

GEMFIELDS

Risks and Uncertainties

March 2023

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Risks and Uncertainties

Gemfields accepts that the sector in which it operates is one that contains a considerable variety of risks. Having a good understanding of the risks, and ensuring that we have sufficient levels of operational control in place to manage or capitalise from these risks, is critical to our continued growth and success. We have a well-established and functioning enterprise risk management system which has been developed over a period of time and is fully managed within the business without any external support. The following sections provide information on the risk framework and risk governance.

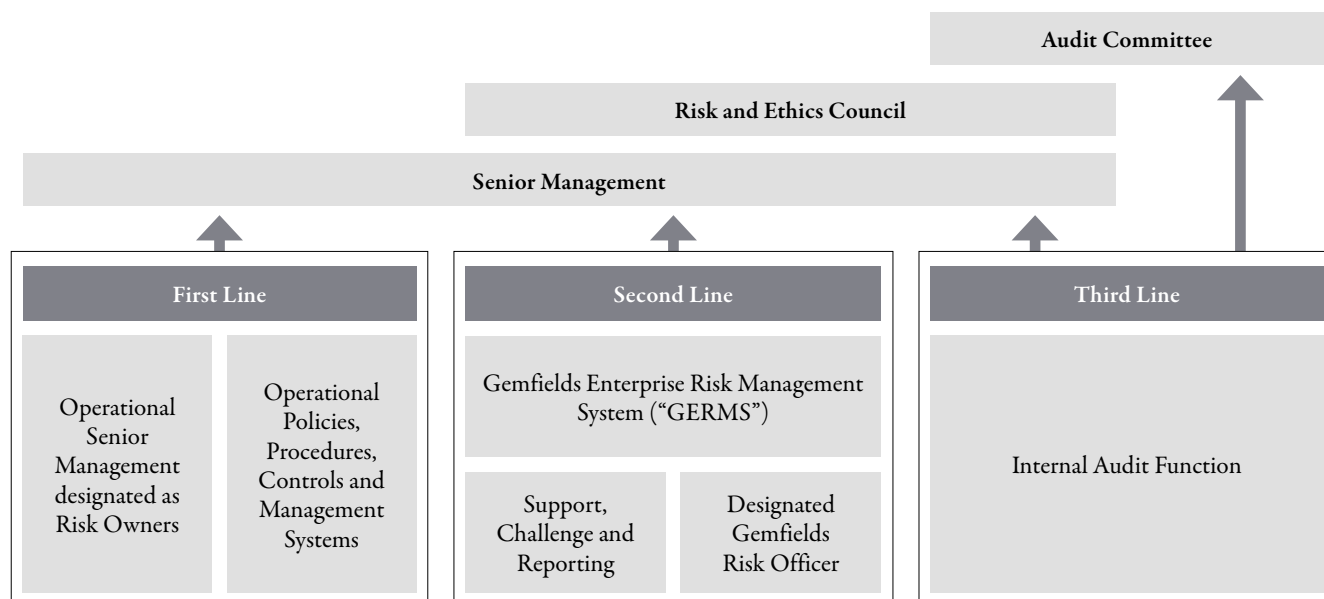
RISK MANAGEMENT FRAMEWORK

The Gemfields Board is the ultimate body responsible for the oversight of risk across the Group. This oversight is primarily provided at the strategic level. Risk management is operationalised through the management line using a ‘three lines’ model and as such a variety of assigned roles is provided to management and the business units to manage risks arising in each area of the Group. Information and considerations of risk flow between the three lines is outlined below.

First line: Specific risks are assigned to the Group’s operational senior management who is responsible for managing the risks through the introduction and maintenance of a range of operational controls, policies, procedures and management systems, within operational sites and functional areas.

Second line: The Group Head of Risk and Assurance has been designated as risk officer and facilitates the Gemfields Enterprise Risk Management System (“GERMS”). Risks are assigned to local risk owners (first line). The second line primarily supports the risk management efforts of the first line while also challenging risk ratings and mitigation measures. Corporate reporting on risks is a feature of the second line, and the Group’s Risk and Ethics Council sits within the second line.

