

Gemfields PLC

Report and Financial Statements

Year Ended

30 June 2011

Company Number 05129023

Gemfields PLC

Annual report and financial statements for the year ended 30 June 2011

Contents

Page:

1	Chairman's statement
7	Report of the Directors
11	Report of the independent auditors
13	Consolidated statement of comprehensive income
14	Consolidated statement of changes in equity
15	Consolidated statement of financial position
16	Consolidated statement of cash flows
17	Notes forming part of the financial statements
50	Company accounts

Directors

Ian Harebottle
Finn Behnken
Sean Gilbertson
Devidas Shetty
Graham Mascall
Clive Newall

Company Secretary and registered office

Devidas Shetty, 54 Jermyn Street, London, SW1Y 6LX

Company number

05129023

Auditors

BDO LLP, 55 Baker Street, London, W1U 7EU.

Gemfields PLC

Chairman's statement

Dear Shareholder,

The performance of Gemfields (the “Company” or “Group”) over the past year has been heartening and I am pleased to share this set of results with you.

The key growth driver for the Company remains its on-going ability to contain costs whilst increasing its levels of production. This has been further supported by the continued growth in global demand for high quality ethically sourced gemstones which has provided us with a platform from which we plan to increase the depth and breadth of our business operations.

The uncertain nature of the global economy is obvious and while we will seek to use our current position of strength to drive additional growth within the Group, we will retain throughout the coming year the conservative approach that has seen us through the past few years.

I would once again like to thank our loyal shareholders, and each member of our team for your dedication to Gemfields and its vision to become the world’s leading coloured gemstone supplier. Your commitment has not gone unnoticed and is greatly appreciated.

Key financial indicators:

- Profit after tax US\$21,445,643 (2010: US\$2,582,868);
- Revenue from emerald and beryl sales of US\$40,157,218 (2010: US\$19,906,203);
- Cash at bank of US\$13,648,654 (2010: US\$2,878,812);
- Estimated cost of emerald inventory at hand US\$18,680,755 (2010: US\$16,545,106);

Key operational developments during the financial year:

- Record annual production of 33 million carats (2010: 17.4 million carats), a 90% increase in year-on-year production;
- Grade for the year to 30 June 2011 was 478 carats per tonne (2010: 286 carats per tonne);
- Average monthly operating costs at the Kagem mine were US\$1.07 million (2010: US\$1.06 million);
- A one year renewable mining contract for the removal of overburden in the Chama Pit at Kagem Mining Limited was signed;
- Notable marketing and promotional initiatives completed during the year include the World Land Trust’s “Emeralds for Elephants” campaign, the “Emerald – Uniquely you” marketing campaign and the Indian International Jewellery Show’s (IIJS) “Jewellery Designer of the Year” awards;
- Operational and sales initiatives implemented at Kariba Mining Limited’s amethyst mine resulted in improved performance of this division; and
- Process to acquire a 75% stake in the noteworthy Montepuez ruby deposit initiated.

Key developments since the end of the period:

- Successful rough emerald auction conducted during July 2011 yielded record sales totalling US\$31.6 million;

- Various expansion, exploration and other growth projects have been initiated within Gemfields' Zambian and Madagascan licence areas.

Strategic Review

The uncertainty in the global economy and its associated impact on the luxury goods sector prompted an in-depth strategic review of Gemfields' group wide operations in the year 2009. As a result, Gemfields remains committed to reducing operating costs, improving operating efficiencies and delivering a consistent supply of well-graded, high-quality rough emeralds to selected stakeholders. The outcome of this approach is clearly evident in this set of results and, while a commitment to dynamic growth is included in the Group's set of core objectives for the year ahead, our commitment to core operating efficiencies remains steadfast.

Operations

• Mining – Kagem

The on-going improvement in operating efficiencies at the Kagem emerald mine in Zambia, used a multi-faceted approach, which included the utilisation of improved technologies, a commitment to employee training and the adoption of a "constant learning" approach, and as a result has yielded positive results. Operating costs averaged US\$204 (2010: US\$193) per tonne of ore (known as "Reaction Zone") during the year under review while operating cost per carat (counting both emerald and beryl production) averaged US\$0.43 per carat (2010: US\$0.73 per carat).

Kagem's key annual production parameters are summarised below:

KAGEM Annual Production Summary	Units	Yr to 30 Jun 07	Yr to 30 Jun 08	Yr to 30 Jun 09	Yr to 30 Jun 10	Yr to 30 Jun 11
Gemstone Production (Emerald + Beryl)	million carats	9.4	9.9	28.0	17.4	33.0
Ore Production (Reaction Zone)	'000 tonnes	29	42	80	61	69
Grade (Emerald + Beryl/Reaction Zone)	carats/tonne	325	233	349	286	478
Waste Mined (including TMS)	million tonnes	2.8	5.1	4.0	2.5	3.8
Stripping Ratio		96	120	50	42	54

These results have motivated an increase in the scale of operations at the mine and an external contractor has been appointed (under a one year, renewable contract) to manage the waste removal component of an extended high-wall pushback project to open up areas for future production. This project will be implemented over the next three years. The stripping ratio is thus anticipated to increase in the short to medium term as areas of overburden are mined in order to expand the levels of available ore, and is thus expected to have a commensurate impact on total mining costs.

The trial underground mining project continues to deliver encouraging results and has motivated the development of a comprehensive and in-depth underground mine plan. This plan will take into account the entire strike length of the Chama and Fwaya Fwaya mining areas. Given the likely prospect of being able to implement these plans in the foreseeable future, Gemfields is furthering its efforts to identify the most suitable area for the continuation of its opencast mining operations.

Post the significant cash commitment to improving the size and quality of the operating fleet in 2008/9 and 2009/10, an additional US\$4.7 million was spent on the acquisition of drill rigs, excavators and dump trucks in 2010/11. The constant upgrading of the fleet is in line with the Gemfields' on-going growth plans, its confidence in the mine's underlying profitability and its drive to constantly improve operating efficiencies.

Gemfields PLC

Chairman's statement (*Continued*)

• *Sales and Inventories*

Gemfields continued during the period to offer its rough production to selected market participants by way of sealed bid auctions (tenders) where all Kagem material placed on offer is certified by Gemfields as natural, untreated and of Zambian origin. Indications are that Gemfields has become the 'supplier of choice' for high quality emeralds and other premium coloured gemstones delivered to the market in this fashion, a factor which has motivated the Group to take preliminary steps towards the sourcing and supply of additional, non-Gemfields mined (i.e. traded) emeralds. Many of the world's top gem houses and emerald lapidaries attend Gemfields' emerald auctions and demand for the Company's products continues to grow.

During the period, Gemfields hosted higher quality emerald auctions in July and December of 2010, followed by a lower quality emerald auction in March 2011. Some thirty companies drawn from Germany, India, Israel and the USA attended these events which saw 18.55 million carats of emerald and beryl offered in 81 separate lots. The sales from these auctions totalled US\$37.0 million with 76 out of the 81 lots being sold. Total sales - after including specimens and cut-and-polished emeralds - totalled US\$40.2 million. The results of the auctions are summarised below.

AUCTION RESULTS SUMMARY	JULY '10 AUCTION	DECEMBER '10 AUCTION	MARCH '11 AUCTION
Dates	19-23 July 2010	6-10 December 2010	10-14 March 2011
Location	London, England	Johannesburg, South Africa	Jaipur, India
Type	Higher Quality	Higher Quality	Lower Quality
Carats offered	0.85 million	0.87 million	16.83 million
Carats Sold	0.80 million	0.75 million	12.98 million
No. of lots offered	27	19	35
No. of lots sold	24	18	34
Percentage of lots sold	89%	95%	97%
Percentage of lots sold by weight	94%	86%	77%
Percentage of lots sold by value	87%	99%	99%
Total sales realised at auction	US\$ 7.5 million	US\$ 19.6 million	US\$ 9.9 million
Average per carat sales value	US\$ 9.35 per carat	US\$ 26.20 per carat	US\$ 0.77 per carat

The high levels of interest from companies in all market sectors to attend Gemfields' auctions provides sound evidence of the continuing demand for Gemfields' products across all quality ranges, despite indications of a potential downturn in the global economy. This trend was further demonstrated in the auction held in July 2011 in which the Group achieved record sales totalling US\$31.6 million.

Gemfields prefers to adopt a conservative approach when estimating net realisable value of its rough emerald inventories. However, in accordance with the accounting standards, inventory is recorded at its production cost. Similarly, cut and polished emerald inventory has been assumed to have a value equivalent to the production cost of the rough material consumed, plus the costs of cutting and polishing.

• *Geology and Exploration*

Given the Group's improving market position and financial condition, the decision has been taken to re-initiate a number of geological and exploration projects, some of which were put on hold in 2009 and some of which are new projects motivated by developments that have taken place during the past year. These exploration projects are being carried out within the Kagem (emerald) and Kariba (amethyst) mining licences and at other target areas within Zambia, Madagascar and other prospective gemstone provinces internationally.

Gemfields PLC

Chairman's statement (*Continued*)

- ***Security***

Securing the Group's assets, protecting its people and limiting the theft of gemstones remain key operational priorities. While the various security initiatives implemented during the past year are showing positive results, and are attested to by a reduction in the volumes of material available in the informal markets neighbouring the mine, the reduction of theft and the challenge of physically securing the mining licence area, requires the continuous efforts of our security team and is an on-going challenge. Various capital projects have been investigated and are proposed for the coming year, including the installation of X-ray body scanning units.

- ***Marketing and Promotions***

Gemfields remains in constant communication with the trade to position Gemfields as the world's leading colour gemstone mining and marketing company, with a strong focus on Zambian emeralds, amethyst and other premium coloured gemstones. This approach is delivering results. Furthermore, and in order to give further impetus to Gemfields' global promotional efforts, the Company has recently launched a new marketing and advertising campaign across various key markets centred on the message "Emeralds - Uniquely You". This campaign targets the modern woman, her demand for excellence and her individuality. The campaign was launched in April 2011 in India.

A worldwide PR campaign was initiated to further complement the Company's advertising and has generated global PR value in excess of US\$4million since January 2011.

Further to the success of the 'Emeralds for Elephants' campaign held in London during 2010, a follow-up project has been launched in India. This project has thus far received a great deal of support from within the luxury goods sector and has generated remarkable coverage and consumer interest across India. The project will culminate in a Sotheby's auction of bespoke emerald jewellery in Mumbai in October 2011.

Gemfields is researching new markets for expansion of its marketing activities, and plans to implement targeted marketing and communications campaigns in China and other selected Asian countries, starting in January 2012.

A range of point-of-sale materials, which can be used by Gemfields' Distribution Partners and retailers alike, have been developed and distributed to numerous outlets. These have been developed with the aim of building a direct association between Gemfields, its unique range of ethically sourced gemstones, and the discerning consumer, thereby underpinning consumer confidence, their understanding and resulting sales.

Gemfields' first amethyst collaboration, in conjunction with UK jeweller-of-the-year, Jordan Askill, was launched in London during London's September 2011 fashion week. The collection was also shown at the Paris and New York fashion weeks in September 2011. This collaboration has been well received and various retailers have shown interest.

- ***Environment and Corporate Social Responsibility***

Gemfields operates in compliance with relevant international environmental and safety standards. Kagem has been upgraded from category C to category B in the Environmental Council of Zambia's (ECZ) inspection for the renewal of statutory licences and the Environmental Protection Fund's (EPF) annual environmental audit reports, and is poised to be upgraded to category A in the near future.

The Kagem mine's decommissioning and restoration provision was reviewed by independent specialists, African Mining Consultants, in the year 2009/10. Based on their findings, a significant amount of this provision has been released. This release was shown as a credit in the statement of comprehensive income for the year 2009/10.

Gemfields PLC

Chairman's statement (*Continued*)

The Zero Carbon Project

Kagem embarked on a “Zero Carbon Project” and is well positioned in respect of any potential international standards which may be implemented in the foreseeable future.

Corporate Social Responsibility

Gemfields is committed to investing in sustainable community development projects. Such projects are developed in partnership with the local people living in close proximity to our operations and include the building and equipping of schools and a medical clinic and the development of local farming projects. A project team has been established to ensure that all social projects are undertaken in the best interests and with the support of the relevant community.

- ***Impairment***

The Directors took the decision to write down the value of Kagem to zero in Gemfields’ 2009 financial statements. This was driven largely by the then uncertain outlook of the global economy, the loss-making performance of the Kagem mine during the preceding year and the lack of reliable emerald prices, all of which made it difficult at that time to justify forecasts showing a positive cashflow with reasonable certainty.

With Gemfields now increasingly optimistic that Kagem will be a viable operation for years to come, and in recognition of the fact that many of the previous uncertainties are either alleviating or better understood, Gemfields has initiated a re-assessment of the value of the asset.

- ***Kariba Amethyst Mine***

Production at the Kariba amethyst mine (owned by Kariba Minerals Ltd of which Gemfields own 50%) is returning to historic levels (by volume) and demand for its product is improving. The quality of the supplied product has improved significantly and a strong focus on its core business is delivering encouraging results. Gemfields plans to increase the level of its commitment and investment in this mine subject to resolution of increased ownership discussions with Government of the Republic of Zambia.

Key financial performance indicators

	2011	2010
Share price	£0.19	£0.05
Cash and cash equivalents	US\$13,648,654	US\$2,878,812
Emerald inventory	US\$18,680,755	US\$16,545,106
Revenue from emerald sales	US\$40,157,218	US\$19,906,203
Profit after tax for the year	US\$21,445,643	US\$2,582,868

Oriental Mining S. a. r. l.

In 2008, Gemfields exercised its option to acquire the entire issued share capital of Oriental Mining s.a.r.l., a company incorporated in Madagascar (“Oriental”). Gemfields was granted the option by Rox Limited (“Rox”) pursuant to an agreement between Gemfields and Rox dated 18 December 2007.

