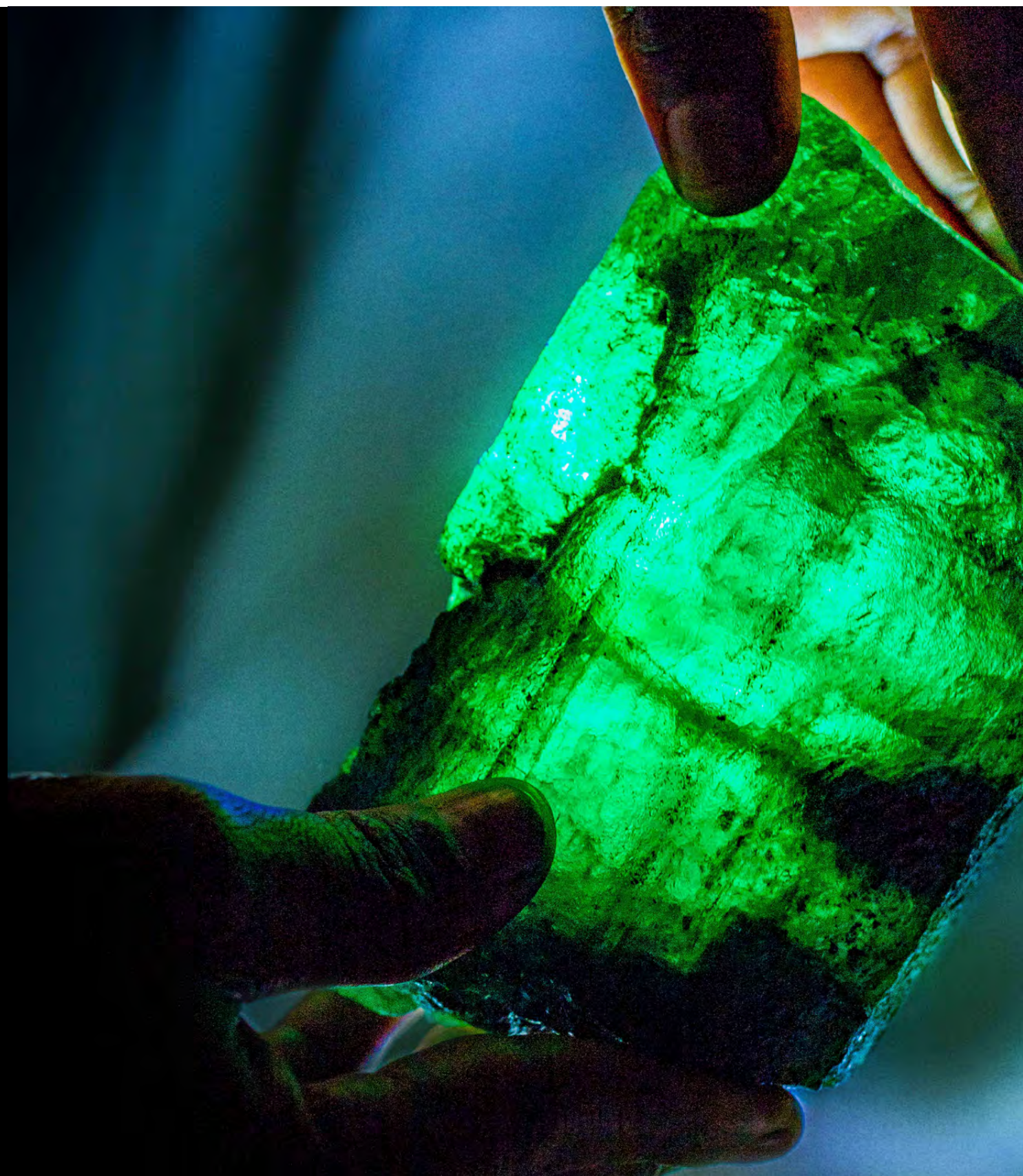



GEMFIELDS

CONDENSED ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

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





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

Brian Gilbertson
Chairman

CONTENTS

OVERVIEW

Chairman’s Statement	4
Chief Executive’s Statement	6
Financial Review	8

FINANCIAL STATEMENTS

Condensed Consolidated Income Statement	16
Condensed Consolidated Statement of Comprehensive Income	17
Condensed Consolidated Statement of Financial Position	18
Condensed Consolidated Statement of Cash Flows	19
Condensed Consolidated Statement of Changes in Equity	20
Notes to the Condensed Consolidated Financial Statements	22

ADMINISTRATION

Company Details	46
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Image: Palais Tsarkoye Selo rose locket with heart surprise and "I love you" yellow gold pendant. Image features Gemfields Mozambican rubies.

OVERVIEW

- 4 | Chairman's Statement
- 6 | Chief Executive's Statement
- 8 | Financial Review

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

Sean Gilbertson
Chief Executive Officer

CHAIRMAN'S STATEMENT

Brian Gilbertson
Chairman



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

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

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

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

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

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

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

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

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

Image:
Zambian emerald from
Kagem mine.



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

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

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

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

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

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

Brian Gilbertson
Chairman
22 March 2019

CHIEF EXECUTIVE'S STATEMENT

Sean Gilbertson
Chief Executive Officer



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

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

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

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

ZAMBIA

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

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

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

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

MOZAMBIQUE

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

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

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

ETHIOPIA

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

FABERGÉ

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

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

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

INVESTMENTS

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

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

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

CASH VS PROFIT

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

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

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

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

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

Sean Gilbertson
Chief Executive Officer

FINANCIAL REVIEW

David Lovett
Chief Financial Officer



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

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

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

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

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

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

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

Revenue

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

¹ Earnings before interest, taxation, depreciation and amortisation.

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

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

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

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

COSTS

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

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

On the acquisition of Gemfields in 2017, the purchase price allocation resulted in an uplift to the mining assets at Kagem and MRM, representing the excess purchase consideration. The significantly larger mining assets are amortised on the unit-of-production basis, resulting in higher depreciation and amortisation costs of US\$30.6 million (12 months to December 2017: US\$22.2 million and 12 months to June 2017: US\$7.0 million). Depreciation on property, plant and equipment during the year, excluding these mine assets, was US\$13.5 million.

