and systems. 		
Legal, Legislative, Regulatory, Governance	<p>Emerging markets are generally subject to greater risk and may be affected by legal and legislative changes. These may result in changes in legal requirements, mineral royalty rates, taxation policies or restrictions on the export of currency or gemstones, and which may have a material adverse impact on the Group's operations or future development. Failure to prepare for renewal or continuance of appropriate surface and/or subsurface use contracts, licences, permits, regulatory approvals or consents may result in delays to the Group's operations, or in extreme circumstances require withdrawal.</p>	No change	<ul style="list-style-type: none"> Team highly experienced in operating in Africa. Active and open engagement with the relevant government bodies and ministries. Regular reviews of commercial arrangements and regulatory requirements. Internal controls, policies and procedures to ensure we can meet regulatory changes. External advice sought to supplement the skills and experience of our internal teams. 		

Principal risk	Risk description	Principal Risk rating and movement	Risk mitigation	Zambia rating	Mozambique rating
<p>Mining, Geology and Processing</p>	<p>The Group’s exploration and mining operations are dependent upon the grant, renewal or continuance in force of appropriate surface and/or subsurface use contracts, licences, permits, regulatory approvals and consents which may only be valid for a defined time period and may be subject to limitations. Geology of gemstone occurrences is relatively more complex, rendering it less predictable. It is not possible, for example, to predict the quality and quantity of gems in the host rock. Processing of ore can therefore be significantly affected, and the production of high-value gemstones can fluctuate, which has an effect on what can be sold at auction and therefore revenue.</p> <p>Failure to retain data, knowledge and expertise regarding gemstone geology or adequately extract and process the ore will affect the Group’s success.</p>		<ul style="list-style-type: none"> • A Group portfolio of projects and licence areas that carry a range of differing technical and commercial opportunities. • Assessment of a wide range of potential growth opportunities, both from the internal portfolio and external opportunities. • Retention of a vast body of historical data on gemstone mining to increase confidence levels in production. • Team of highly qualified geologists and mine engineers at each site. 		
<p>Organisation, Culture, Training, Succession, Employment</p>	<p>The Group’s prospects depend in part on the ability of its executive officers, senior management and key consultants to operate effectively, both independently and as a group. To manage its growth, the Group must retain employees and attract additional highly qualified management and technical personnel. In addition, it must continue to put in place practices and systems for managing its people to encourage retention and lower employee turnover. Embedding a consistent culture across the Group ensures that all employees in the Company contribute to long-term success.</p> <p>Failure to continuously monitor and communicate with its people and improve the practices and systems in place for its people may result in loss of key personnel and knowledge for the Company.</p>	<p>No change</p>	<ul style="list-style-type: none"> • Well-established head office HR function. • Site-level HR functions responsible for employment, culture, training at local level. • Use of recruitment companies to search for and engage high-quality talent. • Policies and standard operating procedures for employment contracts and protections, including full unionisation where appropriate. • Employee relations and engagement with unions for negotiations of remuneration and benefits. • Succession and retention plans for key positions. 		

Principal risk	Risk description	Principal Risk rating and movement	Risk mitigation	Zambia rating	Mozambique rating
Political, Government	<p>Political instability, including changes in Government, may also result in a major disruption to the functions at state-, provincial- or district-level government. This can directly affect the Group's operations but also can result in civil unrest, labour disputes or the withdrawal or variation of existing agreements, mining licences and permits as resource management can be politicised. Resource nationalisation is a possibility in our countries of operation and pressure to surrender licences or parts of licences to the state is a risk that is monitored.</p> <p>Failure to engage with relevant Government departments can affect the Group's prospects in a range of ways and directly adversely affect operations.</p>	No change	<ul style="list-style-type: none"> • Team highly experienced in operating in Africa. • Active and open engagement with the relevant Government bodies and ministries. • Internal controls, policies and procedures to ensure we can meet regulatory changes. 		
Security, Infrastructure and Asset Protection	<p>Protecting the Group is a constant activity for internal security with the support of third-party contractors and the police, who investigate acts committed against the Group by both external and internal parties. Plant, equipment and consumables are all easily stolen or at risk of loss. Infrastructure may be deliberately damaged and sites can attract trespassers who enter the licence area.</p> <p>Socio-political events may give rise to increased exposure to regional or even national conflict. Tribal or religious tensions, civil war, political demonstrations, terrorist insurgency or direct acts of aggression against the Group's operations could affect security in direct and indirect ways.</p> <p>Failure to implement proportionate measures to protect assets or people can result in increased costs associated with replacement and repairs or, in worst case scenarios, significant loss of control of a concession.</p>	No change	<ul style="list-style-type: none"> • Security measures and systems are constantly reviewed and revised in order to minimise site-specific risk. • Engaging local authorities, communities and security and police forces in seeking to protect assets. • Multilayered security approach across our operations with a mix of internal and external providers working with the local police and security forces in each geography, technology and system. • Internal system for reporting of incidents, accidents and near-misses including security incidents. • Country-specific conflict analysis and operational security risk considerations in the context of conflict situations. • Third-party security analyst threat assessments regarding travel to/from countries of operations. • Emergency preparedness plans for a range of extreme events. 		



Responsibly sourced rough emerald, Kagem Mining, Zambia

IMPACT OF COVID-19 PANDEMIC ON RISKS

Whilst the Board did not include “pandemic” as a stand-alone Principal Risk during the Principal Risk review and consolidation exercise (it was considered as part of the Health, Safety & People Protection Risk), its impact on stand-alone Principal Risks across the year was considerable. From April 2020 onwards, the pandemic was continuously monitored and measures were taken by senior management to reduce its impact on revenue, employee safety and operations in particular. Efforts were made to preserve cash by suspending all but critical operations across the Group, asking employees to agree to temporary reductions to their contractual hours, hiring freezes, budget reductions and postponement of major capital and operational expenditure projects. The Board discussed the impact of COVID-19 at each Board meeting throughout the year. The Principal Risk most acutely affected by the pandemic related to the Group’s financial situation (Principal Risk: Financial, Economic, Markets, Business).

The Group’s inability to hold traditional, physical auctions resulted in a significant loss of revenue and impact on the balance sheet. Consideration was given to other ways of selling rough gemstones in a way different to the traditional auction model which was rendered impossible due to the restrictions on travel and the ability of people to gather in places. This resulted in alternatives such as the hosting of a series of sequential smaller emerald auctions, whereby bids were placed online after multi-city, in-person viewings of the gemstones by customers, which yielded some revenue. There was a reduction of the mines and projects to critical operations only as well as the strict imposition of a cash preservation exercise. The effectiveness and appropriateness of these measures was kept under constant review by senior management throughout the year and continues to be the primary risk concern in 2021.

Directors' Report

The Directors are pleased to present the Group's Annual Report and Consolidated Financial Statements for the year ended 31 December 2020.

NATURE OF BUSINESS

Gemfields was incorporated in Guernsey on 7 September 2007 and was listed on the BSX on 26 September 2007. The Group subsequently listed on the JSE (as a primary listing) on 20 August 2008, followed by a dual listing on AIM (as a secondary listing) on 14 February 2020. The Company changed its name from "Pallinghurst Resources Limited" to "Gemfields Group Limited" on 26 June 2018. The Company de-listed from trading on the BSX effective from 1 July 2020.

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

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

BOARD COMPOSITION

Director	Designation	Appointment date
Mr Martin Tolcher	Independent Non-Executive Director – Chairman	25 November 2008 (made Chairman on 25 November 2019)
Mr Sean Gilbertson	Executive Director – Chief Executive Officer	17 July 2017 (made CEO on 31 March 2018)
Mr David Lovett	Executive Director – Chief Financial Officer	31 March 2018
Dr Christo Wiese	Non-Executive Director	11 February 2013
Mr Lumkile Mondli	Lead Independent Non-Executive Director	29 October 2015
Mr Kwape Mmela	Independent Non-Executive Director	31 July 2017
Mr Carel Malan	Independent Non-Executive Director	9 January 2019
Ms Mary Reilly	Independent Non-Executive Director	4 December 2020

DIRECTORS WHO RETIRED DURING THE YEAR – NONE

CORPORATE GOVERNANCE

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

FINANCIAL RESULTS

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

RETIREMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Company's Articles of Incorporation, Kwape Mmela and Mary Reilly will offer themselves for re-election at the Annual General Meeting ("AGM") to be held on 24 June 2021.

SHAREHOLDER MEETINGS

A Virtual AGM (“VAGM”) was held on 24 June 2020. All of the following resolutions were passed, except for Special Resolution 1 and the two Non-Binding Advisory Votes:

Special resolutions:

1. General authority to issue ordinary shares for cash.
2. General authority to acquire (repurchase) ordinary shares.
3. General authority to cancel shares.
4. To amend the Company’s articles of incorporation.

Ordinary resolutions:

1. The adoption of the Company’s Annual Report and Consolidated Financial Statements for the year ended 31 December 2019.
2. To re-elect Martin Tolcher, who retired by rotation, as a Director of the Company.
3. To re-elect Lumkile Mondi, who retired by rotation, as a Director of the Company.
4. To elect each of Carel Malan, Martin Tolcher (subject to his re-election as a Director pursuant to Ordinary Resolution 2) and Lumkile Mondi (subject to his re-election as a Director pursuant to Ordinary Resolution 3) to the Company’s Audit Committee.
5. To reappoint BDO LLP (“BDO”) as the Company’s auditor (until the conclusion of the 2021 Annual General Meeting) and to authorise the Directors to fix BDO’s remuneration.
6. General authority to issue shares for cash.

Non-binding advisory votes:

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

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

The Group’s next VAGM is scheduled for 24 June 2021. Full details will be set out in the Notice of Annual General Meeting and will be distributed to shareholders accordingly. The Directors consider that passing the resolutions to be proposed at the AGM will be in the best interests of the Company and shareholders as a whole, and unanimously recommend that shareholders vote in favour of each of them, as they intend to do in respect of their own holdings.

INDEPENDENT AUDITOR

BDO was re-elected as Company auditor at the AGM on 24 June 2020.

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

DIRECTORS’ AND OFFICERS’ LIABILITY INSURANCE

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

GOING CONCERN

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

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

Notwithstanding this, the Directors recognise that there is inherent uncertainty over the likely cash flows as a result of COVID-19, in particular, the quantum and timing of auctions and continued support from the Group’s lenders; and consider that these indicate the existence of material uncertainty that may cast significant doubt upon the Group’s ability to continue as a going concern. Further detail is set out in the Going Concern section of Note 1 to the Consolidated Financial Statements.

OMISSION OF COMPANY-ONLY FINANCIAL INFORMATION FROM THE CONSOLIDATED 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 Consolidated 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 Consolidated Financial Statements, as permitted

by Section 244 of the Companies (Guernsey) Law, 2008, and Sections 8.62(a) and 8.62(d) of the JSE Listings Requirements.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

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

The Directors are responsible for the following:

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

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

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

JSE-REQUIRED ATTESTATION STATEMENT

The Directors, whose names are stated below, hereby confirm that:

- (a) the Consolidated Financial Statements set out on pages 98 to 172, fairly present in all material respects the financial position, financial performance and cash flows of the issuer in terms of IFRS;

- (b) no facts have been omitted or untrue statements made that would make the Consolidated Financial Statements false or misleading;
- (c) internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to effectively prepare the financial statements of the issuer; and
- (d) the internal financial controls are adequate and effective and can be relied upon in compiling the Consolidated Financial Statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King Code. Where we are not satisfied, we have disclosed to the Audit Committee and the auditors the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves Directors, and have taken the necessary remedial action.

AUDITOR CONFIRMATION

Each of the Directors, at the date of approval of the Consolidated 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 2008.

APPROVAL OF ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

The Annual Report and Consolidated Financial Statements for the year ended 31 December 2020 were approved by the Directors on 29 March 2021 and will be presented to shareholders at the AGM on 24 June 2020. The Consolidated Financial Statements are signed on the Directors' behalf by:

David Lovett
Chief Financial Officer
29 March 2021

Sean Gilbertson
Chief Executive Officer
29 March 2021

Corporate Governance Report

APPROACH TO CORPORATE GOVERNANCE

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

BOARD RESPONSIBILITIES

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

BOARD COMPOSITION

King IV recommends that a Board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively. There are eight Directors on the Board, of whom six are Non-Executive Directors. Five 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 Group and his remuneration is reasonable and in line with the market level of remuneration for a non-executive chairman for a company such

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

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

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

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

DIVERSITY POLICY

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

to carry out its responsibilities in keeping with robust standards of governance.

EXECUTIVE DIRECTORS

The Executive Directors, Mr Sean Gilbertson (CEO) and Mr David Lovett (CFO), are responsible for the Group's strategic direction and everyday management. The Executive Directors often act as Directors of the Group's subsidiaries, for example, Mr Gilbertson and Mr 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. Four quarterly Board meetings and two ad hoc Board calls were held during 2020.

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 2020:

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

¹ Resigned from the Audit Committee on 4 December 2020.

² Appointed to the Board and the Audit Committee with effect from 4 December 2020.

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

BOARD COMMITTEES

The Board has established certain committees to assist in discharging its responsibilities. Reports from the Audit Committee, Remuneration Committee and Nomination Committee are included in this Annual Report. The Company does not currently have a Social and Ethics Committee as historically the nature and size of the Company has made such a committee unnecessary but instead has established the Strategic, Operations and Ethics Risk Council ("Risk Council"). Its principal purpose is to monitor current and emerging strategic, operations and ethics risks and challenges facing the Group. It has its own terms of reference, and its members are made up of a cross-section of senior employees across the head office in London. The Risk Council aims to meet quarterly, and its recommendations are reported to the Audit Committee in advance of its own committee meetings. When the Audit Committee does not meet, the Risk Council reports to the Board in advance of its meetings. Ethics and Risk are standing agenda items at the quarterly Board meetings.

CHIEF INFORMATION OFFICER

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

ROTATION OF DIRECTORS

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

COMPANY SECRETARY

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

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

action to the Board. The Board takes responsibility for deciding whether to follow the recommendations of the Company Secretary and for ensuring compliance with applicable laws.

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

RISK MANAGEMENT

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

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

A Risk Council was established in December 2019 as a subcommittee of the Audit Committee. Further details of the Risk Council can be found in the Audit Committee Report.

INVESTMENT VALUATIONS

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

SUSTAINABILITY REPORTING

The Directors recognise the importance of sustainable development. The Company has integrated sustainability and corporate responsibility strategy and initiatives across the Group. Where possible, the Board also uses its influence on the Group's subsidiaries to ensure that independent assurance is provided on their sustainability reporting. However, a wholly separate public sustainability report is not produced by the Group or by the Group's subsidiaries.

SHAREHOLDER COMMUNICATION WITH THE BOARD

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

INTERNAL AUDIT

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

DEALING IN SECURITIES

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

Audit Committee Report

INTRODUCTION

The Audit Committee is pleased to present its report for the year ended 31 December 2020, 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 Carel Malan (Chair)
- Mr Lumkile Mondli
- Mr Martin Tolcher (until 4 December 2020)
- Ms Mary Reilly (from 4 December 2020)

Mr Carel Malan was appointed to the Audit Committee on 9 January 2019, following a recommendation from the Nomination Committee and approval by the Board. Subsequently, Mr Martin Tolcher resigned as Chairman of the Audit Committee (arising from his appointment as Chairman of the Company) effective 25 November 2019 and was replaced by Mr Carel Malan on the same date. Mr Tolcher remained appointed as a member of the Audit Committee until his replacement by Ms Reilly on

4 December 2020, the date on which Ms Reilly was appointed to the Board as an Independent Non-Executive Director. The performance of the members of the Audit Committee is evaluated on an annual basis by the Board.

MEETINGS

In addition to the Committee members, the CFO may attend meetings by invitation. The Chair of the Committee usually meets separately with both the CFO and the external auditor in advance of Committee meetings. The Committee may meet with the external auditor either formally or informally throughout the year; the audit partner has access to the Committee via the Chair. The Chair of the Committee decides whether to convene any ad hoc meetings and who should be invited to such meetings. Two formal Audit Committee meetings were held during 2020.

INTERNAL AUDIT

King IV recommends that all companies implement an internal audit function that is in-sourced to some degree. From January 2020, the internal function has been fully run in-house, with Mr Robin Griffiths acting as Director Internal Audit. The Gemfields Internal Audit function reports functionally to the Chairman of the Audit Committee, thereby ensuring its independence. The Audit Committee is satisfied that the Group's internal financial controls and the arrangements for internal audit were working effectively during the period, and were predominantly adequate and fit for purpose.

EXTERNAL AUDIT

The Committee is satisfied that BDO, as external auditor to the Company, is entirely independent of the Group. The Committee is satisfied with the policies and controls in place which address the provision of non-audit services received from BDO. BDO has been appointed as external auditor to the Company since 8 January 2018, with the current audit partner rotating on to the audit from the 2018 year-end for a five-year mandatory period. There has been no significant change in the Company's management during BDO's tenure as external auditor to the Company which



Responsibly sourced rough emeralds, Kagem Mining, Zambia

may mitigate the attendant risk of familiarity between the external auditor and management. The Committee is satisfied with the performance of BDO as external auditor to the Company.

RISK COUNCIL

A Risk Council was established in December 2019 as a sub-committee of the Audit Committee. Its principal purpose is to monitor current and emerging strategic, operations and ethics risks and challenges facing the Group. It has its own terms of reference, its members are made up of a cross-section of senior employees across the head office in London and it is chaired by Martin Tolcher (with the expectation that Mary Reilly will shortly formally replace Martin Tolcher as Chairperson). The Risk Council meets quarterly and its recommendations are reported to the Audit Committee in advance of its own committee meetings. When the Audit Committee does not meet, the Risk Council reports to the Board in advance of its meetings. The Risk Council's primary focus in 2020 was the establishment of a new Enterprise Risk Management Framework.

DUTIES CARRIED OUT IN 2020

During the year ended 31 December 2020, the Committee carried out its duties as required by King IV and its terms of reference. The Committee performed the following statutory duties:

- Considered the qualifications, independence and objectivity of BDO and approved its terms of engagement;
- Reviewed the performance of the external auditor and confirmed that the external auditor, the partner and the firm have complied with the suitability requirements of the JSE as detailed in paragraph 22.15(h) of the JSE Listings Requirements;
- Considered the appropriateness of the Group's going-concern assessment – particularly in light of the COVID-19 pandemic;
- Recommended the reappointment of BDO as Company auditor, to the Board;

- Approved the fees paid to BDO during 2020, which were for both audit and non-audit services; and
- Ensured that the independence of BDO has not been compromised for any reason.

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

- Reviewed the Group annual and interim Consolidated financial statements for compliance with the IFRS, the JSE Listings Requirements and the Companies (Guernsey) Law, 2008;
- Reviewed significant judgements and unadjusted differences resulting from the audit and interim review;
- Reviewed and recommended to the Board for approval 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;
- Considered paragraph 3.84 (k) of the JSE Listing Requirements, which require the Chief Executive Officer and Chief Financial Officer to prepare a responsibility statement. In particular, the requirement for the Executive Directors to confirm the adequacies of internal financial controls, disclose any deficiencies in design and operational effectiveness of the Audit Committee and confirm that the annual Consolidated Financial Statements fairly present in all material respects the financial position, financial performance and cash flows of the Company in terms of IFRS;
- Reviewed the performance of the CFO, and was satisfied that the CFO continues to possess the appropriate expertise and experience to carry out his responsibilities as CFO; and
- Reviewed the Audit Committee Report included in the Company's previous Annual Report.

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

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

CONCLUSION

The Committee is satisfied that it has considered and discharged its responsibilities in accordance with its mandate and its terms of reference during 2020. Accordingly, this report was recommended by the Audit Committee and was approved by the Board on 29 March 2021.

Carel Malan
Chair of the Audit Committee

Remuneration Committee Report

INTRODUCTION

The Remuneration Committee is pleased to present its report for the year ended 31 December 2020, as recommended by the King IV Corporate Governance Code. 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 Martin Tolcher
- Mr Lumkile Mondli

MEETINGS

The Committee meets as often as is required, but not less than once a year. Six formal meetings were held during 2020 and a further meeting was held in January 2021, although the Committee deliberated on matters, as necessary, on an ad hoc basis. Members of the Remuneration Committee do not participate when the level of their personal remuneration is considered.

GEMFIELDS GROUP LIMITED REMUNERATION POLICY

The Board, with input from the Remuneration Committee, created a Remuneration Policy (the "Remuneration Policy") and a Remuneration Implementation Report ("the Implementation Report"), which were put to shareholders, as non-binding advisory

votes, at the Company's AGM on 24 June 2020. 53.7% of votes were cast against endorsing the Remuneration Policy and 47.8% of votes were cast against endorsing the Implementation Report. As more than 25% of shareholders voted against these non-binding advisory resolutions, the resolutions did not pass.

In response to these votes, the Remuneration Committee and broader Board has considered the Company's remuneration arrangements in detail and engaged with shareholders in accordance with the principles of King IV. To assist in this process, the Remuneration Committee engaged the services of h2glenfern Remuneration Advisory, an independent remuneration consultancy with extensive experience advising listed international resources companies.

Shareholders' conference calls were held in July and December 2020. Points considered included executive salary levels, the workings of the annual bonus plan and outstanding share option awards. The Remuneration Committee explained to shareholders how Executive salaries, along with Non-Executive Director fees and the salaries of UK employees, had been reduced by 20% in response to the COVID-19 crisis. These have not yet been restored to contractual levels.

No bonuses will be paid to Executive Directors in respect of 2020. The Company carried out a detailed review of its annual bonus arrangements and will implement a KPI-based annual bonus structure from 1 January 2021, the detail of which is set out below.

Outstanding share options represent legally binding agreements. To provide reassurance to shareholders in relation to the level of dilution arising from the existing arrangements the Company set out further detail on the outstanding options' exercise prices and lapsing schedule. Gemfields may in due course consider a new approach to long-term share incentive awards. The Company will consult with as many shareholders as possible in advance of any proposed amendments and will seek formal shareholder approval for any new plans in advance of implementation.

The revised Remuneration Policy and Remuneration Implementation Report will be put to shareholders, again as non-binding advisory

votes, at the Company's next AGM to be held on or around 24 June 2021.

THE REMUNERATION POLICY

Elements of Executive Director remuneration

Executive Director remuneration is 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.

Fixed Compensation

In response to the COVID-19 crisis, all Executive and Non-Executive Directors agreed to a 20% reduction in base remuneration, effective from 1 May 2020. This reduction, which was also applied more broadly across the Company's employees including the entire UK workforce, is still in place at the time of writing. The Board will consider when it is appropriate to restore base remuneration to contractual levels, taking into account all relevant circumstances. The Company will also implement a base remuneration freeze in respect of the two Executive Directors for the duration of 2021.

Performance-Related Awards

Again, as a result of the impact of the COVID-19 crisis on the Company, there will be no annual cash bonus paid to the two Executive Directors in respect of financial year 2020, irrespective of performance. There were no awards of share options to Executive Directors during 2020. There will be no further awards of share options to the Executive Directors under the Company's Long Term Incentive Plan ("LTIP").

Annual Cash Bonus

With effect from 1 January 2021, Gemfields will terminate the existing share price based annual cash bonus structure and adopt a balanced scorecard structure. The central methodology for the new structure is an assessment of performance improvement across 11 Key Performance Indicators ("KPIs") against performance in the previous year and performance over the previous three years. These KPIs are, in order of weighting:

1. Free Cash Flow – 17.5%;
2. Revenue – 15%;
3. Total Cash Operating Cost – 15%;
4. HSEC (Health, Safety, Environment, Community) – 12.5%;
5. Total Premium Carats Produced – 12.5%;
6. Total Rock Handling – 7.5%;
7. Fabergé Cash Consumption from the Gemfields Group – 5%;
8. Balance Sheet (net cash/net debt, treasury, financing, tax) – 5%;
9. Strategy/Business Development/Development Projects/Organic Growth – 5%;
10. Leadership/Organisational/People Development/Staff Turnover – 2.5%; and

11. Financial and Shareholder Reporting/Auditors/Accounting/Controls – 2.5%.

Performance against each KPI will be scored in a matrix against previous performance, including negative scoring, which the Committee will assess.

All bonus payments are at the discretion of the Remuneration Committee. Under the new structure, the Committee will have an overriding discretion to adjust bonus payments from formulaic outcomes in light of the Committee's overall assessment of (1) overall performance and (2) HSEC matters. The new structure will have malus and clawback provisions which will be incorporated into the Executive Directors' contracts of employment.

Outside exceptional circumstances, the maximum annual cash bonus will remain capped at 100% of base remuneration.