Oriental has 15 exploration licences covering emeralds, rubies, sapphires, tourmalines and garnets in the Antananarivo, Fianarantsoa and Toliara provinces of Madagascar. In addition, Oriental has the right to 5 exploration licences that are pending approval from the Madagascan Ministry of Energy and Mines.

Madagascar is recognised as one of the most exciting colour gemstone provinces in the world today, with several key discoveries having been made there during the last decade. Gemfields believes that, in the medium to long term,

Gemfields PLC

Chairman's statement (*Continued*)

gemstone-related activity in the country has the potential to become a valuable part of Gemfields' asset portfolio. Given Madagascar's improving political and security environment, Gemfields has recently contracted Mineralogical and Petrological Services ("M.A.P.S.") to undertake a geological and geotechnical assessment of the various licence areas.

Illegal mining activities within the Kagem licence area

Kagem continues to experience illegal mining activity within the boundaries of the Kagem mining licence area. While the matter is as yet not fully resolved, Gemfields continues to work in cooperation with all key Zambian ministries in its efforts to ensure that an amicable and peaceful solution is implemented and Kagem's legal rights are protected and respected.

Post reporting period events

Gemfields held an auction of (predominantly higher quality) rough emeralds in Singapore from 11 to 15 July 2011 which was attended by 39 companies. The auction saw 1.07 million carats offered, with 0.74 million carats being sold, raising US\$31.6 million.

Gemfields' next auction of (predominantly lower quality) rough emeralds is scheduled to take place during November 2011.

Outlook and Objectives for the year ahead

Objectives:

- Build on the solid rough sales platform that has been established and is showing encouraging signs of growth;
- Continue to reposition Gemfields as a world leader in the Premium Coloured Gemstone sector;
- Expand the underground mining project to a point where it can be deployed on a significantly larger scale;
- Expand open cast mining activities to new target sites within the Kagem licence area;
- Continue the focus on cost reduction and improved operating efficiencies;
- Focus on improved and upgraded security across the mine site supported by skilled manpower;
- The establishment of a trial cutting facility on the mine to establish the feasibility of local beneficiation; and
- Commit to the identification and evaluation of all potential growth areas, including additional gemstone assets in other geographic locations.

Outlook:

- Improving mining efficiencies, targeting of higher grade areas and further reducing relative operating costs continues to drive the Kagem mine plan. Possible expansion of mining activities within the Kagem mining licence will continue to be reviewed, assessed and implemented where appropriate.
- Gemfields continues to pursue its strategy of consolidating the supply chain and increasing consumer awareness. It is clearly evident that demand for the Gemfields' products is increasing across all levels within the supply chain, supporting increased prices and improving margins.
- Gemfields will look to broaden its position as a leading miner and marketer of Premium Coloured Gemstones, through growth and diversification into other selected target areas.
- While the year ahead offers a number of challenges Gemfields believes it will be able to deliver its internal growth and expansion targets.

Graham Mascal
30 September 2011

Gemfields PLC

Report of the Directors for the year ended 30 June 2011

The Directors present their report together with the audited financial statements for the year ended 30 June 2011.

Results and dividends

The consolidated statement of comprehensive income is set out on page 13 and shows the profit for the year.

The Directors do not recommend the payment of a dividend (2010 - Nil).

Principal activities

The Group is in the business of exploring, mining, processing and selling coloured gemstones.

The Company provides administration services to the Group and has a cut and polished emerald sales function.

Business review

The consolidated statement of comprehensive income is set out on page 13 and shows a profit after tax for the year of US\$21.4 million (2010 - US\$2.6 million).

A review of the business and its operations including mining key performance indicators is contained in the Chairman's Statement, on pages 1 to 6.

Financial instruments and risks

The Group's financial instruments comprise trade and other receivables, cash and cash equivalents and items arising directly from its operations such as trade payables, available for sale investments, other receivables and borrowings. The main financial risks arising from the Group's activities are credit risk, price risk, interest rate risk and currency risk. These are monitored by the Board of Directors and are not considered to be significant.

The Group is exposed to changes in the price of emeralds and the Directors accept that the quality and quantity of emeralds discovered is not guaranteed but this is part of the normal course of business.

Through its cash deposits the Group is exposed to interest-rate risk and credit risk. The Group's policy is to keep cash balances in sterling and US dollars unless immediately required in another currency and to place cash on deposit with reputable institutions. The Group does not use any hedging instruments.

The Group's majority of sales are rough emeralds. These are sold by way of auction and hence has minimal credit risk because the Group's policy is generally to ship the emeralds to the customer only once payment has been received.

The Directors have considered the Group's exposure to liquidity and cash flow risks and they consider that the Group has adequate funds to finance current operations (note 25).

Going concern

Following a review of the Group's financial position, the Directors have concluded that sufficient financial resources will be available to meet the Group's current and foreseeable capital requirements. On this basis, they consider it appropriate to prepare the financial statements on a going concern basis.

Gemfields PLC

Report of the Directors for the year ended 30 June 2011 (*Continued*)

Principal risks and uncertainties

The Group operates in an uncertain environment that may result in increased risk, costs pressures and schedule delays. The following is the key risk that the Group faces:

Exploration and development risk

There is no assurance that the Group's development activities will be successful. Accordingly, the Group is seeking to balance this risk by building a portfolio of projects and licence areas that carry a range of differing technical and commercial risks, and keeping under careful review the amount invested in any one project.

The Group's operations may also be curtailed, delayed or cancelled as a result of economic, environmental and political conditions in the area of operation. Key risks include the possible loss of mining licences, operational delays, the erratic nature of gemstone geology, the theft of gemstones, the dependence on diesel, the volatility of oil prices and consumer demand for coloured gemstones.

Key performance indicators

The key performance indicators of the Group are set out in the Chairman's Statement, on pages 1 to 6.

Directors

Details of the Directors at the year end are disclosed in the contents page.

Messrs Ian Harebottle and Clive Newall retire in accordance with the Company's Articles of Association and, being eligible, offer themselves for re-election.

Subject to the conditions set out in the Companies Act 2006, the Company has arranged appropriate Directors' and Officers' insurance to indemnify the Directors against liability in respect of proceedings brought by third parties. Such provisions remain in force at the date of this report.

Directors' responsibilities

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies listed on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

Gemfields PLC

Report of the Directors for the year ended 30 June 2011 (*Continued*)

- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Policy and practice on the payment of creditors

Whilst no formal code is adopted, the Company's current policy concerning the payment of its creditors is to:

- settle the terms of payment with creditors when agreeing the terms of each transaction;
- ensure that these creditors are made aware of the terms of payment by the inclusion of relevant terms in contracts; and
- pay in accordance with its contractual and other legal obligations.

At the reporting date creditor payment days are 72 (2010 - 67).

Charitable and political donations

During the year, and in the previous year, the Company did not make any charitable or political contributions.

Events after the reporting period

Details of events after the reporting date are disclosed in note 27.

Related party transactions

Details of related party transactions are given in note 22. Key management disclosures are disclosed in note 5.

Independent Auditors

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

Gemfields PLC

Report of the Directors for the year ended 30 June 2011 (*Continued*)

Disclosure of information to the independent auditors

All of the current Directors have taken all the steps they ought reasonably to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

By order of the Board

Devidas Shetty

Secretary

30 September 2011

Gemfields PLC

Report of the independent auditors

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GEMFIELDS PLC

We have audited the financial statements of Gemfields Plc for the year ended 30 June 2011 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Respective responsibilities of Directors and auditors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 30 June 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Gemfields PLC

Report of the independent auditors (*Continued*)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns;
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Anne Sayers (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
55 Baker Street
London
United Kingdom

30 September 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Gemfields PLC

Consolidated statement of comprehensive income for the year ended 30 June 2011

	Note	2011 US\$'000	2010 US\$'000
Revenue		40,157	19,906
Increase/(decrease) in inventory		2,136	(1,169)
Mining and production costs	3	(14,484)	(12,117)
Depreciation	10	(2,660)	(3,248)
Total cost of sales		(15,008)	(16,534)
Gross profit		25,149	3,372
Other income		98	199
Administrative expenses			
Other administrative expenses		(5,657)	(4,801)
Impairment reversal/(charge) of available-for-sale investments	26	313	(1,018)
Release of environmental restoration liabilities	16	-	4,561
Total Administrative expenses		(5,344)	(1,258)
Profit from operations	4	19,903	2,313
Finance income	6	110	10
Finance expenses	6	(111)	(822)
Profit before taxation		19,902	1,501
Tax credit	7	1,544	1,082
Profit after tax and total comprehensive income for the year		21,446	2,583
Attributable to:			
Equity shareholders of the parent		17,046	2,068
Non-controlling interest		4,400	515
		21,446	2,583
Earnings per share			
Basic	8	US\$0.05	US\$0.01
Diluted	8	US\$0.05	US\$0.01
All amounts relate to continuing activities.			

The notes on pages 17 to 49 form part of these financial statements.

Gemfields PLC

Consolidated statement of changes in equity for the year ended 30 June 2011

	Attributable to equity holders of the parent							Non-controlling Interest US\$'000	Equity US\$'000
	Share capital US\$'000	Share premium US\$'000	Merger Reserve US\$'000	Option Reserve US\$'000	Cumulative Translation Reserve US\$'000	Retained deficit US\$'000	Total US\$'000		
Balance at 30 June 2009	6,160	96,823	121,005	2,204	(7)	(208,097)	18,088	-	18,088
Total comprehensive loss for the year	-	-	-	-	-	2,068	2,068	515	2,583
Share based payments	-	-	-	274	-	-	274	-	274
Expired options	-	-	-	(865)	-	865	-	-	-
Balance at 30 June 2010	6,160	96,823	121,005	1,613	(7)	(205,164)	20,430	515	20,945
Total comprehensive income for the year	-	-	-	-	-	17,046	17,046	4,400	21,446
Issue of shares	4	30	-	-	-	-	34	-	34
Share based payments	-	-	-	605	-	-	605	-	605
Cancelled options (old scheme)	-	-	-	(1,768)	-	1,768	-	-	-
Balance at 30 June 2011	6,164	96,853	121,005	450	(7)	(186,350)	38,115	4,915	43,030

The nature and purpose of each reserve within Shareholders' equity is described as follows:

Reserve	Description and purpose
Share capital	Amount subscribed for share capital at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	The difference between the fair value of the shares issued as consideration for acquisition of subsidiaries in excess of the nominal value of the shares, where 90% or more of shares are acquired.
Option reserve	Cumulative fair value of options charged to the statement of comprehensive income net of transfers to the profit and loss reserve on exercised and cancelled/lapsed options.
Cumulative translation reserve	Cumulative gains and losses on retranslating the net assets of overseas operations to the presentation currency.
Retained deficit	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.
Non-controlling interest	Amounts attributable to non-controlling shareholders.

The notes on pages 17 to 49 form part of these financial statements.

Gemfields PLC

Consolidated statement of financial position at 30 June 2011

	Note	2011 US\$'000	2010 US\$'000
Non-current assets			
Property, plant and equipment	10	8,076	6,008
Available-for-sale Investments	12	1,725	1,412
Deferred tax asset	18	2,205	-
		<u>12,006</u>	<u>7,420</u>
Current assets			
Inventory	13	20,054	17,380
Trade and other receivables	14	3,582	3,051
Cash and cash equivalents		13,649	2,879
Total current assets		<u>37,285</u>	<u>23,310</u>
Total assets		<u>49,291</u>	<u>30,730</u>
Non-current liabilities			
Deferred tax liability	18	-	(46)
Other non-current liabilities	15	(895)	(1,579)
		<u>(895)</u>	<u>(1,625)</u>
Current liabilities			
Trade and other payables	17	(3,807)	(2,580)
Current tax	17	(743)	(31)
Borrowings	17	-	(3,506)
Other current liabilities	17	(816)	(2,043)
		<u>(5,366)</u>	<u>(8,160)</u>
Total liabilities		<u>(6,261)</u>	<u>(9,785)</u>
Total net assets		<u>43,030</u>	<u>20,945</u>
Capital and reserves attributable to equity holders of the parent			
Share capital	19	6,164	6,160
Share premium		96,853	96,823
Merger reserve		121,005	121,005
Option reserve		450	1,613
Cumulative translation reserve		(7)	(7)
Retained deficit		(186,350)	(205,164)
		<u>38,115</u>	<u>20,430</u>
Non-controlling interest		4,915	515
Total equity		<u>43,030</u>	<u>20,945</u>

The financial statements were approved by the Board of Directors and authorised for issue on 30 September 2011.

Devidas Shetty
Director

Company Registration Number 05129023
The notes on pages 17 to 49 form part of these financial statements.