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

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

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

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

The cost base of the Group in the current year has been impacted by fluctuations in foreign currency exchange rates in our key operating locations. The US dollar ("USD") average rate over the year has weakened by 3% against the Mozambican metical ("MZN") and 2% against pound sterling ("GBP"), whilst strengthening by 11% against the Zambian kwacha ("ZMW"). These fluctuations have had a favourable impact on costs in Zambia, and an adverse effect on costs in Mozambique and the United Kingdom.

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

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

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

IMPAIRMENT CHARGES AND WRITE-OFFS

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

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

FINANCIAL REVIEW CONTINUED

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

FAIR VALUE AND OTHER GAINS AND LOSSES

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

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

The Sedibelo valuation as at 31 December 2018 of US\$50.4 million is after a fair value loss of US\$47.6 million. In considering the valuation of the Sedibelo stake, the Directors have taken into account the impact of GGL's desire to seek an orderly disposal of its minority holding and have adopted a market-multiple valuation approach to Sedibelo's reserves and resources. Accordingly, the value of the investment in Sedibelo was discounted to US\$50.4 million from US\$98.1 million.

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

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

FINANCE INCOME, EXPENSES AND FOREIGN EXCHANGE DIFFERENCES

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

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

Taxation

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

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

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

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

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

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

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

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

NET PROFIT AFTER TAXATION

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

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

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

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

CAPITAL EXPENDITURE

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

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

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

CASH FLOWS

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

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

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

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

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

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

FINANCIAL REVIEW CONTINUED

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

FINANCIAL POSITION

The Group's balance sheet is summarised below:

in millions of US\$	2018	2017
Non-current assets	509,699	639,616
Current assets	224,369	184,101
Total assets	734,068	823,717
Non-current liabilities	(121,567)	(169,597)
Current liabilities	(62,386)	(37,009)
Total liabilities	(183,953)	(206,606)
Net assets	550,115	617,111
Assets		
in millions of US\$	2018	2017
Mining asset	303,315	332,974
Property, plant and equipment, and intangibles	114,027	94,359
Listed, unlisted and other investments	77,634	197,483
Inventory	99,237	118,813
Auction receivables	41,137	863
Cash and cash equivalents	62,988	37,784
Other assets, including deferred taxation	35,730	41,441
Total assets	734,068	823,717

Mining assets

The mining asset primarily relates to the recognition of the fair values of Kagem and MRM at the date that GGL acquired Gemfields in July 2017 and represents the allocation of the value of the consideration paid to Gemfields shareholders. These assets are amortised on the unit-of-production basis over the life of mine. At 31 December 2018, these are US\$117.7 million at Kagem and US\$160.8 million at MRM, with the Kagem asset having been reduced following the US\$22.6 million impairment charge recognised. MML and other exploration assets make up the remainder of the US\$303.3 million.

Listed and unlisted investments

The Group's listed investment represents the 7.44% holding in Jupiter Mines Limited and is valued at its share price at the balance sheet date. The Group's interest in Jupiter is valued at the 31 December 2018 mid-price of AUD 0.250 per share, translated at the closing rate of US\$1/AUD 1.4174.

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

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

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

On 19 February 2019, Jupiter announced the details of a final unfranked dividend of AUD0.025 per share. The Group is due to receive AUD3.6 million (US\$2.6 million), translated at the US\$/AUD 1.4128 exchange rate on 4 March 2019, the date GGL entered into a forward US\$/AUD contract. The Group will receive its dividend on 21 May 2019.

The Group holds an equity interest in Sedibelo Platinum Mines ("Sedibelo"), a producer of platinum group metals ("PGMs") with interests in the Bushveld Complex in South Africa.

The Sedibelo valuation as at 31 December 2018 of US\$50.4 million is after a significant fair value loss of US\$47.6 million. In considering

the valuation of the Sedibelo stake, the Directors have taken into account the impact of GGL's desire to seek an orderly disposal of its minority holding.

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

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

Inventory

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

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

Net debt

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

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

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

Kagem has a revolving credit facility of US\$35 million which bears interest at three-month US LIBOR plus 5.5% per annum and is payable in February 2020. The facility was fully drawn at 31 December 2018. The loan facility was subject to four financial covenants, which are tested half yearly. As at 31 December 2018, Barclays Bank Zambia had waived the covenant testing, as discussions on the refinancing of these facilities were ongoing. As part of the waiver, Kagem has committed to repaying US\$5.0 million of this facility by 31 March 2019, so this has been classified as current borrowings on the Group's balance sheet as at 31 December 2018.

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

MRM has the following facilities:

- A US\$15 million unsecured overdraft facility entered into with Barclays Bank Mozambique S.A. in April 2016. The facility has an interest rate of three-month US LIBOR plus 4.0% per annum. At 31 December 2018, US\$14.5 million was drawn.
- A US\$15 million overdraft facility entered into with Banco Comercial E De Investimentos, S.A. ("BCI") in June 2016. This facility is valid for 18 months and is renewable. The facility has an interest rate of three-month US LIBOR plus 3.75% per annum. At 31 December 2018, US\$3.7 million was drawn.
- A US\$15 million finance leasing facility entered into by MRM with BCI in June 2016. This is a renewable facility with a drawdown period of 18 months, and the amounts drawn down are repayable over a maximum period of 48 months. The facility has an interest rate of three-month US LIBOR plus 3.75% per annum. During the year, the balance was repaid in full such that, at 31 December 2018, the outstanding balance was US\$Nil.

For an analysis of the outstanding facility liabilities at year-end, please see note 9 of the Consolidated Financial Statements.