Third line: A Group-level internal audit function provides independent assurance on the effectiveness of governance, risk management and internal controls, including the first two lines of defence. The internal audit function is independent and reports functionally to the Chair of the Audit Committee. The diagram below demonstrates how the three lines interact with the relevant governance structures within the Company.



RISK APPETITE STATEMENT



The Gemfields Risk Appetite Statement as approved by the Board is as follows:


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

STRATEGIC RISK CATEGORY PROFILE

The performance of the Group's investments, primarily the extraction and sale of coloured gemstones, is fundamental to the Group's long-term commercial prospects. Before investing in the Group, prospective investors should consider the Group's strategic risk categories which are described below. These have been considered by the Board as those most significant to the Group's strategy and long-term performance. The table below provides a description of each strategic risk category and the mitigations in place. The Board's rating of each strategic risk category, considered over a forward-looking period of six months to one year, is shown as a red, amber, or green rating to signify whether the risk is considered high, medium or low respectively. The movement of the Board's view of risk compared to the Board's view of the same principal risk in the previous period is also shown.

STRATEGIC RISK CATEGORY	RISK DESCRIPTION	RISK MITIGATION	RISK RATING
Communication, Reputation, Ethics	Gemfields is publicly listed and has a distinctive and well-known brand identity. It is a high-profile operator in the industry both as a mining company and as owner of the jewellery brand Fabergé. The Company must uphold this identity while actively championing and communicating responsibly sourced coloured gemstones, low-impact mining and supply chain transparency in line with the Company's values. The Group's exposure to unethical practices such as bribery, corruption and security-related risk is high in its countries of operation. The Group's failure to be aware of such risks and manage these could erode reputation or contribute to legal or financial penalties, even if entirely unfounded and unproven.	<ul style="list-style-type: none"> Well-established head office functions such as communications, legal, risk and assurance, HR and teams at site level; Extensive suite of policies and standard operating procedures established for the Group and replicated at site level; Independent systems in place to handle ethics issues including internal whistle-blowing, internal and external grievances and incident, accident and near-miss reporting; Culture of transparency and accountability to meeting internal policies and procedures and external regulations and laws; and Appointment of marketing and communications agencies to promote the company. At our principal operations in Mozambique and Zambia, various industry brand partners conducted several audits and assessments, validating Gemfields' commitment and actions to champion responsibly sourced coloured gemstones. 	No change
Community and Social	The Group's operating mining sites in Africa require the continuous management of stakeholder relations to maintain a social licence to operate. Acceptance and support of a wide range of local community stakeholders most significantly includes the communities in and around operations. Failure to engage with stakeholders and create opportunities for long-term sustainable development around our operations may contribute to or exacerbate negative sentiment, tensions or at worst lead to strikes, disruptions or incursions to our operations. Long-term, these failures may undermine our ability to operate unhindered, regardless of the legal rights we may have.	<ul style="list-style-type: none"> Local community teams at site, specifically responsible for stakeholder relations, engagement and sustainable development projects; Head office functions specialising in corporate responsibility, risk management, health, safety and policy; Policies replicated with site-specific procedures that focus on community and sustainable development; Grievance management systems to record and remedy community complaints, grievances and allegations; Annual use of operational budget for investment in community projects; and Emergency response and relief to community at times of crisis or weather-related disaster. 	No change