Gemfields PLC

Consolidated statement of cash flows for the year ended 30 June 2011

	Note	2011 US\$'000	2010 US\$'000
Cash flows from operating activities			
Profit for the year after tax		21,446	2,583
Depreciation	10	2,660	3,248
Deferred tax credit		(2,251)	(1,089)
Share-based payments		605	274
Finance income		(110)	(10)
Finance expense		111	822
Profit on sale of property, plant and equipment		(107)	(148)
Release of environmental restoration liabilities	16	-	(4,561)
Impairment (reversal)/charge of available for sale investments	26	(313)	1,018
(Increase) in trade and other receivables	14	(531)	(1,431)
Increase/(decrease) in trade and other payables	17	1,939	(511)
(Decrease)/increase in other liabilities		(1,911)	369
(Increase)/decrease in inventory	13	(2,674)	1,065
Net cash inflow from operating activities		18,864	1,629
Cash flows from investing activities			
Interest received		110	10
Purchase of property, plant and equipment	10	(4,728)	(3,262)
Sale of property, plant and equipment	10	107	147
Net cash flow from investing activities		(4,511)	(3,105)
Cash flows from financing activities			
Issue of ordinary shares		34	-
Repayment of borrowings		(3,506)	(3,777)
Receipt of loans		-	2,085
Finance expense		-	(559)
Net cash flow from financing activities		(3,472)	(2,251)
Net increase/(decrease) in cash and cash equivalents		10,881	(3,727)
Cash and cash equivalents at start of year		2,879	6,869
Exchange differences on translation		(111)	(263)
Cash and cash equivalents at end of year		13,649	2,879

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011

1 Accounting policies

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

In forming its opinion as to going concern, the Board prepares a working capital forecast based upon its assumptions as to trading as well as taking into account the available borrowing facilities in line with the capital management policies referred to in note 25. The Board also prepares a number of alternative scenarios modelling the business variables and key risks and uncertainties. Based upon these, the Board has concluded that the Group has adequate working capital and therefore confirm their belief that it is appropriate to use the going concern basis of preparation for the financial statements of the Company and the Group.

The financial statements of the Group for the twelve months ended 30 June 2011 have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by European Union.

The Group financial statements consolidate the financial statements of the Company and its subsidiaries (together referred to as “the Group”). The parent Company financial statements present information about the Company as a separate entity and not about its Group.

The IFRS financial statements have been drawn up on the basis of accounting standards, interpretations and amendments effective at the beginning of the accounting period on 1 July 2010:

(a) Standards, amendment and interpretations effective in the year ended 30 June 2011

The following were amendments to published standards and interpretations to existing standards effective in the year and adopted by the Group.

Standard description	Date of adoption	Impact on initial application
IAS 27 - Amendment – Consolidated and Separate Financial Statements	1 July 2009	The amendment affects the acquisition of subsidiaries achieved in stages and disposals of interests. Amendment does not require the restatement of previous transactions.
IFRS 3 Revised - Business Combinations	1 July 2009	<p>The revision to IFRS 3 introduced a number of changes in accounting for acquisition costs and recognition of intangible assets in business combinations. The revised standard does not require the restatement of previous business combinations.</p> <p>The revision to IFRS 3 did not have any impact on the current or the prior periods’ financial statements. Future transactions will be accounted for consistently with the revised standard.</p>
IAS 39 – Amendment - Financial Instruments: Recognition and Measurement: Eligible Hedged Items	1 July 2009	<p>The amendment clarifies the principles for determining eligibility of hedged items.</p> <p>The amendment did not have any impact on the current or prior years’ financial statements. Future transactions will be accounted for consistently with this amendment.</p>

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

1 Accounting policies (*Continued*)

Standard description	Date of adoption	Impact on initial application
IFRS 2 - Amendment – Group Cash-settled Share-based Payment Transactions	1 January 2010	<p>The amendment clarifies that where a parent (or another group entity) has an obligation to make a cash-settled share-based payment to another group entity's employees or suppliers, the entity receiving the goods or services should account for the transaction as equity –settled.</p> <p>The amendment did not have any impact on the current or prior years' financial statements. Future transactions will be accounted for consistently with this amendment.</p>
Additional exemptions for first-time adopters' (Amendment to IFRS 1)	1 January 2010	This is not relevant to the Group as it is an existing IFRS preparer.
Improvements to IFRSs (2009)	Generally 1 January 2010	The improvements in this amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards. The improvements did not have any impact on the current or prior years' financial statements.
IFRIC 18 - Transfer of Assets from Customers	1 January 2010	<p>The interpretation clarifies the treatment of agreements in which an entity receives from a customer an item of property that it must use to provide the customer with an on-going access to goods or services.</p> <p>The application of this interpretation did not have any impact on the current or prior year's financial statements. Future transactions will be accounted for consistently with this interpretation.</p>
IFRIC 9/ IAS 39 - Amendment - Embedded Derivative	1 January 2010	<p>The amendment clarifies the treatment of embedded derivatives in host contracts that are classified out of fair value through profit or loss.</p> <p>The application of this interpretation did not have any impact on the current or prior year's financial statements. Future transactions will be accounted for consistently with this interpretation.</p>
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation	1 January 2010	<p>The interpretation provides guidance for application of hedge accounting in foreign operations.</p> <p>The application of this interpretation did not have any impact on the current or prior year's financial statements. Future transactions will be accounted for consistently with this interpretation.</p>

No other IFRSs issued and adopted but not yet effective are expected to have an impact on the Group's financial statements.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

1 Accounting policies (*Continued*)

(b) *Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements which have not been adopted early:*

Standard	Description	Effective date
IAS 32	Amendment - Classification of Right Issues	1 Feb 2010
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 Jul 2010
IFRS 1	Amendment - First Time Adoption of IFRS	1 Jul 2010
IAS 24	Revised - Related Party Disclosures	1 Jan 2011
IFRIC 14	Amendment - IAS 19 Limit on a defined benefit asset	1 Jan 2011
IFRS 7 *	Amendment - Transfer of financial assets	1 Jul 2011
IFRS 1 *	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 Jul 2011
	Improvements to IFRSs (2010) *	1 Jan 2011
IAS 12 *	Deferred Tax: Recovery of Underlying Assets	1 Jan 2012
IFRS 9 *	Financial instruments	1 Jan 2013

The Group has not yet assessed the impact of IFRS 9. Except for the amended disclosure requirements of IAS 24 (the above revised standards), amendments and interpretations are not expected to materially affect the Group's reporting or reported numbers.

The above standards, interpretations and amendments will not significantly affect the Group's results or financial position. The adoption of IFRS 9 will eventually replace IAS 39 in its entirety and consequently may have a material effect on the presentation, classification, measurement and disclosures of the Group's financial instruments.

Items marked * had not yet been endorsed by the European Union at the date that these financial statements were approved and authorised for issue by the Board.

Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained.

Foreign currency

The Group financial statements are presented in United States Dollars (US\$).

Transactions entered into by Group entities in a currency other than the currency of the primary economic

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

1 Accounting policies (*Continued*)

environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the consolidated statement of comprehensive income.

On consolidation, the results of overseas operations are translated into US\$ at rates approximating to those prevailing when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "cumulative translation reserve").

Exchange differences recognised in the statement of comprehensive income of 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.

Financial assets and liabilities

The Group classified its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as either held to maturity or fair value through profit and loss.

Loans and receivables: - these are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value and subsequently carried at amortised cost.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position. Cash and cash equivalents are defined as cash in hand and short term deposits made for varying periods of between one day and three months.

Available-for-sale:- Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise principally the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in a separate component of equity (available for-sale reserve). Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously charged to equity, is recognised in the statement of comprehensive income. Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available for sale reserve. On sale, the amount held in the available for sale reserve associated with that asset is removed from equity and recognised in the statement of comprehensive income.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

1 Accounting policies (*Continued*)

Financial liabilities

Financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are initially measured at fair value and subsequently recognised at amortised cost using the effective interest rate method.
- Borrowings are measured at inception at fair value, net of directly attributable transaction costs. Subsequently they are measured at amortised cost using effective interest rate method.

The Group has not classified any financial liabilities as “fair value through profit or loss” financial liabilities.

Exploration and evaluation expenditure

Initial exploration and evaluation expenditure incurred in relation to project areas to which the Group’s licences and rights relate are capitalised on a project-by-project basis pending determination of the feasibility of the project within intangible assets – unevaluated mining properties. Costs incurred include appropriate technical and administrative expenses but not general overheads. If a mining development project is successful, the related expenditures are transferred to property, plant and equipment at which point they are assessed for impairment. Subsequently costs are amortised over the estimated life of the commercial ore reserves using a unit of production method. Where a licence is relinquished, a project is abandoned, or is considered to be of no further commercial value to the Group, the related costs are written off.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

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. (See section on critical estimations and judgements).

Stripping costs

Stripping costs incurred in the development of a pit by the contractor before production commences are capitalised as part of the cost of developing the pit and subsequently amortised over the mining of the ore (known as reaction zone).

Investment in Joint Ventures

Joint ventures are entities in which the Group holds a long term interest and which are jointly controlled by the Group and one or more joint venture partners under contractual arrangements. The Group’s interests in such jointly controlled entities is accounted for using the equity method in accordance with IAS 31.

Revenue

Revenue and associated costs from the sale of emeralds are recognised when control together with the risks and rewards of ownership are transferred to the customer. For rough emeralds, this transfer of ownership is deemed to occur at the date of receipt of cash while for cut and polished emeralds, transfer of ownership is deemed to occur at the date the invoice is raised and customer has taken ownership of the emeralds.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

1 Accounting policies (*Continued*)

Share-based payments

The Company issues equity-settled share based payments in the form of share options to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the date of grant of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of the number of shares that will eventually vest.

If an option is cancelled or settled in advance of the vesting date, the cancellation or settlement is accounted for as an acceleration of vesting. Therefore, the amount that otherwise would have been recognised for services received over the remainder of the vesting period is recognised immediately.

Fair value is estimated using a Black-Scholes valuation model.

Impairment

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. 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 accordingly.

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

Impairment charges are included in the consolidated statement of comprehensive income.

The Group's CGUs are determined on an operational basis and have been identified as the Kagem mine, Indian operations and UK Head office.

Leased assets

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

Property, 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.

Freehold land is not depreciated. 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. It is applied at the following rates:

Freehold land and buildings - 1-5% per annum straight line
Plant, machinery and motor vehicles - 20-25% per annum straight line
Fixtures, fittings and equipment - 20-25% per annum straight line
Evaluated mining properties - unit of ore mined

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

1 Accounting policies (*Continued*)

Inventory

Inventory, consisting of rough and finished emeralds, has been valued at lower of cost and net realisable value. Cost is determined using direct mining costs incurred during the period. Net realisable value is determined by using market values for production sold post year end, with remaining production valued at estimated market value based on past auctions, less estimated costs to sell.

During the process of extracting emeralds, beryl is 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 in the equivalent period. Upon sale of the beryl, the sale is recognised as revenue, with any profit over its previous carried value being recognised within revenue in the period of sale.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs to its tax base, except for differences arising on:

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

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

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

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group Company; or
- different Group entities 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.

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 tangible fixed asset of an amount equivalent to the provision is also created, which is subsequently depreciated as part of the cost of production. Any change in the present value of the estimated future expenditure is reflected and adjusted against the provision and evaluated mining property, unless the asset to which the provision relates has been impaired in which case the reversal of the provision is taken through the statement of comprehensive income.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

1 Accounting policies (*Continued*)

Other provisions

Provisions are recognised for liabilities of uncertain timing or amounts that have arisen as a result of past transactions.

Critical accounting estimates, judgements and assumptions

In the process of applying the Group's accounting policies, which are described above, the Directors have made judgements, estimations and assumptions regarding the future. The judgements, estimations, and assumptions that have the most significant effect on the amounts recognised in the financial statements are detailed below.

Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

(a) Useful lives of intangible assets and property, plant and equipment (Note 9 and 10)

Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the Management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of comprehensive income in specific periods.

(b) Carrying values of unevaluated mining properties

The Directors took the decision to write down the value of Kagem to zero in the Gemfields' 2009 financial statements, driven largely by the ongoing uncertainty in the global economy, the loss-making performance of the Kagem mine during the preceding year and the lack of reliable emerald prices, therefore making it difficult to justify forecasts showing a positive cashflow with reasonable certainty.

With Gemfields now becoming increasingly optimistic that Kagem will become a viable operation in the foreseeable future, and in recognition of the fact that many of the previous uncertainties are either alleviating or better understood, Gemfields has initiated a re-assessment of the value of these assets (refer note 26).

(c) Inventories (Note 13)

The Group reviews the net realisable value of, and demand for, its inventory on a quarterly basis 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.

Since the reporting date rough emeralds with a sales value of US\$31.6 million have been sold at auction. As the net realisable value of the rough emeralds sold at auctions during the year and subsequent to the reporting date is more than the production costs, the remaining rough emeralds at year end have been valued at cost.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

1 Accounting policies (*Continued*)

(d) Share-based payments (Note 24)

The Group has an equity-settled share-based remuneration schemes for employees and Directors. Employee services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of grant, excluding the impact of any non-market vesting conditions. The fair value of share options is estimated by using the Black-Scholes valuation model on the date of grant based on certain assumptions. Those assumptions are described in note 24 and include, among others, the dividend growth rate, expected volatility, expected life of the options and number of options expected to vest.

(e) De-commissioning provision (Note 16)

The company is required to restore the mining sites at the end of their useful lives to a condition acceptable to the relevant authorities and consistent with the company's environmental policies.

The expected cost of any committed decommissioning or restoration programme, discounted to its net present value, is provided and capitalised at the beginning of each project. The capitalised cost is depreciated over the expected life of the asset and the increase in the net present value of the provision for the expected cost is included in the statement of comprehensive income.

Subsequent changes in the initial estimates of rehabilitation and decommissioning costs that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate are added to or deducted from the cost of the related asset in the current period.

Where the change results in a reduction in the liability, the cost deducted from the asset shall not exceed the carrying amount. If a decrease in the liability exceeds the carrying amount, the excess is recognised immediately in the statement of comprehensive income.

Where the change results in an increase in the cost of the asset, the amount is capitalised as part of the cost of the item and depreciated prospectively over the remaining life of the item to which it relates. The new carrying amount is also compared to the recoverable amount of the asset and if there is any indication that the carrying amount is not fully recoverable, an impairment test is conducted in accordance with the impairment policy.

These estimates are reviewed annually.

(f) Available-for-sale investments (Note 12)

There was an increase in the market value of the investment in Richland Resources Ltd (previously called TanzaniteOne). This increase in value has been recognised in the income statement, in accordance with IAS 39 because it reverses an impairment previously charged to the income statement.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

2 Segmental analysis

The Group operated in three principal operating segments. The reporting on these investments to Management focuses on revenue, operating costs and capital expenditure. The impact of such criteria is discussed further in the Chairman's Statement on pages 1 to 6 of the annual report.