David Lovett
Chief Financial Officer
22 March 2019



FINANCIAL STATEMENTS AND ADMINISTRATION

15 | Financial Statements

Condensed Consolidated Income Statement	16
Condensed Consolidated Statement of Comprehensive Income	17
Condensed Consolidated Statement of Financial Position	18
Condensed Consolidated Statement of Cash Flows	19
Condensed Consolidated Statement of Changes in Equity	20
Notes to the Condensed Consolidated Financial Statements	22

45 | Administration

Company Details	46
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*Image: Extracting ore from open pit to stockpile,
Montepuez Ruby Mine, Mozambique*

CONDENSED CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2018

	Notes	2018 US\$'000	2017 US\$'000
Revenue	1	206,090	81,650
Cost of sales	2	(123,546)	(44,319)
Gross profit		82,544	37,331
Unrealised fair value losses	7	(59,559)	(53,218)
Other gains and income		17,659	6,289
Selling, general and administrative expenses		(63,170)	(32,154)
Impairment charges	6	(22,577)	–
Bargain purchase gain on Gemfields Acquisition	4	–	96,406
(Loss)/profit from operations		(45,103)	54,654
Finance income		805	1,240
Finance costs		(9,650)	(3,251)
Net finance costs		(8,845)	(2,011)
(Loss)/profit before taxation		(53,948)	52,643
Taxation	5	(6,483)	(7,589)
NET (LOSS)/PROFIT AFTER TAXATION		(60,431)	45,054
(Loss)/profit for the year attributable to:			
Owners of the parent		(62,213)	37,892
Non-controlling interest		1,782	7,162
		(60,431)	45,054
(Loss)/earnings per share attributable to the parent:	10		
Basic – US\$		(0.05)	0.04
Diluted – US\$		(0.05)	0.04

The accompanying notes form part of these Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Notes	2018 US\$'000	2017 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	365,014	378,021
Intangible assets		52,328	49,312
Unlisted equity investments	7	50,447	196,164
Listed equity investments	7	25,714	–
Other investments		1,473	1,319
Deferred tax assets	5	6,381	6,775
Other non-current assets		8,342	8,025
Total non-current assets		509,699	639,616
Current assets			
Inventory	8	99,237	118,813
Other investments		2	6
Trade and other receivables		62,142	27,498
Cash and cash equivalents		62,988	37,784
Total current assets		224,369	184,101
Total assets		734,068	823,717
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	5	87,805	102,347
Borrowings	9	30,000	59,292
Provisions		5,572	7,958
Total non-current liabilities		123,377	169,597
Current liabilities			
Provisions		7,877	4,619
Current tax payable		1,370	7,041
Borrowings	9	23,171	4,178
Trade and other payables		28,158	21,171
Total current liabilities		60,576	37,009
Total liabilities		183,953	206,606
Net assets		550,115	617,111
EQUITY			
Share capital		14	14
Share premium		531,607	531,607
Treasury shares		(5,345)	(654)
Reserve for own shares		(23,319)	(23,319)
Cumulative translation reserve		(960)	(1,169)
Option reserve		5,474	2,692
Retained earnings		(31,276)	29,552
Attributable to equity holders of the parent		476,195	538,723
Non-controlling interest		73,920	78,388
Total equity		550,115	617,111

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

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

The accompanying notes form part of these Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Notes	2018 US\$'000	2017 US\$'000
Cash flow from operating activities			
(Loss)/profit before taxation		(53,948)	52,643
<i>Adjustments for</i>			
Loan interest income		–	(154)
Unrealised fair value losses	7	59,559	53,218
Realised fair value gains	7	(11,680)	(5,841)
Dividend income	3	(5,271)	–
Bargain purchase on Gemfields Acquisition	4	–	(96,406)
Depreciation and amortisation	2	30,633	22,169
Impairment charges and write-offs		26,599	–
Share-based payments		4,167	2,692
Other		(49)	(8)
Finance income		(805)	(1,240)
Finance expense		9,650	3,251
Loss on sale of property, plant and equipment		–	34
Increase in non-current assets		(125)	–
Increase in non-current liabilities		461	–
(Increase)/decrease in trade and other receivables		(39,183)	2,368
Decrease/(increase) in inventory		8,631	(9,681)
Increase/(decrease) in trade and other payables		888	(2,346)
Cash generated from operations		29,487	20,699
Loans repaid by investments ¹		–	4,948
Interest received ¹		–	154
Tax paid (excluding withholding tax)		(24,378)	(10,959)
Net cash generated from operating activities		5,109	14,842
Cash flows from investing activities			
Purchase of intangible assets		(2,311)	(1,790)
Purchases of property, plant and equipment		(28,991)	(10,955)
Interest received		659	82
Sale of property, plant and equipment		–	36
Proceeds from Jupiter Initial Public Offering (IPO)		64,397	–
Dividends received from Jupiter		5,271	–
Proceeds from Jupiter shares buy-backs		7,726	14,697
Cash acquired with subsidiaries		–	33,367
Investments acquired		(101)	–
Net cash generated from investing activities		46,650	35,437
Cash flows from financing activities			
Dividends paid to non-controlling interest of Montepuez Ruby Mining (including withholding tax)		(5,850)	(6,206)
Cash paid for treasury shares		(4,691)	(654)
Gemfields Acquisition – share issue transaction costs		–	(1,643)
Proceeds from borrowings		18,110	–
Repayment of borrowings		(29,959)	(2,485)
Interest paid		(5,046)	(2,406)
Release of previously restricted cash at Fabergé		1,023	–
Net cash utilised in financing activities		(26,413)	(13,394)
NET INCREASE IN CASH AND CASH EQUIVALENTS		25,346	36,885
Cash and cash equivalents at the beginning of the period		37,784	1,218
Net foreign exchange gain on cash		(142)	(319)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		62,988	37,784

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

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

The accompanying notes form part of these Financial Statements.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

1. SEGMENTAL REPORTING

With effect from 1 August 2017, the Chief Operating Decision Maker (“CODM”) is the Executive Management, which measures the performance of each operating segment on a regular basis in order to allocate resources.

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

Subsequent to the 100% acquisition of Gemfields Ltd in July 2017, the Group has revised its operating segments to reflect the new business focus. The Group has been organised into geographic units and business units based on the products and services and has seven reportable segments as follows:

- Zambia (emerald and beryl mining activities);
- Mozambique (ruby and corundum mining activities);
- Platinum Group Metals (“PGMs”) (the Group’s investment in Sedibelo Platinum Mines Limited);
- Steel Making Materials (the Group’s investment in Jupiter Mines Limited);
- Corporate (sales of cut and polished gemstones, marketing, and technical and administrative services, including the previously reported Investment Platforms);
- Fabergé (wholesale and retail sales of jewellery and watches); and
- Other (new projects, traded auctions, sales and marketing offices).