The Committee determined that the approach of comparing performance against prior performance was more effective and appropriate than setting forward targets for a number of reasons, including that a number of central KPIs, such as carat production and rock handling, and so free cash flow, revenue and cash costs, are outside the scope of management control and that the setting and measuring of targets involves a significant degree of judgement and subjectivity and can create perverse incentives.

The new scheme benchmarks performance against prior years across a broad and balanced range of KPIs, requiring less judgement or subjectivity. The scheme effectively sets a "measurement benchmark" as the level of performance attained in prior years. The new scheme would typically pay no bonus for merely attaining the same performance as in prior years. This creates a strong focus on constantly improving the business as captured by the various KPIs, giving a clear message to management on their objectives.

FCF will be calculated in a consistent manner as the cash flow from operating activities (taken from the Consolidated Statement of Cash Flows) less sustaining and expansionary capital expenditure and with working capital movements excluded. If the Company performs positively in respect of operational, financial (including FCF) performance, return on capital/equity will follow. FCF is a pertinent metric and takes into account the capital being "invested" in the business in the form of expansionary and sustaining capex.

The Committee will keep the matter of bonus deferral under review.

Given this is a new scheme, an overall review will be carried out after its first year of operation in order to assess its functioning and suitability, with changes made where and to the extent recommended by the Committee (and subject to Board approval).

LTIP

Outstanding options represent legal binding agreements. Details of outstanding options are set out in the Implementation Report below.

The Company made no changes to any existing awards and made no new awards to Executive Directors during 2020.

Depending on how events unfold, the Company may consider a new approach to its LTIP. The Company will consult with as many shareholders as possible in advance of any proposed new awards or changes to existing awards and will seek formal shareholder approval for any new plans in advance of implementation.

Executive Directors' Contracts of Employment

At the time of writing, new contracts of employment for the Executive Directors were being finalised, on like terms, and based on UK market practice.

Non-Executive Directors

At the Company's EGM held on 26 June 2017, shareholders resolved that the maximum amount payable as Non-Executive Directors' fees be increased to USD100,000 per Director per annum. Since the cap on the Non-Executive Director fees had been at the same level since the 2010 AGM, this increase not only brought the Company's remuneration more in line with prevailing market practice but has improved the Company's ability to attract candidates with appropriate qualifications and experience to the Board.

	Component	Objective	Link to business strategy	Policy
Element 1: Guaranteed pay and benefits	Base compensation Akin to a salary, base compensation is received monthly, based on an annual figure decided by the Remuneration Committee.	To engage the best talent at Executive Director level.	Ensures market competitiveness, helps to attract and retain key talent, and provides fair reward for individuals.	Executive Director base compensation was initially determined by former holders of the equivalent office within Gemfields plc, and at prevailing market rates. Future reviews will be based on skill, experience, responsibilities and market rates, with particular emphasis on shareholder engagement.
	Insurance benefits Executive Directors receive life insurance, medical and dental insurance and travel insurance policies for themselves and their families.	The benefits package is comparable with others on the market, the aim being to attract and retain the best talent.	The Company recognises the need for a holistic approach to an Executive Director's guaranteed pay package.	Insurances are comparable with those offered to the wider employee base within the Group, and are reviewed annually.
Element 2: Short- and long-term incentives	Annual bonus At the end of each calendar year, Executive Directors may receive a cash bonus dependent on the success of their work over the previous year, based on the value of their base compensation. Outside exceptional circumstances, the maximum annual cash bonus will remain capped at 100% of base remuneration.	To encourage performance over each one-year operating cycle.	Rewards Executive Directors for a measurable contribution to the Company.	A balanced scorecard approach has been adopted from 1 January 2021. Performance across the various metrics is compared against previous years' performance.
	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.

EVALUATION OF WHETHER THE REMUNERATION POLICY MEETS ITS OBJECTIVES

When developing the Remuneration Policy, the Remuneration Committee focussed on three key areas.

Performance incentives

The objectives of performance incentives are to ensure that:

1. The elements of Director remuneration are a good foundation for both the short- and long-term success of the Company;
2. 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; and
3. 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 of the Company's business and the share price.

Shareholder engagement

Shareholder engagement has been key to developing and revising the Remuneration Policy and applying it to Executive Director remuneration. Shareholder advisory votes are a key means of shareholder feedback from which the Committee can tailor both practical remuneration and the Remuneration Policy. Consequently, the Company commits to engaging shareholders about remuneration each financial year. The two votes held during 2020 were important for the Committee to collate shareholder feedback.

Should any shareholder advisory vote conclude in a result of less than 75% in favour of the remuneration matter under vote, the Committee will re-examine the matter. Where possible, the 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 Committee will also consider communicating with shareholders individually, also via the Company's website and

via SENS and RNS, encouraging shareholders to come forward should they believe their view is yet to be represented. This is what occurred during 2020.

King IV standard

The 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 2020

Following extensive shareholder feedback, the Committee has continued to develop the Remuneration Policy, which will be put forward to shareholders at the 2021 AGM.

Schedule of fees and remuneration

Throughout the 2020 financial year, the Executive Directors' remuneration consisted of their base compensation only. No annual bonuses were paid in respect of the 2020 financial year, nor any share options awarded in 2020. The table below sets out the remuneration of Executive Directors in respect of the 2020 financial year.

At the Company's EGM held on 26 June 2017, shareholders resolved that the maximum amount payable as Non-Executive Director fees be increased to USD100,000 per Director per annum. With effect from 14 September 2017, the fee payable for each Non-Executive Director increased from USD35,000 per annum to USD40,000 per annum. There was no change to this in 2018, 2019 and 2020. An additional fee of USD5,000 is payable for each member of the Audit, Nomination and Remuneration Committees with a further USD2,500 for the Chairman of each Committee and USD2,500 for the Lead Independent Director.

1 January 2020 to 31 December 2020	Base compensation USD'000	Benefits USD'000	Pension USD'000	Bonus USD'000	Total USD'000
Sean Gilbertson	488	5	–	0	493
David Lovett	286	2	14	0	302
Total	774	7	14	0	795

On 1 May 2020, all UK-based staff members and the Board of Directors agreed to a 20% base remuneration reduction with UK-based employees being placed on a four-day working week, in light of the COVID-19 pandemic.

The Non-Executive Director fees vary based on the individuals' involvement and role within the various committees of the Company's Board. The fees payable to Non-Executive Directors for the year ended 31 December 2020 are as follows:

1 January 2020 to 31 December 2020	Group Director fees USD'000	Board committees USD'000	Lead Independent Director USD'000	Total USD'000
Martin Tolcher	87	–	–	87
Dr Christo Wiese	35	–	–	35
Lumkile Mondli	35	15	2	52
Kwape Mmela	35	10	–	45
Carel Malan	35	6	–	41
Mary Reilly ¹	3	–	–	3
Total	230	31	2	263

¹ Appointed effective 4 December 2020.

Share options

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

	Options held at 1 January 2020	Issued date	Exercise price	Options granted during the year	Options forfeited during the year	Options exercised during the year	Options held at 31 December 2020
Sean Gilbertson	27,890,213	September 2017	ZAR3.45	–	–	–	27,890,213
David Lovett	1,184,200	January 2018	ZAR2.97	–	–	–	1,184,200
David Lovett	7,000,000	July 2018	ZAR2.30	–	–	–	7,000,000

No share options were granted to or exercised by the Executive Directors during the year ending 31 December 2020.

The Company's Share Option Plan was approved by shareholders on 26 June 2017. Under the terms of the plan, the Company can issue a maximum of 167,341,278 options.

In September 2017, Mr Sean Gilbertson was awarded 27,890,213 share options at an option price of ZAR3.45 cents. These options represent 2.4% of the Company's current issued share capital. In 2018, Mr Lovett was granted: (i) 1,184,200 share options on 4 January 2018 at an option price of ZAR2.97; and (ii) 7,000,000 share options on 27 July 2018 at an option price of ZAR2.30, together representing approximately 0.70% of the Company's issued share capital.

All share options vest over a four-year period in tranches of 20%. One-fifth of the options granted vest immediately, with the remaining 80% vesting annually on the grant date over the following four years, during which the grantee has to remain in employment.

Share options which have not been exercised shall lapse:

- the first tranche of options (one-fifth), vesting on the issue date; will lapse on the expiry of five years from the issue date;
- the second tranche of options (one-fifth), vesting on the one-

year anniversary of the issue date, will lapse on the expiry of four years from the vesting date;

- the third tranche of options (one-fifth), vesting on the two-year anniversary of the issue date; will lapse on the expiry of three years from the vesting date;
- the fourth tranche of options (one-fifth), vesting on the three-year anniversary of the issue date, will lapse on the expiry of three years from the vesting date; and
- the fifth tranche of options (one-fifth), vesting on the four-year anniversary of the issue date, will lapse on the expiry of three years from the vesting date.

Issue date – the date at which the options are granted to the option holder.

Vesting date – the date that each tranche of the options is available for exercising.

Share options for employees of the wider Group

In 2018, the Group established a share option programme for the employees of the wider Group within the parameters of the scheme approved by shareholders on 26 June 2017. In the same manner that the Company has used share options as a long-term incentive for its Executive Directors, the Board extended this benefit to a wider number of its employees. Awards are granted in five equal tranches, with the first tranche of share options vesting immediately and thereafter on an annual basis.

- A total of 21.6 million share options were granted to Group employees at ZAR2.97 cents on 4 January 2018.
- A total of 44.8 million share options were granted to Group employees at ZAR2.30 cents on 20 July 2018.
- A total of 1.6 million share options were granted to Group employees at ZAR1.90 cents on 15 March 2019.

At 31 December 2020, the following share options had been granted and were outstanding in respect of the ordinary shares:

Issue date	Exercise price	Outstanding at 1 January 2020	Granted	Forfeited/lapsed	Exercised	Outstanding at 31 December 2020
September 2017	ZAR3.45	55,780,428	–	–	–	55,780,428
January 2018	ZAR2.97	17,472,255	–	(91,680)	–	17,380,575
July 2018	ZAR2.30	43,168,000	–	(300,000)	–	42,868,000
March 2019	ZAR1.91	1,580,000	–	–	–	1,580,000
Total		118,000,683	–	(391,680)	–	117,609,003

The table above includes those share options held by the Executive Directors.

To provide reassurance to shareholders in relation to the level of dilution arising from the existing awards, the Company sets out the following summary points.

- 117.6 million awards are outstanding, representing 10.1% of the Company's current shares in issue.
- While this percentage is significant, dilution may be lower given the structure of the awards (including exercise price and lapsing profile).
- 55.8 million awards (47% of the outstanding awards) have a ZAR3.45 exercise price. These options commence lapsing from September 2022 and are fully lapsed by September 2024. Of these 55.8 million awards, 50% are held by leavers and the balance (27.9 million/or 2.4% of the Company's issued shares) are held by the Chief Executive Officer. Of the current total outstanding awards, approximately 38% lapse by December 2022 and 74% lapse by December 2023.
- Total awards with exercise prices between ZAR1.91 and ZAR2.97 amount to 62 million, representing 5.3% of the Company's issued shares. The weighted average exercise price of the outstanding options is ZAR2.94 (GBP0.132).

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

No share options were granted to or exercised by Group employees during the year ending 31 December 2020.

Success of the Remuneration Policy throughout 2020

The Committee is committed to implementing a Remuneration Policy that is robust and delivers for the Company and for shareholders, and will continue to engage with shareholders to implement the best possible policy.

Future focus areas

During 2021, the Board and the Remuneration Committee have two main priorities:

1. To maintain good communication with shareholders. The implementation of the Remuneration Policy and the Executive Director remuneration throughout 2020 benefited from shareholder engagement. The Committee remains committed to continuing this dialogue to the benefit of all parties.
2. To continue ensuring that employees of the wider Group feel engaged with Gemfields by having their remunerative rewards closely tied to the success of the Company, which in turn will encourage employees to perform as active stakeholders and have their efforts at work appropriately rewarded. Consequently, the Company and its shareholders can be confident that employees will continue to perform at a superior standard, with all parties focussed on a unified aim.

Approval of the Remuneration Committee Report for 2020

All decisions undertaken in the 2020 financial year were compliant with the Remuneration Policy as determined by the Committee. Accordingly, this report was recommended by the Committee and was approved by the Board on 29 March 2021.

Kwape Mmela

Chair of the Remuneration Committee

Nomination Committee Report

ROLE OF THE NOMINATION COMMITTEE

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

- Reviewing the structure, size and composition of the Board on an ongoing basis, with the recommendation of any changes to the Board as necessary;
- Considering diversity, including gender and race, when assessing suitable candidates for appointment to the Board;
- Identifying suitable candidates for appointment to the Board;
- Overseeing 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 Lumkile Mondli (Chair)
- Mr Kwape Mmela
- Mr Martin Tolcher

MEETINGS

The Nomination Committee meets as often as required, but not less than once per year. Three formal meetings were held during 2020 although the Committee deliberated on matters, as necessary, on an ad hoc basis.

DUTIES CARRIED OUT IN 2020

During the year ended 31 December 2020, the Committee carried out its duties as required by King IV and its terms of reference. The Committee performed the following duties:

- Approved and adopted a Board Diversity Policy, which sets out the approach to diversity to be adopted by the Board of Directors and the Nomination Committee when making new appointments to the Board;
- Considered and recommended the appointment of Mary Reilly as a Non-Executive Director and a member of the Audit Committee. In appointing Ms Reilly, the Nomination Committee gave consideration to the composition and skill requirements of the Board at the time, as required by the Board Diversity Policy;
- Confirmed that the reappointment process that was undertaken for the Company's 2020 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
- Approved a Board Performance Evaluation Policy in compliance with the requirements of King IV.

MEETINGS

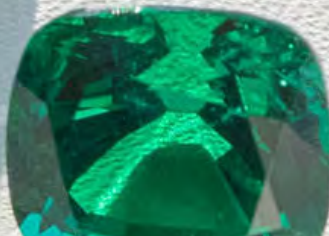
The Committee is satisfied that it considered and discharged its responsibilities in accordance with its mandate and its terms of reference during 2020. Accordingly, this report was recommended by the Nomination Committee and was approved by the Board on 29 March 2021.

Lumkile Mondli

Chair of the Nomination Committee

Responsibly sourced cut and polished Zambian emeralds and Mozambican rubies

Gemfields' focus during 2020 was centred on cash preservation given the pandemic's impact on the Group's ability to generate revenue.



FINANCIAL STATEMENTS AND ADMINISTRATION

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CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2020

	Notes	2020 USD'000	2019 USD'000
Revenue	3	34,567	216,233
Cost of sales	4	(59,064)	(124,683)
Gross (loss)/profit		(24,497)	91,550
Unrealised fair value (losses)/gains	13	(27,900)	7,053
Other gains and income	5	198	8,464
Selling, general and administrative expenses	6	(29,706)	(56,773)
Impairment (charges)/reversal	11, 12	(11,500)	21,559
(Loss)/profit from operations		(93,405)	71,853
Finance income	9	419	787
Finance costs	9	(6,216)	(5,267)
Net finance costs		(5,797)	(4,480)
(Loss)/profit before taxation		(99,202)	67,373
Taxation	10	5,975	(28,242)
NET (LOSS)/PROFIT AFTER TAXATION		(93,227)	39,131
(Loss)/profit for the year attributable to:			
Owners of the parent		(85,282)	28,369
Non-controlling interest		(7,945)	10,762
		(93,227)	39,131
(Loss)/earnings per share attributable to the parent:			
Basic – USD	22	(0.07)	0.02
Diluted – USD	22	(0.07)	0.02

The accompanying notes form part of these Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020

	2020 USD'000	2019 USD'000
(Loss)/profit after taxation	(93,227)	39,131
Other comprehensive income:		
Items that have been/may be reclassified subsequently to profit or loss:		
Exchange gain arising on translation of foreign operations	2,905	2,445
Total other comprehensive income	2,905	2,445
TOTAL COMPREHENSIVE (LOSS)/INCOME	(90,322)	41,576
Total comprehensive (loss)/income attributable to:		
Owners of the parent	(82,343)	30,814
Non-controlling interest	(7,979)	10,762
	(90,322)	41,576

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2020

	Notes	2020 USD'000	2019 USD'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	362,734	376,913
Intangible assets	12	51,461	55,200
Unlisted equity investments	13	29,600	57,500
Deferred tax assets	10	3,029	7,227
Other non-current assets	14	11,103	10,559
Total non-current assets		457,927	507,399
Current assets			
Inventory	15	117,839	110,694
Current tax receivable		4,175	–
Trade and other receivables	14	32,907	87,842
Cash and cash equivalents		43,862	78,218
Total current assets		198,783	276,754
Total assets		656,710	784,153
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	10	79,236	92,177
Borrowings	17	23,500	28,000
Lease liabilities	19	2,836	3,570
Provisions	18	3,613	6,312
Other non-current liabilities	16	5,000	–
Total non-current liabilities		114,185	130,059
Current liabilities			
Trade and other payables	16	17,303	29,850
Current tax payable		4,274	16,282
Borrowings	17	33,005	24,827
Lease liabilities	19	909	1,081
Provisions	18	4,018	3,111
Total current liabilities		59,509	75,151
Total liabilities		173,694	205,210
Net assets		483,016	578,943
EQUITY			
Share capital	20	11	12
Share premium	20	488,294	511,833
Treasury shares	20	–	(10)
Reserve for own shares	20	–	(23,319)
Cumulative translation reserve		4,424	1,485
Option reserve	21	7,929	6,985
Retained (deficit)		(88,085)	(2,725)
Attributable to equity holders of the parent		412,573	494,261
Non-controlling interest	23	70,443	84,682
Total equity		483,016	578,943

The Consolidated Financial Statements were approved and authorised for issue by the Directors on 29 March 2021 and were signed on their behalf by:

David Lovett Sean Gilbertson
Director Director

The accompanying notes form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

	Notes	2020 USD'000	2019 USD'000
Cash flow from operating activities			
(Loss)/profit before taxation		(99,202)	67,373
<i>Adjustments for</i>			
Unrealised fair value losses/(gains)	13	27,900	(7,137)
Realised fair value gains		–	(4,645)
Dividend income		–	(2,582)
Depreciation and amortisation	4	21,023	34,827
Impairment charges/(reversals) and other provisions		13,511	(19,411)
Share-based payments		944	1,693
Other		(15)	(19)
Finance income	9	(419)	(787)
Finance expense	9	6,216	5,267
(Decrease)/increase in trade and other payables		(18,162)	7,583
Decrease/(increase) in trade and other receivables		49,829	(24,748)
Increase in inventory		(6,192)	(11,457)
(Decrease)/increase in provisions		(596)	423
Cash (utilised in)/generated from operations		(5,163)	46,380
Tax paid		(15,003)	(9,692)
Net cash (utilised in)/generated from operating activities		(20,166)	36,688
Cash flows from investing activities			
Purchase of intangible assets		(3,058)	(3,065)
Purchases of property, plant and equipment		(5,577)	(27,780)
Interest received		419	787
Dividends received from Jupiter		–	2,582
Proceeds from Jupiter disposal		–	30,359
Investments in subsidiary entities		(107)	–
Cash advances and loans made to related parties		(5,036)	(7,079)
Proceeds from disposal of investments		163	2,300
Net cash utilised in investing activities		(13,196)	(1,896)
Cash flows from financing activities			
Cash paid in Group share buy-back programme	20	(213)	(14,439)
Proceeds from borrowings		41,229	52,826
Repayment of borrowings		(37,548)	(53,170)
Principal elements of lease payments	19	(1,511)	(696)
Interest paid		(3,037)	(4,084)
Net cash utilised in financing activities		(1,080)	(19,563)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(34,442)	15,229
Cash and cash equivalents at the beginning of the year		78,218	62,988
Net foreign exchange gain on cash		86	1
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		43,862	78,218

The accompanying notes form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

	Share capital USD'000	Share premium USD'000	Treasury shares USD'000	Reserve for own shares USD'000	Cumulative translation reserve USD'000	Option reserve USD'000	Retained (deficit)/earnings USD'000	Total attributable to equity holders of the parent USD'000	Non-controlling interest USD'000	Total equity USD'000
Balance at 1 January 2020	12	511,833	(10)	(23,319)	1,485	6,985	(2,725)	494,261	84,682	578,943
Loss for the year	–	–	–	–	–	–	(85,282)	(85,282)	(7,945)	(93,227)
Other comprehensive income/(loss)	–	–	–	–	2,939	–	–	2,939	(34)	2,905
Total comprehensive income/(loss)	–	–	–	–	2,939	–	(85,282)	(82,343)	(7,979)	(90,322)
Shares bought back during the year, net of transaction costs	–	–	(213)	–	–	–	–	(213)	–	(213)
Shares cancelled during the year	(1)	(23,539)	223	23,319	–	–	–	2	–	2
Share options recognised during the year	–	–	–	–	–	944	–	944	–	944
Dividends declared to non-controlling interest of Montepuez Ruby Mining	–	–	–	–	–	–	–	–	(6,250)	(6,250)
Increase in shareholding of Eastern Ruby Mining Limitada	–	–	–	–	–	–	(78)	(78)	(10)	(88)
Total contributions by and distributions to owners	(1)	(23,539)	10	23,319	–	944	(78)	655	(6,260)	(5,605)
Balance at 31 December 2020	11	488,294	–	–	4,424	7,929	(88,085)	412,573	70,443	483,016

The accompanying notes form part of these Financial Statements.

	Share capital USD'000	Share premium USD'000	Treasury shares USD'000	Reserve for own shares USD'000	Cumulative translation reserve USD'000	Option reserve USD'000	Retained earnings/ (losses) USD'000	Total attributable to equity holders of the parent USD'000	Non-controlling interest USD'000	Total equity USD'000
Balance at 1 January 2019	14	531,607	(5,345)	(23,319)	(960)	5,474	(31,276)	476,195	73,920	550,115
Profit for the year	–	–	–	–	–	–	28,369	28,369	10,762	39,131
Other comprehensive income	–	–	–	–	2,445	–	–	2,445	–	2,445
Total comprehensive income	–	–	–	–	2,445	–	28,369	30,814	10,762	41,576
Shares bought back during the year, net of transaction costs	–	–	(14,439)	–	–	–	–	(14,439)	–	(14,439)
Shares cancelled during the year	(2)	(19,774)	19,774	–	–	–	–	(2)	–	(2)
Share options recognised during the year	–	–	–	–	–	1,693	–	1,693	–	1,693
Share options lapsed/forfeited during the year	–	–	–	–	–	(182)	182	–	–	–
Total contributions by and distributions to owners	(2)	(19,774)	5,335	–	–	1,511	182	(12,748)	–	(12,748)
Balance at 31 December 2019	12	511,833	(10)	(23,319)	1,485	6,985	(2,725)	494,261	84,682	578,943

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

1. BASIS OF PREPARATION

Gemfields Group Limited (or “the Company” or “the Parent”) is incorporated in Guernsey under the Companies (Guernsey) Law, 2008. The Company’s registered office address is stated on page 184 of the Annual Report within “Company Details”. The nature of the operations and principal activities of the Company and its subsidiaries (together “the Group”) are set out in the Operations Review on pages 24 to 41.

The Company’s accounting policies are the same as those of the Group. Company-only financial information has been omitted from these Consolidated 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 Consolidated 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 Consolidated Financial Statements also comply with the JSE Listings Requirements, the AIM Rules for Companies and the Companies (Guernsey) Law, 2008 and show a true and fair view.

The significant accounting policies applied in preparing these Consolidated Financial Statements are set out below. These policies have been consistently applied throughout the period and to each subsidiary of the group.

The Financial Statements have been prepared under the historical cost convention except as where stated.

Foreign currency

The Consolidated Financial Statements are presented in United States Dollars (“USD”), rounded to the nearest thousand (USD’000), except where otherwise indicated. This means that these Financial Statements can be compared with those of similar companies.

Basis of consolidation

The Consolidated Financial Statements incorporate the financial information of Gemfields Group Limited as well as its subsidiary undertakings 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 in line with those used by other Group entities and within these Financial Statements.

All significant intercompany transactions and balances between Group entities are eliminated on consolidation.

New and amended standards which are effective for these Consolidated Financial Statements

Certain new and amended accounting standards and interpretations have been applied by the Group for the first time for the annual reporting period commencing on 1 January 2020, which have not had any material impact on the disclosures or on the amounts reported in these Financial Statements, nor are they expected to significantly affect future periods.

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

Certain new and amended accounting standards and interpretations have been published that are not mandatory for the year ended 31 December 2020, nor have they been adopted early by the Group. These standards and interpretations are not expected to have a material impact on the Group’s Consolidated Financial Statements in the current or future reporting periods.