	Zambia	UK (Corporate)	India	Total
2011	US\$'000	US\$'000	US\$'000	US\$'000
Revenues	26,060	3,123	10,974	40,157
Share of operating profit/(loss)	12,457	(3,087)	10,533	19,903
Net Finance expense	13	96	(110)	(1)
Profit/(loss) after tax	14,714	(2,991)	9,723	21,446
Total non-current assets	10,088	1,834	84	12,006
Total non-current liabilities	(895)	-	-	(895)
Total assets	29,875	10,895	8,521	49,291
Total liabilities	(4,091)	(1,425)	(745)	(6,261)
<i>Other charges</i>				
Depreciation	2,620	27	13	2,660
Impairment reversal	-	(313)	-	(313)
Share based payments charge	-	605	-	605

These figures are presented after intercompany adjustments have been accounted for. No single customer commands more than 10% of the total revenue.

	Zambia	UK (Corporate)	India	Total
2010	US\$'000	US\$'000	US\$'000	US\$'000
Revenues	5,647	7,093	7,166	19,906
Share of operating profit/(loss)	1,082	(1,831)	3,062	2,313
Net Finance expense	(699)	(265)	152	(812)
Profit/(loss) after tax	1,469	(2,100)	3,214	2,583
Total non-current assets	5,818	1,522	80	7,420
Total non-current liabilities	(1,625)	-	-	(1,625)
Total assets	22,189	8,030	511	30,730
Total liabilities	(7,612)	(2,149)	(24)	(9,785)
<i>Other charges</i>				
Depreciation	3,211	22	15	3,248
Impairment	-	1,018	-	1,018
Share based payments charge	-	274	-	274

These figures are presented after intercompany adjustments have been accounted for. No single customer commands more than 10% of the total revenue.

UK (Corporate) is the combination of UK companies, BVI companies and Canadian company.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

3 Mining and Production costs

	2011 US\$'000	2010 US\$'000
Fuel costs	3,605	2,796
Labour costs	5,804	5,112
Repairs & maintenance	1,536	1,404
Blasting	665	572
Other mining and processing costs	2,874	2,233
	<hr/>	<hr/>
	14,484	12,117
	<hr/>	<hr/>

4 Profit from operations

	2011 US\$'000	2010 US\$'000
This has been arrived at after charging:		
Auditors' remuneration		
- Fees payable to the Company's auditor for the audit of the Group and Company's annual accounts	62	54
- Fees payable to the Company's auditor for the audit of the Zambian subsidiaries	30	26
Staff costs (Note 5)	6,841	5,678
Directors' remuneration (Note 5)	1,564	1,065
Depreciation, depletion and amortisation	2,660	3,248
Impairment (reversal)/charge of available-for-sale investments (Note 26)	(313)	1,018
Operating lease costs – land and buildings	76	73
Share based payments	605	274
Profit on sale of property, plant and equipment	(107)	(147)
Exchange differences	111	263

Included in the Group audit fee is an amount of US\$22,000 (2010 - US\$20,000) in respect of the Company.

The staff costs above include US\$5,803,514 relating to mining and production costs (2010 – US\$5,112,402)

Impairment reversal relates to the increase in value of the investment in Richland Resources Ltd (previously called TanzaniteOne) (note 26).

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

5 Employees and Directors

	2011 Number	2010 Number
Administration Staff	80	88
Mining Staff	359	354
	<hr/>	<hr/>
Average number of employees	439	442
	<hr/>	<hr/>
	US\$'000	US\$'000
Gross salaries	6,515	5,358
Social security costs	326	320
	<hr/>	<hr/>
	6,841	5,678
	<hr/>	<hr/>

2011

	Fees/ Salary US\$'000	Bonus Payments US\$'000	Share Based payments US\$'000	Total US\$'000
Executive Director - Ian Harebottle	358	318	148	824
Executive Director - Devidas Shetty	191	191	67	449
Executive Director - Sean Gilbertson	-	-	52	52
Non-Executive Director - Finn Behnken	-	-	16	16
Non-Executive Director - Clive Newall	31	-	48	79
Non-Executive Director - Graham Mascall	77	-	67	144
	<hr/>	<hr/>	<hr/>	<hr/>
Total directors and key management 2011	657	509	398	1,564
	<hr/>	<hr/>	<hr/>	<hr/>

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

5 Employees and Directors (*Continued*)

2010

	Fees/ Salary US\$'000	Share Based payments US\$'000	Total US\$'000
Executive Director - Ian Harebottle	297	3	300
Executive Director - Devidas Shetty (appointed 1 April 2010)	78	-	78
Executive Director - Sean Gilbertson	-	136	136
Executive Director - Richard James (resigned 31 December 2009)	274	-	274
Executive Director - Rajiv Gupta (resigned 29 January 2009)	82	-	82
Non-Executive Director - Finn Behnken	-	41	41
Non-Executive Director - Clive Newall	25	27	52
Non-Executive Director - Graham Mascal	68	34	102
Total directors and key management 2010	824	241	1,065

6 Finance income and expense

	2011 US\$'000	2010 US\$'000
Finance income		
Interest received	110	10
	110	10
Finance expense		
Interest on bank loans and overdrafts	-	559
Exchange differences on translation	111	263
	111	822

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

7 Taxation of profit for the period

	2011 US\$'000	2010 US\$'000
<i>Current tax</i>		
Tax charge for year – Zambia and India	707	6
<i>Deferred tax</i>		
Release of deferred tax liability (Note 18)	-	(1,088)
Deferred tax credit (Note 18)	(2,251)	-
	<hr/>	<hr/>
Taxation credit	(1,544)	(1,082)
	<hr/>	<hr/>

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2011 US\$'000	2010 US\$'000
Profit on ordinary activities before tax	19,902	1,501
	<hr/>	<hr/>
Profit on ordinary activities at the standard rate of corporation tax in the UK of 28% (2010: 28%)	5,573	420
Effects of:		
Permanent differences	673	(1,681)
Release of fair value deferred tax liability (Note 18)	-	(1,089)
Deferred tax asset (Note 18)	(2,205)	-
Tax losses (utilised)/carried forward	(5,585)	1,268
	<hr/>	<hr/>
Total tax credit	(1,544)	(1,082)
	<hr/>	<hr/>

Factors that may affect future tax charges

The Group has tax losses of US\$21,739,261 (2010 - US\$36,414,627) carried forward which will be utilised against future profits. Of this amount US\$10,958,201 (2010: nil) has been recognised as deferred tax asset this year.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

8 Earnings per share

Earnings per ordinary share has been calculated using the weighted average number of shares in issue during the year. During the year, the weighted average number of equity shares in issue is 324,131,527 (2010 - 324,114,883) and the profit, being profit after tax attributable to equity holders of the parent is US\$17,045,957 (2010 - US\$2,068,031).

Diluted earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of shares that would be issued on the conversion of dilutive potential ordinary shares into ordinary shares. The calculation, of the dilutive potential ordinary shares related to employee and director share option plans, includes only those options with exercise prices below the average share trading price for each period.

	2011 US\$'000	2010 US\$'000
Net profit attributable to equity holders used in basic calculation	17,046	2,068
Net profit attributable to equity holders used in dilutive calculation	17,046	2,068
Basic weighted average number of shares	324,131,527	324,114,883
Dilutive potential ordinary shares		
Employee and Director share option plans	8,345,000	8,450,000
Diluted weighted average number of shares	332,476,527	332,564,883
Earnings Per Share		
- Basic	0.05	0.01
- Diluted	0.05	0.01

The dilutive share schemes and options are detailed within Share based payments (note 24). The calculation of the diluted EPS assumes all criteria giving rise to the dilution of the EPS are achieved and all outstanding share options are exercised.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

9 Intangible assets

	Unevaluated mining properties US\$'000
<i>Cost</i>	
At 1 July 2009	12,514
	<hr/>
At 30 June 2010 and 2011	12,514
	<hr/> <hr/>
<i>Depreciation</i>	
At 1 July 2009	(12,514)
	<hr/>
At 30 June 2010 and 2011	(12,514)
	<hr/>
<i>Net book value</i>	
At 30 June 2011	<hr/> <hr/> -
At 30 June 2010	<hr/> <hr/> -

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

10 Property, plant and equipment

	Freehold land and buildings US\$'000	Plant, machinery and motor vehicles US\$'000	Fixtures, Fittings and equipment US\$'000	Evaluated Mining Properties US\$'000	Total US\$'000
<i>Cost</i>					
At 1 July 2009	1,404	10,514	340	269,753	282,011
Additions	101	3,058	103	-	3,262
Disposals	-	(895)	(26)	-	(921)
At 30 June 2010	1,505	12,677	417	269,753	284,352
Additions	-	4,540	188	-	4,728
Disposals	-	(1,119)	(26)	-	(1,145)
At 30 June 2011	1,505	16,098	579	269,753	287,935
<i>Depreciation</i>					
At 1 July 2009	60	6,034	171	269,753	276,018
Provided during the year	28	3,124	96	-	3,248
Disposals	-	(895)	(27)	-	(922)
At 30 June 2010	88	8,263	240	269,753	278,344
Provided during the year	28	2,600	32	-	2,660
Disposals	-	(1,119)	(26)	-	(1,145)
At 30 June 2011	116	9,744	246	269,753	279,859
<i>Net book value</i>					
At 30 June 2011	1,389	6,354	333	-	8,076
At 30 June 2010	1,417	4,414	177	-	6,008

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

11 Investments

	Joint Venture US\$'000
<i>Cost</i>	
At 1 July 2010 and 30 June 2011	287
<i>Share of losses</i>	
At 1 July 2010	(287)
Loss for the year	-
At 30 June 2011	(287)
<i>Net book value</i>	
At 30 June 2011	-
At 30 June 2010	-

There was no premium on acquisition relating to the joint venture.

Joint ventures

Name	Country of Incorporation or registration	Proportion of voting rights and ordinary share capital held	Nature of business	
Kariba Minerals Ltd	Zambia	50%	Gemstone mining	
The Group's share of the joint venture was:				
			2011 US\$'000	2010 US\$'000
Non-current assets			747	1,411
Current assets			270	427
Current liabilities			(1,958)	(2,122)
Non-current liabilities			-	-
Share of net liabilities			(941)	(284)
			<hr/>	<hr/>
Revenue			1,640	1,565
Operating Expenditure			2,394	1,647

The Group equity accounts for its investment in joint ventures and does not recognise its share of losses in excess of the carrying amount of the investment. Unrecognised losses for the year are \$123,046 (2010 - \$439,794).

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

11 Investments (Continued)

Subsidiary undertakings

The following were subsidiary undertakings at the end of the year and have all been included in the consolidated financial statements:

Name	Country of Incorporation or registration	Proportion of voting rights and ordinary share capital held in 2010	Proportion of voting rights and ordinary share capital held in 2009	Nature of business
Gemfields BVI Limited	British Virgin Islands	100%	100%	Gemstone marketing
Almizan Development Limited	British Virgin Islands	100%	100%	Gemstone marketing
Sarina Global Limited	British Virgin Islands	100%	100%	Non-trading
Gemfields Canada Inc**	Canada	100%	100%	Non-trading
Gemfields Mining Limited	Zambia	100%	100%	Gemstone mining
Gemfields Holdings Zambia Ltd*	Zambia	100%	100%	Non-trading
Mbuva Mining Company Ltd*	Zambia	100%	100%	Non-trading
Gemhouse Mining Zambia Ltd***	Zambia	100%	100%	Non-trading
Gemfields India Pvt Limited**	India	100%	100%	Gemstone cutting and polishing
Gemfields Mining Limited	Mozambique	100%	100%	Non-trading
Krineria Group S.A.	Panama	100%	100%	Non-trading
Greentop International Inc.	British Virgin Islands	100%	100%	Non-trading
Hagura Mining Limited****	British Virgin Islands	100%	100%	Non-trading
Hagura Mining Limited****	United Kingdom	100%	100%	Non-trading
Kagem Mining Limited*****	Zambia	75%	75%	Gemstone mining
Oriental Mining SARL	Madagascar	100%	100%	Non-trading

* Interest held indirectly through interest in Gemfields Canada Inc

** Interest held indirectly through interest in Gemfields Limited BVI

*** Interest held indirectly through interest in Gemfields Holdings Zambia Ltd

**** Interest held indirectly through interests in Krineria Group S.A. and Greentop International Inc.

***** Interest held indirectly through interest in Hagura Mining Limited

For all undertakings listed above, the country of operation is the same as its country of incorporation or registration with the exception of Gemfields BVI Limited whose operations are in the United Kingdom.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

12 Available-for-sale investments

	Richland Resources Ltd (previously called TanzaniteOne) US\$'000
Cost	
At 30 June 2010 and 30 June 2011	7,631
<i>Provision for impairment</i>	
At 30 June 2010	(6,219)
Impairment reversal (note 26)	313
At 30 June 2011	(5,906)
<i>Net book value</i>	
At 30 June 2011	1,725
At 30 June 2010	1,412

During the year ending 30 June 2009, the Group acquired a total of 11,668,330 shares (10%) in Richland Resources Ltd (previously called TanzaniteOne Ltd), a miner of the gemstone tanzanite, listed on the AIM Stock Exchange for a total cost of US\$7,630,781.

At 30 June 2011 the market value of the Group's investment in Richland Resources was US\$1,724,959 (2010: US\$1,411,825).