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

1. SEGMENTAL REPORTING/CONTINUED

Income Statement

1 January 2018 to 31 December 2018	Zambia US\$'000	Mozambique US\$'000	PGMs US\$'000	Steel Making Materials US\$'000	Corporate US\$'000	Fabergé US\$'000	Other US\$'000	Total US\$'000
Rough gemstones ¹	60,319	127,115	—	—	—	—	3,681	191,115
Jewellery	—	—	—	—	—	13,392	—	13,392
Cut and polished	—	—	—	—	1,116	—	467	1,583
Revenue ²	60,319	127,115	—	—	1,116	13,392	4,148	206,090
Mineral royalties and production taxes	(3,865)	(12,641)	—	—	—	—	—	(16,506)
Change in inventory and cost of sales	(8,254)	3,967	—	—	(1,204)	(8,081)	(4,534)	(18,106)
Mining and production costs ³	(34,216)	(21,491)	—	—	(279)	—	227	(55,759)
Selling, general and administrative costs ⁴	(4,380)	(14,716)	—	—	(26,615)	(9,948)	(1,904)	(57,563)
Other income	147	11	—	—	269	60	221	708
EBITDA	9,751	82,245	—	—	(26,713)	(4,577)	(1,842)	58,864
Dividend income	—	—	—	5,271	—	—	—	5,271
Realised fair value gains	—	—	—	11,680	—	—	—	11,680
Unrealised fair value losses	—	—	(47,617)	(11,942)	—	—	—	(59,559)
Depreciation and amortisation	(14,538)	(14,453)	—	—	(285)	(1,357)	—	(30,633)
Share-based payments	—	—	—	—	(4,167)	—	—	(4,167)
Impairment charges and write-offs ⁵	(22,788)	(51)	—	—	(207)	—	(3,513)	(26,559)
Operating (loss)/profit	(27,575)	67,741	(47,617)	5,009	(31,372)	(5,934)	(5,355)	(45,103)
Net finance expense	(3,708)	(756)	—	—	(145)	(3,515)	(721)	(8,845)
Taxation	12,845	(18,686)	—	—	(2,461)	2,516	(697)	(6,483)
(Loss)/profit after tax	(18,438)	48,299	(47,617)	5,009	(33,978)	(6,933)	(6,773)	(60,431)

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

² Revenues have been recognised at one point in time, as control passes to the customer.

³ Excluding mineral royalties and production taxes, and inventory impairments.

⁴ Excluding share-based payments.

⁵ Including inventory impairments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

1. SEGMENTAL REPORTING/CONTINUED

Income Statement

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

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

² Revenues have been recognised at one point in time, as control passes to the customer.

³ Excluding mineral royalties and production taxes, and inventory impairments.

⁴ Excluding share-based payments.

1. SEGMENTAL REPORTING/CONTINUED

Statement of Financial Position

31 December 2018	Zambia US\$'000	Mozambique US\$'000	PGMs US\$'000	Steel Making Materials US\$'000	Corporate US\$'000	Fabergé US\$'000	Other US\$'000	Total US\$'000
Mining asset	127,395	175,920	–	–	–	–	–	303,315
Property, plant and equipment, and intangibles	24,319	41,885	–	–	760	41,308	5,755	114,027
Listed and unlisted investments	–	–	50,447	25,714	1,473	–	–	77,634
Operating assets	47,665	58,697	–	–	9,595	39,276	6,148	161,381
Cash and cash equivalents	13,065	6,518	–	–	41,653	857	895	62,988
Segment assets	212,444	283,020	50,447	25,714	53,481	81,441	12,798	719,345
Deferred tax asset								6,381
Other								8,342
Total assets								734,068
Borrowings	35,000	18,171	–	–	–	–	–	53,171
Operating liabilities	5,377	26,387	–	–	6,765	2,378	2,070	42,977
Segment liabilities	40,377	44,558	–	–	6,765	2,378	2,070	96,148
Deferred tax liability								87,805
Total liabilities								183,953
Net (debt)/cash	(21,935)	(11,653)	–	–	41,653	857	895	9,817

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

1. SEGMENTAL REPORTING/CONTINUED

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

1. SEGMENTAL REPORTING/CONTINUED

Statement of Cash Flows

1 January 2018 to 31 December 2018	Zambia US\$'000	Mozambique US\$'000	PGMs US\$'000	Steel Making Materials US\$'000	Corporate US\$'000	Fabergé US\$'000	Other US\$'000	Total US\$'000
Revenue	60,319	127,115	–	–	1,116	13,392	4,148	206,090
Operating costs and cost of sales ¹	(50,568)	(44,870)	–	–	(27,829)	(17,969)	(5,990)	(147,226)
EBITDA	9,751	82,245	–	–	(26,713)	(4,577)	(1,842)	58,864
Add back: Change in inventory	8,254	(3,967)	–	–	1,204	8,081	4,534	18,106
Tax paid (excluding WHT)	(591)	(23,771)	–	–	–	–	(16)	(24,378)
Capital expenditure	(11,819)	(17,338)	–	–	(106)	–	(2,039)	(31,302)
VAT refunds	3,655	–	–	–	1,787	138	–	5,580
Free cash flow before working capital movements	9,250	37,169	–	–	(23,828)	3,642	637	26,870
Working capital movements ²	(13,310)	(23,401)	–	–	(2,410)	(12,356)	(1,586)	(53,063)
Free cash flow	(4,060)	13,768	–	–	(26,238)	(8,714)	(949)	(26,193)
Cash generated from operations	8,350	54,877	–	–	(26,132)	(8,714)	1,106	29,487
Tax paid (excluding WHT)	(591)	(23,771)	–	–	–	–	(16)	(24,378)
Capital expenditure	(11,819)	(17,338)	–	–	(106)	–	(2,039)	(31,302)
Free cash flow	(4,060)	13,768	–	–	(26,238)	(8,714)	(949)	(26,193)

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

¹ Excluding share-based payments and inventory impairments.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

2. COST OF SALES

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

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

March 2018 Jupiter buy-back

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

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

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

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

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

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

April 2018 Jupiter IPO/Relisting on the ASX

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

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

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

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

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

October 2018 Jupiter dividend

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

4. ACQUISITION OF THE GEMFIELDS GROUP OF COMPANIES

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

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

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

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

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

PRL valued its 96.63% interest in Gemfields as at 31 July 2017 (the day preceding the acquisition date) at the Gemfields share price on the date that Gemfields delisted from AIM (28 July 2017). IFRS 13 *Fair Value Measurement* (“IFRS13”) required that PRL derecognised its interest in Gemfields at this price, as there was a Level 1 (IFRS 13 fair value hierarchy) listed share price available in an active market at the delisting date, a few days before the acquisition date. PRL’s 96.63% interest in Gemfields is valued at the 28 July 2017 closing price of GBP0.3200 per share, translated at the closing rate on 31 July 2017 of US\$1/GBP0.7604. PRL’s interest of 96.63% in Gemfields was valued at US\$228 million on 31 July 2017.