1. BASIS OF PREPARATION/CONTINUED**Going Concern**

The Group's business activities, together with the factors likely to impact its future growth and operating performance, are set out in the Operational Review on pages 24 to 41 and in the Risks and Uncertainties section on pages 72 to 80. The financial performance and position of the Group, its cash flows and available debt facilities are described in the Financial Review on pages 42 to 50. In addition, Note 24: *Financial instruments* sets out the Group's objectives, policies and processes for managing its capital structure, liquidity position and financial risks arising from exposures to interest rates, foreign exchange and counterparties.

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

In 2020, Group-wide revenue landed at USD34.6 million. During the same period in 2019, Group-wide revenue was USD216.2 million, a drop of USD181.6 million or 84% in 2020. In 2019, 93% of the Group's revenue was derived from the six gemstone auctions held during that year. In 2020, the COVID-19 pandemic meant that Gemfields was only able to host one traditional auction of commercial-quality emeralds in February 2020, which yielded USD11.4 million and a series of smaller emerald auctions in November and December 2020, which yielded USD10.9 million.

Throughout the pandemic the Board has taken significant decisions to enable the Group to navigate through these unprecedented conditions. To compensate for the reduced revenues, the Group reduced all non-committed and discretionary spend in the following areas:

- Kagem and MRM reduced to critical operations until March 2021;
- Significant reduction in capital expenditure at both Kagem and MRM;
- Significant reduction in advertising and marketing expenditure across the Group;
- 20% salary cut in head office and no bonuses paid for the FY 2020;
- Significant reduction in consultancy and professional fees at the corporate level;
- Cost reductions at Fabergé, including reduced inventory purchase; and
- Short-term suspension of investment plans at MML, ERM, CDJ and Nairoto in Mozambique.

These actions, along with the utilisation of available facilities and the series of mini-auctions of emeralds held in late 2020, allowed the Group to partially mitigate the reduced revenues and end the year with a gross cash balance of USD43.9 million, a USD8.9 million auctions receivables balance that had been collected by March 2021, and an available undrawn overdraft capacity of USD1.5 million.

Debt facilities

The Group's outstanding borrowings at 31 December 2020 is USD56.5 million, comprised of USD28.0 million held at Kagem with ABSA Zambia and USD28.5 million held at MRM via overdraft facilities held with ABSA Mozambique and Banco Comercial E De Investimentos, S.A. ("BCI").

The USD28.0 million Kagem debt outstanding is secured against a fixed and floating charge over all Kagem's net assets, equivalent to the total amount outstanding under the facility and a corporate guarantee from Gemfields Group Limited.

The Kagem debt facilities are subject to the following financial covenants for which the next measurement period is 31 December 2021:

- Senior Debt Service Cover Ratio ("DSCR") shall not fall below 1.2 times;
- Interest Service Cover Ratio shall not fall below 2.5 times; and
- Senior Net Debt/EBITDA shall not exceed 2.5 times.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

1. BASIS OF PREPARATION/CONTINUED

Debt facilities (continued)

Kagem received a waiver in respect of all financial covenants contained within the ABSA Zambia loan agreements for the 31 December 2020 measurement period, such that the facilities remain in full effect at 31 December 2020. Based on the December 2021 Board-approved base case model, the covenants are not expected to be breached at the next measurement date, being 31 December 2021. The Group's base case model includes the mandatory repayment of USD4.5 million in December 2021 and USD3.5 million in December 2022.

In April 2016, MRM entered a USD15.0 million unsecured overdraft facility with ABSA Mozambique. The facility attracts an interest rate of three-month USD LIBOR plus 4% per annum. Gemfields Limited issued a corporate guarantee for the facility. The facility is renewed annually with the next renewal expected in December 2021; there are no covenants except that the overdraft should be cleared to nil at least once during the renewal period.

In June 2016, MRM entered a USD15.0 million unsecured overdraft facility with BCI. This is a rolling facility which renews annually, provided that terms and conditions are met, and attracts interest of three-month USD LIBOR plus 3.75% per annum. The facility is secured by a promissory note undertaken by MRM and a corporate guarantee by Gemfields Mauritius Limited, a 100% subsidiary of the Group. The facility is expected to be renewed in September 2021.

In March 2021, BCI granted an additional USD8.9 million facility to MRM on similar interest rates and other terms as the existing facility. Under the new facility, USD8.9 million can be drawn immediately but must be paid back by the next auction or within six months of drawdown, whichever is the earliest. Upon repayment, MRM will, with agreement from the bank, have access to a USD15 million facility which is repayable over four years and bears interest of USD three-month USD LIBOR plus 3.75% and can be used for working capital purposes.

A material assumption in the going concern assessment is that all financing facilities remain in place throughout the measurement period to 31 December 2022, i.e. that existing MRM facilities are renewed by lenders in September 2021 and December 2021, and any potential covenant breaches that may arise (which would only exist in downside scenarios) are waived or mitigated. Whilst the Group has an expectation that such facilities remain in place, the availability of such facilities and the ability to waive covenant requirements are outside of management control and hence form part of the material uncertainty in respect of going concern.

Gemstone market

Conditions remain challenging for Gemfields and for the wider gemstone sector; however, there are signs of recovery in the emerald market with the success of the Kagem series of mini-auctions held in November and December 2020 and the February 2021 auction held by another Zambian emerald producer. Notwithstanding this, the effect of travel restrictions, quarantine periods and prohibitions on large gatherings, combined with high COVID-19 infection rates in the key markets for rough gemstones continue to mean that the situation will remain fluid during 2021. March 2021 will see the first ruby auctions in over a year, so the market is yet to be tested.

Despite these factors and following wide-ranging consultation with the Group's customers hailing from India, Thailand, China, Hong Kong and USA, the Board believe that the planned auction schedule is reasonable and there is a reasonable confidence over demand. The planned auction schedule will see a series of smaller, mixed-quality ruby auctions in March and April 2021, running simultaneously with a series of emerald mini-auctions.

The remainder of the year's planned auction schedule will include a commercial-quality emerald auction, a high-quality emerald auction and two mixed-quality and one commercial-quality ruby auctions. The normal six auction a year schedule is expected to recommence in 2022.

1. BASIS OF PREPARATION/CONTINUED

Mining operations

With the view of generating sufficient production for auction schedules throughout 2021, Kagem and MRM restarted operations in March 2021 and full-scale mining is expected to begin by the end of April 2021. The processing plants have sufficient stockpiled ore to commence before full-scale mining restarts. There are no strict government regulations in either Zambia or Mozambique regarding restarting mining operations. Consequently, the Group does not expect there to be any obstacles to the planned start-up with the respective COVID-19 protocols in place, including social distancing and on-site testing at both mines. Operations are free to commence without any significant upfront capital being required. The Board believes that the auction schedule and recommencement of operations represent a reasonable timetable that would allow the Group to maximise revenues.

There remains a risk that localised COVID-19 outbreaks may result in temporary reclosure of the Group's mining operations. Any prolonged closure may limit the Group's ability to generate the required inventory for auctions scheduled in the latter part of the assessment period. This uncertainty is considered in the downside scenario below.

Scenario analysis

Our base case forecast indicates that, subject to continued access to the Group's currently available financing facilities, the Group has sufficient cash to meet its liabilities as they fall due throughout the going-concern assessment period.

As outlined above, uncertainty exists over the Group's ability to hold emerald and ruby auctions and to generate revenue without negatively impacting long-term prices. Revenue may be negatively impacted by any of the following:

- Changing levels of demand resulting in deferrals in the planned auction schedule;
- Pricing being suppressed as a result of the ongoing impact of the COVID-19 pandemic on the global economy; and/or
- Unanticipated closures of the Group's mining facilities arising from localised COVID-19 outbreaks resulting in reduced inventory to take to auctions.

Although the Group has confidence in the base case given the customer feedback outlined above and given measures at the mine to ensure COVID-secure working conditions, a downside scenario has been modelled factoring a reduction in revenues to reflect the uncertainty. In this scenario, additional cash maintenance measures (which are in the control of management) would need to be implemented otherwise the Group would face a cash deficit in March 2022.

In the first instance, the below measures would represent sufficient cash savings from the base case and could reasonably be implemented without jeopardising production at the mines. The list is not exhaustive and remains dynamic:

- Suspension of budgeted investment in development assets (MML, ERM, CDJ and Nairobi);
- Further reduction in budgeted advertising and marketing costs across the Group;
- Extension of 20% salary cut in head office and bonus reduction for the year 2021;
- Consulting fees, travel costs and office expenses reduction in Corporate;
- Delay development of the second wash plant and operating costs reduction at MRM; and
- Further cost reductions at Fabergé, including inventory purchases.

Under the scenario modelled, which the Directors consider to be a reverse stress-test in respect of revenue, in the event that revenue was to fall to below USD120 million in the period to 31 December 2021, then certain covenants could be breached and additional measures may be required, including waivers of covenants, further financing, equity fundraising or more fundamental operational curtailments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

1. BASIS OF PREPARATION/CONTINUED

Scenario analysis (continued)

As discussed above, a key assumption under the downside scenario is that external funding would not be suspended or called. The peak debt exposure of USD73.0 million (Base case: USD67.0 million) is expected in September 2021 when MRM's available USD30.0 million overdraft facilities are fully utilised, the new BCI facility of USD15.0 million is fully drawn down and Kagem holds USD28.0 million of borrowings outstanding.

In the event that Kagem generates lower revenues than expected, as considered in the downside scenario, the debt service cover ratio covenant will be breached. In this case, mediation is afforded to Kagem to the extent that sufficient cash can be placed in a reserve account to ensure that the December principal payments can be honoured. In addition to this, Kagem could realistically take the following actions without significantly impacting production:

- Suspension of the expansionary capital expenditure;
- Significant reduction of the sustaining capital expenditure; and
- 15% reduction in operating costs.

These cash preservation options will not involve any significant curtailment of operations at Kagem and therefore are not considered to impair the mine's ability to continue producing in the near term and will not jeopardise the 2021 and 2022 auctions.

Kagem has historically been able to operate with less than USD2.0 million of capital expenditure and most of its budgeted expansionary spend is planned in the second half of 2021, providing flexibility to the Group to respond in the event of lower auction results. Nevertheless, the Directors will assess to what extent the additional actions required jeopardise the production and ultimately the ability of Kagem to generate revenues in 2022 and will decide what is the best course of action.

In the event that the MRM facilities are no longer available, the Group would look to remedy any potential deficit through either obtaining additional loan funding, raising equity or through even more fundamental operational curtailments and would seek to resolve any covenant breaches and overdraft renewals through negotiation with the lenders. However, the impact of COVID-19 on the global economy is such that there is uncertainty over the ability to arrange this additional financing and around the ability to renegotiate any future potential covenant breaches.

Summary

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

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

2. ACCOUNTING POLICIES

Critical accounting judgements, estimates and assumptions

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

2. ACCOUNTING POLICIES/CONTINUED

Critical accounting judgements, estimates and assumptions (continued)

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

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

No additional critical judgements or sources of estimation uncertainty have been identified during the year as a result of the COVID-19 pandemic; however, this event has had an impact on some of the items disclosed below. Details of the impact of the pandemic on certain of the critical judgements or sources of estimation uncertainty have been disclosed against the relevant captions below.

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

(i) Critical accounting judgements

Revenue recognition

The critical accounting judgement surrounding revenue recognition relates to the identification of the specific performance obligations arising on sales of rough gemstones, from which the Group's revenue is predominantly derived. Revenue is recognised at the point at which such specified performance obligations are determined to have been met.

Rough gemstone sales are transacted through a competitive auction process and the performance obligation is determined to be satisfied at the point at which an auction is awarded to a buyer.

Each individual customer enters into a sale agreement with the Group once a winning bid is awarded. The transaction price is determined as the winning bid price per parcel sold. Once the sales contract has been agreed by both parties, the Group retains no further rights to the gemstones as it is legally bound by the sale agreement to deliver the goods to the buyer. The Group therefore determines control to have passed to a buyer at the point at which an auction is awarded and goods have been invoiced at an amount agreed between the parties, in line with the terms and conditions of the Group's auction contracts.

The group also generates revenues from the sales of cut and polished gemstones and retail, wholesale and web sales, the accounting policies for which are detailed in the Significant Accounting Policies section below.

Determination of whether indicators of impairment exist at the balance sheet date

The Directors review the carrying value of the Group's non-current assets to determine whether there are any indicators of impairment present at the balance sheet date, such that the carrying values of the assets may not be recoverable. The assessment of whether an indicator of impairment or reversal thereof has arisen requires considerable judgement, taking account of future operational and financial plans, commodity prices, market demand and the competitive environment. Where an indicator of impairment is identified in the reporting period, the Company will complete a full impairment review in line with the requirements of IFRS 36 *Impairment of Assets*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

2. ACCOUNTING POLICIES/CONTINUED

Determination of whether indicators of impairment exist at the balance sheet date (continued)

During 2020, the COVID-19 pandemic led the Group to suspend all but critical operations at its core operating cash-generating units ("CGUs"), Kagem and MRM. Full discussion of the impact of COVID-19 on the Group can be found in the Going Concern section of Note 1. At 31 December 2020, the deficit between the Group's market capitalisation and net assets represented an impairment indicator, and as such an impairment review was performed on the CGUs. As part of these reviews, management performed a sensitivity analysis to assess the impact of reasonably plausible price and discount rate changes on the recoverable amount of each CGU. See Note 11: *Property, plant and equipment* for full details.

(ii) Key sources of estimation uncertainty

Going-concern basis of accounting

In forming its opinion as a going concern, the Board prepares a working capital forecast based upon its assumptions related to the future trading performance of the Group, as well as taking into account available borrowing facilities in line with the capital management policies referred to in Note 17: *Borrowings*. The Board also prepares a number of alternative scenarios modelling the business variables and key risks and uncertainties. In the current year, the modelled scenarios have included the significant uncertainty in respect of the COVID-19 pandemic. Full details of the going-concern assessment are set out in Note 1.

Determination of the recoverable value of the Group's cash-generating units

Recoverable value is determined as the higher of fair value less costs to sell and value-in-use of a CGU, which is calculated on the basis of discounted future cash flows. The determination of recoverable value therefore requires management to make estimates and assumptions about a number of key factors that are subject to risk and uncertainty, including: 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, economic and regulatory climates, and the applicable discount rate.

The Directors consider the critical estimates in determining these recoverable values to be the future estimates of the rough emerald and beryl prices and ruby and corundum prices, as well as the discount rate applied to the calculations. Any changes to the assumptions adopted in the calculation of the recoverable amount, individually or in aggregate, would result in a different valuation being determined.

There is inherent judgement in the estimation of rough emerald and rough ruby prices as they are not traded on a public exchange, with most transactions occurring in private auctions. The Group therefore determines future prices based on the historic price and product mix trends for each commodity. The Directors do not believe that the COVID-19 pandemic has adversely impacted either the emerald or ruby price, with the results of the rough emerald mini-auctions held in November and December 2020 supporting this judgement in respect of emeralds.

Further details on the key estimates relating to the valuation of the Group's CGUs and details of the impairment assessment completed at 31 December 2020 are disclosed in Note 11: *Property, plant and equipment*.

Determination of ore reserves

The estimation of ore reserves primarily impacts the depreciation charge of evaluated mining assets, which are depreciated based on the quantity of ore reserves. Reserve volumes are also used to assess fair value in business combinations and in calculating whether an impairment charge should be recorded where an impairment indicator exists.

The Group estimates its ore reserves and mineral resources based on information, compiled by appropriately qualified persons, relating to geological and technical data on the size, depth, shape and grade of the ore body and related 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 if or when new information becomes available.

2. ACCOUNTING POLICIES/CONTINUED

Determination of ore reserves (continued)

The Gemstone Resources and Gemstone Reserves Report 2019, which contains a thorough review of the gemstone resources and gemstone reserves at 31 December 2019, 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. The Competent Person's Reports can also be found at www.gemfieldsgroup.com. For 2020, the Group completed a review of the detailed 2019 report using internal experts. The condensed version of the 2019 report, updated for 2020 activity, can be found on page 53 of this report for Kagem and on page 56 for MRM.

Valuation of the Fabergé cash-generating unit, including the Fabergé trademarks

The Fabergé trademarks are a significant asset in the Consolidated Statement of Financial Position. The Directors have determined 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 therefore, in accordance with IAS 36 *Impairment of Assets*, the asset is considered for impairment on an annual basis.

Trademarks are inherently complex to value, with several alternative valuation methodologies considered under IAS 38 *Intangible Assets*. For the year ended 31 December 2020, the Directors applied a Market Approach – Revenue Multiple method to the valuation of the Fabergé CGU. The key estimate applied in the valuation is the basis of the determined future revenues for the CGU. The estimate is based on both historic realised data over a 12-month look-back period, and management's forecast revenues, based on the latest Board-approved budget.

The COVID-19 pandemic resulted in reduced revenues achieved by the Fabergé CGU in 2020. While the Directors remain optimistic regarding the performance of the CGU during 2021, the impact of the pandemic on future revenues is unknown at the reporting date. This therefore directly impacts the estimation uncertainty surrounding the valuation of the Fabergé CGU at 31 December 2020.

Changes to the assumptions adopted in the calculation of the fair value of the CGU, individually or in aggregate, could result in a different valuation being determined. Refer to Note 12: *Intangible assets* for further details of the key estimates relating to the valuation and details of the impairment assessment completed at 31 December 2020.

Assessment of fair value of the Group's equity investments

The Directors use a range of valuation methodologies in accordance with IFRS 13 *Fair Value Measurement* when determining the fair value of the Group's equity investments. The material investment held by the Group at the balance sheet date is the unlisted equity investment in Sedibelo Platinum Mines ("Sedibelo" or "SPM"). As the investment in Sedibelo is unlisted, it falls under Level 3 of the fair value hierarchy prescribed by IFRS 13, meaning that the valuation cannot be based on observable market data. Fair value valuations for assets falling under Level 3 of the hierarchy are inherently complex due to the judgements, estimates and assumptions applied by the Directors across a range of key factors.

For the year ended 31 December 2020, the Directors applied a "Market Approach – trading multiples" methodology to the valuation of Sedibelo, through which a number of different financial and non-financial metrics were considered, with a different weighting applied to each in determining the final fair value of the investment. Key sources of estimation uncertainty applied to the valuation included: future revenue and EBITDA estimates; mineral reserve, mineral resource and production estimates; assessment of the impact of COVID-19; the weighting applied to each of the financial and non-financial metrics applied in the final valuation; and the level of discount applied for lack of marketability.

Changes to the assumptions adopted in the calculation of the fair value of Sedibelo, individually or in aggregate, could result in a different valuation being determined. Refer to Note 13: *Investments* for further details of the key estimates relating to the valuation and details of the fair value assessment completed at 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

2. ACCOUNTING POLICIES/CONTINUED

Inventory valuation

The Group reviews the net realisable value of, and demand for, its inventory on a bi-annual 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. The Directors do not believe that the COVID-19 pandemic has adversely impacted either emerald or ruby prices, with the results of the rough emerald mini-auctions held in November and December 2020 supporting this judgement in respect of emeralds.

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. 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 Consolidated 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.

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.

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 amount of any possible adverse matters relating to potential claims and litigation, the Group believes its defences to such claims to be meritorious in both law and on the facts, and that a robust defence would be made in such events.

At the balance sheet date in the aggregate, and despite the quality of defences available to the Group, it is possible that the Group's operational results or cash flows in particular annual periods could be materially affected by potential claims and litigation, or 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 unless it is probable that the likely outcome of the case would result in an outflow of resources from the Group; and (ii) does not believe that the ultimate outcome of any ongoing litigation at the date of this report will significantly impair the Group's financial condition.

2. ACCOUNTING POLICIES/CONTINUED**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 Consolidated Financial Statements, the results and financial position of each Group company are expressed in USD, which is the functional currency of the Group and the presentational currency for the Consolidated 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.

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.

The key exchange rates impacting these Consolidated Financial Statements are detailed in the table below.

	2020		2019	
	Spot	Average	Spot	Average
Mozambican metical (MZN)	75.64	69.36	60.84	61.98
Zambian kwacha (ZMW)	21.11	18.57	14.04	12.97
UK pound sterling (GBP)	0.74	0.78	0.76	0.78
South African rand (ZAR)	14.66	16.49	14.05	14.40

Subsidiaries

The Group 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.

If these three criteria are not met, then the investee is determined to not be a subsidiary of the Group and its results will not be consolidated into these Financial Statements.

Subsidiaries are consolidated into the Group's Financial Statements on a line-by-line basis. They are deconsolidated from the date on which control ceases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

2. ACCOUNTING POLICIES/CONTINUED

Non-controlling interests

IFRS 3 *Business combinations* gives the choice, on a transaction by transaction basis, to initially recognise any non-controlling interest in the acquiree that 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.

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.

Revenue

The Group recognises revenue at the point at which performance obligations related to the sale are determined to have been met. The Group recognises revenue under the following categories:

- (i) Rough gemstones – the performance obligation is met at the point at which the auction is awarded to the customer. (Refer to the *Critical Accounting Judgements* section above for further details.)
- (ii) 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.
- (iii) 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 or agreements, including final winning bids. There is no variable consideration included in the Group's contracts, and payment terms within the Group are usually less than 120 days.

Investment income and expenses

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.

Realised gains and losses – these amounts 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.

Dividends from investments are recognised when the right to receive payment is established.

Mineral royalties and production taxes

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

2. ACCOUNTING POLICIES/CONTINUED

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

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 at the balance sheet date in countries where the Group operates and generates taxable income.

Deferred taxation

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

2. ACCOUNTING POLICIES/CONTINUED

Property, plant and equipment

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

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

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

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 and residual values (where applicable) of the tangible assets are reviewed annually.

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Any reversal of the impairment is determined using the depreciated historic cost of the specific asset.

Mining assets – evaluated mining properties

Following the determination of the commercial and technical viability of a mining project, the relevant expenditure, including licence acquisition costs, is transferred from unevaluated mining properties within intangible assets to evaluated mining properties within property, plant and equipment. Exploration expenditure transferred to property, plant and equipment is subsequently depreciated using a unit-of-production method. The Group calculates depreciation based on the ratio of ore mined during the period to the total brought-forward ore reserve, based on the proven and probable estimated reserves. Expenditure deemed to be unsuccessful is written off to the Consolidated Income Statement.

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 the 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 the 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. 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.

2. ACCOUNTING POLICIES/CONTINUED*Intangible assets*

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic life. Amortisation is recognised within cost of sales.

Trademarks, which have an indefinite useful economic life, are initially recognised at fair value and reviewed for impairment annually. An intangible asset is deemed to have an indefinite life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate cash flows for the Group.

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. 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.

Unevaluated mining properties

The Group follows an accounting policy for exploration and appraisal assets that is based on the successful-efforts accounting method.

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. Costs incurred include appropriate technical and administrative expenses, but not general overheads. 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 to the Consolidated Income Statement as exploration costs.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

2. ACCOUNTING POLICIES/CONTINUED

Investments

If an equity interest held by the Group is under 20%, it is recognised in the Statement of Financial Position as an investment and accounted for at fair value in accordance with IFRS 13 through the provisions under IFRS 9.

All equity investments with a holding of less than 20% are initially recognised at their fair value, with any subsequent changes in the assessed fair value being recognised in the Income Statement as unrealised fair value gains or losses.

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 other gains and income in the Income Statement.

Unlisted equity investments

A number of different valuation methods can be used when assessing the fair value of the Group's unlisted equity investments. Appropriate methods include the discounted cash flow or earnings of the underlying investment, a market-based approach applying comparable company valuation multiples or valuing the investment in line with the price of a recent third party, arm's-length transaction. Discounts for illiquidity may be applied to valuations where appropriate, in accordance with the relevant accounting standards. The Group engages the services of independent third-party valuation experts to assist with the valuation of its unlisted equity investments where the valuations are particularly complicated or subjective.

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, split by grade and based on past auctions, less estimated costs to sell. Due to the nature of the Group's operations, in the event that mining operations become temporarily suspended for a prolonged period of time, certain direct production costs will still be incurred by the Group. In such an event, production costs are not capitalised to inventory during the period of non-operation but are expensed directly to the Consolidated Income Statement as and when incurred.

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 agreement 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.

2. ACCOUNTING POLICIES/CONTINUED

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 evaluated mining property asset is also recorded within property, plant and equipment at an amount equivalent to the provision, and 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 share-based payments in the form of share options to certain Directors. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the date of grant 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 shareholders' funds in equity and held as treasury shares until they are cancelled. 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 recorded in retained earnings. No gain or loss is recognised in the Financial Statements on transactions in own shares. When treasury shares are cancelled, the excess over the nominal value of the shares is debited to share premium.

Financial instruments

Financial assets

Financial assets are initially recognised at fair value, usually being the transaction price. In the case of financial assets not at fair value through profit or loss, directly attributable transaction costs are also included. The subsequent measurement of financial assets depends on their classification. The group classifies its financial assets in the following categories:

- financial assets measured at amortised cost; and
- financial assets measured at fair value through profit and loss.

Classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of financial assets at initial recognition. The Group's policy with regard to credit risk management is set out in Note 24: *Financial instruments*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

2. ACCOUNTING POLICIES/CONTINUED

Measurement

i) Financial assets measured at 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.

ii) Financial assets measured at fair value through profit and loss

Financial assets are recognised in this category when the asset does not meet the criteria to be measured at amortised cost or fair value through other comprehensive income. Such assets are carried on the balance sheet at fair value with gains or losses recognised in the income statement. This classification is only relevant for the Group's investments, as discussed in the Investments section above.

Impairment

Credit risk arises from the Group's financial assets which are carried at amortised cost and at fair value through profit and loss, including cash and cash equivalents and outstanding receivables with auction and retail customers. The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired based on the credit loss model set out in IFRS 9 *Financial instruments*.

i) Impairment – trade receivables

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 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.

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses are presented as net impairment losses within operating profit/(loss). Subsequent recoveries of amounts previously written off are credited against the same line item.

ii) Impairment – loans and other receivables

Impairment provisions for other receivables and loans are recognised based on the IFRS 9 credit loss model. 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. Credit risk is assessed on an asset-by-asset basis. A key indicator that there has been a significant increase in credit risk is a failure to make contractual payments for a period of greater than 120 days past due. For financial assets where credit risk has not increased significantly since initial recognition, 12-month expected credit losses ("ECLs") along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime ECLs along with the gross interest income are recognised.

2. ACCOUNTING POLICIES/CONTINUED

iii) Impairment – related party receivables

The Group also applies the IFRS 9 credit loss model to its related party loans. Both the 12-month ECL model and the lifetime ECL model require the Group to assess the probability of counterparty default and the expected loss given default.

The expected loss rates are based on management's assessment and understanding of the credit risk attached to the related party receivable and the expected repayment profile of that receivable, including the terms of any underlying loan contracts in place and management's assessment as to the sufficiency of the cash and liquid assets of the related party to repay the receivable when it falls due. The expected loss is multiplied by the assessed probability of non-payment to determine the expected credit loss.

Related party receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, failure of the related party to make contractual payments under the terms of the loan agreement, or a significant change in the operations of the related party.

Trade and other receivables

The Group holds trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method less any provision for impairment. Trade receivables are measured at their transaction price, i.e. the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. All amounts due from trade receivables have expected terms of less than six months and are therefore classified as current.

Prepayments for goods or services are not financial assets because they are associated with the receipt of goods or services and do not give rise to a present right to receive cash or any other financial asset.

Cash and cash equivalents

Cash and cash equivalents represent cash balances held at bank and on-demand deposits. Cash and cash equivalents are measured at amortised cost.

Financial liabilities

Financial liabilities include the following items:

Trade and other payables

Trade payables and other short-term monetary liabilities are initially measured at fair value and subsequently recognised at amortised cost using the effective interest rate method.

The initial measurement of a trade payable will be discounted to present value where the time value of money is deemed to be significant. Generally, on initial recognition, the transaction price giving rise to the liability to be settled in cash is regarded as the fair value.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

2. ACCOUNTING POLICIES/CONTINUED

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.

Leases

On inception of a contract the Group assesses whether it contains a lease. The contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right to control the use of an identified asset is determined based on whether the Group has the right to obtain all of the economic benefits from the use of the asset throughout the period of use, and if the group has the right to direct the use of the asset.

Lease obligations are recognised as a liability with a corresponding right-of-use asset at the commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the lease commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate.

The corresponding right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of costs required to remove or restore the underlying asset, less any lease incentives received. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets with an annual cost of USD5,000 or less. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3. SEGMENTAL REPORTING

The chief operating decision maker for the Group has been determined to be Executive Management, who measures the performance of each operating segment on a regular basis in order to allocate resources efficiently.

The Group's segmental reporting reflects the business focus of the Group. The Group has been organised into geographic and business units based on its products and services and has five operating and reportable segments:

- Zambia (emerald and beryl mining activities);
- Mozambique (ruby and corundum and gold mining activities);

3. SEGMENTAL REPORTING/CONTINUED

- Corporate (sales of cut and polished gemstones, marketing, and technical and administrative services);
- Fabergé (wholesale and retail sales of jewellery and watches); and
- Other (new projects, traded auctions, sales and marketing offices).

Prior period included:

- Steel Making Materials (the Group's investment in Jupiter Mines Limited, which was sold in 2019).

The reporting on these assets to management focuses on revenue, operating costs, EBITDA, key balance sheet lines and free cash flow (as defined further below).

Income Statement

1 January 2020 to 31 December 2020	Zambia USD'000	Mozambique USD'000	Corporate USD'000	Fabergé USD'000	Other USD'000	Other – PGMs ⁷ USD'000	Total USD'000
Rough gemstones ¹	22,300	–	2	–	4,685	–	26,987
Jewellery	–	–	–	7,144	–	–	7,144
Cut and polished	–	–	109	–	327	–	436
Revenue²	22,300	–	111	7,144	5,012	–	34,567
Mineral royalties and production taxes	(1,665)	–	–	–	–	–	(1,665)
Marketing, management and auction costs	(2,788)	–	2,788	–	–	–	–
Change in inventory and cost of sales	(2,024)	12,269	(93)	(3,269)	(4,462)	–	2,421
Mining and production costs ³	(18,370)	(19,350)	–	–	–	–	(37,720)
Selling, general and administrative costs ⁴	(3,384)	(3,880)	(11,846)	(7,289)	(1,429)	–	(27,828)
Other income ⁵	95	6	14	–	68	–	183
EBITDA	(5,836)	(10,955)	(9,026)	(3,414)	(811)	–	(30,042)
Unrealised fair value gains/(losses)	–	–	15	–	–	(27,900)	(27,885)
Depreciation and amortisation	(7,117)	(12,457)	(731)	(662)	(56)	–	(21,023)
Share-based payments	–	–	(944)	–	–	–	(944)
Impairment charges ⁶	–	(76)	(757)	(12,578)	(100)	–	(13,511)
(Loss) from operations	(12,953)	(23,488)	(11,443)	(16,654)	(967)	(27,900)	(93,405)
Finance income	–	296	109	–	14	–	419
Finance costs	(3,271)	(1,976)	(424)	(536)	(9)	–	(6,216)
Taxation credit/(charge)	3,045	8,829	(158)	(4,130)	(1,611)	–	5,975
(Loss) after taxation	(13,179)	(16,339)	(11,916)	(21,320)	(2,573)	(27,900)	(93,227)

1 During 2020, Kagem held one commercial-quality emerald auction, in Lusaka, Zambia, in February, realising revenues of USD11.4 million. Additionally, in November and December 2020, Kagem held a series of mini-auctions, which realised total revenues of USD10.9 million. MRM held no auctions during 2020.

2 Revenues have been recognised at one point in time, as control passes to the customer. No third-party customer accounted for more than 10% of sales during 2020.

3 Excluding mineral royalties and production taxes and inventory impairments.

4 Excluding share-based payments and other provisions.

5 Excludes other unrealised fair value gains on other equity investments.

6 Including inventory and other impairments and provisions recorded in the year.

7 Other – PGMs includes the Group's investment in Sedibelo. The investment does not meet the definition of a reportable segment in accordance with IFRS 8 Operating Segments as the Group does not earn revenues from this equity holding. Going forward, Executive Management will include Sedibelo within the Other operating segment, with the disclosures in this note updated accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

3. SEGMENTAL REPORTING/CONTINUED

Income Statement

1 January 2019 to 31 December 2019	Zambia USD'000	Mozambique USD'000	Steel Making Materials USD'000	Corporate USD'000	Fabergé USD'000	Other USD'000	Other – PGMs ⁶ USD'000	Total USD'000
Rough gemstones ¹	78,965	121,524	–	–	–	3,595	–	204,084
Jewellery	–	–	–	4	10,517	–	–	10,521
Cut and polished	–	–	–	811	–	817	–	1,628
Revenue ²	78,965	121,524	–	815	10,517	4,412	–	216,233
Mineral royalties and production taxes	(4,982)	(12,123)	–	–	–	–	–	(17,105)
Export duty on Zambian emeralds	(12,440)	–	–	–	–	–	–	(12,440)
Marketing, management and auction costs	(9,870)	(15,069)	–	24,939	–	–	–	–
Change in inventory and cost of sales	8,437	8,957	–	(1,018)	(7,307)	186	–	9,255
Mining and production costs ³	(35,850)	(27,271)	–	(780)	(29)	574	–	(63,356)
Selling, general and administrative costs ⁴	(5,949)	(9,580)	–	(27,632)	(9,655)	(116)	–	(52,932)
Other income	163	253	–	258	1	562	–	1,237
EBITDA	18,474	66,691	–	(3,418)	(6,473)	5,618	–	80,892
Dividend income	–	–	2,582	–	–	–	–	2,582
Realised fair value gains	–	–	4,645	–	–	–	–	4,645
Unrealised fair value gains	–	–	–	–	–	–	7,053	7,053
Depreciation and amortisation	(13,440)	(19,077)	–	(597)	(1,657)	(56)	–	(34,827)
Share-based payments	–	–	–	(1,693)	–	–	–	(1,693)
Impairment reversal/(charges) ⁵	20,824	(250)	–	–	(6,210)	(1,163)	–	13,201
Profit/(loss) from operations	25,858	47,364	7,227	(5,708)	(14,340)	4,399	7,053	71,853
Finance income	–	32	–	1,193	–	(438)	–	787
Finance costs	(4,135)	(1,169)	–	–	2,486	(2,449)	–	(5,267)
Taxation (charge)/credit	(13,305)	(15,551)	–	(473)	1,538	(451)	–	(28,242)
Profit/(loss) after taxation	8,418	30,676	7,227	(4,988)	(10,316)	1,061	7,053	39,131

1 In 2019, Kagem held two higher-quality emerald auctions in Singapore in May and November, generating revenues of USD22.4 million and USD27.2 million, respectively. Kagem also held two commercial-quality emerald auctions in Lusaka, Zambia, in February and August 2019, realising total revenue of USD29.4 million. MRM held two mixed-quality auctions in 2019, in Singapore in June and December, generating USD121.5 million.

2 Revenues have been recognised at one point in time, as control passes to the customer. No third-party customer accounted for more than 10% of sales during 2019.

3 Excluding mineral royalties and production taxes, export duty on Zambian emeralds, and inventory impairments.

4 Excluding share-based payments.

5 Including inventory and other impairments and provisions recorded in the year.

6 Other – PGMs includes the Group's investment in Sedibelo. The investment does not meet the definition of a reportable segment in accordance with IFRS 8 Operating Segments as the Group does not earn revenues from this equity holding. Going forward, Executive Management will include Sedibelo within the Other operating segment, with the disclosures in this note updated accordingly.

3. SEGMENTAL REPORTING/CONTINUED

Change in inventory and cost of sales

1 January 2020 to 31 December 2020	Zambia USD'000	Mozambique USD'000	Corporate USD'000	Fabergé USD'000	Other USD'000	Other – PGMs USD'000	Total USD'000
Change in inventory and cost of sales	(2,024)	12,269	(93)	(3,269)	(4,462)	–	2,421
<i>Split between:</i>							
Mining and production costs capitalised ¹	6,973	8,500	–	–	–	–	15,473
Depreciation capitalised	1,892	3,769	–	–	–	–	5,661
Cost of goods sold	(10,889)	–	(93)	(3,269)	(4,462)	–	(18,713)
	(2,024)	12,269	(93)	(3,269)	(4,462)	–	2,421

¹ Mining and production costs capitalised to inventory exclude security costs, which are not determined to be direct costs of production.

1 January 2019 to 31 December 2019	Zambia USD'000	Mozambique USD'000	Steel Making Materials USD'000	Corporate USD'000	Fabergé USD'000	Other USD'000	Other – PGMs USD'000	Total USD'000
Change in inventory and cost of sales	8,437	8,957	–	(1,018)	(7,307)	186	–	9,255
<i>Split between:</i>								
Mining and production costs capitalised ¹	31,176	23,180	–	–	–	–	–	54,356
Depreciation capitalised	5,574	11,819	–	–	–	–	–	17,393
Cost of goods sold	(28,313)	(26,042)	–	(1,018)	(7,307)	186	–	(62,494)
	8,437	8,957	–	(1,018)	(7,307)	186	–	9,255

¹ Mining and production costs capitalised to inventory exclude security costs, which are not determined to be direct costs of production.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

3. SEGMENTAL REPORTING/CONTINUED

Statement of Financial Position

31 December 2020	Zambia USD'000	Mozambique USD'000	Corporate USD'000	Fabergé USD'000	Other USD'000	Other – PGMs ³ USD'000	Total USD'000
Mining asset	140,695	163,178	–	–	–	–	303,873
Property, plant and equipment, and intangibles	17,400	47,099	4,998	30,167	10,658	–	110,322
Listed and unlisted investments	–	–	1,309	–	–	29,600	30,909
Operating assets ¹	48,177	61,371	12,420	38,059	4,688	–	164,715
Cash and cash equivalents	6,025	745	34,452	1,183	1,457	–	43,862
Segment assets	212,297	272,393	53,179	69,409	16,803	29,600	653,681
Deferred tax asset							3,029
Total assets							656,710
Borrowings	28,000	28,505	–	–	–	–	56,505
Operating liabilities ²	8,452	19,435	4,515	4,360	1,191	–	37,953
Segment liabilities	36,452	47,940	4,515	4,360	1,191	–	94,458
Deferred tax liability							79,236
Total liabilities							173,694
Net (debt)/cash	(21,975)	(27,760)	34,452	1,183	1,457	–	(12,643)

¹ Operating assets include inventory, current and non-current trade and other receivables and current tax assets.

² Operating liabilities include trade and other payables, lease liabilities, provisions and current tax liabilities.

³ Other – PGMs includes the Group's investment in Sedibelo. The investment does not meet the definition of a reportable segment in accordance with IFRS 8 Operating Segments as the Group does not earn revenues from this equity holding. Going forward, Executive Management will include Sedibelo within the Other operating segment, with the disclosures in this note updated accordingly.

3. SEGMENTAL REPORTING/CONTINUED**Statement of Financial Position**

31 December 2019	Zambia USD'000	Mozambique USD'000	Steel Making Materials USD'000	Corporate USD'000	Fabergé USD'000	Other USD'000	Other – PGMs ³ USD'000	Total USD'000
Mining asset	141,909	165,058	–	–	–	–	–	306,967
Property, plant and equipment, and intangibles	22,289	52,132	–	2,782	42,070	5,873	–	125,146
Listed and unlisted investments	–	–	–	1,455	–	–	57,500	58,955
Operating assets ¹	60,404	89,112	–	10,450	35,775	2,795	–	198,536
Other assets	–	5,323	–	3,000	81	700	–	9,104
Cash and cash equivalents	4,925	22,272	–	49,100	758	1,163	–	78,218
Segment assets	229,527	333,897	–	66,787	78,684	10,531	57,500	776,926
Deferred tax asset								7,227
Total assets								784,153
Borrowings	30,000	22,827	–	–	–	–	–	52,827
Operating liabilities ²	11,645	33,378	–	8,424	5,546	1,213	–	60,206
Segment liabilities	41,645	56,205	–	8,424	5,546	1,213	–	113,033
Deferred tax liability								92,177
Total liabilities								205,210
Net (debt)/cash	(25,075)	(555)	–	49,100	758	1,163	–	25,391

¹ Operating assets include inventory and current and non-current trade and other receivables.

² Operating liabilities include trade and other payables, lease liabilities, provisions and current tax liabilities.

³ Other – PGMs includes the Group's investment in Sedibelo. The investment does not meet the definition of a reportable segment in accordance with IFRS 8 Operating Segments as the Group does not earn revenues from this equity holding. Going forward, Executive Management will include Sedibelo within the Other operating segment, with the disclosures in this note updated accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

3. SEGMENTAL REPORTING/CONTINUED

Statement of Cash Flows

1 January 2020 to 31 December 2020	Zambia USD'000	Mozambique USD'000	Corporate USD'000	Fabergé USD'000	Other USD'000	Other – PGMs USD'000	Total USD'000
Revenue	22,300	–	111	7,144	5,012	–	34,567
Operating costs and cost of sales ¹	(25,348)	(10,955)	(11,925)	(10,558)	(5,823)	–	(64,609)
Marketing, management and auction costs	(2,788)	–	2,788	–	–	–	–
EBITDA	(5,836)	(10,955)	(9,026)	(3,414)	(811)	–	(30,042)
<i>Add back:</i> Change in inventory	2,024	(12,269)	93	3,269	4,462	–	(2,421)
Tax paid	(1,333)	(13,642)	–	–	(28)	–	(15,003)
Capital expenditure	(899)	(7,605)	(10)	(121)	–	–	(8,635)
Free cash flow before working capital movements	(6,044)	(44,471)	(8,943)	(266)	3,623	–	(56,101)
Working capital movements ²	11,105	25,546	1,851	(4,787)	(6,415)	–	27,300
Free cash flow	5,061	(18,925)	(7,092)	(5,053)	(2,792)	–	(28,801)
Cash generated from/(utilised in) operations	7,293	2,322	(7,082)	(4,932)	(2,764)	–	(5,163)
Tax paid	(1,333)	(13,642)	–	–	(28)	–	(15,003)
Capital expenditure	(899)	(7,605)	(10)	(121)	–	–	(8,635)
Free cash flow	5,061	(18,925)	(7,092)	(5,053)	(2,792)	–	(28,801)

¹ Excluding share-based payments, inventory impairments and other provisions.

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

3. SEGMENTAL REPORTING/CONTINUED**Statement of Cash Flows**

1 January 2019 to 31 December 2019	Zambia USD'000	Mozambique USD'000	Steel Making Materials USD'000	Corporate USD'000	Fabergé USD'000	Other USD'000	Other – PGMs USD'000	Total USD'000
Revenue	78,965	121,524	–	815	10,517	4,412	–	216,233
Operating costs and cost of sales ¹	(50,621)	(39,764)	–	(29,172)	(16,990)	1,206	–	(135,341)
Marketing, management and auction costs	(9,870)	(15,069)	–	24,939	–	–	–	–
EBITDA	18,474	66,691	–	(3,418)	(6,473)	5,618	–	80,892
<i>Add back:</i> Change in inventory	(8,437)	(8,957)	–	1,018	7,307	(186)	–	(9,255)
Tax paid	(1,939)	(7,753)	–	–	–	–	–	(9,692)
Capital expenditure	(4,330)	(25,411)	–	–	–	(1,104)	–	(30,845)
Free cash flow before working capital movements	3,768	24,570	–	(2,400)	834	4,328	–	31,100
Working capital movements ²	361	(10,698)	–	(6,140)	(4,271)	(4,509)	–	(25,257)
Free cash flow	4,129	13,872	–	(8,540)	(3,437)	(181)	–	5,843
Cash generated from operations	10,398	47,036	–	(8,540)	(3,437)	923	–	46,380
Tax paid	(1,939)	(7,753)	–	–	–	–	–	(9,692)
Capital expenditure	(4,330)	(25,411)	–	–	–	(1,104)	–	(30,845)
Free cash flow	4,129	13,872	–	(8,540)	(3,437)	(181)	–	5,843

¹ Excluding share-based payments and inventory impairments.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

4. COST OF SALES

	2020 USD'000	2019 USD'000
Mining and production costs		
Labour and related costs	18,453	24,822
Mineral royalties and production taxes	1,665	17,105
Export duty on Zambian emeralds	–	12,440
Fuel costs	4,207	13,236
Repairs and maintenance costs	4,794	10,542
Security costs	5,687	5,640
Camp costs	2,346	3,870
Blasting costs	534	2,041
Other mining and production costs ¹	2,776	9,415
Total mining and production costs²	40,462	99,111
Change in inventory and purchases	(2,421)	(9,255)
Depreciation and amortisation	21,023	34,827
	59,064	124,683

¹ Includes inventory impairment provisions of USD1.1 million (2019: USD6.2 million) related to Fabergé legacy inventory.

² Includes unavoidable mining and production costs incurred during the temporary suspension of operations in 2020 that have not been capitalised to inventory.

5. OTHER GAINS AND INCOME

	2020 USD'000	2019 USD'000
Realised fair value net gain on Jupiter disposals	–	4,645
Dividend income from Jupiter	–	2,582
Unrealised gains on other equity investments	15	–
Other income	183	1,237
	198	8,464

Jupiter disposal

On 15 April 2019, the Group announced that it had entered into a conditional sale and purchase agreement with AMCI Euro Holdings B.V. (“AMCI”), pursuant to which Gemfields (through its wholly-owned subsidiary, Pallinghurst Consolidated (Cayman) Ltd (“PCCL”)) agreed to sell its 145,845,372 ordinary shares in ASX-listed Jupiter. This constituted the Company’s entire remaining holding in Jupiter.

Cash consideration received for the Jupiter shares was AUD44.2 million. The Group also retained its right to payment of the AUD0.025 per share dividend declared by Jupiter on 19 February 2019, which was paid on 21 May 2019. Completion of the transaction took place in two stages, as follows:

- On 3 June 2019, 72,922,686 of the Jupiter shares were sold for AUD22.1 million (the “first tranche sales proceeds”); and
- On 28 November 2019, the remaining 72,922,686 of the Jupiter shares were sold for a further AUD22.1 million (the “second tranche sales proceeds”).

5. OTHER GAINS AND INCOME/CONTINUED

Jupiter disposal (continued)

Overall, a net realised fair value gain of USD4.6 million was realised on completion of the sale transaction and was calculated as shown in the table below.

	Number of shares	Price per share USD	Realised gain/(loss) USD'000
<i>Realised loss on First Tranche Sales Proceeds</i>			
Agreed sale price of First Tranche of Jupiter shares (3 June 2019)	72,922,686	0.21	15,390
Fair value of First Tranche of Jupiter shares (3 June 2019)	72,922,686	0.24	(17,758)
Realised fair value loss on disposal (first tranche)			(2,368)
<i>Realised gain on Second Tranche Sales Proceeds</i>			
Agreed sale price on Second Tranche of Jupiter shares (28 November 2019)	72,922,686	0.21	14,968
Fair value of Second Tranche of Jupiter shares (28 November 2019)	72,922,686	0.18	(12,829)
Realised fair value gain on disposal (second tranche)			2,139
Net realised loss on disposal			(229)
Other realised fair value movements			4,874
Realised fair value net gain on Jupiter disposal			4,645

Jupiter dividend income

On 19 February 2019, Jupiter announced the details of a final unfranked dividend of AUD0.025 per share. The Group, as a 7.44% shareholder in Jupiter at the time, received a dividend of AUD3.6 million (USD2.6 million) on 21 May 2019.

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2020 USD'000	2019 USD'000
Labour and related costs	12,799	15,753
Selling, marketing and advertising	4,987	13,657
Professional, legal and other expenses	2,488	7,940
Rent and rates	1,598	4,599
Share-based payments	944	1,693
Travel and accommodation	658	2,147
Auditor's remuneration	742	880
Other impairments and write-offs	76	2,148
Other selling, general and administrative expenses	5,414	7,956
	29,706	56,773

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

7. AUDITOR'S REMUNERATION

	2020 USD'000	2019 USD'000
Fees payable to the Company's auditor for the audit of the Parent Company and Consolidated Financial Statements	411	403
<i>Fees payable to the Company's auditor for other services:</i>		
Review of the interim Financial Statements	94	88
Audit of the UK statutory entities	60	59
Statutory audit work completed for the overseas entities	127	126
Advisory fees in respect to the Company's AIM listing	43	202
Other services	7	2
	742	880

The Group has a policy in place for the award of non-audit work to the auditor which requires audit committee approval (refer to the Audit Committee Report on pages 87–88).

8. EMPLOYEES AND DIRECTORS

	2020	2019
Number of employees		
Directors	7	7
Administration staff	141	140
Fabergé staff	39	39
Mining staff	2,377	2,186
	2,564	2,372

9. FINANCE INCOME AND COSTS

	2020 USD'000	2019 USD'000
Interest received	419	787
Finance income	419	787
Interest on bank loans and borrowings	(2,680)	(3,126)
Interest charge on lease liabilities	(311)	(302)
Other finance costs	(343)	(656)
Net foreign exchange losses	(2,882)	(1,183)
Finance costs	(6,216)	(5,267)
Net finance costs	(5,797)	(4,480)

10. TAXATION

The Group's tax expense is as follows:

	2020 USD'000	2019 USD'000
Current tax		
Taxation charge for the year	2,447	24,561
Deferred tax		
Origination and reversal of temporary differences	(8,422)	3,681
Total taxation (credit)/charge	(5,975)	28,242

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

	2020 USD'000	2019 USD'000
(Loss)/profit on ordinary activities before taxation	(99,202)	67,373
Taxation on ordinary activities at the standard rate of corporation tax in the United Kingdom of 19% (2019: 19%) ¹	(18,848)	9,971
<i>Effects of:</i>		
Different tax rates applied in overseas jurisdictions	(14,277)	3,446
Expenses not deductible for tax purposes ²	15,078	390
Under provision from previous periods	888	2,143
Tax losses not recognised as a deferred tax asset	11,184	12,292
Total taxation (credit)/charge	(5,975)	28,242

¹ For 2019, the weighted average rate applied is 14.8% which has been arrived at by applying 0% for the period to March 2019 when the Company was Guernsey tax resident and 19% for the remainder of the year following the relocation of tax residency to the UK.