STRATEGIC RISK CATEGORY	RISK DESCRIPTION	RISK MITIGATION	RISK RATING
Environmental, Climate, Weather	<p>The Group's operations cause impacts to, and are impacted by, the environment.</p> <p>Environmental, climate and weather-related risks arise in different ways both outside and inside the Group's control. Risks affecting the company include climate-related extreme weather events (such as hurricanes or cyclones), unseasonal or extreme levels of rainfall and higher than average humidity and heat. Risks caused by the company's operation include water and waste management, greenhouse gas emissions, land-use changes and biodiversity impacts. The Company can be subject to compliance fines for failing to plan and operate in accordance with prevailing environmental laws. Failure to plan strategically for changing environmental laws may increase the Group's operating costs.</p>	<ul style="list-style-type: none"> Contingency plans to respond to extreme weather emergencies; Physical preparation and protection of site assets and mine plans in accordance with geology and effects of corrosion, groundwater and slippages; Consideration for the use of renewable energy and fuel-efficient measures at operations to reduce operating costs and use of fossil fuels; External reporting to be transparent in the disclosure of greenhouse gas emissions; Safety, health and environmental teams responsible for site operational environmental compliance, management plans and execution of projects; and Introduction of integrated safety, health and environmental management systems. 	No change
Financial, Economic, Markets, Business¹	<p>The demand for gemstones may fall during times of economic uncertainty or hardship. Changes in the macro-economic environment may also result in creditors delaying or failing to pay the Company on time. Reduced sales resulting from an economic downturn can have an adverse effect on the profitability and cash flow of the business as experienced during the pandemic. The Company may need to go to the market to raise capital funds, which may not be available on favourable terms. Failure to address falls in revenue or to stem the costs of production will result in the Group experiencing significant losses and the Group may be forced to curtail or suspend some or all of its capital projects and/or operations.</p> <p>The ongoing conflict with Russia and Ukraine may have the undesired impact of increasing input costs like fuel and spares and may also have an adverse impact on the prices of our goods.</p>	<ul style="list-style-type: none"> Proprietary grading system developed as a transparent and reliable system for the market to value gemstones; Long-developed relationships with authorised auction partners; Partnerships with luxury brands to market coloured gemstones to end consumers; Active financial management and consideration by management of different financing options; Ability to run sequential online mini auctions that offer an alternative sales platform to physical in situ auctions; and Resilient financial modelling and risk processes to allow flexibility and ability to action any cash conversation or mitigate global economic woes. 	
Health, Safety and People Protection²	<p>A company operating in the resource extraction sector is exposed to a range of health and safety risks, and the protection of employees is an inherent feature of the mining industry. Employees are operating in often hazardous operational environments and at development sites that are more remote. They are also exposed to other safety and security risks. Failure to maintain adequate health, safety and security standards may result in a significant incident, a deterioration in safety performance and at worst the injury or death of employees.</p> <p>Lost time disruption to the mining operations can affect the ability of the Company to continue to produce efficiently.</p>	<ul style="list-style-type: none"> Locally developed teams at site specifically responsible for HSE risk management and training; Our principal operations in Mozambique and Zambia are staffed (internally and externally) by highly skilled and sophisticated Protection Services teams that provide high quality security and protection services; Development of integrated HSE management systems to meet international standards; HSE measures, training and compliance against policies and procedures continuously reviewed and implemented with management support; Internal system for reporting of incidents, accidents and near-misses; and Security measures and systems are constantly reviewed and revised in order to minimise the risk. 	

STRATEGIC RISK CATEGORY	RISK DESCRIPTION	RISK MITIGATION	RISK RATING
Illegal Miners and Trespassers	<p>Theft, as a result of both internal collusion and illegal mining, is an inherent risk factor in the gemstone industry. Organised criminals can exploit situations of poverty creating indebted servitude. Artisanal miners can gain easy access to sites where physical barriers on large concessions are not viable and they operate without licences to illegally extract gemstones which would otherwise be retrieved and sold by the Company. This situation presents the opportunity for gemstones finding their way out of the country illegitimately and onto the black market. Failure to protect the site from this loss of gemstones from the licence area consequently impacts the profitability of the Company. Furthermore, the presence of illegal miners and security forces who protect the assets can contribute to security risks arising from the conflict of interest between illegal miners and the Company.</p>	<ul style="list-style-type: none"> • Security measures and systems are constantly reviewed and revised in order to minimise the risk; • Multi-layered security approach across our operations with a mix of internal and external providers working with the local police and security forces in each geography, technology and system; • Security measures constantly reviewed and implemented in order to minimise the risk; • Engaging local authorities, communities and security and police forces in seeking to protect the Company's employees, equipment and mining assets; and • Community relations and grievance management systems in place to record and remedy community relations issues. 	No change
IT, Digital and Data³	<p>The Group has complex communications infrastructure and IT systems between head office and the sites. Due to the locations in which the Group operates, these systems can be subject to attempted breaches, deliberate damage, outages and delays. The Group also has a proprietary database and IT system that is used as a combination of customer relationship management, online sales, inventory management, incident reporting system, employee data management and a depository for key company documents. Failure to protect the company from breaches of the security and communications systems can result in the loss of data and communications or simply weaken the security system requiring improvements to be made.</p>	<ul style="list-style-type: none"> • Well-established and experienced head office IT team; • Site-level IT functions responsible for implementation and management of IT risk at site level; • IT policies and standard operating procedures; • Multi-faceted IT security system that undergoes continuous assessment and improvement; and • Adoption of cyber security standards and systems. 	