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

4. ACQUISITION OF THE GEMFIELDS GROUP OF COMPANIES/CONTINUED

A bargain purchase of US\$96.4 million was recognised at the acquisition date, as the fair value of Gemfields' net assets acquired exceeded the fair value of the total consideration at the acquisition date. On 20 June 2017, Chinese conglomerate firm, Fosun Gold Holdings Limited ("Fosun") made a firm intention, by way of a Rule 2.7 Announcement, to acquire the entire issued, and to be issued, ordinary share capital of Gemfields at GBP0.4500 per share, which, converted at the closing rate on 31 July 2017 of US\$1/GBP0.7604, implied a valuation of Gemfields (on a 100% basis) of US\$331 million. The Fosun offer was a cash-based offer. Fosun stated that the consideration to be made payable by Fosun as part of the intended offer would have been funded from their existing cash reserves, which had been fully confirmed in accordance with the requirements of the Takeover Code. An assessment was made of the fair values of the acquired assets and liabilities on the date of acquisition. The assessment resulted in a valuation of the total net assets acquired being equivalent to the value of the Fosun offer. The fair values of the assets and liabilities are inherently judgemental, but the Fosun offer is believed to be representative of the "price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" as required by IFRS 13, despite the offer not being accepted due to the Offer becoming wholly unconditional (due to the number of acceptances received, as well as PRL shareholders voting in favour of the Offer on 12 July 2017).

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

5. TAXATION

The Group's tax expenses is as follows:

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

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

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

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

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

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

Different tax rates applied in overseas jurisdictions reflects the different tax rates applicable in the various jurisdictions in which the Group operates. The main rates of corporation tax in Zambia, Mozambique and the United Kingdom for the year were 30%, 32% and 19%, respectively.

Deferred tax assets and liabilities must be measured at the tax rates that are expected to apply to the period when the asset is realised, or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

5. TAXATION/CONTINUED

Deferred tax

Details of the deferred tax liabilities and assets, amounts recognised in the Consolidated Income Statement, and amounts recognised in other comprehensive income are as follows:

	2018 US\$'000	2017 US\$'000
<i>Recognised deferred tax assets</i>		
Other temporary differences	2,653	1,761
Tax losses	9,898	6,771
Property, plant and equipment	629	538
Total deferred tax assets	13,180	9,070
Deferred tax assets netted against deferred tax liabilities	(6,799)	(2,295)
Total deferred tax assets	6,381	6,775

	2018 US\$'000	2017 US\$'000
<i>Recognised deferred tax liabilities</i>		
Evaluated mining property – Kagem and Montepuez	(89,620)	(98,453)
Inventory valuation – Kagem and Montepuez	(4,662)	(5,811)
Intangibles – Fabergé	(322)	(378)
Total deferred tax liabilities	(94,604)	(104,642)
Deferred tax assets netted against deferred tax liabilities	6,799	2,295
Total deferred tax liabilities	(87,805)	(102,347)

The movement on the deferred tax account is provided below:

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

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

Therefore, as there is uncertainty over the above, no deferred tax has been recognised in relation to unused tax losses in the amount of US\$89.2 million (2017: US\$89.0 million), of which US\$82.7 million was acquired through business combinations during the year ended 31 December 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

6. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings US\$'000	Plant, machinery and motor vehicles US\$'000	Fixtures, fittings and equipment US\$'000	Evaluated mining properties US\$'000	Deferred stripping costs US\$'000	Total US\$'000
Cost						
At 1 January 2017	–	–	–	–	–	–
Business combinations ¹	10,449	18,263	4,270	345,858	11,623	390,463
Additions	1,260	3,920	1,316	3,065	–	9,561
Disposals	–	(606)	–	–	–	(606)
Foreign exchange differences	–	–	40	–	–	40
At 31 December 2017	11,709	21,577	5,626	348,923	11,623	399,458
Additions	12,912	17,869	333	355	–	31,469
Disposals	–	(2,691)	–	–	–	(2,691)
Foreign exchange differences	–	–	(84)	–	–	(84)
At 31 December 2018	24,621	36,755	5,875	349,278	11,623	428,152
Accumulated depreciation						
At 1 January 2017	–	–	–	–	–	–
Provided during the year	307	4,592	665	15,949	468	21,981
Disposals	–	(536)	–	–	–	(536)
Foreign exchange differences	–	–	(8)	–	–	(8)
At 31 December 2017	307	4,056	657	15,949	468	21,437
Provided during the year ²	809	10,136	2,546	7,437	1,134	22,062
Disposals	–	(2,691)	–	–	–	(2,691)
Impairments	–	–	–	22,577	–	22,577
Foreign exchange differences	–	–	(247)	–	–	(247)
At 31 December 2018	1,116	11,501	2,956	45,963	1,602	63,138
Net book value						
At 31 December 2017	11,402	17,521	4,969	332,974	11,155	378,021
At 31 December 2018	23,505	25,254	2,919	303,315	10,021	365,014

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

Deferred stripping costs relate to Kagem.

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

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

6. PROPERTY, PLANT AND EQUIPMENT/CONTINUED

Impairment review of Kagem Mining Limited

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

The recoverable amount of the Kagem CGU is believed by management to be lower than its carrying value such that an impairment charge of US\$22.6 million has been recognised. The impairment charge has reduced the carrying value of the Kagem CGU from US\$206.8 million to US\$184.2 million. The recoverable amount has been determined based on the value-in-use calculations using the cash flows expected to be generated from existing operations, up to the date when the reserves and resources available using annual ore extraction rates.