13 Inventories

	2011 US\$'000	2010 US\$'000
Rough and cut emeralds	18,681	16,545
Fuel and consumables	1,373	835
	20,054	17,380

Rough and cut emeralds are recognised at cost as the net realisable value exceeds the cost. The internal valuation of the cut and polished emeralds has been estimated using the assumed value of the rough emeralds and adding the costs of cutting and polishing.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

14 Trade and other receivables

	2011 US\$'000	2010 US\$'000
Trade receivables	425	546
Other receivables	2,876	2,372
Prepayments	281	133
	<hr/>	<hr/>
	3,582	3,051
	<hr/>	<hr/>

All amounts shown under receivables fall due for payment within one year. Further information on other receivables is provided in Note 25.

15 Non-current liabilities

	2011 US\$'000	2010 US\$'000
Decommissioning & restoration provision (Note 16)	690	690
Other provisions (Note 16)	205	889
	<hr/>	<hr/>
	895	1,579
	<hr/>	<hr/>

The aging of non-current liabilities and further disclosures regarding liquidity risk are presented in Note 25.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (*Continued*)

16 Provisions

	Environmental restoration provision US\$'000	Other Provisions US\$'000	Total Provisions US\$'000
Non-current Provisions			
At 1 July 2009	5,251	960	6,211
Release	(4,561)	(71)	(4,632)
At 30 June 2010 (Note 15)	690	889	1,579
Release	-	(684)	(684)
At 30 June 2011 (Note 15)	690	205	895
	=====	=====	=====
Current Provisions			
At 1 July 2009	-	423	423
Additions in year	-	440	440
At 30 June 2010	-	863	863
Release	-	(47)	(47)
At 30 June 2011 (Note 17)	-	816	816
	=====	=====	=====

Environmental restoration provision relates to the environmental restoration obligations in accordance with the company's environmental policy. The directors reviewed this provision and after considering the mining operations undertaken during the year, the board has decided to maintain the provision.

The "other provisions" mostly consists of employee related provisions.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

17 Current Liabilities

	2011 US\$'000	2010 US\$'000
Trade payables (Note 25)	1,808	2,204
Other payables	1,999	376
Corporation tax	743	31
Borrowings	-	3,506
Withholding tax provision (Note 21)	-	1,180
Other provisions (Note 16)	816	863
	<hr/>	<hr/>
	5,366	8,160
	<hr/>	<hr/>

18 Deferred tax

Deferred tax is calculated in full on temporary differences under the balance sheet liability method using a tax rate of 35% (2010 - 35%). The tax rate of 35% was used in the current year, being the rate applicable in Zambia where the liability will arise. Temporary differences between the tax bases and net book carrying values arise in regards to the effect of differences between tax and accounting depreciation and tax losses generated in 2010.

The movement on the deferred tax account is as shown below:

	2011 US\$'000	2010 US\$'000
At 1 July	46	1,134
Deferred tax liability released to statement of comprehensive income.	-	(1,088)
Deferred stripping costs	(154)	-
Difference of capital allowances over depreciation	1,739	-
Carried forward tax losses	(3,836)	-
	<hr/>	<hr/>
At 30 June	(2,205)	46
	<hr/>	<hr/>

Deferred tax assets are only recognised in relation to tax losses and other temporary differences which would give rise to deferred tax assets where it is considered probable that the losses will be utilised in the foreseeable future, and therefore the asset is recoverable.

The Group has tax losses of US\$21,739,261 (2010 - US\$36,414,627) carried forward which will be utilised against future profits (Note 7).

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

19 Share capital

	2011 Number of shares	2011 US\$'000	2010 Number of shares	2010 US\$'000
<i>Authorised</i>				
Ordinary shares of 1p each	600,000,000	11,600	600,000,000	11,600
<i>Allotted, called up and fully paid</i>				
Ordinary shares of 1p each				
At 1 July	324,114,883	6,160	324,114,883	6,160
Issued during the year	225,000	4	-	-
At 30 June	324,339,883	6,164	324,114,883	6,160

Share capital is denominated in Pounds Sterling.
Details of the share option scheme are detailed in Note 24.

20 Capital commitments

At year end the Group had no capital commitments (2010 – US\$1.5 million).

21 Contingencies

On 29 June 2004 the Group acquired 100 per cent of the share capital of Gemfields Canada Inc. A withholding tax liability was considered to have crystallised in Canada in connection with consideration shares that were issued to non-residents of Canada as part of the acquisition. In December 2009 a notice of assessment was received from the Canada Revenue Agency detailing the amount of the aforementioned withholding tax liability of CDN\$2,302,373 equivalent to US\$2,195,980 (including penalty for late payment of US\$135,182 and interest of US\$713,744). The Company filed a notice of objection against the assessment in February 2010, with management clearly stating that the total tax liability, excluding interest and penalty should not exceed CAD207,328. This objection has been upheld and the final liability was reassessed to CAD347,291 (including interest and penalty of CAD139,963). This has been settled and paid out of the deposit held from ex-director, Mr Rajiv Gupta and subsequently a provision of US\$1,180,000 made in prior year has been reversed in the current year under administrative expenses.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

22 Related party transactions and ultimate controlling party

- (a) Gemfields Mining Limited had a receivable of \$1,481,000 (2010: \$1,481,000) from Kariba Minerals Limited (a joint venture partner) at the year end.
- (b) Gemfields PLC had a receivable of \$270,848 (2010: Nil) from Kariba Minerals Limited (a joint venture partner) at the year end. This was in respect of equipment bought on behalf of Kariba Minerals Ltd.
- (c) The Group has made payments to Pallinghurst Advisors LLP (a firm which is part of the Pallinghurst Resources group) ("Pallinghurst") during the year in relation to expenses incurred by Pallinghurst on behalf of the Group. These expenses were generally related to travel and administrative costs. Payments totalled US\$83,663 (2010: US\$41,483).

Pallinghurst Advisors LLP (London) acts as Investment Advisor to a Cayman-based investment manager, Pallinghurst Cayman (GP) L.P. Pallinghurst Cayman (GP) L.P. acts as investment manager to a number of co-investors in Rox Limited. Rox Limited is Gemfields' biggest shareholder.

Certain Directors of Gemfields PLC are considered to be key management personnel. The relevant disclosure is included within note 5 to the financial statements.

23 Commitments under operating leases

The Group had future minimum lease payment commitments under non-cancellable operating leases as set out below:

	2011 US\$'000	2010 US\$'000
Land and buildings:		
Expiring within year	76	73

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

24 Share-based payments

Share option scheme

The share capital of the Company is denominated in Pounds Sterling. Therefore, disclosures are presented in Sterling and US Dollars.

At 30 June 2010, the following share options had been granted and were outstanding in respect of the ordinary shares:

Exercise price	Outstanding 1 July 2009	Number of options			Outstanding 30 June 2010	Final Exercise Date
		Granted	Cancelled	Exercised		
15¢ (7.5p)	2,685,000	-	(1,135,000)	-	1,550,000	January 2014
50¢ (25p)	2,895,000	-	(2,420,000)	-	475,000	April 2015
150¢ (75p)	50,000	-	(50,000)	-	-	January 2014
90¢ (45p)	6,203,334	-	(1,968,334)	-	4,235,000	September 2016
22¢ (15p)	736,667	-	-	-	736,667	February 2019
36¢ (25p)	736,667	-	-	-	736,667	February 2019
50¢ (35p)	736,666	-	-	-	736,666	February 2019
Total	14,043,334	-	(5,573,334)	-	8,470,000	

At 30 June 2011, the following share options have been granted and are outstanding in respect of the ordinary shares:

Exercise price	Outstanding 1 July 2010	Number of options			Outstanding 30 June 2011	Final Exercise Date
		Granted	Cancelled	Exercised		
15¢ (7.5p)	1,550,000	-	(1,325,000)	225,000	-	January 2014
50¢ (25p)	475,000	-	(475,000)	-	-	April 2015
150¢ (75p)	-	-	-	-	-	January 2014
90¢ (45p)	4,235,000	-	(4,235,000)	-	-	September 2016
22¢ (15p)	736,667	-	(736,667)	-	-	February 2019
36¢ (25p)	736,667	-	(736,667)	-	-	February 2019
50¢ (35p)	736,666	-	(736,666)	-	-	February 2019
12¢ (8p)	-	8,345,000	-	-	8,345,000	December 2021
Total	8,470,000	8,345,000	(8,245,000)	225,000	8,345,000	

During the year, the existing share option scheme was replaced by a new one and all current employees and directors who held options under the old scheme were granted a one-on-one offer under the new scheme. Some additional options were also granted to employees previously not on the old scheme. There were no options exercisable at 30 June 2011 (2010: 5,935,004).

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

24 Share-based payments (Continued)

The fair values of the options are calculated using the Black-Scholes method. Assumptions used in this model for the 12 months ended 30 June 2011 were:

	Directors and employees 2011
Fair value at measurement date	30¢ (19p)
Exercise price	12¢ (8p)
Share price at date of grant	24¢ (15p)
Expected volatility	55%
Option life	10 years
Expected dividends	-
Risk free interest rate (based on Bank of England rate)	0.50%

In 2011, 225,000 options were exercised at a price of 15¢. The share price on 30 June 2011 was 30¢ (19p).

25 Financial instruments

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

Financial assets:

- Trade and other receivables;
- Cash and cash equivalents; and
- Available for sale investments.

Financial liabilities:

- Trade payables;
- Other payables; and
- Borrowings.

Financial assets

	2011 US\$'000	2010 US\$'000
Available for sale investments (Richland Resources Ltd)	1,725	1,412
Trade and other receivables	3,301	2,918
Cash and cash equivalents	13,649	2,879
Financial assets measured at amortised cost	16,950	5,797

The available for sale investments is Tier 1

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

25 Financial instruments (Continued)

Financial liabilities

	2011 US\$'000	2010 US\$'000
Held at amortised cost:		
Trade payables	1,808	2,204
Other payables	1,999	376
Borrowings	-	3,506
	<hr/>	<hr/>
	3,807	6,086
	<hr/>	<hr/>

Fair value of financial assets and liabilities

At 30 June 2011 and 2010, the carrying value of the Group's financial assets and liabilities approximated their fair values.

Financial risk management

The Group is exposed to risks that arise from its use of financial instruments. It is the overall responsibility of the Directors to determine the risk management objectives and policies of the Group. While retaining the ultimate responsibility for them, the Directors have delegated the authority for designing and operating processes that ensure the effective implementation of these objectives and policies to the finance function of the Group. The Directors regularly review the effectiveness of the processes put in place and, when required, approve specific policies and procedures designed to mitigate the financial risks.

There have been no substantive changes in the Group's exposure to financial instruments risks other than stated in the note.

The principal financial instruments used by the Group, from which financial risk arises, are as follows:

- Cash and cash equivalents; and
- Trade and other payables.

Credit risk

The Group has limited credit risk because it does not ship emeralds sold at auction to customers until payment has been received. There is a receivable balance at the end of the year relating to cut and polished emerald sales. The entire balance has been received post year end.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

25 Financial instruments (Continued)

Cash and cash equivalents

In relation to its cash and cash equivalents, the Group has to manage its currency exposures and the credit risk associated with the credit quality of the financial institutions in which the Group maintains its cash resources.

Under the treasury policy of the Group, approved by the Board and operated by the finance function, the corporate head office in London acts as the treasury centre of the Group. Business units maintain the minimum cash balances required by their operations. No cash resources controlled by the corporate treasury can be held with financial institutions with credit ratings lower than A-.

At the year-end, 86% of the cash balance was held by Barclays Bank and the remaining 14% was held by other financial institutions.

Maximum exposure to credit risk

The Group's maximum exposure to credit risk by class of financial instrument is shown in the table below:

	2011	2011	2010	2010
	Carrying	Maximum	Carrying	Maximum
	Value	exposure	Value	Exposure
	US\$'000	US\$'000	US\$'000	US\$'000
Trade and other receivables	3,301	3,301	2,918	2,918
Cash and cash equivalents	13,649	13,649	2,879	2,879
	<hr/>	<hr/>	<hr/>	<hr/>
Total	16,950	16,950	5,797	5,797
	<hr/>	<hr/>	<hr/>	<hr/>

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It represents the risk that the Group will encounter difficulty in meeting its financial obligations.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, the Group seeks to maintain cash balances (and agreed facilities) at levels considered appropriate to meet ongoing obligations.

The Group maintains an integrated business performance and cash flow forecasting model, incorporating financial position information (updated monthly).

The Group performance against budget and associated cash flow forecast is evaluated on a monthly basis. The Directors receive rolling 12-month cash flow projections on a quarterly basis as well as information regarding cash balances and Group performance against budget. At the reporting date, these projections indicated that the Group expected to have sufficient liquidity to meet its obligations under all reasonably expected circumstances.

Gemfields PLC

Notes forming part of the financial statements For the year ended 30 June 2011 (Continued)

25 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.

	Trade payables US\$'000	Accruals US\$'000	Borrowings US\$'000	Total US\$'000
<i>As at 30 June 2010</i>				
In 1 month	-	376	1,169	1,545
Between 1 and 6 months	1,130	-	2,337	3,468
Between 6 months and 1 year	214	-	-	214
Between 1 year and 3 years	860	-	-	860
	<u>2,204</u>	<u>376</u>	<u>3,506</u>	<u>6,087</u>
<i>As at 30 June 2011</i>				
In 1 month	-	-	-	1,999
		1,999		
Between 1 and 6 months	1,808	-	-	1,808
Between 6 months and 1 year	-	-	-	-
Between 1 year and 3 years	-	-	-	-
	<u>1,808</u>	<u>1,999</u>	<u>-</u>	<u>3,807</u>

Interest rate risk

The Group manages the interest rate risk associated with its cash assets by ensuring that interest rates are as favorable as possible, through the use of bank treasury deposits, whilst managing the access the Group requires to the funds for working capital purposes.