STRATEGIC RISK CATEGORY	RISK DESCRIPTION	RISK MITIGATION	RISK RATING
Legal, Legislative, Regulatory, Governance	<p>Emerging markets are generally subject to greater risk and may be affected by legal and legislative changes. These may result in changes in legal requirements, mineral royalty rates, taxation policies or restrictions on the export of currency or gemstones, which may have a material adverse impact on the Company's operations or future development. Failure to prepare for renewal or continuance of appropriate surface and/or subsurface use contracts, licences, permits, regulatory approvals or consents may result in delays to the Group's operations, or in extreme circumstances, may require withdrawal.</p> <p>In addition, in the ordinary course of business, particularly given the industry the Group operates in, it will always be susceptible to legal actions and complaints on a wide range of issues. While it is impossible to be certain of the outcome of any particular case or of the number of any possible adverse matters relating to potential claims and litigation, the Group believes its defences to such claims to be meritorious in both law and on the facts, and that a robust defence would be made in such events.</p>	<ul style="list-style-type: none"> • Team highly experienced in operating in Africa; • Active and open engagement with the relevant Government bodies and ministries; • Regular reviews of commercial arrangements and regulatory requirements; • Internal controls, policies and procedures to ensure we can meet regulatory changes; and • External advice sought to supplement the skills and experience of our internal teams. 	No change
Mining, Geology and Processing	<p>The Group's exploration and mining operations are dependent upon the grant, renewal or continuance in force of appropriate surface and/or subsurface use contracts, licences, permits, regulatory approvals and consents, which may only be valid for a defined period and may be subject to limitations. Geology of gemstone occurrences is relatively more complex, rendering it less predictable. It is not possible, for example, to predict the quality and quantity of gems in the host rock. Processing of ore can therefore be significantly affected, and the production of high-value gemstones can fluctuate, which has an effect on what can be sold at auction and therefore on revenue. Failure to retain data, knowledge and expertise regarding gemstone geology or adequately extract and process the ore will affect the Group's success.</p>	<ul style="list-style-type: none"> • A Group portfolio of projects and licence areas that carry a range of differing technical and commercial opportunities; • Assessment of a wide range of potential growth opportunities, from both the internal portfolio and external opportunities; • Retention of a vast body of historical data on gemstone mining to increase confidence levels in production; and • Team of highly qualified geologists and mine engineers at each site. 	No change