² Non-deductible expenses primarily relate to mineral royalties in Zambia, the unrealised fair value loss recognised in respect of the Group's investment in Sedibelo and impairment losses recognised against the Fabergé CGU.

In Guernsey, the main rate of corporation tax for the year was 0%. The main rate of corporation tax in the United Kingdom was 19%.

The Group's effective tax rate of 6.0% arises as a result of not recognising all of the available taxation losses across the Group and due to non-deductible expenses which arise in the UK entities.

Different tax rates applied in overseas jurisdictions reflect the different tax rates applicable in the various jurisdictions in which the Group operates. The main rates of corporation tax in Zambia and Mozambique were 30% and 32%, respectively.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised, or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

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:

	2020 USD'000	2019 USD'000
<i>Recognised deferred tax assets</i>		
Tax losses	11,144	6,052
Property, plant and equipment	2,773	1,886
Other temporary differences	3,224	3,290
Foreign exchange movement	–	155
Total deferred tax assets	17,141	11,383
Deferred tax assets netted against deferred tax liabilities	(14,112)	(4,156)
Total deferred tax assets	3,029	7,227
<i>Recognised deferred tax liabilities</i>		
Evaluated mining property – Kagem and MRM	(89,979)	(91,110)
Inventory valuation – Kagem and MRM	(4,902)	(4,957)
Intangibles – Fabergé	–	(266)
Foreign exchange movement	1,533	–
Total deferred tax liabilities	(93,348)	(96,333)
Deferred tax assets netted against deferred tax liabilities	14,112	4,156
Total deferred tax liabilities	(79,236)	(92,177)

The movement on the deferred tax account is provided below.

	2020 USD'000	2019 USD'000
At 1 January	(84,950)	(81,424)
<i>Adjusted for:</i>		
Tax losses	4,766	(3,846)
Property, plant and equipment	887	1,257
Evaluated mining property – Kagem and MRM	1,131	(1,785)
Inventory valuation – Kagem and MRM	55	–
Intangibles – Fabergé	266	56
Unrealised foreign exchange movements	1,383	–
Other temporary differences	(66)	637
Recognised in the Consolidated Income Statement	8,422	(3,681)
Realised foreign exchange movement	321	155
At 31 December	(76,207)	(84,950)

10. TAXATION/CONTINUED

Deferred tax assets are only recognised in relation to tax losses and other temporary differences where it is considered probable that the losses will be utilised in the foreseeable future, and therefore that the asset is recoverable. The deferred tax liability in relation to evaluated mining property and inventory arose on the IFRS 3 *Business combinations* fair value uplift on acquisition of Gemfields by the former Pallinghurst Resources Limited (now Gemfields Group Limited) in 2017.

Management has reviewed the financial projections of the Group's operating entities and determined that there is evidence to support the recognition of the deferred tax asset at 31 December 2020. The asset recognised is based on the value of the taxable profit which is reasonably expected to be generated over the next three years.

Due to uncertainty over the timing of the future utilisation of certain of the taxation losses, no deferred tax has been recognised in relation to unused tax losses in the amount of USD154.5 million (2019: USD98.0 million).

Deferred tax assets and deferred tax liabilities relating to the same tax authorities have been disclosed as a net asset or liability.

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings USD'000	Plant, machinery and vehicles USD'000	Fixtures, fittings and office equipment USD'000	Evaluated mining properties USD'000	Deferred stripping costs USD'000	Total USD'000
Cost						
At 1 January 2019	24,621	36,755	5,875	349,278	11,623	428,152
Additions	8,132	16,999	869	–	–	26,000
Disposals	–	(1,250)	–	(860)	–	(2,110)
Foreign exchange differences	18	–	162	–	–	180
At 31 December 2019	32,771	52,504	6,906	348,418	11,623	452,222
Additions	1,525	3,612	1,236	618	–	6,991
Disposals	–	(30)	(1)	–	–	(31)
Foreign exchange differences	47	–	324	–	–	371
At 31 December 2020	34,343	56,086	8,465	349,036	11,623	459,553
Accumulated depreciation						
At 1 January 2019	1,116	11,501	2,956	45,963	1,602	63,138
Provided during the year	2,987	12,664	1,633	17,038	312	34,634
Disposals	–	(1,120)	–	–	–	(1,120)
Impairment reversals	–	–	–	(21,559)	–	(21,559)
Foreign exchange differences	18	–	198	–	–	216
At 31 December 2019	4,121	23,045	4,787	41,442	1,914	75,309
Provided during the year	3,571	12,618	1,088	3,729	154	21,160
Disposals	–	(24)	–	–	–	(24)
Foreign exchange differences	47	–	327	–	–	374
At 31 December 2020	7,739	35,639	6,202	45,171	2,068	96,819
Carrying value						
At 31 December 2019	28,650	29,459	2,119	306,976	9,709	376,913
At 31 December 2020	26,604	20,447	2,263	303,865	9,555	362,734

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

11. PROPERTY, PLANT AND EQUIPMENT/CONTINUED

Evaluated mining properties relate to mining licences held mainly at Kagem and MRM and the Group fair value adjustments from the 2017 acquisition.

Deferred stripping costs relate to Kagem.

Included within land and buildings are right-of-use assets with a cost of USD5.6 million (2019: USD5.4 million) and associated accumulated depreciation of USD2.3 million (2019: USD1.0 million). Right-of-use assets mostly relate to property leases held in the Group's various operating locations. Refer to Note 19: *Leases* for further details.

On 13 December 2019, the Government of the Republic of Zambia enacted into law the indefinite suspension of the 15% export duty effective prospectively from 1 January 2020. As a result, the recoverable amount of the Kagem CGU was recalculated, leading to a USD21.6 million reversal of the previously recognised impairment at 31 December 2019.

FY20 Impairment review of Kagem and MRM

At 31 December 2020, the Group's market capitalisation based on the share price of ZAR1.35 was USD107.7 million. This is USD375.3 million below the Group's net asset value (consistent with the previous years), which under IAS 36 represents an impairment indicator. Whilst the Gemfields Group is not considered a cash-generating unit, the existence of this impairment indicator implies that an impairment indicator may also exist at one of the Group's CGUs. As a result, an impairment review has been performed on the mining CGUs at 31 December 2020.

A primary factor when considering impairment is the impact of COVID-19 on both assets.

MRM:

- All but critical operations at MRM were suspended from 22 April 2020 until March 2021, when the wash plant and sort house operations restarted, processing existing stockpiles. Full-scale mining operations are expected to begin in early April 2021.
- MRM presently has sufficient inventory to support one mixed-quality ruby auction. A series of smaller auctions using this inventory is taking place in March and April 2021.
- All significant capital expenditure projects, including the second ore treatment plant, remain postponed for the foreseeable future.

KAGEM:

- Principal operations at Kagem were suspended from 30 March 2020, putting on hold a period of excellent premium emerald production. Given prevailing circumstances, principal operations were suspended until the wash plant restarted on 17 March 2021, with full-scale mining expected to start on 1 April 2021.
- Kagem presently has sufficient inventory to support one higher-quality and one commercial-quality emerald auction.
- All significant capital expenditure projects remain postponed for the foreseeable future.

A significant consideration was the impact of COVID-19 on the wider gemstone market and whether this would have had an impact on gemstone prices. A fall in emerald or ruby market prices would have a material impact on the recoverable values of the respective assets. In respect of emeralds, the market has been tested and demand generally remains strong. The robust prices achieved at Kagem's mini-auctions held in November and December 2020, along with feedback on competitor auctions held in February 2021, provide confidence in the downstream market. The results of the Kagem emerald mini-auction saw price increases for almost every grade with only four auction lots being held back, despite the size and nature of the auctions not necessarily being representative of an auction that would have taken place under normal market conditions. Kagem's next series of mini-auctions commenced in March 2021 and will run through to 17 April 2021.

11. PROPERTY, PLANT AND EQUIPMENT/CONTINUED

MRM is also running their inaugural series of mini-auctions from 15 March to 8 April 2021. With no significant quantity of rubies being offered to the market since the last MRM auction in December 2019, the Group is confident that these auctions will be a success. However, whilst significant market information is not available, there is a potential risk of short-term negative pricing for rough rubies.

To determine the recoverable amount of the CGUs at 31 December 2020, the Group has used a discounted cash flow analysis. The calculation of the recoverable amount is particularly sensitive to gemstone prices, composition of the high-quality emerald auctions, processing capacity at MRM and the discount rate used. Any changes to the assumptions adopted in the calculation of the recoverable amount, individually or in aggregate, would result in a different valuation being determined. The key assumptions and estimates are tabulated below.

Given the current market conditions, a sensitivity analysis was also performed to assess the impact of reasonably plausible changes in the critical judgements. The critical judgement applied has been to sensitise the auction prices achieved by reducing the realised prices by 30% for a period of three and five years. Following a review of historic auction trends:

- The average price per carat of emeralds has never fallen materially and, where prices have fallen, the depressed price did not last for more than one subsequent auction (approximately six months). This assessment includes the period during the liquidity crunch in India, following the fallout of demonetisation and the Nirav Modi scandal in 2017/2018, following which prices subsequently rose. Furthermore, the mini-auctions in November and December 2020 saw strong demand and robust pricing with 24 out of 28 lots sold.
- The average price per carat of rubies fluctuates more than for emeralds as a result of the product mix and a relatively short auction history. Since the first auction overall ruby revenues have increased substantially; however, there are some variations whereby higher prices per carat are realised as more premium-category rubies may be offered on an auction-by-auction basis. The specific auction mix and quality composition of the lots offered at each auction vary in characteristics such as size, colour and clarity on account of variations in mined production and market demand. Therefore, the results of each auction are not directly comparable. On an average quality-for-quality basis, however, the per carat prices demonstrate continuing strong demand and robust pricing.

The impact of the COVID-19 pandemic on the Group is not expected to be long-term. The Directors believe that the longest period over which prices could be depressed, based on history, is less than a year; however, given the wider-ranging reach of the pandemic it has been assessed that a period of three years could be plausible. Notwithstanding this, a period of five years has also been modelled to further stress-test the recoverable amounts of the CGUs.

The price sensitivities reflect the fact that the Group is no more confident over the market than it was in June 2020 when the last review was performed. As such, the 30% sensitivity applied remains reasonable as nothing has happened that would imply the assumptions made in June 2020 were unreasonable or had changed. When the Kagem impairment reversal was recognised in December 2019, no price sensitivities were deemed necessary, which was supported by historic pricing trends. The valuations are also highly sensitive to the discount rates used; consequently, these have also been risk-adjusted to reflect increased country risk that may be plausible.

Price assumptions	Discount rate	Kagem Headroom/(deficit) USD millions	MRM Headroom/(deficit) USD millions
Base case		74.3	170.9
30% price decrease, 3 years	Base	40.3	93.4
30% price decrease, 3 years	Risk-adjusted	14.8	73.0
30% price decrease, 5 years	Base	14.3	51.9
30% price decrease, 5 years	Risk-adjusted	(10.3)	32.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

11. PROPERTY, PLANT AND EQUIPMENT/CONTINUED

After applying the above sensitivities, the following conclusions were reached:

- Kagem's base case recoverable amount is calculated at USD270.3 million which exceeds its carrying value of USD196.0 million. However, when the discount rate is sensitised and the fall in prices is extended for five years the headroom is reduced and a deficiency is forecast.
- In the event that the deficit noted above for Kagem is realised, the Group would look to review the life of mine plan including auction sizing and mix, production costs and other factors that would reduce it. Management notes, however, that in the absence of any clear indicators such a pronounced price reduction for a prolonged period is unlikely.
- MRM's base case recoverable amount is calculated at USD413.0 million, which significantly exceeds its carrying value of USD242.1 million at 31 December 2020, such that under any of the stressed assumptions there is no deficit.

As required by IAS 36, the amount by which the value assigned to a key assumption must change for headroom to be reduced to nil must also be identified:

- Kagem's headroom is reduced to nil with a recoverable amount of USD196.0 million when a price reduction of 31% is applied for a period of five years, or when a discount rate of 16.63% is applied to the base case cash flows.
- MRM's headroom is reduced to nil when a price reduction of 43% is applied for a period of five years, or when a discount rate of 26.52% is applied to the base case cash flows.

Additional key assumptions used in the recoverable amount calculations:

ASSUMPTION	KAGEM	MRM
Recoverable amount of reserves and resources	Economically recoverable reserves and resources are based on management's expectations and the technical studies and exploration and evaluation work undertaken by in-house and third-party specialists.	Economically recoverable reserves and resources are based on management's expectations and the technical studies and exploration and evaluation work undertaken by in-house and third-party specialists.
Commodity prices	Rough emerald and beryl prices have been determined using the Group's historic achieved prices over a period of ten years and 30 auctions also reflecting historically supportable price increases. Rough emerald and beryl prices are not traded on a public exchange and most transactions occur in private auctions and therefore historic trends of prices and product mix are the most appropriate and reasonable basis.	Rough rubies and corundum prices have been determined using the Group's historic achieved prices over a period of six years and 13 auctions. Rough rubies and corundum prices are not traded on a public exchange and most transactions occur in private auctions and therefore historic trends of prices and product mix are the most appropriate and reasonable basis.

11. PROPERTY, PLANT AND EQUIPMENT/CONTINUED

ASSUMPTION	KAGEM	MRM
Composition of auctions	The quality of production and product mix typically dictate the composition of the high-quality auctions. The composition of the auction includes premium emeralds 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.	The quantity of ruby production that is assumed to be sold at mixed-quality auctions is based on 50% of the current year's production (three-month delay before each auction) and 50% of the previous year's production.
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.	Variable operating costs have been included in the impairment test as a function of the related production volumes. Fixed costs at the mines, washing plant and sort house are largely constant but reflect material changes in activity levels.
Discount rate	A real discount rate of 12.5% (nominal 14.3%) 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. Sensitised real discount rate of 13.7% (nominal 15.5%).	A real discount rate of 15.2% (nominal 17.0%) 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. Sensitised real discount rate of 16.3% (nominal 18.1%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

12. INTANGIBLE ASSETS

	Software USD'000	Indefinite life intangible assets USD'000	Finite life intangible assets ¹ USD'000	Unevaluated mining properties USD'000	Total USD'000
Cost					
At 1 January 2019	293	39,942	496	12,221	52,952
Additions	265	–	–	2,800	3,065
At 31 December 2019	558	39,942	496	15,021	56,017
Additions	125	–	–	7,901	8,026
Foreign exchange differences	(12)	–	–	–	(12)
At 31 December 2020	671	39,942	496	22,922	64,031
Accumulated amortisation					
At 1 January 2019	156	–	468	–	624
Charge in the year	193	–	–	–	193
At 31 December 2019	349	–	468	–	817
Charge in the year	241	–	28	–	269
Impairment charge	–	11,500	–	–	11,500
Foreign exchange differences	12	(28)	–	–	(16)
At 31 December 2020	602	11,472	496	–	12,570
Carrying value					
At 31 December 2019	209	39,942	28	15,021	55,200
At 31 December 2020	69	28,470	–	22,922	51,461

¹ Finite life intangible assets relate to the fair value assigned to the Fabergé customer list at acquisition, which had a carrying value of USD Nil at 31 December 2020.

Unevaluated mining properties

Unevaluated mining properties consist of intangibles relating to the mining and prospecting licences (evaluation and exploration assets) held in the new projects, mainly in Mozambique and Ethiopia. Assets are capitalised to unevaluated mining properties in accordance with the Group's exploration and evaluation accounting policy, which is disclosed in Note 2: *Accounting policies*.

During 2020, control passed to Nairoto Resources Limitada over 12 gold-mining and prospecting licences in Northern Mozambique, where the objective is to conduct exploration and evaluation activities in these areas, alongside the company's partner, Mwiriti Ltda., in the coming years. The passing of control for these licences to Nairoto was treated as an asset acquisition, with an opening addition to unevaluated mining properties in the year of USD4.9 million.

Unevaluated mining properties are reviewed regularly for indicators of impairment and are tested for impairment where these indicators exist, in line with the Group accounting policy. During 2020, the COVID-19 pandemic resulted in the Group pausing spending on non-critical operations, which includes development projects. The Group does not view this as an impairment indicator, however, as the suspension of activity is temporary, with activity at the projects planned to resume as soon as it is viable to do so. A full review of the Group's development projects can be found on pages 40–41 in the Operational Review.

Indefinite life intangible assets

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

12. INTANGIBLE ASSETS/CONTINUED

Fabergé Limited cash-generating unit – valuation and impairment assessment

In accordance with IAS 38 *Intangible assets*, the Group assesses the carrying value of its Fabergé CGU for impairment on an annual basis. Fabergé is a retailer of premium personal luxury goods (“PLGs”) and the Group applies a Market Approach–Revenue Multiple method to the valuation of its recoverable amount. The Group engages an independent expert to complete an independent valuation report, using this methodology, at each reporting date. The independent report forms the primary source in determining the fair value (based on a fair value less cost of disposal (“FVLCTD”) of Fabergé.

In the first half of 2020, the impact of the COVID-19 pandemic was felt across the global economy. The impact of the pandemic, specifically on the PLG market, indicated that the Fabergé CGU could be impaired in line with IAS 36 *Impairment* guidance. Accordingly, at 30 June 2020, management engaged the independent experts to update their valuation of the CGU.

The report was prepared on the same basis as that prepared at 31 December 2019; however it concluded that the only practical market-based approach to value Fabergé at 30 June 2020 was by reference to enterprise value to revenue multiples (“EV/Revenue”) exhibited by comparable companies (“CoCos”). Different to the valuation performed at 31 December 2019, the comparable transactions (“CoTrans”) multiple approach was not considered as it was not possible to identify any suitable comparable transactions that had completed since the start of the COVID-19 pandemic and that would reflect current market conditions and investor expectations. As a result, only the CoCos multiple approach was adopted in 2020. For this approach, the valuation report considered a peer group of well-established, globally recognised PLG companies, with a focus on those operating jewellery or timepiece brands.

At 31 December 2020, the expert valuation was again updated with the applied assumptions being consistent with those described for the June 2020 report above. The Group believes that a revenue multiple based on comparable companies remains the most appropriate method of valuing the Fabergé CGU.

The key judgements, assumptions and inputs are discussed in more detail below. The fair value assessment completed of the Fabergé CGU is determined to be Level 3 in the fair value hierarchy (see Note 13: *Investments*).

Basis of revenue

For the 31 December 2020 report, the following metrics were used:

1. Agreed sales over the last 12 months to December 2020 of USD8.9 million, which is determined to represent mostly post-COVID-19 impacted revenues; and
2. A forward-looking approach using management’s latest Board-approved budgeted sales for 2021 of USD12.1 million.

For the 30 June 2020 report, the impacts of COVID-19 were not fully known; therefore, the average annual agreed sales, based on the last 36 months from January 2020 of USD12.3 million, were considered to be the most reliable basis of the revenue multiple for FVLCD. Consistent with 2019, this metric was considered to span the largest period, be within a narrow range of revenue bases under review, yet still present a more representative estimate of future sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

12. INTANGIBLE ASSETS/CONTINUED

Peer group

The peer group of globally recognised PLG companies selected to establish a comparable EV/Revenue multiple range considered the following:

- Fabergé's greater heritage and premium brand perception compared to many brands within the peer group;
- Fabergé's comparatively small size and less diversified brand and product portfolio;
- Fabergé's higher growth potential compared to the larger and more mature companies in the peer group; and
- Fabergé's last fiscal year revenue and EBITDA margin growth, which is negative.

Taking these factors into account, the June 2020 report considered it reasonable to apply a discount to the peer group average multiples and selected an EV/Revenue multiple range of 2.5x–3.00x (mid-point: 2.75x).

For December 2020, a general recovery in multiples was observed, reflective of the market view of being past the peak impact of COVID-19. In the December report, therefore, the selected EV/Revenue multiple range was 3.0x–4.5x.

Control premium

Multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels or shares. As such, they generally reflect a minority discount. Both 2020 reports therefore applied a control premium range of 25%–35% in order to arrive at an adjusted enterprise value for the Fabergé CGU.

Discount for Lack of Marketability ("DLOM")

On the basis that a revenue multiple derived from the CoCos reflects trades of liquid parcels or shares, whereas the Fabergé CGU is a private entity, the report considered it appropriate to apply a DLOM.

The report applies a DLOM range of 5%–10% taking into consideration the following factors:

- The Group has received several purchase offers for Fabergé;
- Given the well-established and globally recognised heritage of the Fabergé brand, it may be considered a "trophy asset" by potential investors; and
- Quantitative analysis using the Ghaidarov Average-Strike Put Option model.

Illustrative costs of disposal

Given the number of acquisition offers received by the Group for Fabergé since it was acquired in 2013 and the high-profile nature of the Fabergé brand, the independent third party considers it likely that any potential sale of the business would involve relatively minimal marketing and related costs. As such, the report considered an appropriate illustrative cost of disposal of 1% of enterprise value, which is the mid-point of disposal costs of between 0.5% and 1.5% of similar transactions observed.

Surplus inventory

Within inventory of USD33.4 million at 31 December 2020 (30 June 2020: USD31.4 million; 2019: USD30.7 million), Fabergé carries a high level of "showpiece" assets which can be summarised as art-jewellery and exceptional gemstones, showcasing the highest possible level of design, craftsmanship and quality associated with the brand. These assets are not required for the operations of the CGU and can be considered as surplus assets. This surplus amount aggregates to USD23.4 million (30 June 2020: USD23.7 million; 2019: USD23.4 million) with the remainder regarded as operational inventory, required to support annual sales.

This surplus inventory amount is added back to the calculated enterprise value after adjustment for control premium and DLOM to arrive at the total enterprise value of the Fabergé CGU.

12. INTANGIBLE ASSETS/CONTINUED

Valuation results

At 30 June 2020, based on the average annual agreed sales over the last 36-month revenue metric and taking an average of the CoCos EV/Revenue valuation results, the Directors concluded the FVLCTD of the Fabergé CGU to be USD63.8 million. This determined recoverable amount was lower than the carrying value of the CGU by USD11.5 million. As such, an impairment charge was recognised at 30 June 2020.

As the inventory at Fabergé is supported by its NRV, the full impairment charge was recognised against the related intangible assets.

At 31 December 2020, the results of the revenue multiple approach using the scenarios outlined above and the average of the CoCos EV/Revenue valuation results concluded an average recoverable amount for the Fabergé CGU of USD69.9 million. The updated valuation implies a headroom above the current carrying value of the asset of USD9.8 million. A summary of the results at 31 December 2020 is shown in the table below.

The Directors considered whether, on the basis of the results of the assessment completed at 31 December 2020, a portion of the impairment made at 30 June 2020 should be reversed. It was concluded, however, that whilst high uncertainties exist around the impact of COVID-19 on future revenues from the CGU, the criteria for the reversal of an impairment are not met.

Looking forward, revenues from Fabergé should continue to improve into 2021 as the COVID-19 restrictions ease and become more predictable, and as the Group adapts to these new market conditions. If these factors translate into a sustained or increased assessment of the fair value of the CGU, then an impairment reversal will be duly considered.

Summary of results – mid-point values

	31 December 2020 USD millions
FVLCD (at an EV level, including surplus inventory)	
CoCos EV/Rev – LTM December 2020 (sales agreed)	69.1
CoCos EV/Rev – FY21 latest revenue budget	70.7
Average	69.9
Headroom/(impairment)	
CoCos EV/Rev – LTM December 2020 (sales agreed)	9.0
CoCos EV/Rev – FY21 latest revenue budget	10.6
Average	9.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

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 2020 to 31 December 2020 is as follows:

	Balance at 1 January 2020 USD'000	Unrealised fair value losses USD'000	Realised fair value gains USD'000	Disposals USD'000	Balance at 31 December 2020 USD'000
<i>Unlisted equity investments</i>					
Sedibelo Platinum Mines ¹	57,500	(27,900)	–	–	29,600
Total	57,500	(27,900)	–	–	29,600

¹ The unrealised fair value loss on Sedibelo of USD27.9 million did not include any foreign exchange, as the valuation is denominated in USD.