The Group is has no borrowings and as such is not exposed to interest rate changes on its borrowings.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

25 Financial instruments (Continued)

Currency risk

Foreign exchange risk is inherent in the Group's activities and is accepted as such. The majority of the Group's costs are denominated in US dollars or UK sterling and hence the Group holds the majority of its cash in these currencies.

The Group is exposed to currency risk on payments for goods and services made to the local suppliers in the jurisdictions of its operations. It is the Group's policy not to hedge this currency risk exposure.

At 30 June 2011 and 2010 the Group's financial assets and liabilities were denominated in the following currencies:

	UK Pounds Sterling US\$'000	US Dollar US\$'000	Zambian Kwacha US\$'000	Indian Rupees US\$'000	Total US\$'000
<i>As at 30 June 2010</i>					
Cash and cash equivalents	238	2,240	318	83	2,879
Trade and other receivables	6 18	1,566	630	104	2,918
Borrowings	-	(3,506)	-	-	(3,506)
Trade and other payables	(593)	-	(1,961)	(26)	(2,580)
Net monetary assets/(liabilities)	263	300	(1,013)	161	(289)
<i>As at 30 June 2011</i>					
Cash and cash equivalents	329	11,679	23	1,618	13,649
Trade and other receivables	941	978	696	686	3,301
Borrowings	-	-	-	-	-
Trade and other payables	(1,426)	(917)	(1,420)	(44)	(3,807)
Net monetary assets/(liabilities)	(156)	11,740	(701)	2,260	13,143

88% of the net monetary assets are held in the company's functional currency, United States Dollars.

Other market price risk

The Group generates revenue from the sale of rough and cut and polished emeralds. The significant number of variables involved in determining the selling prices of emeralds, such as uniqueness of each individual stone, the colour of the rough material and the ruling US\$ spot rate at the date of sale make it difficult to accurately extrapolate the impact which fluctuations in emerald prices would have on the Group's revenue.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

25 Financial instruments (Continued)

Capital

The Group seeks to maintain sufficient capital to enable its growth and safeguard its ability to continue as a going concern. Capital is defined as share capital, share premium, merger reserve, option reserve and cumulative translation reserve.

The primary objective of the Group is maximising shareholder value, which, from the capital perspective, is achieved by maintaining the capital structure that is most suited to the Group's size, strategy and underlying business risk. Currently, the Group does not pay dividends, focusing instead on delivering capital growth.

The net debt to equity ratios at 30 June 2011 and 30 June 2010 are as follows:

	2011	2010
	US\$'000	US\$'000
Debt	-	(3,506)
Cash and cash equivalents	13,649	2,879
	<hr/>	<hr/>
Net cash/(debt)	13,649	(627)
Total equity attributable to equity holders of the parent Company	38,115	20,430
Cash/(debt) to equity ratio	0.36:1	(0.03:1)

The Group manages its capital adequacy structure by the issues of ordinary shares, raising debt finance where appropriate, and managing Group cash and cash equivalents.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

26 Impairment charges

An impairment review of the Group's assets resulted in the reversal of an impairment charge made in 2010 in relation to the carrying value of the available for sale investments.

	2011 US\$'000	2010 US\$'000
<i>Available for sale investments</i>		
Write-(up)/down of investment in Richland Resources Ltd to market value (Note 12)	(313)	1,018
	<u>(313)</u>	<u>1,018</u>

At 30 June 2011 the market value of the Group's investment in Richland Resources Ltd was US\$1,724,959 (2010: US\$1,411,825).

Mining Asset:

In 2009, the carrying value of Kagem Mining Ltd was impaired following the Directors' review and assessment of the fair value of the assets to their recoverable amount. During 2011, Directors re-assessed the impairment provision recorded in 2009 and concluded that no adjustment to the provision was required.

Post year-end, in view of the continued improvement in the market for emeralds and increasing production, the Directors have undertaken to reassess and revalue Kagem mining asset. This is expected to be finalised by June 2012.

27 Events after the reporting date

Rough emerald auctions

Gemfields held an auction of (predominantly higher quality) rough emeralds in Singapore from 11 to 15 July 2011 and was attended by 39 companies. The auction saw 1.07 million carats offered, with 0.74 million carats being sold, raising US\$31.6 million.

Company Financial Statements

Gemfields PLC

Report of the independent auditors

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GEMFIELDS PLC

We have audited the parent Company financial statements of Gemfields Plc for the year ended 30 June 2011 which comprise the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. 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.

Respective responsibilities of Directors and auditors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

Gemfields PLC

Report of the independent auditors (*Continued*)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion;

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Anne Sayers (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
55 Baker Street
London
United Kingdom
30 September 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Gemfields PLC

Company balance sheet at 30 June 2011

	Note	2011 US\$'000	2011 US\$'000	2010 US\$'000	2010 US\$'000
Fixed assets					
Tangible assets	4	109		110	
Investments	5	7,659		7,346	
			7,768		7,456
Current assets					
Debtors	6	8,168		16,667	
Stocks	7	929		3,279	
Cash at bank and in hand		11,724		1,471	
		20,821		21,417	
Creditors: amounts falling due within one year	8	(8,452)		(10,544)	
Net current assets			12,369		10,873
Total assets less current liabilities			20,137		18,329
Capital and reserves					
Called up share capital	9		6,164		6,160
Share premium account	10		96,853		96,823
Merger reserve	10		121,005		121,005
Option reserve	10		450		1,613
Profit and loss reserve	10		(204,335)		(207,272)
Shareholders' funds - equity			20,137		18,329

The financial statements were approved by the Board of Directors and authorised for issue on 30 September 2011.

Devidas Shetty

Director

Company number 05129023

The notes on pages 54 to 66 form part of these financial statements.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

The following principal accounting policies have been applied:

Investments

Listed investments are initially recognised at cost. The need for any investment impairment write-down is assessed on an annual basis by comparing the carrying value of the investment against the higher of its realisable value and value in use.

Unlisted investments are carried at cost less provision for impairment.

Leased Assets

Where assets are financed by leasing agreements that do not give rights approximating to ownership, these are treated as operating leases. The annual rentals are charged to the profit and loss account on a straight line basis over the term of lease.

Stock

Stock, consisting of rough and finished emeralds, has been valued at lower of cost and net realisable value. Cost is determined using direct mining costs incurred during the period. Net realisable value is determined by using market values for production sold post year end, with remaining production valued at estimated market value based on past auctions, less estimated costs to sell.

Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment.

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets evenly over their expected useful lives. It is calculated at the following rates:

Fixtures, fittings and equipment	- 20% per annum
----------------------------------	-----------------

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the reporting date except that the recognition of deferred tax assets is limited to the extent that the Group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

1 Accounting policies (Continued)

Foreign currency

The functional and reporting currency of the Company is US dollar (\$).

Exchange rates used during the year were as follows:

	GBP 2011	GBP 2010
Year end rate	1.60	1.51
Average rate	1.59	1.58

Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting dates. Any differences are taken to the profit and loss account.

Finance costs

Finance costs are charged to the profit and loss account over the term of the debt so that the amount charged is at a constant rate on the carrying amount.

Share-based payments

The Company issues equity-settled share based payments in the form of share options to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the date of grant of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Fair value is estimated using a Black-Scholes valuation model.

If an option is cancelled or settled in advance of the vesting date, the cancellation or settlement is accounted for as an acceleration of vesting. Therefore, the amount that otherwise would have been recognised for services received over the remainder of the vesting period is recognised immediately.

Any profit and loss charge in a period in respect of share-based payments is credited to the Company's reserves.

Where share based payments are issued by the parent Company in itself to employees of its subsidiaries, the financial statements of the parent reflect this by increasing the cost of investment in the subsidiary with a corresponding increase to equity.

In the financial statements of the subsidiary a charge to the profit and loss account occurs with a corresponding increase in equity (through a capital contribution reserve).

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

1 Accounting policies (Continued)

Cash flow

The Company has taken the exemption under Financial Reporting Standard 1 “Cash Flow Statements” not to prepare a cash flow statement as a consolidated cash flow statement is included in the financial statements of its ultimate parent company.

2 Employees and Directors

	2011	2010
Administration staff (including Directors)	10	6
Average number of employees (including Directors)	8	6
	US\$'000	US\$'000
Gross salaries (including directors)	1,137	551
Social security costs	123	126
	1,260	677
Executive Directors' remuneration	1,058	491
Non-Executive Directors' fees	108	93
Termination payments to Directors	-	240
Share based payments to Directors	398	241
	1,564	1,065

Emoluments of the highest paid director amounted to US\$676,000 (2010 - US\$297,000) with share based payments totalling US\$148,000 (2010 - US\$3,000).

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

3 Profit for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in the financial statements. The profit for the year includes a profit after tax and before dividends of US\$1,169,360 (2010 – Loss: US\$1,787,710).

4 Tangible assets

	Total fixtures, fittings and equipment US\$'000
<i>Cost</i>	
At 1 July 2010	132
Additions	25
	<hr/>
At 30 June 2011	157
	<hr/>
<i>Depreciation</i>	
At 1 July 2010	22
Provided during the year	26
	<hr/>
At 30 June 2011	48
	<hr/>
<i>Net book value</i>	
At 30 June 2011	109
	<hr/> <hr/>
At 30 June 2010	110
	<hr/> <hr/>

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

5 Investments

	Listed Investments US\$'000	Unlisted Investments US\$'000	Total US\$'000
<i>Cost</i>			
At 30 June 2010 and 30 June 2011	7,631	123,958	131,589
	<hr/>	<hr/>	<hr/>
<i>Provision for impairment</i>			
At 30 June 2010	(6,219)	(118,024)	(124,243)
Impairment reversal (note 17)	313	-	313
	<hr/>	<hr/>	<hr/>
At 30 June 2011	(5,906)	(118,024)	(123,930)
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 30 June 2011	1,725	5,934	7,659
	<hr/>	<hr/>	<hr/>
At 30 June 2010	1,412	5,934	7,346
	<hr/>	<hr/>	<hr/>

The listed investments relates to Richland Resources Ltd (previously called TanzaniteOne). Refer to Note 12 in the Group financial statements for further details.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

5 Investments (Continued)

Subsidiary undertakings

The following were subsidiary undertakings at the end of the year and have all been included in the consolidated financial statements:

Name	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held in 2010	Proportion of voting rights and ordinary share capital held in 2009	Nature of business
Gemfields Limited BVI	British Virgin Islands	100%	100%	Gemstone marketing
Almizan Development Limited	British Virgin Islands	100%	100%	Gemstone marketing
Sarina Global Limited	British Virgin Islands	100%	100%	Non-trading
Gemfields Canada Inc**	Canada	100%	100%	Non-trading
Gemfields Mining Limited	Zambia	100%	100%	Gemstone mining
Gemfields Holdings Zambia Ltd*	Zambia	100%	100%	Non-trading
Mbuva Mining Company Ltd*	Zambia	100%	100%	Non-trading
Gemhouse Mining Zambia Ltd***	Zambia	100%	100%	Non-trading
Gemfields India Pvt Limited**	India	100%	100%	Gemstone marketing
Gemfields Mining Limited	Mozambique	100%	100%	Non-trading
Kriner Group S.A.	Panama	100%	100%	Non-trading
Greentop International Inc.	British Virgin Islands	100%	100%	Non-trading
Hagura Mining Limited****	British Virgin Islands	100%	100%	Non-trading
Hagura Mining Limited****	United Kingdom	100%	100%	Non-trading
Kagem Mining Limited*****	Zambia	75%	75%	Gemstone mining
Oriental Mining SARL	Madagascar	100%	100%	Non-trading

* Interest held indirectly through interest in Gemfields Canada Inc

** Interest held indirectly through interest in Gemfields Limited BVI

*** Interest held indirectly through interest in Gemfields Holdings Zambia Ltd

**** Interest held indirectly through interests in Kriner Group S.A. and Greentop International Inc.

***** Interest held indirectly through interest in Hagura Mining Limited

For all undertakings listed above, the country of operation is the same as its country of incorporation or registration with the exception of Gemfields Limited BVI whose operations are in the United Kingdom.

Joint ventures

Name	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held	Nature of business
Kariba Minerals Ltd	Zambia	50%	Gemstone mining

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

6 Debtors

	2011 US\$'000	2010 US\$'000
Amounts due from Group companies	6,854	15,961
Other debtors and prepayments	1,314	706
	<u>8,168</u>	<u>16,667</u>

All amounts shown under other debtors and prepayments fall due for payment within one year.

7 Stocks

	2011 US\$'000	2010 US\$'000
Finished goods	929	3,279
	<u>929</u>	<u>3,279</u>

8 Creditors: amounts falling due within one year

	2011 US\$'000	2010 US\$'000
Trade creditors	-	782
Withholding tax payable	-	1,180
Accruals and provisions	691	161
Amounts due to Group companies	7,761	8,421
	<u>8,452</u>	<u>10,544</u>

Intercompany balances incur no interest and are repaid when funds are available.

Details of the withholding tax payable are disclosed in Note 13.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

9 Share capital

	2011		2010	
	Number of shares	US\$'000	Number of shares	US\$'000
<i>Authorised</i>				
Ordinary shares of 1p each	600,000,000	11,600	600,000,000	11,600
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of 1p each				
At 1 July 2010	324,114,883	6,160	324,114,883	6,160
Issued during the year	225,000	4	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2011	324,339,883	6,164	324,114,883	6,160
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Details of the share option scheme are disclosed in Note 16.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

10 Reserves

	Share premium account US\$	Merger reserve US\$	Option reserve US\$	Profit and loss Reserve US\$	Total US\$
As at 1 July 2011	96,823	121,005	1,613	(207,272)	12,169
Profit for year	-	-	-	1,169	1,169
Shares issued during the year	30	-	-	-	30
<i>Share-based payments</i>					
Charge for the year	-	-	605	-	605
Options expired	-	-	(1,768)	1,768	-
As at 30 June 2011	96,853	121,005	450	(204,335)	13,973

11 Reconciliation of movements in shareholders' funds

	2011 US\$'000	2010 US\$'000
Profit/(loss) for the year	1,169	(1,788)
Increase/(decrease) in option reserve	605	(591)
Issue of shares	34	-
	1,808	(2,379)
Opening shareholders' funds	18,329	20,708
Closing shareholders' funds	20,137	18,329

12 Capital commitments

At the year end the Company had no capital commitments (2010 - Nil).