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

- Recoverable amount of reserves and resources: Economically recoverable reserves and resources are based on management's expectations, as well as on the technical studies and exploration and evaluation work undertaken by in-house and third-party specialists.
- Commodity prices: Rough emerald and beryl prices have been determined using the Group's historic achieved prices over a period of ten years and 30 auctions. Rough emerald and beryl prices are not traded on a public exchange and most transactions occur in private auctions; therefore, historic trends in respect of prices and product mix are the most appropriate and reasonable basis. A 10% fall in prices would increase the impairment by US\$14.0 million to US\$36.6 million.
- Composition of auctions: The quality of production and the product mix typically dictate the composition of the high quality auctions. The composition of the auction includes premium emerald and emerald stones that enhance the auction parcels and schedules and is dependent on: (i) production; (ii) management strategy, i.e. building inventory or cash generation; and (iii) market intelligence. Any variations in this composition are at the discretion of management and, given the continued improvement in the quality of production and the market strength, it is anticipated that over the near to medium term the proportion of emerald production taken to high-quality auctions will increase. A 10% reduction in the quantity of emerald stones sent to high quality auctions would increase the impairment charge to be recognised to US\$45.5 million.
- Operating costs: Variable operating costs have been included in the impairment test as a function of the related production volumes. Fixed costs at the mines, washing plant and sort house are largely constant but reflect material changes in activity levels.
- Discount rate: A nominal discount rate of 10.37%, pre-tax 14.81%, was used in the recoverable amount calculations, which represents the pre-tax rate that reflects the Group's current market assessments of the time value of money and the risks specific to the cash-generating unit.
- Timing of capital expenditure: Management has estimated the timing of capital expenditure on the development projects based on the Group's current and future financing plans and the results of technical studies completed to date.

The calculation of value-in-use of the Group's CGUs for the impairment review at 31 December 2018 provided a range of outcomes, as the calculation is particularly sensitive to changes in rough emerald and beryl, the composition of the high-quality auctions and the discount rate used, amongst other changes. Any changes to the assumptions adopted in the calculation of the value-in-use to sell, individually or in aggregate, would result in a different valuation being determined. Sensitivity to these key inputs has been detailed above.

If the nominal discount rate is increased to 11.53%, pre-tax 16.47%, per the upper range of possible outcomes, the impairment charge would be US\$20 million higher.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

7. INVESTMENTS

Information on each of the Group's investments is provided below. This disclosure is intended to ensure that users of the Financial Statements understand how each investment has been valued, and the risks associated with each investment valuation. In addition, the disclosure meets certain requirements related to the Group's JSE listing.

The reconciliation of the investment valuations from 1 January 2018 to 31 December 2018 is as follows:

	Balance at 1 January 2018 US\$'000	Transfer from unlisted US\$'000	Unrealised fair value losses US\$'000	Realised gains US\$'000	Disposals US\$'000	Transfer to listed US\$'000	Balance at 31 December 2018 US\$'000
Listed equity investments							
Jupiter ¹	—	37,656	(11,942)	—	—	—	25,714
	—	37,656	(11,942)	—	—	—	25,714
Unlisted equity investments							
Jupiter ¹	98,100	—	—	11,680	(72,124)	(37,656)	—
Sedibelo Platinum Mines ²	98,064	—	(47,617)	—	—	—	50,447
	196,164	—	(47,617)	11,680	(72,124)	(37,656)	50,447
Total	196,164	37,656	(59,559)	11,680	(72,124)	(37,656)	76,161

1 The unrealised fair value loss on Jupiter of US\$11.9 million includes an unrealised foreign exchange loss of US\$3.6 million. The realised gain on Jupiter of US\$11.7 million does not include any foreign exchange, as the cash receipts were denominated in US\$. The cash receipt from the Jupiter IPO of AUD83.1 million, net of associated selling costs, was converted to US\$ on the same day, resulting in no foreign exchange gain/(losses) being realised. The Company disposed of 5.81% of its shares to Jupiter at US\$0.35 per share in the March 2018 Jupiter buy-back, with the Company receiving US\$7.7 million. The Company disposed of 212,028,012 of its shares to Jupiter at a price of AUD0.40 per share or US\$0.31 per share converted at the foreign exchange rate on 18 April 2018, the date the Jupiter IPO was completed, with the Company receiving US\$64.4 million.

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

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

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

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

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

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

7. INVESTMENTS/CONTINUED

Jupiter Mines Limited ("Jupiter") – equity

Nature of investment	<p>The Group holds an equity interest in Jupiter. Jupiter is based in Perth, Western Australia, and its main asset is a 49.9% interest in the Tshipi manganese joint venture in South Africa.</p> <p>The Group owns a see-through interest of 7.44% in Jupiter at 31 December 2018, valued at US\$25.7 million.</p>
Date of valuation	31 December 2018
Fair value methodology	<p>Market Approach – Listed Share Price</p> <p>The Group's interest in Jupiter is valued at the 31 December 2018 mid-price of AUD 0.2500 per share, translated at the closing rate of US\$1/AUD 1.4174.</p> <p>No secondary valuation methodologies have been considered for the Company's investment in Jupiter as it is a listed equity in an active market.</p>

Sedibelo Platinum Mines Limited ("Sedibelo Platinum Mines" or "Sedibelo" or "SPM") – equity