The reconciliation of the investment valuations from 1 January 2019 to 31 December 2019 is as follows:

	Balance at 1 January 2019 USD'000	Unrealised fair value gains USD'000	Realised fair value gains USD'000	Disposals USD'000	Balance at 31 December 2019 USD'000
<i>Listed equity investments</i>					
Jupiter ¹	25,714	–	4,645	(30,359)	–
	25,714	–	4,645	(30,359)	–
<i>Unlisted equity investments</i>					
Sedibelo Platinum Mines ²	50,447	7,053	–	–	57,500
	50,447	7,053	–	–	57,500
Total	76,161	7,053	4,645	(30,359)	57,500

¹ The net realised fair value gain of USD4.6 million comprised a realised fair value gain on Jupiter of USD4.9 million (inclusive of a realised foreign exchange loss of USD1.0 million) and a realised loss on disposal of USD0.23 million (see Note 5: Other gains and income, for further breakdown). The Group received a total amount of AUD44.2 million (or USD30.4 million) in cash as consideration for the Jupiter shares it owned.

² The unrealised fair value gain on Sedibelo of USD7.1 million did not include any foreign exchange, as the valuation is denominated in USD.

13. INVESTMENTS/CONTINUED

Sedibelo Platinum Mines Limited ("Sedibelo" or "SPM") – equity

Nature of investment	The Group holds a 6.54% 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 2020
Fair value methodology	Market Comparables applying Directors' estimate.

The Directors have, based on the approach below, estimated that the value of SPM is USD453.0 million at 31 December 2020; the Group's indirect 6.54% interest has therefore been valued at USD29.6 million.

The Directors have applied a Market Approach to the valuation of SPM. The reduction in fair value arises most notably from judgement applied to the discount for lack of marketability and from the inclusion of financial related metrics that have been considered to be appropriate this year.

The primary source in determining the valuation of SPM at 31 December 2020 is a valuation report, prepared by an independent third party. The independent valuation report includes a range of valuations from which the Directors have applied judgement to assess the value accounted.

The report concluded that the only practical market-based approach is to value the Group's investment in SPM by reference to the key market multiples exhibited by reference to the pricing of publicly listed PGM companies. The report considered a peer group comprising Anglo Platinum, Impala Platinum, Tharisa, Sibanye Stillwater, Northam Platinum ("Northam") and Royal Bafokeng Platinum ("RBP"). The valuer deemed that RBP, Northam and Tharisa are the closest comparables to SPM with respect to their resource size and financial performance, although all three companies report better profitability at prevailing metal prices. Furthermore, production and revenue at both RBP and Northam are materially higher than at SPM. When comparing the valuation of SPM's peer group, the report considered the most suitable measures to be Enterprise Value per (i) mineral resource ounce, (ii) mineral reserve ounce, (iii) production ounce, (iv) Last Twelve Months ("LTM") revenue, (v) Next Twelve Months ("NTM") revenue, (vi) LTM EBITDA and (vii) NTM EBITDA.

SPM's strategy over recent years has been on optimising operating efficiencies, minimising production costs and cash preservation. SPM's financial multiples had previously been disregarded by the Group's valuer in their valuation estimates at both 31 December 2019 and 30 June 2020 as the financial numbers published by SPM were not considered suitable for various reasons including, for example, that SPM's operating and net incomes were negative. The independent valuer assessed SPM's current disclosed financial performance which demonstrates that it now lies in an appropriate range to SPM's peer group for financial multiples to be included as part of the valuation approach.

The valuer used the available information reported by SPM in its September 2020 MD&A reporting and from SPM's most recent mineral resources and reserves report (December 2016), and determined that the attributable PGM resource of SPM at 31 December 2020 would most likely be c.87 million ounces and the attributable PGM reserve of SPM would most likely be c.14 million ounces, at the same date. The independent valuation report worked on the assumption that production at SPM will remain in the 120k ounces per annum range in the near term. The report further worked on the assumption that (i) SPM's 2020 revenue and EBITDA would be in the USD231 million and USD50 million range, respectively, and (ii) that SPM's 2021 revenue and EBITDA would be in the USD333 million and USD112 million range, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

13. INVESTMENTS/CONTINUED

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

Fair value methodology The report concluded that the average multiple of Enterprise Values across SPM’s peer group over their: (i) mineral resource ounce, (ii) mineral reserve ounce, (iii) production ounce, (iv) LTM revenue, (v) NTM revenue, (vi) LTM EBITDA and (vii) NTM EBITDA, suggest respective multiples of (i) USD10/oz, (ii) USD75/oz, (iii) USD4,500/oz, (iv) 2.5x, (v) 1.5x, (vi) 8.5x and (vii) 3.5x. Each multiple arrives at an implied valuation of SPM within a range of USD391 million–USD1,020 million, with a mid-point of USD706 million. The report has applied weightings to each multiple which give consideration to an array of factors, including but not limited to the following (a) the degree of COVID-19-related disruption on LTM production, revenue and EBITDA, (b) the increase in spot platinum and rhodium prices and attendant impact on SPM relative to its peer group, (c) the lack of specific forward guidance provided by SPM, and (d) SPM’s materially longer reserve life relative to its peer group. The valuer concluded that factors (c) and (d) support lower weightings assigned to the values derived from the NTM revenue, NTM EBITDA, reserve ounce and resource ounce multiples. After applying each weighting to each multiple valuation, an overall implied valuation of SPM of USD559 million was calculated. The Group’s indirect 6.54% interest would be valued at USD36.5 million on this basis.

The report acknowledged that SPM is a public, unlisted company and that it would be more difficult for the Group to sell its effective 6.54% interest in SPM, than if SPM were a public listed company which traded in an established market. Furthermore, the Group’s interest in SPM is held via a Luxembourg holding entity, Pallinghurst Ivy Lane Capital S.à.r.l. which creates further complications in realising the asset. The valuer has therefore applied a discount for the lack of marketability (“DLOM”) by using the Finnerty model, a widely used valuation discount method. The Finnerty model uses key inputs and assumptions such as the expected holding period of the asset, the trading volatility of the asset’s peer group and the expected dividends from the asset. The Finnerty model arrived at a DLOM of 20% to be applied to the valuation.

After allowance of SPM’s net cash of USD8.2 million, the multiples lead to a value of SPM (100% basis), on an Enterprise Value basis, of USD567 million, with the Group’s 6.54% interest valued at USD37.1 million. After applying a 20% DLOM discount, SPM’s fair value decreases to USD453 million with the Group’s 6.54% interest valued at USD29.6 million, resulting in a USD27.9 million fair value loss for the year.

For the purposes of a direct comparison, if the same valuation methodology that was applied by the independent third party at 31 December 2019 (as disclosed in the 2019 Annual Report), was updated as at 31 December 2020, the implied valuation of Sedibelo (100% basis) would be in a range of USD800 million–USD1,100 million. The Group’s 6.54% interest would be valued in the range of USD52 million–USD72 million, with a mid-point valuation of USD62 million.

13. INVESTMENTS/CONTINUED

Sedibelo Platinum Mines Limited ("Sedibelo" or "SPM") – equity

Fair value methodology	<p>For the purposes of the disclosures required by IFRS 13, the Directors have performed a test of the reasonableness to the selected weightings of each multiple applied. The following sensitivity analysis on varying alternative weightings is disclosed:</p> <ul style="list-style-type: none"> (i) If equal weightings were applied to all seven metrics (i.e. a 14.3% weighting per multiple), with all other indicators and evidence unchanged, the independent valuation report's assessment of the valuation would change from USD29.6 million to USD32.7 million. The related fair value increase of USD3.1 million would be recognised in profit and loss. (ii) If no weighting was applied to the mineral resource and mineral reserve multiples, with the remaining multiples re-weighted equally, the independent valuation report's assessment of the valuation would change from USD29.6 million to USD25.9 million. The related fair value decrease of USD3.7 million would be recognised in profit and loss. (iii) If no weighting was applied to the mineral resource, mineral reserve, NTM revenue and NTM EBITDA multiples, with the remaining multiples re-weighted equally, the independent valuation report's assessment of the valuation would change from USD29.6 million to USD27.3 million. The related fair value decrease of USD2.3 million would be recognised in profit and loss.
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Jupiter Mines Limited ("Jupiter") – equity (up to 28 November 2019)

Nature of investment	<p>The Group held an equity interest in Jupiter up to 28 November 2019. Jupiter is based in Perth, Western Australia, and its main asset is a 49.9% interest in the Tshipi manganese joint venture in South Africa. The Group completed its transaction to sell its remaining stake in Jupiter to a third party at an agreed price of AUD0.21 per share on 28 November 2019.</p> <p>The Group held a balance of nil Jupiter shares at 31 December 2019 and 31 December 2020.</p>
Last date of valuation	28 November 2019
Fair value methodology	<p>Market Approach – Listed Share Price.</p> <p>The Group's interest in Jupiter was last valued on 28 November 2019 at the mid-price of AUD0.26 per share, translated at the closing rate of USD/AUD1.4780 on 28 November 2019.</p>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

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)

The investment in Jupiter up to the Group's divestment on 28 November 2019 was deemed to be Level 1 under the fair value hierarchy.

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

14. TRADE AND OTHER RECEIVABLES

	2020			2019		
	Current USD'000	Non-current USD'000	Total USD'000	Current USD'000	Non-current USD'000	Total USD'000
Equity investments	–	1,309	1,309	–	1,455	1,455
Financial assets held at fair value through profit and loss	–	1,309	1,309	–	1,455	1,455
Trade and other receivables	13,549	–	13,549	62,544	–	62,544
Related party receivables	3,674	3,000	6,674	6,100	3,000	9,100
Loan receivable	700	–	700	–	700	700
Other receivables	742	–	742	–	–	–
Financial assets held at amortised cost	18,665	3,000	21,665	68,644	3,700	72,344
VAT receivable ¹	7,391	6,356	13,747	13,313	5,324	18,637
Prepayments	6,445	–	6,445	4,533	–	4,533
Other receivables	406	438	844	1,352	80	1,432
Total trade and other receivables	32,907	11,103	44,010	87,842	10,559	98,401

¹ Non-current VAT receivable relates to amounts owed to MRM, whose collection is expected more than 12 months from the balance sheet date.

Financial assets held at amortised cost

Trade receivables of USD13.5 million at 31 December 2020 (2019: USD62.5 million) primarily relate to Kagem auction receivables of USD7.9 million from the five Kagem emerald mini-auctions held in November and December 2020 and amounts due to Fabergé of USD4.1 million. At the date of these financial statements, the full USD7.9 million Kagem auction receivable had been collected.

The Group assesses the recoverability of its auction receivables based on the simplified approach within IFRS 9, which uses a provision matrix to determine the lifetime expected credit losses. Auction receivables are written off where there is no reasonable expectation of recovery, which includes, amongst other specified criteria, a failure to make contractual payments for a period of greater than 120 days past due.

14. TRADE AND OTHER RECEIVABLES/CONTINUED

Financial assets held at amortised cost (continued)

In early 2020, one of the December 2019 ruby auction customers defaulted on their payment, resulting in a breach of contract, with the goods being returned to MRM and the outstanding receivable balance of USD2.6 million being written off. This is the first time in the Group's history that a customer has defaulted on payment, and management believes this event to be a one-off. The Group maintains a strict due diligence process when inviting new customers to partake in its gemstone auctions and the majority of customers have a longstanding relationship with the Group. The total amount defaulted represented 1.3% of 2019 auction revenues. In December 2020, the Group sold the goods from this defaulted auction package to a different customer for the same price. At 31 December 2020, a receivable of USD1.0 million remained outstanding in relation to this sale and as at the date of these Financial Statements, the full balance had been paid.

Management assessed the impact of this default on the Group's expected lifetime credit loss rate over a look-back period of 36 months and determined it to be immaterial to the Consolidated Financial Statements. No impairment provision was recorded against auction receivables at 31 December 2020.

The majority of the Group's non-auction receivables are held by Fabergé. Fabergé's business is based on longstanding relationships with a selection of key wholesale customers, with whom emphasis is placed on building partnerships. There is no past history of customer default with these customers. These receivables are assessed for impairment under IFRS 9 on a customer-by-customer basis, taking into consideration the customer's past payment history, Fabergé's relationship with the customer and any other customer-specific factors determined to be appropriate to the assessment. For 2020, the impact of COVID-19 during both the current year and 2021 has also been considered. Based on the detailed assessment completed, management determined the credit risk of these customers to be low, with the expected credit loss concluded to be immaterial to the Consolidated Financial Statements. As such, no impairment provision was recorded against Fabergé's trade receivables at 31 December 2020.

Refer to Note 24: *Financial instruments* for further discussion on credit risk.

Related party receivable

At 31 December 2020, the Group had a USD6.7 million related party receivable due from Mwiriti Ltda ("Mwiriti"), the Group's partner in MRM and in Nairoto Resources Limitada ("Nairoto"). Of the total amount, USD3.7 million (2019: USD5.1 million) of the current receivable relates to MRM and will be recovered from future dividends paid out by MRM.

The remaining balance of USD3.0 million (2019: USD4.0 million) relates to Nairoto. Nairoto has been set up with the objective of developing 12 gold-mining licences in Northern Mozambique. The balance represents an advance made to Mwiriti, which has no fixed terms of repayment. It is expected that this receivable will be recovered through future dividends paid out once the viability of the project has been confirmed. The Group also held an outstanding non-current payable of USD5.0 million to Mwiriti in respect of the Nairoto project at 31 December 2020. As such, the Group's credit exposure to Mwiriti at 31 December 2020 in relation to Nairoto was determined to be immaterial.

The loan receivable of USD0.7 million held at 31 December 2020 is shown net of a provision of USD1.4 million (2019: USD1.4 million). The provision made in the prior year wrote the receivable down to its fair value based on contractual agreements in place. The Group expects the full receivable to be settled in 2021.

Other receivables are short-term in nature and have low credit risk associated to them, no loss allowance has therefore been recorded against this balance in the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

14. TRADE AND OTHER RECEIVABLES/CONTINUED

Other receivables

VAT receivables, prepayments and other receivables are not financial assets. If collection of amounts is expected in one year or less, they are classified as current assets.

All carrying amounts of other receivables approximate their fair value.

15. INVENTORY

	2020 USD'000	2019 USD'000
Rough inventory – emeralds and beryl	39,290	45,525
Rough inventory – rubies and corundum	31,639	22,277
Cut and polished gemstones	5,616	5,409
Fabergé inventory	33,413	30,743
Spares and consumables	7,881	6,740
	117,839	110,694

The total provision made against inventory at 31 December 2020 was USD8.6 million (2019: USD5.1 million).

At 31 December 2020, USD0.8 million of the rough inventory was carried at net realisable value (2019: USD1.3 million).

16. TRADE AND OTHER PAYABLES

	2020			2019		
	Current USD'000	Non-current USD'000	Total USD'000	Current USD'000	Non-current USD'000	Total USD'000
Trade payables	4,172	–	4,172	6,885	–	6,885
Accrued expenses	5,695	–	5,695	12,393	–	12,393
Payroll and employee-related payables	1,413	–	1,413	3,928	–	3,928
Related party payables	–	5,000	5,000	–	–	–
Other taxes, including mineral royalty and production taxes	1,314	–	1,314	5,548	–	5,548
Other payables	4,709	–	4,709	1,096	–	1,096
Total trade and other payables	17,303	5,000	22,303	29,850	–	29,850

Trade payables are unsecured and are usually paid within 30 days of recognition. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

The related party payable is due to the Group's partner in Nairobi, Mwiriti Ltda, in relation to operating and capital expenses incurred on behalf of Nairobi before control of the 12 mining licences passed to the Group.

17. BORROWINGS

		Interest rate	Maturity	2020 USD'000	2019 USD'000
Non-current interest-bearing loans and borrowings					
ABSA Zambia	USD20 million term loan	USD LIBOR + 5.50%	2024	13,500	18,000
ABSA Zambia	USD10 million revolving credit facility	USD LIBOR + 5.50%	2022	10,000	10,000
				23,500	28,000
Current interest-bearing loans and borrowings					
ABSA Zambia	USD20 million term loan	USD LIBOR + 5.50%	2021	4,500	2,000
ABSA Mozambique	USD15 million overdraft facility	USD LIBOR + 4.00%	2021	14,184	12,875
BCI ¹	USD15 million overdraft facility	USD LIBOR + 3.75%	2021	14,321	9,952
				33,005	24,827
Total current and non-current borrowings				56,505	52,827

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

Cash and non-cash movements in borrowings and leases are shown below:

	At 1 January 2020 USD'000	Cash movements			Non-cash movements		At 31 December 2020 USD'000
		Cash inflows USD'000	Repayment of borrowings USD'000	Interest paid USD'000	Movement between current and non-current USD'000	Interest charge USD'000	
Current borrowings	24,827	41,226	(37,548)	(2,680)	4,500	2,680	33,005
Non-current borrowings	28,000	–	–	–	(4,500)	–	23,500
	52,827	41,226	(37,548)	(2,680)	–	2,680	56,505

ABSA Zambia

In August 2019, Kagem entered into a USD20 million term loan facility with ABSA Zambia (formerly Barclays Bank Zambia plc). The facility bears interest at a rate of three-month USD LIBOR plus 5.50%. The facility is repayable over 60 months after the date of the first drawdown of the facility, with the first repayment of USD2.0 million being made during 2020. At 31 December 2020, USD18.0 million was fully drawn, with USD4.5 million being repayable in December 2021.

In 2019, Kagem also entered into a USD10 million revolving credit facility with ABSA Zambia which bears interest at a rate of three-month USD LIBOR plus 5.50% and is repayable after 36 months from the date of the first drawdown of the facility (there is an option to extend the facility for a further 24 months upon agreement by both parties). At 31 December 2020, USD10 million was fully drawn.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

17. BORROWINGS/CONTINUED

ABSA Zambia (continued)

At 31 December 2020, Kagem had USD28.0 million outstanding with ABSA Zambia, with security comprising a fixed and floating charge over all of Kagem's net assets, equivalent to the total amount outstanding under the facility and a corporate guarantee from Gemfields Group Limited.

The facilities are subject to the following financial covenants, for which the next measurement period is 31 December 2021:

- Senior Debt Service Cover Ratio shall not fall below 1.2 times;
- Interest Service Cover Ratio shall not fall below 2.5 times; and
- Senior Net Debt/EBITDA shall not exceed 2.5 times.

Kagem received a waiver of all financial covenants contained within the ABSA Zambia loan agreements for the 31 December 2020 measurement period, such that the facilities remained in full force and effect at 31 December 2020.

ABSA Mozambique

In April 2016, MRM entered into a USD15.0 million unsecured overdraft facility with ABSA Mozambique S.A. (formerly Barclays Bank Mozambique S.A.). This is a rolling facility which renews annually each December, provided that terms and conditions are met, and attracts interest of three-month USD LIBOR plus 4% per annum. The outstanding balance as at 31 December 2020 was USD14.2 million (2019: USD12.9 million). Gemfields Limited issued a corporate guarantee for the facility.

Banco Comercial E De Investimentos ("BCI")

In June 2016, MRM entered into a USD15.0 million unsecured overdraft facility with BCI. This is a rolling facility which renews annually each September, provided that terms and conditions are met, and attracts interest of three-month USD LIBOR plus 3.75% per annum. At 31 December 2020, USD14.3 million (2019: USD10.0 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.

The proceeds of the facilities from ABSA Mozambique S.A. and BCI facilitate MRM in financing its capital expenditure requirements for the Montepuez ruby deposit in Mozambique and provide additional working capital.

18. PROVISIONS

	Environmental restoration provision USD'000	Resettlement Action Plan USD'000	Other provisions USD'000	Total USD'000
At 1 January 2019	2,852	7,552	3,045	13,449
Additions during the year	–	–	2,052	2,052
Utilised during the year	(1,482)	(4,596)	–	(6,078)
At 31 December 2019	1,370	2,956	5,097	9,423
Additions during the year	606	–	563	1,169
Utilised during the year	–	(1,802)	(847)	(2,649)
Change in estimates	–	–	(312)	(312)
At 31 December 2020	1,976	1,154	4,501	7,631
<i>Of which:</i>				
Non-current	1,976	–	1,637	3,613
Current	–	1,154	2,864	4,018

18. PROVISIONS/CONTINUED

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.

Other provisions

Other provisions primarily consist of future legal claims and end-of-contract gratuity benefits for mining staff. End-of contract benefits are payable in more than one year's time for some of the Group's employees who are on fixed-term contracts and are calculated based on the legal and contractual benefits. Provisions for future legal claims relate to the estimated costs that the Group expects to incur relating to past events, and are recorded where it has been determined that it is probable that an outflow of resources will be required to settle the claim, or where it is uncertain whether any action by a third party would be successful. Provisions are assessed on a case-by-case basis.

19. LEASES

The balance sheet contains the following amounts related to leases:

A. Right-of-use assets

	Right-of-use assets USD'000
At 1 January 2020	
Cost	5,399
Accumulated depreciation	(1,011)
Carrying value at 1 January	4,388
Year ended 31 December 2020	
Additions in year	219
Depreciation	(1,252)
Foreign exchange movements	1
Closing net book amount	3,356
At 31 December 2020	
Cost	5,618
Accumulated depreciation	(2,262)
Carrying value at 31 December	3,356

Right-of-use assets held at 31 December 2020 predominantly related to property leases in the Group's various operating locations and are presented within the land and buildings asset category in property, plant and equipment. Refer to Note 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

19. LEASES/CONTINUED

B. Lease liabilities

	2020 USD'000	2019 USD'000
At 1 January 2020	4,651	–
IFRS 16 transition adjustment	–	2,627
Additions	222	2,418
Cash payments of principle	(1,511)	(696)
Interest charged to finance costs	311	302
Foreign exchange movements	72	–
At 31 December 2020	3,745	4,651
Of which:		
Current	909	1,081
Non-current	2,836	3,570
	3,745	4,651

20. 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. When shares are cancelled, the excess over the nominal value of the shares is debited to share premium.

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.

20. SHARE CAPITAL/CONTINUED

As per the Company's Memorandum of Incorporation and subject to the JSE Listings Requirements and the AIM Rules for Companies, for the Company to issue additional shares for cash, the Company must obtain shareholder approval via a Special Resolution. As at the balance sheet date, the Company does not have the authority to issue additional shares for cash and therefore the Company's authorised share capital is displayed below.

Issued and fully paid share capital:

	Number of shares	Share capital USD	Share premium USD
Management Shares (unlisted)			
Management Shares of USD1 each			
Balance at 31 December 2020 and 31 December 2019	2	2	–

	Number of shares	Share capital USD'000	Share premium USD'000	Treasury shares USD'000	Reserve for own shares USD'000
Ordinary Shares (listed)					
Ordinary Shares of USD0.00001 each					
Balance at 1 January 2019	1,431,685,553	14	531,607	(5,345)	(23,319)
Share buy-backs		–	–	(14,439)	–
Shares cancelled	(164,235,308)	(2)	(19,774)	19,774	–
Balance at 31 December 2019	1,267,450,245	12	511,833	(10)	(23,319)
Share buy-backs		–	–	(213)	–
Shares cancelled	(98,694,215)	(1)	(23,539)	223	23,319
Balance at 31 December 2020	1,168,756,030	11	488,294	–	–

Throughout 2019, the Company conducted a buy-back programme repurchasing 143,267,555 Ordinary Shares for a consideration of USD14.4 million at an average price of ZAR1.51 per share. The programme was approved by shareholders at the Company's Annual General Meeting on 10 May 2019. During 2019 the Company cancelled and de-listed from trading 164,235,308 Ordinary Shares that it had repurchased on-market comprising: (i) 143,168,555 Ordinary Shares repurchased during 2019; and (ii) 21,066,753 Ordinary Shares repurchased during 2018. The Company had 99,000 Ordinary Shares that it had bought back but had not yet cancelled as at 31 December 2019.

In 2020, the Company continued its buy-back programme, repurchasing a further 2,319,069 Ordinary Shares for a consideration of USD213k at an average price of ZAR1.65 per share. The buy-back programme was reapproved by shareholders at the Company's Annual General Meeting on 24 June 2020.

During 2020 the Company cancelled and de-listed from trading 2,418,069 Ordinary Shares that it had repurchased on-market comprising: (i) 2,319,069 Ordinary Shares repurchased during 2020; and (ii) 99,000 Ordinary Shares repurchased during 2019.

Furthermore, on 4 March 2020, the Company announced that it had completed the cancellation and de-listing from trading of 96,276,146 Ordinary Shares held by the Company in itself, through a wholly-owned subsidiary. As a result of the cancelling of these shares the Company's Reserve for own shares decreased from USD23.3 million as at 1 January 2020 to Nil as at 31 December 2020.