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

13 Contingencies

On 29 June 2004 the Group acquired 100 per cent of the share capital of Gemfields Canada Inc. A withholding tax liability was considered to have crystallised in Canada in connection with consideration shares that were issued to non-residents of Canada as part of the acquisition. In December 2009 a notice of assessment was received from the Canada Revenue Agency detailing the amount of the aforementioned withholding tax liability of CDN\$2,302,373 equivalent to US\$2,195,980 (including penalty for late payment of US\$135,182 and interest of US\$713,744). The Company filed a notice of objection against the assessment in February 2010, with management clearly stating that the total tax liability, excluding interest and penalty should not exceed CAD207,328. This objection has been upheld and the final liability was reassessed to CAD347,291 (including interest and penalty of CAD139,963). This has been settled and paid out of the deposit held from ex-director, Mr Rajiv Gupta and subsequently a provision of US\$1,180,000 made in prior year has been reversed in the current year under administrative expenses.

14 Related party transactions and ultimate controlling party

- (a) Gemfields PLC had a receivable of US\$270,848 (2010: Nil) from Kariba Minerals Limited (a joint venture partner) at the year end. This was in respect of equipment bought on behalf of Kariba Minerals Ltd.
- (b) The company has made payments to Pallinghurst Advisors LLP (a firm which is part of the Pallinghurst Resources group) ("Pallinghurst") during the year in relation to expenses incurred by Pallinghurst on behalf of the Group. These expenses were generally related to travel and administrative costs. Payments totalled US\$83,663 (2010: US\$41,483).

Pallinghurst Advisors LLP (London) acts as Investment Advisor to a Cayman-based investment manager, Pallinghurst Cayman (GP) L.P. Pallinghurst Cayman (GP) L.P. acts as investment manager to a number of co-investors in Rox Limited. Rox Limited is Gemfields' biggest shareholder.

- (c) The amounts due from/to group companies (see note 5) are disclosed in note 6 and 8. The movement in these amounts represent cash remittance/payments round the group.

15 Commitments under operating leases

The Company had annual commitments under non-cancellable operating leases as set out below:

	2011 US\$'000	2010 US\$'000
Land and buildings:		
Expiring within year	76	73

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

16 Share-based payments

Share option scheme

The share capital of the Company is denominated in Pounds Sterling. Therefore, disclosures are presented in Sterling and US Dollars.

At 30 June 2010, the following share options had been granted and were outstanding in respect of the ordinary shares:

Exercise price	Outstanding 1 July 2009	Number of options			Outstanding 30 June 2010	Final exercise date
		Granted	Cancelled	Exercised		
15¢ (7.5p)	2,685,000	-	(1,135,000)	-	1,550,000	January 2014
50¢ (25p)	2,895,000	-	(2,420,000)	-	475,000	April 2015
150¢ (75p)	50,000	-	(50,000)	-	-	January 2014
90¢ (45p)	6,203,334	-	(1,968,334)	-	4,235,000	September 2016
22¢ (15p)	736,667	-	-	-	736,667	February 2019
36¢ (25p)	736,667	-	-	-	736,667	February 2019
50¢ (35p)	736,666	-	-	-	736,666	February 2019
Total	14,043,334	-	(5,573,334)	-	8,470,000	

At 30 June 2011, the following share options have been granted and are outstanding in respect of the ordinary shares:

Exercise price	Outstanding 1 July 2010	Number of options			Outstanding 30 June 2011	Final Exercise Date
		Granted	Cancelled	Exercised		
15¢ (7.5p)	1,550,000	-	(1,325,000)	225,000	-	January 2014
50¢ (25p)	475,000	-	(475,000)	-	-	April 2015
150¢ (75p)	-	-	-	-	-	January 2014
90¢ (45p)	4,235,000	-	(4,235,000)	-	-	September 2016
22¢ (15p)	736,667	-	(736,667)	-	-	February 2019
36¢ (25p)	736,667	-	(736,667)	-	-	February 2019
50¢ (35p)	736,666	-	(736,666)	-	-	February 2019
12¢ (8p)	-	8,345,000	-	-	8,345,000	December 2021
Total	8,470,000	-	(8,245,000)	225,000	8,345,000	

During the year, the existing share option scheme was replaced by a new one and all current employees and directors who held options under the old scheme were granted a one-on-one offer under the new scheme. Some additional options were also granted to employees previously not on the old scheme. There were no options exercisable at 30 June 2011 (2010: 5,935,004).

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

16 Share-based payments (Continued)

In order to comply with FRS 20, the Company expenses the fair value of share-based payments with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the option and warrant holders became unconditionally entitled to the shares in respect of which they are granted.

The fair value of the options is calculated using the Black-Scholes method. Assumptions used in this model for the 12 months ended 30 June 2011 were:

	Directors and employees 2011
Fair value at measurement date	30¢ (19p)
Exercise price	12¢ (8p)
Share price at date of grant	24¢ (15p)
Expected volatility	55%
Option life	10 years
Expected dividends	-
Risk free interest rate (based on Bank of England rate)	0.50%

In 2011, 225,000 options were exercised at a price of 15¢. The share price on 30 June 2011 was 30¢ (19p).

17 Impairment charges

An impairment review of the Group's assets resulted in the reversal of an impairment charge in relation to the carrying value of the available for sale investments.

	Year ended 30 June 2011	Year ended 30 June 2010
	US\$000	US\$000
<i>Investments</i>		
Write-up/(down) of shares in Richland Resources Ltd	313	(1,018)
	313	(1,018)

At 30 June 2011 the market value of the Group's investment in Richland Resources Ltd was US\$1,724,959 (2010: US\$1,411,825).

Mining Asset:

In 2009, the carrying value of Kagem mining was impaired following the Directors' review and assessment of the fair value of the assets compared to their recoverable amount. During 2011, Directors re-assessed the impairment provision recorded in 2009 and concluded that no adjustment to the provision was required.

Post year-end, in view of the continued improvement in the market for emeralds and increasing production, the Directors have undertaken a study to reassess and revalue the Kagem mining asset. This is expected to be finalised by June 2012.

Gemfields PLC

Notes forming part of the financial statements for the year ended 30 June 2011 (Continued)

18 Post balance sheet events

Rough emerald auctions

Gemfields held an auction of (predominantly higher quality) rough emeralds in Singapore from 11 to 15 July 2011 and which was attended by 39 companies. The auction saw 1.07 million carats offered, with 0.74 million carats being sold, raising US\$31.6 million.

GEMFIELDS PLC

(Incorporated in England and Wales with registered number 05129023)

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your shares in Gemfields plc, please forward this document, together with the accompanying documents, as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2011 Annual General Meeting (the 'Meeting') of Gemfields Plc (the 'Company') will be held at the Company's offices at 8th Floor, 54 Jermyn Street, London SW1Y 6LX on Tuesday, 20 December 2011 at 10:00 am (UK time) for the following purposes:

AS ORDINARY BUSINESS

To consider and, if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions:

- 1** To receive and adopt the Company's annual report and accounts for the financial year ended 30 June 2011 together with the reports of the directors and the auditors on those accounts.
- 2** To re-appoint Ian Timothy Harebottle, who retires by rotation, as a director in accordance with article 104 of the Articles of Association of the Company.
- 3** To re-appoint Clive Newall, who retires by rotation, as a director in accordance with article 104 of the Articles of Association of the Company.
- 4** To re-appoint BDO LLP as auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company in accordance with article 166 of the Articles of Association of the Company.
- 5** To authorise the directors to fix the remuneration of BDO LLP as the auditors of the Company.

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions, of which resolutions 6 and 9 will be proposed as ordinary resolutions and resolutions 7 and 8 will be proposed as special resolutions:

- 6** That:
 - (a)** in substitution for all existing unexercised authorities (but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities), the directors be and are, by this resolution, generally and unconditionally authorised for the purpose of section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot Relevant Securities (as defined below in this resolution) up to a maximum nominal amount of £2,162,265.89 at any time (unless previously renewed, varied or revoked by the Company in general meeting) before the earlier of: (i) the conclusion of the next annual general meeting of the Company to be held after the date of the passing of this resolution; and (ii) the date falling 15 months after the date of the passing of this resolution; and
 - (b)** the Company may, before the expiry of this authority, make any offer or agreement which would or might require Relevant Securities to be allotted after such expiry and the directors may allot Relevant Securities in pursuance of any such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

In this resolution, "Relevant Securities" means shares in the Company or rights to subscribe for or to convert any security into shares in the Company; a reference to the allotment of Relevant Securities includes the grant of such a right; and a reference to the nominal amount of a Relevant Security which is a right to subscribe for or to convert any security into shares in the Company is to the nominal amount of the shares which may be allotted pursuant to that right.

- 7 That, subject to the passing of resolution 6 set out above, the directors be and are, by this resolution, hereby generally and unconditionally authorised, pursuant to section 570 of the Act, to allot any equity securities (within the meaning of section 560 of the Act) of the Company for cash under the authority conferred on them by resolution 6 above as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to allotments:

- (a) in connection with or pursuant to any offer of equity securities (whether by way of rights issue or otherwise) to holders of ordinary shares in the capital of the Company in the proportion (as nearly as may be practicable) to their respective holdings of such shares on such record date as may be prescribed by the directors, in all cases subject to such exclusions or other arrangements as the directors may deem necessary, appropriate or expedient in relation to fractional entitlements, record dates, or legal, regulatory or practical problems in or under the laws of any jurisdiction or the requirements of any regulatory body or stock exchange or any other matter; and
- (b) otherwise than pursuant to the provisions of sub-paragraph (a) above, up to an aggregate nominal amount of £648,679.77

and this power (unless renewed, varied or revoked by the Company in general meeting) shall expire on whichever is the earlier of: (i) the conclusion of the next annual general meeting of the Company to be held after the date of the passing of this resolution; and (ii) the date falling 15 months after the date of the passing of this resolution, save that the Company may before the expiry of the power conferred by this resolution make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

This resolution revokes and replaces all unexercised powers previously granted to the directors of the Company to allot equity securities as if section 561(1) of the Act did not apply but without prejudice to any allotment of equity securities or grant of rights already made, offered or agreed to be made pursuant to such authorities.

- 8 THAT the Company be and is generally and unconditionally authorised for the purposes of section 701 of the Act to make one or more market purchases (within the meaning of section 693(4) of the Act) of ordinary shares in the capital of the Company provided that:

- (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is limited to the nominal value of £324,339.88 (representing 10% of the Company's issued ordinary share capital on 23 November 2011;
- (b) the minimum price which may be paid for an ordinary share is 1 pence;
- (c) the maximum price, exclusive of any expense, which may be paid for an ordinary share is an amount equal to the higher of (a) 105% of the average of the middle market quotations for an ordinary share on the AIM Market of London Stock Exchange plc for the five business days immediately preceding the date on which such share is contracted to be purchased and (b) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003; and
- (d) the authority conferred by this resolution shall expire on the earlier of the conclusion of the Company's annual general meeting next following or the close of business on 19 December 2012, except that the Company may, before such expiry, enter into a contract or contracts for the purchase of ordinary shares which may be completed by or executed wholly or partly after the expiration of this authority.

- 9 THAT the directors be authorised to grant up to 500,000 options to two of the non-executive directors of the Company in accordance with clause 2.1(d) of The Gemfields Plc Share Option Scheme 2010 and that

accordingly options at an exercise price of 19.95p per ordinary share, such grant to be effective on 1 January 2012, be granted to the following non-executive directors of the Company:

- (a) Graham Mascal: 300,000 options bringing his total option holding to 1,300,000; and
- (b) Clive Newall: 200,000 options bringing his total option holding to 900,000.

By order of the Board
Devidas Shetty
Director

24 November 2011

Registered Office:
8th Floor
54 Jermyn Street
London SW1Y 6LX

NOTES

Entitlement to attend and vote

- 1 In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001 and the Company's Articles of Association, the Company specifies that only those shareholders registered on the Company's register of members at 6.00pm on 16 December 2011 (or in the event that the meeting is adjourned, on the register of members at 6.00pm on the second business day prior to the date on which any adjourned meeting is to be held) shall be entitled to attend and vote at the Meeting and that the number of votes which any such shareholder may cast, upon a poll, will be determined by reference to the number of shares registered in such shareholder's name at such time.

Appointment of proxies

- 2 If you are a member of the Company at the time set out in Note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting. You should have received a proxy form with this Notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
- 3 A member may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, it will be necessary to notify the registrar in accordance with Note 8 below. Please refer to the notes to the form of proxy for further information on appointing a proxy, including how to appoint multiple proxies (as the case may be).
- 4 If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of Proxies" section. Please read the section "Nominated persons" below.
- 5 A proxy need not be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
- 6 A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
- 7 The completion of a form of proxy does not preclude a member from attending the Meeting and voting in person.

Appointment of proxy using hard copy proxy form

- 8 A form of proxy is enclosed. The notes to the proxy form explain how to direct your proxy to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:
 - (i) completed and signed;
 - (ii) sent or delivered to the office of the Registrars of the Company at Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU; and
 - (iii) received by Capita Registrars no later than 48 hours before the time appointed for the Meeting (excluding any part of a non-working day).

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power of authority) must be included in the proxy form.