Nature of investment	The Group holds an equity interest in SPM, a producer of Platinum Group Metals ("PGMs") with interests in the Bushveld Complex in South Africa.
Date of valuation	31 December 2018
Fair value methodology	<p>Market Approach – Market Comparables applying Directors' estimate</p> <p>The Directors have, based on the approach below, estimated that the value of SPM is US\$772 million; the Group's indirect 6.54% interest has therefore been valued at US\$50.4 million.</p> <p>The Directors have considered a range of sources in determining the valuation of SPM. The primary source used by the Directors in their valuation at both 31 December 2017 and 30 June 2018 was based on the Income Approach - a Discounted Cash Flow (DCF) model prepared by an independent third party, which formed part of a competent person's report (the "CPR") with an effective date of 31 December 2016. The DCF analysis was based on several predictions and uncertainties and changing any of these assumptions can materially impact the valuation.</p> <p>Considering the Directors' desire to realise the investment in an orderly disposal, the Directors have altered their accounting approach from the Income Approach to the Market Approach under IFRS13 <i>Fair Value Measurement</i> ("IFRS 13"). The Directors also noted the ageing of the CPR in considering the change in the valuation methodology.</p> <p>The Directors considered that the most appropriate valuation methodology is a market comparables analysis comparing the Enterprise Values of SPM's peer group with their respective mineral reserves and resources and then applying the average multiple to SPM's estimated reserves and resources (price per 4E ounce) to arrive at an estimated valuation of SPM.</p> <p>SPM's attributable resources and reserves, as per the most recent mineral resources and reserves report (as at 31 December 2016), total c.95 million ounces with 32.2 million ounces falling in the measured and indicated category, including 16.3 million ounces of probable mineral reserves, and 62.8 million ounces in the inferred category. The Directors have reduced these ounces in line with SPM's production figures for 2017 and 2018 up to 31 December 2018 of 0.3 million ounces.</p>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

7. INVESTMENTS/CONTINUED

Sedibelo Platinum Mines Limited ("Sedibelo Platinum Mines" or "Sedibelo" or "SPM") – equity (continued)

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

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

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

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

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

7. INVESTMENTS/CONTINUED

Fair value hierarchy

IFRS 13 requires disclosure of fair value measurements under the following hierarchy:

Level	Fair value input description
-------	------------------------------

Level 1	Listed prices (unadjusted) in active markets for identical assets or liabilities
Level 2	Inputs other than listed prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3	Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

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

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

8. INVENTORY

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

9. BORROWINGS

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

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

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

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

9. BORROWINGS/CONTINUED

Barclays Zambia

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

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

Barclays Mauritius

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

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

Security for the facilities comprises a fixed and floating charge over all of Kagem's net assets, equivalent to the total amount outstanding under the facility and a corporate guarantee from Gemfields Ltd.

Barclays Mozambique

In April 2016, MRM entered into a US\$15 million unsecured overdraft facility with Barclays Bank Mozambique S.A. The facility has an interest rate of three-month US LIBOR plus 4% per annum. The outstanding balance as at 31 December 2018 was US\$14.5 million. Gemfields Ltd issued a corporate guarantee for the facility.

The proceeds of the facilities from Barclays Bank Mozambique S.A. and BCI will facilitate MRM in financing its capital expenditure requirements for the Montepuez ruby deposit in Mozambique and provide additional working capital.

Banco Comercial E De Investimentos ("BCI")

- (i) In June 2016, MRM entered into a US\$15 million unsecured overdraft facility with BCI. This is a rolling facility which renews annually, provided that terms and conditions are met, and attracts interest of three-month US\$ LIBOR plus 3.75% per annum. At 31 December 2018, US\$3.7 million was outstanding. The facility is secured by a blank promissory note undertaken by MRM and a corporate guarantee by Gemfields Mauritius Limited, a 100% subsidiary of the Group.
- (ii) In June 2016, MRM entered into a US\$15 million financing leasing facility with BCI. This is a renewable facility with a drawdown period of 18 months, and the amounts drawn down were repayable over a maximum period of 48 months. The facility had an interest rate of three-month US\$ LIBOR plus 3.75% per annum. During the period, the loan was repaid in full, and, at 31 December 2018, US\$Nil million was outstanding.

Gordon Brothers

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

10. PER SHARE INFORMATION

Earnings/(Loss) Per Share (“EPS” or “LPS”) and NAV per share are key performance measures for the Group. EPS/(LPS) is based on profit/(loss) for the year divided by the weighted average number of ordinary shares in issue during the year. NAV per share is based on net assets divided by the number of ordinary shares in issue at 31 December 2018.

Headline Earnings/(Loss) Per Share (“HEPS” or “HLPS”) is similar to EPS/(LPS), except that attributable profit specifically excludes certain items, as set out in Circular 4/2018 “Headline Earnings” (“Circular 4/2018”) issued by the South African Institute of Chartered Accountants (“SAICA”) during the period.

Earnings per share

The Group’s (LPS)/EPS is as follows:

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

¹ At 31 December 2018, the Company had a see-through interest in itself of 117,342,899 shares or 8.20%. These shares have been removed in the calculation of weighted average number of shares in issue.

There are no dilutive shares, as the average share price during the period was below the strike price of all exercisable share options. Therefore, EPS is equal to Diluted EPS.

Headline earnings per share

The Group’s HEPS is as follows:

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

NAV per share

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

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

¹ At 31 December 2018, the Company had a see-through interest in itself of 117,342,899 shares or 8.20%. These shares have been removed in the calculation of shares in issue.

10. PER SHARE INFORMATION/CONTINUED

Tangible NAV per share

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

	2018	2017
Net assets – US\$'000	476,195	538,723
<i>Adjusted for:</i>		
Intangible assets	(52,328)	(49,312)
	423,867	489,411
<i>Number of shares in issue¹</i>	<i>1,314,342,654</i>	<i>1,332,685,921</i>
Tangible NAV per share – US\$	0.32	0.37

¹ At 31 December 2018, the Company had a see-through interest in itself of 117,342,899 shares or 8.20%. These shares have been removed in the calculation of shares in issue.

11. COMMITMENTS AND CONTINGENCIES

During the course of internal control and governance processes led by the Group, indications of small value payments seemingly not made in accordance with the Group's policies and procedures were identified in one of the Group's subsidiaries, Gemfields India.

The Board regards payments made outside of the Group's policies as a principal risk and takes breaches of the policies seriously. As a result, the Company appointed an experienced UK based legal firm to undertake an investigation of the payment practices in Gemfields India. As part of this investigation, a number of lower value payments (typically a few hundred US dollars) were identified as falling outside of Group policy. The payments were made over a period of time and, even in aggregate, represent an immaterial amount from a group materiality perspective. Given ongoing work by the Group and its advisors, it is not possible at this time to be sufficiently certain of the prospect or quantum of any liability that may or may not arise in relation to this matter in respect of any breach in legislation. Therefore, no provision has been made in the financial statements. However, having taken detailed legal advice, the Directors believe that any such liability may be below the materiality threshold.