At 31 December 2020, the Company had no shares that it had bought back but had not yet cancelled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

21. SHARE-BASED PAYMENTS

Share Option Plan

The Group's Share Option Plan was approved by shareholders on 26 June 2017. Under the terms of the plan, the Parent Company can issue a maximum of 167,341,278 options. Of the 167,341,278 share options available for granting, 49,732,275 share options were ungranted at 31 December 2020.

At 31 December 2020, 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 2020	Final exercise date
		Outstanding at 1 January 2020	Granted	Forfeited/lapsed	Exercised		
September 2017	ZAR3.45	55,780,428	–	–	–	55,780,428	September 2021
January 2018	ZAR2.97	17,472,255	–	(91,680)	–	17,380,575	January 2022
July 2018	ZAR2.30	43,168,000	–	(300,000)	–	42,868,000	July 2022
March 2019	ZAR1.90	1,580,000	–	–	–	1,580,000	March 2023
Total		118,000,683	–	(391,680)	–	117,609,003	

Of the options granted to date, 87,913,463 options were exercisable at 31 December 2020 (2019: 70,568,832). No share options were exercised during 2020.

No share options were granted in 2020 (2019: 1,580,000 options granted). A total of 391,680 share options lapsed during the year that had a weighted average share price of ZAR2.46.

All share options vest over a four-year period in tranches of 20%. One-fifth of the options granted vest immediately, with the remaining 80% vesting annually on the grant date over the following four years, during which time the grantee has to remain in employment.

The total expense recognised during the year arising from equity-settled share-based payment transactions was USD0.9 million (2019: USD1.5 million), with a total option reserve in equity of USD7.9 million at 31 December 2020.

The weighted average exercise price for outstanding and exercisable options at 31 December 2020 was ZAR2.94 (2019: ZAR2.94) and ZAR3.04 (2019: ZAR3.10) respectively. The Parent Company's mid-market closing share price at 31 December 2020 was ZAR1.35 (2019: ZAR1.84). The lowest and highest mid-market closing price during the year was ZAR1.10 (2019: ZAR1.27) and ZAR2.14 (2019: ZAR1.95), respectively.

The weighted average remaining contractual life for the share options outstanding at 31 December 2020 that had not vested was 0.88 years (2019: 1.37 years).

21. SHARE-BASED PAYMENTS/CONTINUED

The fair values of the options are calculated using the Black–Scholes method. The assumptions applied to each share option scheme are detailed in the table below:

	Issue date September 2017	Issue date January 2018	Issue date July 2018	Issue date March 2019
Exercise price	ZAR3.45	ZAR2.97	ZAR2.3	ZAR1.91
Share price at date of grant	ZAR2.91	ZAR3.00	ZAR2.38	ZAR1.85
Expected volatility	39.70%	45.83%	47.54%	50.75%
Option life	4.5 years	1–4 years ¹	1–4 years ¹	1–4 years ¹
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	7.73%	6.67–7.65%	6.82–7.95%	6.69%–7.57%
Fair value of options	ZAR1.12	ZAR0.64–1.37	ZAR0.55–1.14	ZAR0.40–0.87

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

The risk-free interest rates for the options granted have been based on the yields offered from South African government bonds with maturities that range from one to four 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 Parent Company has a primary listing on the JSE where securities are quoted in South African Rand, the Directors believe that a local currency-based risk-free rate is the most appropriate input when valuing options with the Black–Scholes model.

The expected volatility was based on the historic volatility data of the Parent Company's shares.

22. PER SHARE INFORMATION

Earnings/(Loss) Per Share ("EPS" or "LPS") and Net Asset Value ("NAV") are key performance measures for the Group. EPS/(LPS) is based on profit/(loss) for the year divided by the weighted average number of ordinary shares in issue during the year. NAV per share is based on net assets divided by the number of ordinary shares in issue at 31 December 2020.

Headline Earnings/(Loss) Per Share ("HEPS" or "HLPS") is similar to EPS/(LPS), except that attributable profit specifically excludes certain items, as set out in Circular 1/2019 "Headline Earnings" ("Circular 1/2019") issued by the South African Institute of Chartered Accountants during the period.

Earnings per share

The Group's (LPS)/EPS is as follows:

	2020	2019
(Loss)/profit for the year attributable to owners of the parent – USD'000	(85,282)	28,369
<i>Weighted average number of shares in issue¹</i>	1,169,141,485	1,264,903,398
(Loss)/earnings per share – USD	(0.07)	0.02

¹ At 31 December 2019, the Company had a see-through interest in itself of 96,375,146 shares or 7.60% of the then shares in issue. The Company's own shares held were removed in the calculation of weighted average number of shares in issue during 2019.

At 31 December 2020, the Company had a see-through interest in itself of nil shares as it had disposed of its see-through interest shares during 2020. The Company's own shares held were removed in the calculation of weighted average number of shares in issue during 2020 for the applicable period before the shares were cancelled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

22. PER SHARE INFORMATION/CONTINUED

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 for both the current and comparative period.

Headline earnings per share

The Group's HEPS/(HLPS) is as follows:

	2020	2019
(Loss)/profit for the year attributable to owners of the parent – USD'000	(85,282)	28,369
<i>Adjusted for:</i>		
Impairment charges/(reversals)	11,500	(21,559)
Tax impact	–	6,468
	(73,782)	13,278
<i>Weighted average number of shares in issue¹</i>	<i>1,169,141,485</i>	<i>1,264,903,398</i>
Headline (loss)/earnings per share – USD	(0.06)	0.01

¹ At 31 December 2019, the Company had a see-through interest in itself of 96,375,146 shares or 7.60% of the then shares in issue. The Company's own shares held were removed in the calculation of weighted average number of shares in issue during 2019.

At 31 December 2020, the Company had a see-through interest in itself of nil shares as it had disposed of its see-through interest shares during 2020. The Company's own shares held were removed in the calculation of weighted average number of shares in issue during 2020 for the applicable period before the shares were cancelled.

NAV per share

The Group's USD NAV per share is as follows:

	2020	2019
Net assets attributable to equity holders of the Company – USD'000	412,573	494,261
<i>Number of shares in issue¹</i>	<i>1,168,756,030</i>	<i>1,171,075,099</i>
NAV per share – USD	0.35	0.42

¹ At 31 December 2020, the Company had a see-through interest in itself of nil shares (31 December 2019: 96,375,146, or 7.60%). These shares have been removed in the calculation of the number of shares in issue.

Tangible NAV per share

The Group's USD tangible NAV per share is as follows:

	2020	2019
Net assets – USD'000	412,573	494,261
<i>Adjusted for:</i>		
Intangible assets	(47,382)	(52,974)
	365,191	441,287
<i>Number of shares in issue¹</i>	<i>1,168,756,030</i>	<i>1,171,075,099</i>
Tangible NAV per share – USD	0.31	0.38

¹ At 31 December 2020, the Company had a see-through interest in itself of nil shares (31 December 2019: 96,375,146, or 7.60%). These shares have been removed in the calculation of the number of shares in issue.

23. NON-CONTROLLING INTERESTS

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

- Kagem, a company incorporated in Zambia. Its principal operation is rough-emerald mining, exploration and processing in Zambia. The Government of the Republic of Zambia holds a 25% non-controlling interest.
- Montepuez Ruby Mining (“MRM”), a company incorporated in Mozambique. Its principal operation is rough-ruby mining, exploration and processing. Mwiriti Limitada, a private company incorporated in Mozambique, holds a 25% non-controlling interest.
- Other, includes all the other subsidiaries with non-controlling interests which are listed in Note 26: *Subsidiaries* and which are not material.

	2020 Kagem USD'000	2020 MRM USD'000	2020 Other USD'000	2020 Total USD'000
Amount attributable to all shareholders				
(Loss) after tax	(13,156)	(17,630)	(1,109)	(31,895)
Cash (used in)/generated from operations	(1,205)	(16,511)	2,542	(15,174)
Non-current assets	164,707	210,689	21,049	396,445
Current assets	56,838	56,009	2,935	115,782
Total assets	221,545	266,698	23,984	512,227
Non-current liabilities	(69,962)	(51,931)	–	(121,893)
Current liabilities	(33,307)	(56,645)	(32,944)	(122,896)
Total liabilities	(103,269)	(108,576)	(32,944)	(244,789)
Net assets	118,276	158,122	(8,960)	267,438
Amounts attributable to non-controlling interest				
(Loss) after tax	(3,289)	(4,407)	(249)	(7,945)
Dividends declared ¹	–	(6,250)	–	(6,250)
Net assets	9,921	62,935	(2,413)	70,443

¹ During 2020, a dividend of USD6.3 million was declared to the Group's non-controlling interest in MRM, Mwiriti. The declared dividend was settled through advanced dividend payments made to Mwiriti during 2019 of USD5.1 million and an additional USD1.2 million payment made in the first half of 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

23. NON-CONTROLLING INTERESTS/CONTINUED

	2019 Kagem USD'000	2019 MRM USD'000	2019 Other USD'000	2019 Total USD'000
Amount attributable to all shareholders				
Profit/(loss) after tax	13,620	31,588	(2,350)	42,858
Cash generated from operations	10,340	54,628	(653)	64,315
Non-current assets	153,156	210,551	12,871	376,578
Current assets	61,166	110,727	2,929	174,822
Total assets	214,322	321,278	15,800	551,400
Non-current liabilities	(67,479)	(52,574)	–	(120,053)
Current liabilities	(30,501)	(67,953)	(24,243)	(122,697)
Total liabilities	(97,980)	(120,527)	(24,243)	(242,750)
Net assets	116,342	200,751	(8,443)	308,650
Amounts attributable to non-controlling interest				
Profit/(loss) after tax	3,405	7,897	(540)	10,762
Dividends declared	–	–	–	–
Net assets	13,210	73,592	(2,120)	84,682

24. FINANCIAL INSTRUMENTS

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

Financial assets

	2020 USD'000	2019 USD'000
Financial assets measured at fair value through profit and loss:		
Sedibelo	29,600	57,500
Other equity investments	1,309	1,455
Total financial assets at fair value through profit and loss	30,909	58,955
Financial assets measured at amortised cost:		
Trade and other receivables ¹	21,665	72,344
Cash and cash equivalents	43,862	78,218
Total financial assets measured at amortised cost	65,527	150,562
Total financial assets	96,436	209,517

¹ Trade and other receivables excludes prepayments and VAT.

24. FINANCIAL INSTRUMENTS/CONTINUED

The Sedibelo investment is classified as Level 3 in the fair value hierarchy (2019: Level 3), the inputs for which are not based on observable market data. Refer to Note 13: *Investments* for further information.

Financial liabilities

	2020 USD'000	2019 USD'000
Financial liabilities measured at amortised cost:		
Trade and other payables	22,303	28,493
Borrowings	56,505	52,827
Lease liabilities	3,745	4,651
Total financial liabilities	82,553	85,971

Fair value of financial assets and liabilities

At 31 December 2020 and 2019, the carrying value of the Group's financial assets and liabilities carried at amortised cost approximated their fair values. Refer to Note 14: *Trade and other receivables* for detailed disclosure of the impairment assessment completed on the Group's financial assets measured at amortised cost at 31 December 2020.

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 were made to the Group's capital management objectives, policies or procedures during 2020.

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions and contractual cash flows of debt investments (loans) carried at amortised cost. The Group is also exposed to credit risk related to its customers and outstanding receivables with them. Credit risk arises when a failure by a counterparty to discharge their obligations could reduce the amount of future cash inflows from the related financial asset on hand at the 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 ABSA Bank (formerly Barclays in Mozambique and Zambia). Bankruptcy or insolvency of any of these counterparties could have a significant adverse impact on the Group. The Group's subsidiaries 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

24. FINANCIAL INSTRUMENTS/CONTINUED

The Group's exposure to counterparty risk at 31 December 2020 is set out below:

Counterparty	Location	Credit rating (Fitch)	2020 USD'000	2019 USD'000
Barclays	United Kingdom	A	23,432	8,800
Investec	United Kingdom	BBB minus	10,632	29,708
HSBC	United Kingdom	AA minus	1,868	856
BCI ¹	Mozambique	n/r	599	1,852
Goldman Sachs	United Kingdom	A minus	–	10,000
ABSA	Mozambique	BB minus	44	19,466
ABSA	Zambia	BB minus	4,829	4,043
Standard Chartered	Zambia	BBB plus	601	519
Citibank	Zambia	A	581	351
Axis bank	India	BBB minus	550	–
Nedbank	South Africa	BBB minus	467	–
Other counterparties	Various	n/a	259	2,623
Total			43,862	78,218

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 prior to invite, 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. At the date of these financial statements, the Group had collected the full USD8.9 million auction receivable that was outstanding at 31 December 2020.

The credit quality of the Group's trade receivables can be assessed by reference to external credit ratings (where available) or to historical information about default rates. The trade receivables balance outstanding at the balance sheet date by counterparty credit risk is assessed as shown in the table below:

	2020 USD'000	2019 USD'000
Group 1 – direct customers, predominantly retail and web sales from Fabergé	758	1,001
Group 2 – new counterparties, with a less than six-month relationship with the Group	177	397
Group 3 – existing counterparties, no past history of default	12,269	60,761
Group 4 – existing counterparties, past default but all amounts have been recovered	345	385
Total trade receivables	13,549	62,544

24. FINANCIAL INSTRUMENTS/CONTINUED

(ii) Impairment of financial assets

The Group applies the IFRS 9 simplified approach to measuring credit losses for trade receivables, using a lifetime expected credit loss provision. Based on the assessment completed at 31 December 2020, the carrying value of trade receivables classified at amortised cost was determined to approximate their fair values and, as such, no impairment provision had been recorded against trade receivables at 31 December 2020.

The Group's other receivables primarily relate to third-party and related-party loans. These financial assets have been assessed for credit loss individually, considering financial position, past experience and other factors. At 31 December 2020, the Group held a provision of USD1.4 million (2019: USD1.4 million) against its loans and other receivables. There are no other financial assets that are impaired and, accordingly, no additional analysis has been provided.

Refer to Note 14: *Trade and other receivables* for further discussion on credit risk and details of the IFRS 9 assessment completed.

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 bank 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 monthly, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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24. FINANCIAL INSTRUMENTS/CONTINUED

Liquidity risk (continued)

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 2020	Repayable within one month USD'000	Repayable within one to six months USD'000	Repayable within six to 12 months USD'000	Repayable within one to five years USD'000	Repayable after five years USD'000	Total contractual cash flows USD'000	Carrying value at 31 December 2020 USD'000
Trade and other payables	1,875	6,628	8,800	5,000	–	22,303	22,303
Leases	74	170	759	3,506	–	4,509	3,745
Borrowings and interest	98	29,797	5,302	25,710	–	60,907	56,505
Total	2,047	36,595	14,861	34,216	–	87,719	82,553

31 December 2019	Repayable within one month USD'000	Repayable within one to six months USD'000	Repayable within six to 12 months USD'000	Repayable within one to five years USD'000	Repayable after five years USD'000	Total contractual cash flows USD'000	Carrying value at 31 December 2019 USD'000
Trade and other payables	22,797	5,696	–	–	–	28,493	28,493
Leases	54	634	578	2,784	601	4,651	4,651
Borrowings and interest	312	1,558	26,697	32,681	–	61,248	52,827
Total	23,163	7,888	27,275	35,465	601	94,392	85,971

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 Group's underlying mining operations and its investment in Sedibelo, which is held at fair value.

Currency risk

The Group's operations are exposed to currency risk on foreign currency sales, purchases and expenses. As the majority of revenues are denominated in USD and the USD plays a dominant role in the Group's business, funds borrowed and held in USD provide a natural hedge against currency fluctuations. Operating costs and costs of locally sourced equipment are influenced by fluctuations in local currencies, primarily the Zambian kwacha and Mozambican metical.

Some of the Group's investments are denominated in currencies other than the USD, including ZAR and GBP. These assets are translated into USD at each balance sheet date and the Group's Consolidated Statement of Comprehensive Income includes the related unrealised foreign exchange gains or losses.

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 or for specific material expenses, 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.

Cash balances are translated into a currency other than the USD only when an outflow of cash is imminent, or if required for legal or similar reasons. The Group may occasionally hold balances in currencies other than the USD for a material investment which is considered likely but is not yet certain. This gives rise to potential foreign exchange risk if the investment does not occur and the balance is translated back into USD at a different exchange rate. Alternatively, for specific material cash outflows, 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 did not enter into any hedging strategies during the current or prior year.

24. FINANCIAL INSTRUMENTS/CONTINUED**Currency risk (continued)**

The Group also undertakes transactions and holds assets and liabilities in currencies other than the USD. The Group may enter into equity or loan investments in currencies other than the USD. These balances are translated at the end of each reporting period, and the related foreign exchange gain or loss is included in the Consolidated Statement of Comprehensive Income. The Directors consider the denomination of each investment as part of the initial decision as to whether to invest in an asset.

Sensitivity analysis has been performed based on the sensitivity of the Group's net financial assets to movements in foreign exchange rates, assuming a movement of 10% as against the USD.

At 31 December 2020	USD USD'000	GBP USD'000	ZMW USD'000	MZN USD'000	Other USD'000	Total USD'000
Equity investments	30,909	–	–	–	–	30,909
Cash and cash equivalents	38,509	633	103	529	4,088	43,862
Trade and other receivables	20,675	(643)	207	367	1,059	21,665
Borrowings	(56,505)	–	–	–	–	(56,505)
Trade and other payables	(13,457)	(4,263)	(210)	(3,173)	(1,200)	(22,303)
Lease liabilities	(1,275)	(2,233)	–	(117)	(120)	(3,745)
Net financial assets/(liabilities)	18,856	(6,506)	100	(2,394)	3,827	13,883
<i>Sensitivity analysis</i>						
Impact on the Income Statement, assuming a 10% movement against the USD	n/a	(651)	10	(239)	383	(497)

At 31 December 2019	USD USD'000	GBP USD'000	ZMW USD'000	MZN USD'000	Other USD'000	Total USD'000
Investments	57,643	–	–	–	–	57,643
Cash and cash equivalents	72,551	804	321	242	4,300	78,218
Other non-current assets	3,712	–	–	–	–	3,712
Trade and other receivables	67,290	1,217	–	408	1,082	69,997
Borrowings	(52,827)	–	–	–	–	(52,827)
Lease liabilities	(1,596)	(2,634)	–	(187)	(234)	(4,651)
Trade and other payables	(9,689)	(4,456)	(954)	(12,026)	(1,368)	(28,493)
Net financial assets/(liabilities)	137,084	(5,069)	(633)	(11,563)	3,780	123,599
<i>Sensitivity analysis</i>						
Impact on the Income Statement, assuming a 10% movement against the USD	n/a	(506)	(63)	(1,156)	378	(1,347)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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24. FINANCIAL INSTRUMENTS/CONTINUED

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 2020 and 2019, all uninvested cash was accessible either on-demand, or shortly afterwards. In addition, the Group may make interest-bearing loans to its investments.

An analysis of the expected maturity of the Group's financial assets and liabilities exposed to variable interest rates at the balance sheet date is shown below. Expected maturities are usually based on contractual maturities. The sensitivity analysis completed has considered a 1.0% increase or decrease (2019: 0.5% increase or decrease) in interest rates to be reasonably possible based on the current interest rate environment. The Directors consider the impact of changes in interest rates on the Group to be immaterial.

31 December 2020	Repayable within one month USD'000	Repayable within one to six months USD'000	Repayable within six to 12 months USD'000	Repayable within 12 to 36 months USD'000	Total USD'000
Cash and cash equivalents	43,862	–	–	–	43,862
Borrowings	–	(28,505)	(4,500)	(23,500)	(56,505)
Net financial assets/(liabilities) subject to interest rate risk	43,862	(28,505)	(4,500)	(23,500)	(12,643)
<i>Sensitivity analysis</i>					
Impact on profit or loss, assuming a 1.0% movement in interest rate	439	(285)	(45)	(235)	(126)
31 December 2019	Repayable within one month USD'000	Repayable within one to six months USD'000	Repayable within six to 12 months USD'000	Repayable within 12 to 36 months USD'000	Total USD'000
Cash and cash equivalents	78,218	–	–	–	78,218
Borrowings	–	–	(24,827)	(28,000)	(52,827)
Net financial assets/(liabilities) subject to interest rate risk	78,218	–	(24,827)	(28,000)	25,391
<i>Sensitivity analysis</i>					
Impact on profit or loss, assuming a 0.5% movement in interest rate	391	–	(124)	(140)	127

24. FINANCIAL INSTRUMENTS/CONTINUED

Price risk

Price risk is the risk that the price for equity investments fluctuates with a corresponding impact on the Consolidated Statement of Comprehensive Income. 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 and management of each investment and monitor the associated risks on an ongoing basis, reporting 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:

	2020		2019	
	Carrying value USD'000	Impact of a 25% change in fair value USD'000	Carrying value USD'000	Impact of a 25% change in fair value USD'000
Sedibelo investment	29,600	7,400	57,500	14,375
Other equity investments	1,309	327	1,455	364
Total	30,909	7,727	58,955	14,739

Commodity risk

The Group holds coloured gemstones on its balance sheet in the form of inventory. A decrease in the price of coloured gemstones, specifically rubies and emeralds, may have a material impact on the Company's profitability. For the Group's other major investment, Sedibelo, commodity prices can have a significant impact on the fair value valuation of the investment and can impact upon the viability of the assets that the Group has invested in or may invest in. The commodities of most relevance to the Group currently are coloured gemstones and PGMs.

Sensitivity analyses representative of the position throughout the year

The sensitivity analyses presented above are based on the financial instruments held at year-end. The sensitivity analyses presented for 31 December 2020 are considered likely to be representative of the financial instruments held and of risks to the balance sheet in the immediate future. Furthermore, if the Group divested of an investment, its exposure to market risks would change. As there is uncertainty as to how the Group's risk profile will change in the future, no further representative sensitivity analyses have been disclosed, as the Directors do not believe that this would be useful. Users of the Consolidated Financial Statements should refer to the Risk and Uncertainties section of this Annual Report for further information on the risks that the enlarged Group is exposed to.

25. CAPITAL COMMITMENTS

At 31 December 2020, the Company had the following capital commitments:

- USD2.8 million (2019: USD2.8 million) for the construction of the Decanter Centrifuge, other mining equipment, and the RAP project in Montepuez.
- No material capital commitments are held by Kagem at 31 December 2020 (2019: USD1.8 million commitment for the purchase of mining equipment).

The Group does not have any significant contingencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

26. SUBSIDIARIES

The Group's subsidiaries are set out below. All interests are held directly or indirectly by the Group and are consolidated within these Financial Statements. The note includes all of the Group's subsidiaries; none have therefore been omitted.

Name	Country of incorporation	Group % interest at 31 December 2020	Group % interest at 31 December 2019
Almizan Development Limited	British Virgin Islands	100%	100%
Campos de Joia, Limitada	Mozambique	98.75%	98.75%
Eastern Ruby Mining Limitada	Mozambique	80%	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%
Florescer Farming S.A. ¹	Mozambique	97.90%	0%
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 Participações Limitada ²	Brazil	0%	100%
Gemfields Limited	United Kingdom	100%	100%
Gemfields Singapore Pte Limited	Singapore	100%	100%
Gemfields South Africa (Pty) Limited	South Africa	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%

¹ The company was incorporated on 26 March 2020.

² The company was liquidated on 16 October 2020.

26. SUBSIDIARIES/CONTINUED

Name	Country of incorporation	Group % interest at 31 December 2020	Group % interest at 31 December 2019
Montepuez Ruby Mining Limitada	Mozambique	75%	75%
Nairoto Resources Holdings Limited ³	Mauritius	100%	100%
Nairoto Resources Limitada ³	Mozambique	75%	75%
Oriental Mining SARL	Madagascar	100%	100%
Pallinghurst Consolidated (Cayman) Limited	Cayman Islands	100%	100%
Gemfields Resources (Guernsey) GP Ltd	Guernsey	100%	100%
Gemfields Services Limited	United Kingdom	100%	100%
Peninsula HoldCo Limited	United Kingdom	100%	100%
Ratnapura Lanka Gemstones (Pvt) Limited	Sri Lanka	75%	75%
Shakgem Gemstone Mining Plc ⁴	Ethiopia	90%	0%
Singha Heavy Equipment (Pvt) Limited	Sri Lanka	75%	75%
Singha Industrial Investments (Pvt) Limited	Sri Lanka	75%	75%
The Gemfields Resources Fund L.P.	Cayman Islands	99.99%	99.99%
Web Gemstone Mining plc	Ethiopia	75%	75%

³ These entities were incorporated during 2019 and will facilitate the gold projects in Mozambique.

⁴ The company was incorporated on 22 April 2020.