Changing proxy instructions

- 9 To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Registrars. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

- 10 In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars, The Registry (Proxies Department), 34 Beckenham Road, Beckenham, Kent BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Registrars no later than 48 hours before the time appointed for the Meeting (excluding any part of a non-working day). If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid. Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Appointment of proxies through CREST

- 11 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) of it by using the procedures described in the CREST Manual (available from <https://www.euroclear.com/site/public/EUI>). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- 12 In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a “CREST Proxy Instruction”) must be properly authenticated in accordance with Euroclear UK & Ireland Limited’s specifications and must contain the information required for such instructions, as described in the CREST Manual. The CREST Proxy Instruction, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by Capita Registrars (ID RA10) by 10:00 am on 16 December 2011. No such CREST Proxy Instruction received through the CREST network after this time will be accepted. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the CREST Proxy Instruction by the CREST Applications Host) from which our registrars are able to retrieve the CREST Proxy Instruction by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
- 13 CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- 14 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Appointment of proxy by joint members

- 15** In the case of joint members, the signature of only one of the joint members is required on the form of proxy but the vote of the first named on the register of members will be accepted to the exclusion of the other joint members.

Issued shares and total voting rights

- 16** As at 5.00pm on 23 November 2011, the Company's issued share capital consists of 324,339,883 Ordinary Shares of 1p each. Each Ordinary Share carries the right to one vote at a general meeting of the Company and therefore, the total voting rights in the Company as at 5.00pm on 23 November 2011 (being the last business day prior to the publication of this Notice) are 324,339,883.

Nominated persons

- 17** If you are a person who has been nominated under section 146 of the Act to enjoy information rights ('Nominated Person'):
- (i) You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ('Relevant Member') to be appointed or to have someone else appointed as a proxy for the Meeting.
 - (ii) If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.
 - (iii) Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

Questions at the Meeting

- 18** Under section 319A of the Act, the Company must answer any question you ask relating to the business being dealt with at the Meeting unless:
- (i) answering the question would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information;
 - (ii) the answer has already been given on a website in the form of an answer to a question; or
 - (iii) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.

Members' rights to require circulation of resolution to be proposed at the Meeting

- 19** Under section 338 of the Act, a member or members meeting the qualification set out at Note 22 below, may, subject to conditions, require the Company to give members notice of a resolution which may properly be moved and it is intended to be moved at that meeting.

The conditions are that:

- (i) the resolution must not, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise); and
- (ii) the resolution must not be defamatory of any person, frivolous or vexatious.

The request:

- (i) may be in hard copy form;

- (ii) must identify the resolution of which notice is to be given by either setting out the resolution in full or, if supporting a resolution sent by another member, clearly identify the resolution which is being supported;
- (iii) must be authenticated by the person or persons making it; and
- (iv) must be received by the Company no later than 6 weeks before the Meeting to which the requests relate.

In the case of a request made in hard copy form, such request must be:

- (i) authenticated by providing full name and address and copy of passport and/or driver's licence;
- (ii) sent to the Company's Registrars at Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU; and
- (iii) received by the Company's Registrars no later than 48 hours before the time appointed for the Meeting.

Members' right to have a matter of business dealt with at the Meeting

- 20** Under section 338A of the Act, a member or members meeting the qualification criteria set out at Note 22 below, may, subject to conditions, require the Company to include in the business to be dealt with at the Meeting a matter (other than a proposed resolution) which may properly be included in the business (a matter of business).

The conditions are that:

- (i) the matter of business must not be defamatory of any person, frivolous or vexatious.

The request:

- (i) may be in hard copy form;
- (ii) must identify the matter of business by either setting it out in full or, if supporting a statement sent by another member, clearly identify the matter of business which is being supported;
- (iii) must be accompanied by a statement setting out the grounds for the request;
- (iv) must be authenticated by the person or persons making it; and
- (v) must be received by the Company no later than 6 weeks before the Meeting to which the requests relate.

Website publication of audit concerns

- 21** Pursuant to Chapter 5 of Part 16 of the Act (sections 527 to 531), where requested by a member or members meeting the qualification criteria set out at Note 22 below, the Company must publish on its website, a statement setting out any matter that such members propose to raise at the Meeting relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Meeting.

Where the Company is required to publish such a statement on its website:

- (i) it may not require the members making the request to pay any expenses incurred by the Company in complying with the request;
- (ii) it must forward the statement to the Company's auditors no later than the time the statement is made available on the Company's website; and
- (iii) the statement may be dealt with as part of the business of the Meeting.

The request:

- (i) may be in hard copy or in electronic form;
- (ii) either set out the statement in full or, if supporting a statement sent by another member, clearly identify the statement which is being supported;
- (iii) must be authenticated by the person or persons making it; and
- (iv) must be received by the Company at least one week before the Meeting.

Members' qualification criteria

22 In order to be able to exercise the members' right to require:

- (i) circulation of a resolution to be proposed at the Meeting;
- (ii) a matter of business to be dealt with at the Meeting; or
- (iii) the Company to publish audit concerns,

the relevant request must be made by:

- (i) a member or members having the right to vote at the Meeting and holding at least 5% of the total voting rights of the Company; or
- (ii) at least 100 members having a right to vote at the Meeting and holding, on average at least £100 of paid up share capital.

Documents on display

23 The register of interests of the directors and their families in the share capital of the Company and copies of contracts of service of directors with the Company or with any of its subsidiary undertakings will be available for inspection at the registered office of the Company during normal business hours until the date of the Meeting. All such documents will also be available at the place of the Meeting for at least 15 minutes prior to and during the Meeting.

Communication

24 Except as provided above, members who have general queries about the Meeting should call the Capita shareholder helpline on 0871 664 0300 (or from outside the UK: +44 (0) 20 8639 3399). No other methods of communication will be accepted.

25 You may not use any electronic address provided either in this Notice of general meeting or any related documents (including the 2011 Annual Report and proxy form) to communicate with the Company for any purposes other than those expressly stated.

Website giving information regarding the Meeting

26 Information regarding the Meeting, including the information required by section 311A of the Act, is available from www.gemfields.co.uk.

You may not use any electronic address provided either:

- (i) in this Notice of Meeting; or
- (ii) any related documents (including the chairman's letter and proxy form),

to communicate with the Company for any purposes other than those expressly stated.

Explanatory notes to the Resolutions

Resolution 1 – Audited Accounts and Reports for the year ended 30 June 2011

The directors are required to present to the Meeting the Company's audited annual accounts and related Directors' and Auditors' Reports for the financial year ended 30 June 2011. These are contained in the 2011 Annual Report.

Resolutions 2 to 3 - Re-appointment of directors

The Articles of Association of the Company require that at every annual general meeting one-third of the other directors (who are not required to retire as mentioned above) or, if their number is not a multiple of three, then the number nearest to but not less than one-third shall retire from office. At this Meeting, Ian Timothy Harebottle and Clive Newall will retire and stand for re-election as directors (Resolutions 2 and 3).

Resolutions 4 and 5 - Re-appointment of auditors and fixing of auditors' remuneration

The Company is required by article 166 of the Articles of Association to appoint auditors at each annual general meeting at which the annual report and accounts are laid before the Company to hold office until the next such meeting (Resolution 4). By Resolution 5 your directors are seeking authority to agree the remuneration of BDO LLP.

Resolution 6 – Renewal of authority to allot new shares

The Articles of Association empower directors to allot unissued shares. In accordance with section 551 of the Act such allotments must be authorised by the shareholders in a general meeting. Resolution 6 seeks renewal of the power to allot shares given at the previous annual general meeting, up to an aggregate nominal amount of £2,162,265.89 which represents 216,226,589 ordinary shares of 1p each, representing two-thirds of the Company's issued ordinary share capital as at 23 November 2011, the latest practicable date before the printing of this Notice.

The Company will consider the allotment of unissued shares to finance business opportunities and the directors will act in the best interests of the Company and shareholders generally, in taking advantage of business opportunities as they arise and to manage the Company's capital base more effectively.

The directors have no present intention of exercising this authority other than in connection with the Gemfields group's employee share scheme.

Resolution 7 – Renewal of authority for disapplication of pre-emption rights

Resolution 7, which will be proposed as a special resolution, seeks renewal of the directors' authority to allot equity securities (as defined by section 560 of the Act) of the Company for cash as if the pre-emption provisions of section 561(1) of the Act do not apply. Under Section 561(1), when new shares are allotted, they must first be offered to existing shareholders pro-rata to their holdings. This provision is designed to prevent the holdings of existing shareholders being diluted against their wishes by the allotment of new shares. Shareholders may waive this right of pre-emption. Other than in connection with a right, scrip dividend, or other similar issue, the authority contained in this resolution will be limited to the allotment of shares having an aggregate nominal value of £648,679.77, representing 64,867,977 ordinary shares (equivalent to 20 per cent of the current issued ordinary share capital of the Company) as at 23 November 2011, the latest practicable date before the printing of this Notice.

Similar resolutions have been approved by shareholders at each annual general meeting. The authorities granted under Resolutions 6 and 7 will expire at the conclusion of the next annual general meeting to be held after the passing of these Resolutions.

Resolution 8 – Purchase of Own Shares

The articles of association of the Company empower the Company to purchase its own shares. The directors consider it desirable and in the Company's interests for shareholders to grant to the Company authority to exercise this power, within certain limits. The maximum number of shares, which may be purchased under the proposed authority, will be limited to the nominal value of £324,339.88 ordinary shares representing

approximately 10% of the issued ordinary share capital of the Company on 23 November 2011. The price paid for the ordinary shares will not be less than the nominal value of 1 pence per share and will not be more than the higher of 105% of the average of the middle market quotations for an ordinary share on the AIM Market of London Stock Exchange plc for the five business days immediately preceding the date on which such share is contracted to be purchased and that stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003. The directors would exercise this authority only after considering the effects on earnings per share and the benefits for shareholders generally. Any buy back would be by market purchases through the London Stock Exchange. This authority will expire (unless previously renewed or revoked by the Company in general meeting) on the earlier of 19 December 2012 or at the conclusion of the next AGM of the Company.

Resolution 9 – Grant of Options

Resolution 9, which will be proposed as an ordinary resolution, seeks to grant to the directors of the Company the authority to grant up to 500,000 options to two of the non-executive directors of the Company pursuant to clause 2.1(d) of The Gemfields Plc Share Option Scheme 2010. The options are to be at an exercise price of 19.95p per ordinary share effective as at 1 January 2012. The exercise price of 19.95p was calculated by reference to the volume-weighted average traded price per share of the same class during thirty days ending on 30 September 2011.

Under clause 2.1(d) of The Gemfields Plc Share Option Scheme 2010, no Option shall be granted to a non-executive director of the Company unless such grant has been approved by an ordinary resolution of the Company. The maximum number of options which may be granted to the non-executive directors of the Company is limited as follows:

- (i) Graham Mascal: 300,000 options bringing his total option holding to 1,300,000; and
- (ii) Clive Newall: 200,000 options bringing his total option holding to 900,000.

Under The Gemfields Plc Share Option Scheme 2010, an option gives the holder or (where the context permits) his personal representatives the right to acquire ordinary shares in the capital of the Company.

Annual General Meeting 2011 – Form of Proxy

I/We of
 (Please insert full name(s) and address(es) in block letters)

..... being member/member(s) of the above named Company, hereby appoint the
 Chairman of the Meeting or (see Note 1 below)

..... of as my/our proxy to
 attend, speak and vote on my/our behalf at the Annual General Meeting of the Company to be held at 10:00am (UK time) on
 Tuesday, 20 December 2011 at 8th Floor, 54 Jermyn Street, London SW1Y 6LX and at any adjournment thereof.

Please indicate how you wish your proxy to vote by inserting “X” in the box provided. If no indication is given, your proxy
 will vote or abstain from voting as he/she thinks fit.

ORDINARY BUSINESS	For	Against	Withheld
1. To receive and adopt the Company’s accounts for the year ended 30 June 2011			
2. To re-elect Timothy Harebottle who retires by rotation as a director			
3. To re-elect Clive Newall who retires by rotation as a director			
4. To re-appoint BDO LLP as auditors			
5. To authorise the directors to fix the auditors’ remuneration			
SPECIAL BUSINESS	For	Against	Withheld
6. To authorise the directors to allot equity securities			
7. To disapply the statutory pre-emption provisions of the Companies Act 2006*			
8. To authorise the company to purchase its own shares*			
9. To authorise the directors to grant 500,000 options to two of the non-executive directors of the Company			

Signature(s) or
 Common seal

Date

Notes

- A member is entitled to appoint a proxy of his own choice to exercise all or any of his rights to attend, speak and vote at the Meeting. If another proxy is preferred delete the words “the Chairman of the Meeting”, initial the alteration and insert the name of the person you wish to be appointed proxy in the space provided. A proxy need not be a member of the Company.
- To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder’s name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
- If the appointer is a corporation, this form must be executed under its common seal or signed under the hand of an officer duly authorised in that behalf.
- In the case of joint members, the signature of only one of the joint members is required on the form of proxy but the vote of the first named on the register of members will be accepted to the exclusion of the other joint members.
- Any alterations made in this form of proxy should be initialled.
- To be valid this form must be completed and lodged with the Company’s registrars (Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU) no later than 10:00am (UK time) on 16 December 2011, together with any authority under which it is signed or a notarially certified copy of such authority.
- The ‘Vote Withheld’ option is provided to enable you to abstain on any particular resolution. However, it should be noted that a ‘Vote Withheld’ is not a vote in law and will not be counted in the calculation of the proportion of the votes ‘For’ and ‘Against’ a resolution.
- Shares held in uncertificated form (i.e. in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual.
- Completion and the return of this form does not preclude a member from subsequently attending and voting at the Meeting, or adjourned meeting, in person if a member so wishes.

* special resolution