Following identification of this matter, the Board has implemented a number of measures to further enhance its controls and processes. These include appointing a Head of Internal Audit, refreshing relevant training across the Group, restructuring management in the affected entity and re-emphasising and reviewing relevant policies and procedures, including reporting and whistle-blowing facilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

BASIS OF PREPARATION

The Group's Financial Statements for the year ending 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), the financial reporting guides issued by the Accounting Practices Committee of the South African Institute of Chartered Accountants (the "SAICA Reporting Guides") and the financial reporting pronouncements issued by the Financial Reporting Standards Council of South Africa (the "FRSC Pronouncements").

The Financial Statements also comply with the JSE Listings Requirements, the Bermuda Stock Exchange ("BSX") Listing Regulations and The Companies (Guernsey) Law, 2008 and show a true and fair view. The Financial Statements have been audited by the Company's auditors, BDO LLP; their audit opinion was unqualified, and did not draw attention to any emphasis of matter. The audit opinion is available for inspection at the Company's registered office. The registered office address changed effective 28 August 2018 to PO Box 186, Royal Chambers, St. Julian's Avenue, St. Peter Port, Guernsey, GY1 4HP. The Company's address was previously 11 New Street, St. Peter Port, Guernsey, GY1 2PF. The Financial Statements will be mailed to shareholders on or about 10 April 2019 and made available on the Company's website, www.gemfieldsgroup.com.

This preliminary announcement includes condensed consolidated financial statements (the "Condensed Financial Statements"). The Condensed Financial Statements have been prepared in accordance with IAS34 *Interim Financial Reporting* and do not contain sufficient information to fully comply with IFRS. The Condensed Financial Statements comply with the SAICA Reporting Guides and the FRSC Pronouncements, the JSE Listings Requirements and the BSX Listing Regulations and show a true and fair view.

These condensed audited consolidated financial statements for the year ended 31 December 2018 have been extracted from the audited annual financial statements but are not themselves audited. The audit report does not necessarily cover all the information included in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the company's registered office. The Directors take full responsibility for the preparation of these condensed audited consolidated results and confirm that the financial information has been correctly extracted from the underlying audited results for the year ended 31 December 2018.

The Group has adopted IFRS 15 *Revenue from contracts with customers* ("IFRS 15") and IFRS 9 *Financial Instruments* ("IFRS 9") during the year, effective from 1 January 2018. Refer to the Accounting policies section below for further information.

ACCOUNTING POLICIES

The Group's accounting policies were last described in full in the Group's financial statements for the year ended 31 December 2017. Various new and revised accounting standards, amendments to standards and new interpretations have been issued by the IASB and are effective for annual periods beginning on or after 1 January 2018.

IFRS 15 *Revenue from contracts with customers* ("IFRS 15") and IFRS 9 *Financial Instruments* ("IFRS 9").

The Group has applied IFRS 15 and IFRS 9 at 1 January 2018. The requirements of IFRS 9 did not result in a change in classification of the Group's financial assets and the implementation of IFRS 15 has not had an impact on the timing of revenue recognition in the Group.

EVENTS OCCURRING AFTER THE END OF THE YEAR

Emerald auction held in Lusaka, Zambia, from 18 to 20 February 2019

Post the year end, a predominantly commercial-quality auction was held in Lusaka in February 2019. Revenues of US\$10.8 million were achieved, which were further evidence of the continuing demand for emeralds. The auction takes Kagem's total auction revenue since July 2009 to US\$567 million.

Settlement of Leigh Day legal claims

In January 2019, GGL announced that it had agreed, on a no-admission-of-liability basis, the settlement of all claims brought by English law firm Leigh Day on behalf of individuals living in the vicinity of MRM's mining concession in northern Mozambique. The settlement amount of GBP5.8 million (US\$7.4 million), comprising the sum to be distributed to the claimants by Leigh Day and their legal expenses, was paid on 23 January 2019.

Jupiter dividend

On 19 February 2019, Jupiter announced the details of a final unfranked dividend of AUD0.025 per share. The Group, as a 7.44% shareholder in Jupiter, is due to receive AUD3.6 million (US\$2.6 million), translated at the US\$/AUD1.4128 exchange rate on 4 March 2019, the date GGL entered into a forward US\$/AUD contract. The Group will receive its dividend on 21 May 2019.

Increase in Jupiter share price

The Jupiter share price has increased since 31 December 2018. The estimated impact of this non-adjusting event is as follows:

The Jupiter share price on 22 March 2019 was AUD0.34 and the exchange rate was US\$1/AUD1.4023. The fair value of the Group's investment was US\$35.4 million, US\$9.7 million higher than the valuation of US\$25.7 million included in the Consolidated Statement of Financial Position.

Approval of Consolidated Financial Statements

The Consolidated Financial Statements were approved by the Directors and authorised for issue on 22 March 2019.

COMPANY DETAILS

Executive Directors

Sean Gilbertson¹

David Lovett²

Non-Executive Directors

Brian Gilbertson³

Dr Christo Wiese

Martin Tolcher

Lumkile Mondi

Kwape Mmela

Carel Malan⁴

The following persons were Directors during the period:

Arne H. Frandsen⁵

Andrew Willis⁵

Erich Clarke⁶

1 Sean Gilbertson became Chief Executive Office effective 31 March 2018.

2 David Lovett appointed Chief Financial Officer effective 31 March 2018.

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

4 Appointed 9 January 2019.

5 Resigned 31 March 2018.

6 Resigned 7 January 2019.

Registered Office⁷

Gemfields Group Limited

PO Box 186

Royal Chambers

St Julian's Avenue

St Peter Port

Guernsey

GY1 4HP

Channel Islands

7 Changed effective 28 August 2018.

Legal Advisor (Guernsey)

Mourant Ozannes

1 Le Marchant Street

St Peter Port

Guernsey

GY1 4HP

Channel Islands

Legal Advisor (Bermuda)

Appleby Global

Canon's Court

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