27. RELATED PARTY TRANSACTIONS

The Group's subsidiaries, joint ventures and associates are related parties. Investments held by the Group are also usually related parties. Related party transactions related to the Group's investments are detailed in Note 13: *Investments*.

The Group also holds both a related party receivable of USD6.7 million and a related party payable of USD5.0 million with Mwiriti Ltda, the Group's partner in MRM and Nairoto. These transactions are detailed in Note 14: *Trade and other receivables* and Note 16: *Trade and other payables*.

During the year, a number of the Group's Directors made purchases of jewellery and watches from Fabergé amounting to USD9,311 (2019: USD5,224). All purchases were made in accordance with the Group's employee purchase policy. At 31 December 2020, USD3,720 remained outstanding and is included within related party trade receivables at the balance sheet date.

In 2018, the Group established Gemfields Foundation ("the Foundation"), a UK registered charitable company, whose purpose is to address poverty in developing countries and support conservation projects (refer to the Gemfields Foundation section of the Performance Review on pages 22–23 for further information regarding the charity). The Foundation is determined to be independent of the Group and does not meet the definition of subsidiary outlined in the Group's accounting policies, therefore its results are not consolidated into these Consolidated Financial Statements.

The Foundation will be part-funded by Gemfields Limited, and can also accept donations from external bodies or individuals, with the funds to be used to create new community or wildlife conservation projects or support those that the Group's subsidiaries are already undertaking. In 2020, the focus was on completing the set-up of the charity and consequently no donations were made to the Foundation by the Group during the year (2019: Nil). At 31 December 2020, a receivable of USD3,000 was due to the Group from the Foundation in respect of a community project completed in Zambia on behalf of the Foundation during 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

28. RELATED PARTY TRANSACTIONS/CONTINUED

The Directors are the Key Management Personnel of the Group. The amounts paid to the Executive Directors for services during 2020 are set out below:

1 January 2020 to 31 December 2020	Base compensation USD'000	Benefits USD'000	Bonus USD'000	Share options ¹ USD'000	Pension USD'000	Total USD'000	Employer's national insurance USD'000	Total including employer's national insurance USD'000
Sean Gilbertson	488	5	–	–	–	493	58	551
David Lovett	286	2	–	–	14	302	36	338
Total	774	7	–	–	14	795	94	889

¹ During the year a share-based expense of USD224k was recognised in relation to the share options issued to Sean Gilbertson in September 2017 and USD101k recognised in relation to the share options issued to David Lovett in January 2018 and July 2018. The share options vest in five tranches over a four-year period and the expense is recognised over the vesting period. No options were exercised during the year.

1 January 2019 to 31 December 2019	Base compensation USD'000	Benefits USD'000	Bonus USD'000	Share options ¹ USD'000	Pension USD'000	Total USD'000	Employer's national insurance USD'000	Total including employer's national insurance USD'000
Sean Gilbertson	575	4	201	–	–	780	109	889
David Lovett	337	2	118	–	14	471	61	532
Total	912	6	319	–	14	1,251	170	1,421

¹ During 2019 a share-based expense of USD429k was recognised in relation to the share options issued to Sean Gilbertson in September 2017 and USD159k recognised in relation to the share options issued to David Lovett in January 2018 and July 2018. No options were exercised during 2019.

The amounts paid to the Non-Executive Directors for services during 2020 are set out below:

1 January 2020 to 31 December 2020	Group Director fees USD'000	Board committees USD'000	Lead Independent Director USD'000	Total USD'000
Martin Tolcher	87	–	–	87
Dr Christo Wiese	35	–	–	35
Lumkile Mondli	35	15	2	52
Kwape Mmela	35	10	–	45
Carel Malan	35	6	–	41
Mary Reilly ¹	3	–	–	3
Total	230	31	2	263

¹ Appointed 4 December 2020.

In light of the impact of the COVID-19 pandemic, on 1 May 2020, all UK staff members, including the Board of Directors, agreed to a 20% remuneration reduction, with UK employees being placed on a four-day working week. At 31 December 2020, Director fees had not yet been returned to contractual levels.

28. RELATED PARTY TRANSACTIONS/CONTINUED

The amounts paid to the Non-Executive Directors for services during 2019 are set out below:

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

¹ Resigned effective 25 November 2019.

² Mr Tolcher became Non-Executive Chairman effective 25 November 2019.

³ Appointed effective 9 January 2019.

⁴ Resigned effective 7 January 2019.

The interests in the Parent Company equity shares held by the Directors are set out below:

	2020		2019	
	Number of shares	Interest	Number of shares	Interest
Dr Christo Wiese ¹	160,388,407	13.72%	160,388,407	12.65%
Sean Gilbertson ^{2, 3, 4}	10,454,959	0.89%	10,454,959	0.82%
Kwape Mmela	8,325,334	0.71%	8,325,334	0.66%
David Lovett	42,000	0.00%	42,000	0.00%
Total	179,210,700	15.33%	179,210,700	14.14%

¹ At 31 December 2020, Dr Wiese held indirect interests in 160,388,407 Ordinary 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 13.91%.

² Sean Gilbertson has an interest in Ordinary Shares, not included in the tabulated figure, by virtue of being a beneficiary of the Brian Patrick Gilbertson Discretionary Settlement, a family trust which: (i) holds directly 27,659,667 Ordinary Shares and (ii) owns Autumn Holdings Asset Inc., which, in turn, holds a further 1,887,230 Ordinary Shares.

³ This figure does not include shares held by Pallinghurst Resources Management L.P., a limited partnership in which Sean Gilbertson holds a 50% interest, and which is entitled to 3,030,652 Ordinary Shares; however, these shares have not yet been claimed following the compulsory acquisition of Gemfields plc in 2017.

⁴ Gigajoule Ltd, a company wholly owned by Sean Gilbertson, may become entitled to 103,147 Ordinary Shares if a loan granted to a third party by Gigajoule Ltd is not repaid.

The Company had 1,168,756,030 shares in issue at 31 December 2020 (2019: 1,267,450,245). There have been no changes to these shareholdings up to the date of publication of the Annual Report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2020

29. EVENTS OCCURRING AFTER THE END OF THE PERIOD

Kagem

In March 2021, the wash plant and sort house recommenced operations, making use of existing stockpiles. Full-scale mining operations are expected to begin in early April 2021, once all necessary COVID-19 protocols are met. Kagem presently has sufficient inventory to support the March and April 2021 high-quality auction and a commercial-quality auction expected to take place in June. On 15 March 2021, Kagem began another series of online auctions, which will be significantly larger than those held in November and December 2020. Viewings are expected in Dubai, Jaipur and Tel Aviv, with results to be announced at the end of April 2021.

MRM

In March 2021, the treatment plant and sort house operations commenced, making use of existing stockpiles. Full-scale mining operations are expected to begin in early April 2021. MRM presently has sufficient inventory to support one mixed-quality ruby auction. On 15 March 2021, the first ever series of virtual ruby auctions commenced (similar to those held by Kagem in November and December 2020), with viewings expected in Dubai, Jaipur and Bangkok over a period of six weeks and online bidding concluding on 8 April 2021.

BCI facility

In March 2021, BCI granted a new USD8.9 million facility to MRM on similar interest rates to the USD15 million overdraft facility discussed in Note 17: *Borrowings*. Under the new facility, USD8.9 million can be drawn immediately but must be paid back by the next auction or within six months of drawdown, whichever is the earliest. Upon repayment, MRM, with agreement from the bank, will then have access to a new four-year facility of USD15 million to use for working capital purposes.

Approval of Consolidated Financial Statements

The Consolidated Financial Statements were approved by the Directors and authorised for issue on 29 March 2021.

INDEPENDENT AUDITOR'S REPORT

to the members of Gemfields Group Limited

Opinion on the Financial Statements

In our opinion:

- the Consolidated Financial Statements give a true and fair view of the state of the Group's affairs as at 31 December 2020 and of its loss for the year then ended;
- the Consolidated Financial Statements have been prepared in accordance with IFRSs as issued by the IASB; and
- the Consolidated Financial Statements have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the Consolidated Financial Statements of Gemfields Group Limited (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2020 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity and Notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation of the Financial Statements is applicable law and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to Note 1: *Basis of preparation*, to the Consolidated Financial Statements which sets out the Directors consideration of going concern. This explains that due to the uncertainty caused by COVID-19, there is a risk that the Group will require additional funding in the event that revenue generation is below forecast or because existing debt facilities are withdrawn. Should either of these events materialise, the Directors may need to raise additional financing to enable the Group to continue as a going concern.

As stated in Note 1: *Basis of preparation*, these events or conditions, along with the other matters set out in Note 1: *Basis of preparation*, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the Consolidated Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate. We considered going concern to be a Key Audit Matter because of the significance of this matter and its impact on our overall audit strategy.

INDEPENDENT AUDITOR'S REPORT/CONTINUED

to the members of Gemfields Group Limited

Material uncertainty related to going concern (continued)

Our evaluation of the Directors' assessment of the Group's ability to continue to adopt the going concern basis of accounting, and our response to the Key Audit Matters has been set out below.

- We critically reviewed the latest Board approved cash flow forecasts for the Group, which covered 21 months from the date of approval of these Financial Statements. We challenged the assumptions in respect of level of production, mix and number of premium-quality/commercial-quality auctions, gemstone prices, operating costs and capital expenditure. In doing so, we considered factors such as empirical operational performance, historical auction results and market analyst commentary regarding the impact the current market downturn will have on market appetite and pricing.
- We recalculated forecast covenant compliance calculations and assessed the consistency of such calculations with the ratios stated in the relevant lender agreements.
- We assessed the sensitivity analysis performed in respect of key assumptions underpinning the forecasts.
- As summarised in Note 1: *Basis of Preparation*, the Group have modelled a downside scenario to incorporate potential impacts of the ongoing COVID-19 pandemic – notably a reduction in revenue and mitigating activities such as a reduction in discretionary spend. We challenged the completeness of scenarios assessed as reasonably possible to impact the Group as a consequence of COVID-19, including achievability of forecast revenue due to COVID-19's effects on the gemstone market and the ability of operations to generate inventory to take to market. We also challenged whether other non-COVID-19 related scenarios could exist.
- We challenged the extent of the sensitivity analysis performed in the downside scenario.
- We challenged the nature of mitigating actions identified in the assessment and the quantum ascribed to these mitigating actions.
- The downside scenario modelled represents a reverse stress test to analyse how long the business could operate with reduced auction revenues. We have challenged the assessment on the Group's ability to meet the financing requirements should auction revenues be reduced beyond the "worse-case" point modelled.
- We challenged the Board's assessment of the facilities available to the Group over the forecast period and the scenarios that may put those at risk.
- We reviewed the adequacy of disclosures in the Consolidated Financial Statements in respect of going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage	91% (2019: 97%) of Group total assets 100% (2019: 100%) of Group revenue 74% (2019: 93%) of Group loss/profit before tax		
Key Audit Matters ("KAM")		2020	2019
	Going concern	•	•
	Carrying value of mining assets ¹	•	•
	Valuation of investment in Sedibelo	•	•
	Valuation of the Fabergé CGU and NRV of inventory ²		•
	<p>¹ In 2019, due to tax changes enacted by the Government of Zambia, our KAM regarding the recoverability of mining assets focused exclusively on the Kagem mine. In 2020, the KAM was widened to include the Montepuez Ruby mine as explained in the KAM below.</p> <p>² We did not consider the Valuation of the Fabergé CGU and NRV of inventory to represent a KAM in the current year as the valuation methodology remained unchanged and therefore there were no significant changes to the approach to key judgements and estimates used in determining the recoverable values.</p>		
Materiality	Consolidated Financial Statements as a whole: • USD6.5 million (2019: USD6.9 million), based on 1% of total assets (2019: 1% of total assets)		

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. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

In assessing the risk of material misstatement to the Consolidated Financial Statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, our Group audit scope focussed on the Group's principal operating locations being: Zambia (Kagem Mining Limited, "Kagem"), Mozambique (Montepuez Ruby Mining Limitada, "MRM"), the United Kingdom (Gemfields Limited and the Fabergé sub-group, "Fabergé"), and Guernsey (Gemfields Group Limited, "Head-Co").

Kagem and MRM were regarded as being significant components of the Group which were selected based on their size and risk characteristics and were subject to full scope audits.

For the Gemfields Limited, Fabergé and Head-Co components, we performed audit procedures on specific accounts within those components that we considered had the potential for the greatest impact on the significant accounts in the Financial Statements either because of the size of these accounts or their risk profile.

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 where applicable to that component.

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 by the Group auditor or BDO network member firms with Kagem and MRM being audited by BDO Zambia and BDO Mozambique, respectively.

Our involvement with component auditors

For the work performed by component auditors, we determined the level of involvement needed in order to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Consolidated Financial Statements as a whole. Our involvement with component auditors included the following:

- 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.
- 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.
- Due to travel restrictions in place as a result of the COVID-19 global health pandemic, although no site visits were performed, the Group audit team followed a programme of planned virtual meetings, and had regular team interactions with the component teams during various stages of the audit. The Group audit team also reviewed key working papers and attended the closing meetings with the management of Kagem, MRM, Gemfields, Fabergé and Head-Co through videoconferencing. Although no in-person visit occurred for the current year audit, members of the current Group audit team have the benefit and experience of having attended Kagem and MRM in person in the prior year.

INDEPENDENT AUDITOR’S REPORT/CONTINUED

to the members of Gemfields Group Limited

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that 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 Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty in relation to going concern* above, we have determined the matters described below to be Key Audit Matters.

Key Audit Matter		How the scope of our audit addressed the Key Audit Matter
<p>Carrying value of mining assets</p>	<p>As disclosed in Note 11, the shortfall in the Group’s market capitalisation against the Group’s net asset value represents an impairment indicator in accordance with IAS 36 <i>Impairment of Assets</i>. Whilst the Gemfields Group is not in itself considered a cash-generating unit (“CGU”), the existence of the impairment indicator implies that an impairment indicator may exist at one of the Group’s CGUs.</p> <p>As a result, an impairment review has been performed by management and the Board on the mining CGUs at 31 December 2020.</p> <p>As disclosed in Note 2: <i>Accounting policies</i> and Note 11: <i>Property, plant and equipment</i>, the assessment of the recoverable value of the mining assets requires significant judgement and estimates to be made by management – in particular regarding the inputs applied in the models including; future gemstone prices, production and reserves, discount rates, and operating and development costs. The ongoing impact of the COVID-19 pandemic further increases the level of uncertainty involved in Management’s forecasts.</p> <p>The carrying value of mining assets is therefore considered a Key Audit Matter given the level of judgement and estimation involved.</p>	<p>Our procedures in relation to the Group’s assessment of the carrying value of mining assets included:</p> <ul style="list-style-type: none"> • Evaluating the forecast cash flows and comparing these to the approved life of mine plans (“LoMPs”) and resource and reserve reports prepared by third party experts. We reviewed the consistency of the forecast cash flows with modelling undertaken in the Group’s going concern assessment. We made an assessment of the experts who prepared the underlying information regarding reserves, resources and the LoMP. Our assessment involved understanding the scope of the experts’ work and assessing their competence and independence. • 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. <ul style="list-style-type: none"> » Where variances were observed between forecast inputs and the equivalent historical metric, we have challenged management on the basis for the discrepancy. • 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 models.

Key Audit Matter		How the scope of our audit addressed the Key Audit Matter
Carrying value of mining assets		<ul style="list-style-type: none"> • 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 gemstone grades and price forecasts to actual grades and prices achieved historically. » We recalculated the discount rate and utilised BDO valuation specialists to assess and form an opinion on the appropriate range of discount rates as at 31 December 2020. » Critical review of the forecasted costs against the expected production profiles in the mine plans and historical performance. » Review of management’s sensitivity analysis and performance of our own sensitivity analysis over individual key inputs. • We reviewed the sufficiency of disclosures given in Note 11: <i>Property, plant and equipment</i> against the requirements of the accounting standards, including the sensitivity analysis presented. <p>Key observation: We consider the judgements and estimates made by management in considering the carrying value of mining assets to be appropriate.</p> <p>We found the disclosures in the Financial Statements to be appropriate and in line with accounting standards.</p>
Key Audit Matter		How the scope of our audit addressed the Key Audit Matter
Valuation of investment in Sedibelo	As detailed in Note 2: <i>Accounting policies</i> and Note 13: <i>Investments</i> , the Group holds an investment in Sedibelo Platinum Mines (“SPM”). Details of the methods of valuation and the estimates and judgements involved are disclosed in Note 13: <i>Investments</i> .	<p>Our procedures included:</p> <ul style="list-style-type: none"> • We assessed the valuation prepared by a third party, noting the existence of other third-party valuations that indicated alternate valuation.

INDEPENDENT AUDITOR'S REPORT/CONTINUED

to the members of Gemfields Group Limited

Key Audit Matter		How the scope of our audit addressed the Key Audit Matter
<p>Valuation of investment in Sedibelo</p>	<p>The primary source in determining the valuation of SPM at 31 December 2020 is an independent valuation report, prepared by an independent third party as at 31 December 2020. 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>	<ul style="list-style-type: none"> • We engaged our own valuation and technical specialists to assess the reasonableness of the methodology used and its compliance with IFRS. » We note that management's specialist was changed in the year resulting in some changes in the methodology approach for determining the fair value ascribed as at 31 December 2020. We have considered the impact of these changes in methodology and challenged whether the change represents an indicator of management bias and whether the updated model continues to result in a value within the acceptable range. • We corroborated key inputs to the valuation such as the enterprise values and resource base of SPM's peer group and SPM's own resource base to publicly available market information. • We challenged the appropriateness of SPM's peer group and the discount factor applied. We involved BDO valuation specialists in reviewing the basis on which the discount factor was determined. • We assessed the independence and qualifications of the expert who prepared the valuation report. • We reviewed and evaluated the appropriateness of management's sensitivity analysis. • We reviewed the sufficiency of disclosures in the Financial Statements against the requirements of the accounting standards, particularly the disclosures of key estimates and assumptions which impact the fair values, and the sensitivity analysis thereon. <p>Key observation: Based on procedures performed, we concurred with Management's position and considered the disclosure in the Consolidated Financial Statements to be appropriate.</p>

Our application of 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 Consolidated Financial Statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. 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.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole and performance materiality as follows:

	Consolidated Financial Statements	
	2020	2019
Materiality	USD6.5 million	USD6.9 million
Basis for determining materiality	1% of total assets	1% of total assets
Rationale for the benchmark applied	<p>We consider total assets to be the most significant determinant of the Group's financial performance for users of the Consolidated Financial Statements.</p> <p>The Group has invested significant sums on its production- and non-production mining assets and these are considered to be the key value driver for the Group, as its assets are an indicator of future value to shareholders.</p>	<p>We consider total assets to be the most significant determinant of the Group's financial performance for users of the Consolidated Financial Statements.</p> <p>The Group has invested significant sums on its production and non-production mining assets and these are considered to be the key value driver for the Group as its assets are an indicator of future value to shareholders.</p>
Performance materiality	USD4.8 million	USD5.1 million
Basis for determining performance materiality	75% of Group materiality	75% of Group materiality

The level of performance materiality was set after considering a number of factors including the expected value of known and likely misstatements and managements attitude towards proposed misstatements.

Component materiality

We set materiality for each component of the Group based on a percentage of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from USD3.9 million to USD4.5 million (2019: USD2.1 million to USD5.5 million). In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

INDEPENDENT AUDITOR'S REPORT/CONTINUED

to the members of Gemfields Group Limited

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of USD0.3 million (2019: USD0.3 million). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies (Guernsey) Law, 2008 reporting

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the 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 for financial reporting, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Holding discussions with Management and the Audit Committee to understand the laws and regulations relevant to the Group and Company. These included elements of financial reporting framework, tax legislation and environmental regulations. In addition to our component auditors, in-country expertise was used to support the audit assessment of compliance with Companies (Guernsey) Law, 2008 and JSE filing requirements.
- Holding discussions with Management, the Audit Committee, internal audit director, the Group's general counsel and considering any known or suspected instances of non-compliance with laws and regulations or fraud;
- Testing the appropriateness of journal entries made throughout the year by applying specific criteria to select journals which may be indicative of possible irregularities or fraud;
- Performing a detailed review of the Group's year-end adjusting entries and investigating any that appear unusual as to nature or amount;
- For significant and unusual transactions, investigating the possibility of related parties. Where related-party transactions were identified, we challenged management on the business rationale for such transactions. We enquired of the Directors and Management of their process for ensuring that such transactions had appropriate business rationale;
- Assessing the judgements made by Management when making key accounting estimates and judgements, and challenging management on the appropriateness of these judgements. This included extending inquiries to individuals outside of Management and the accounting department to corroborate Management's ability and intent to carry out plans that are relevant to the estimate; and
- Reviewing minutes from Board meetings of those charged with governance and all relevant Board Committee minutes to identify any instances of non-compliance with laws and regulations.

Our audit procedures were designed to respond to risks of material misstatement in the Financial Statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditors-responsibilities. This description forms part of our auditor's report.

The engagement director on the audit resulting in this independent auditor's opinion is Scott McNaughton.

INDEPENDENT AUDITOR'S REPORT/CONTINUED

to the members of Gemfields Group Limited

Use of our report

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.

Scott McNaughton

For and on behalf of BDO LLP, Statutory Auditor

London, United Kingdom

29 March 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

SHAREHOLDER INFORMATION

at 31 December 2020

Shareholder spread	Number of shareholders	%	Number of shares	%
1–1,000 shares	648	25.81	201,502	0.02
1,001–10,000 shares	923	36.76	4,297,097	0.37
10,001–100,000 shares	671	26.72	21,714,927	1.86
100,001–1,000,000 shares	177	7.05	58,831,967	5.03
1,000,001–10,000,000 shares	69	2.75	240,622,961	20.59
10,000,001 shares and over	23	0.92	843,087,576	72.14
	2,511	100	1,168,756,030	100
Distribution of shareholders				
Banks/Brokers	161	6.41	503,268,506	43.06
Close corporations	28	1.12	1,913,571	0.16
Endowment funds	2	0.08	921,437	0.08
Individuals	2,056	81.88	89,649,690	7.67
Insurance companies	1	0.04	67,195,197	5.75
Investment companies	1	0.04	226,705	0.02
Mutual funds	17	0.68	131,275,731	11.23
Nominees and trusts	21	0.84	30,891,576	2.64
Other corporations	18	0.72	13,451,142	1.15
Private companies	60	2.39	261,797,865	22.40
Public companies	12	0.48	10,253,974	0.88
Retirement funds	12	0.48	45,352,808	3.88
Trusts	122	4.86	12,557,828	1.07
	2,511	100	1,168,756,030	100
Public/non-public shareholders				
Public shareholders	2,488	99.08	956,432,695	81.83
Non-public shareholders	23	0.92	212,323,335	18.17
Holdings of Directors ¹	19	0.76	212,131,001	18.15
Prescribed Officers ²	4	0.16	192,334	0.02
	2,511	100	1,168,756,030	100
Shareholders holding 5% or more			Number of shares	%
Dr Christo Wiese ³			160,388,407	13.72
FIL Limited			134,041,479	11.47
Oasis Group Holdings (Pty) Ltd. ⁴			94,785,218	8.11
Rational Expectations (Pty) Ltd. ⁵			93,278,887	7.98
Ophorst Van Marwijk Kooy Vermogensbeheer NV			88,004,144	7.53
Ninety One Group			68,255,891	5.84
Solway Finance Ltd.			67,386,056	5.77
Old Mutual Limited			67,195,197	5.75

¹ Dr Christo Wiese's interest has been included within the "Holdings of Directors" rather than as a "Shareholder holding 10% or more". Four Gemfields Group Limited Directors own shares in the Company, as detailed in the Financial Statements. The "Holdings of Directors" also include the extended family members of the Directors as prescribed by the amended JSE Listings Requirements.

² Prescribed Officers or Key Management are now included in the Non-Public Shareholders in respect to the amended JSE Listings Requirements.

³ Dr Christo Wiese's ownership excludes 2,204,700 shares held by his daughters and 10,000 shares held by his spouse. Including these shares would increase Dr Wiese's total shareholding to 13.91%.

⁴ The Oasis Group shareholding includes interests held by Oasis Asset Management and Oasis Crescent Capital.

⁵ The Rational Expectations shareholding includes interests held by Rational Expectations and its related entities.

COMPANY DETAILS

Executive Directors

Sean Gilbertson
David Lovett

Non-Executive Directors

Martin Tolcher (Chairman)
Dr Christo Wiese
Lumkile Mondli
Kwape Mmela
Carel Malan
Mary Reilly¹

1 Appointed 4 December 2020.

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Company Secretary

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Legal Advisor (South Africa)

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South Africa

JSE Sponsor

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GEMFIELDS

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