STRATEGIC RISK CATEGORY	RISK DESCRIPTION	RISK MITIGATION	RISK RATING
Organisation, Culture, Training, Succession, Employment	The Group's prospects depend in part on the ability of its executive officers, senior management and key consultants to operate effectively, both independently and as a group. To manage its growth, the Group must retain employees and attract additional highly qualified management and technical personnel. In addition, it must continue to put in place practices and systems for managing its people to encourage retention and lower employee turnover. Embedding a consistent culture across the Group ensures that all employees in the Company contribute to long-term success. Failure to continuously monitor and communicate with its people and improve the practices and systems in place for its people may result in loss of key personnel and knowledge for the Company.	<ul style="list-style-type: none"> • Well-established head office HR function; • Site-level HR functions responsible for employment, culture, training at local level; • Use of recruitment companies to search for and engage high-quality talent; • Policies and standard operating procedures for employment contracts and protections including full unionisation where appropriate; • Employee relations and engagement with unions for negotiations of remuneration and benefits; and • Succession and retention plans for key positions. 	No change
Political, Government	Political instability, including changes in Government, may also result in a major disruption to the functions at state, provincial or district level Government. This can directly affect the Group's operations but also can result in civil unrest, labour disputes or the withdrawal or variation of existing agreements, mining licences and permits as resource management can be politicised. Resource nationalisation is a possibility in our countries of operation and pressure to hand back licences or parts of licences to the state is a risk that is monitored. Failure to engage with relevant Government departments can affect the Company's prospects in a range of ways and directly adversely affect operations.	<ul style="list-style-type: none"> • Team highly experienced in operating in Africa; • Active and open engagement with the relevant Government bodies and ministries; and • Internal controls, policies and procedures to ensure we can meet regulatory changes. 	No change
Security, Infrastructure and Asset Protection	Resource and asset protection is a significant challenge in remote areas. Protecting the Company is a constant activity for internal security with the support of third-party contractors and the police who investigate acts committed against the Company by both external and internal parties. Plant, equipment and consumables are all easily stolen or at risk of loss. Infrastructure may be deliberately damaged and sites can attract trespassers who enter the licence area. Failure to protect the site internally and externally with measures to protect assets or people can result in increased costs associated with replacement and repairs.	<ul style="list-style-type: none"> • Security measures and systems are constantly reviewed and revised in order to minimise the risk; • Engaging local authorities, communities and security and police forces in seeking to protect the Company's equipment and mining assets; • Multi-layered security approach across our operations with a mix of internal and external providers working with the local police and security forces in each geography, technology and system; • Security measures constantly reviewed and implemented; and • Internal system for reporting of incidents, accidents and near-misses including security incidents. 	No change

1 – Gemfields' resilience persisted into 2022, as evidenced by its remarkable achievement of record revenue levels. This outcome provides a clear indication of the positive market conditions that prevailed throughout 2022.

2 – The insurgency in Mozambique is solely responsible for driving this risk higher, which was exacerbated in 2022 when Montepuez Ruby Mining and Nairoto Resources had to be briefly evacuated. Despite subsequent mitigation measures such as a military presence at the Mozambique operations, the insurgency still poses a potential threat that could further disrupt operations in the region.

3 – During 2022, the Gemfields IT team completed extensive remedial work and closed out various recommendations from Subject Matter Expert audits. These included, inter alia, regular penetration testing, cyber awareness training, and system standardisation.

OPERATIONAL RISK PROFILE OF THE GROUP

The Gemfields Enterprise Risk Management System (“GERMS”) is the operational level management system for risk that sits within the second line, yet used and applied through all three lines. The system was developed by the Company and is hosted in G-TRAC (Gemfields’ internal knowledgebase system), granting



IMAGE Operations, Kagem Mining, Zambia

access to those participating in the process, as well as any other staff member. Risk owners are assigned risks in the GERMS and are responsible for continuously reviewing and updating their risks, controls and actions on a continuous basis as the risk landscape changes. These risks are reviewed by their line managers and local-entity Board members for their review and approval. GERMS aims to achieve an integrated view of all risks faced by the group, assigning, inter alia, projects, events, incidents, accidents, near-misses, grievances, trainings and press/media releases to individual risks, thereby providing a realistic view of the operational risks at any given time. These risks are deliberated during the quarterly Risk and Ethics Council meetings.

The diagram below is a summary of the operational risk profile of the Group, allocating the circa 500 specific risk ratings according to the combined likelihood and impact scores (which are rated 1–5 in ascending order of likelihood and impact, and then multiplied). By way of example, the diagram shows that at the end of the year there were 22 specific risks rated as very high (a total combined risk score of between 20 and 25), of which two have been rated as the very highest (a total combined risk score of 25). In contrast, 23 risks were rated with the lowest likelihood of occurring and lowest impact on the business (a total combined risk score of 1).

In total there are 67 risk types within GERMS, under the twelve strategic risk categories. These 67 risk types can then be applied to any of the Gemfields Group companies to create specific risks particular to those companies. The risk likelihood and impact scores of specific risks are reviewed by each risk owner on a continuous basis. By the end of the period, there were circa 500 specific risks across the Group and the GERMS system therefore also represents a consolidated risk register for the Group.

High Likelihood	4	5	6	6	2
	1	5	19	26	14
	2	20	60	57	14
	4	35	59	74	8
Low Likelihood	23	18	11	15	12
		Low Impact		High Impact	



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