

# **Gemfields PLC**

Report and Financial Statements

Year Ended

30 June 2010

Company Number 05129023

# Gemfields PLC

## Annual report and financial statements for the year ended 30 June 2010

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### Contents

#### Page:

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

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### Directors

Ian Harebottle  
Finn Behnken  
Sean Gilbertson  
Devidas Shetty (appointed on 01<sup>st</sup> April 2010)  
Graham Mascall  
Clive Newall

### Company Secretary and registered office

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

### Company number

05129023

### Auditors

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

# Gemfields PLC

## Chairman's statement

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Dear Shareholder,

Gemfields has achieved success in a number of key areas over the past year despite the challenging global economic climate. Gemstone markets have yet to recover fully and, as a result, many of the challenges presently facing Gemfields are likely to prevail for the foreseeable future. However, we are encouraged by the ongoing growth in demand for, and pricing of, our products.

Like so many other companies, Gemfields has been forced to re-evaluate its business methodologies and while this has not been easy, we have come through the past year stronger than before. We will continue to manage our business with a conservative approach throughout the coming year, monitoring the prevailing factors in our sector and adjusting accordingly.

I would like to thank each member of our team for their hard work and for the dedication I know they will deliver during the coming year. I would also like to thank you, our loyal shareholders, for your continued support and commitment to our company and our vision.

### **Key financial indicators:**

- Maiden profits of US\$2,582,868 (2009: Loss of US\$201,407,565);
- Revenue from emerald sales of US\$19,906,203 (2009: US\$815,456);
- Cash at bank of US\$2,878,812 (2009: US\$6,868,789);
- Estimated value of emerald stock at hand US\$16,545,106 (2009: US\$17,715,627);

### **Key operational developments during the financial year:**

- Average monthly operating costs at the Kagem mine reduced to US\$1.06 million (2009: US\$1.61 million);
- Average revenue per carat of rough emerald and beryl has increased to approximately US\$0.96 per carat after July 2010 auction;
- Successful marketing and promotional initiatives completed during the year including the World Land Trust's "Emeralds for Elephants" campaign and the Indian International Jewellery Show's (IIJS) "Jewellery Designer of the Year" awards;
- Operational and sales initiatives implemented at Kariba Mining Limited's amethyst mine resulting in improved performance of this division;
- Discovery of exceptional 6,225 carat 'Insofu' rough emerald at the Kagem mine;
- Appointment of Devidas Shetty as CFO.

### **Key developments since the end of the period:**

- Successful rough emerald auction conducted during July 2010 with record sales totalling US\$7.5 million;
- Encouraging production at the Kagem mine during July 2010 of 3.9 million carats of emerald and beryl, a trend which has continued during August and September;
- Various exploration and other geological projects re-initiated within the Gemfields' Zambian and Madagascan licence areas.

# Gemfields PLC

## Chairman's statement (*Continued*)

### Strategic Review

The uncertainty in the global economy and its associated impact on the luxury goods sector motivated an in-depth strategic review of Gemfields' Group wide operations and a clear focus on core business. Following on from the stance taken in February 2009, Gemfields continues to prioritise:

- Reducing operating costs.
- Improving operating efficiencies.
- Delivering consistent and world-class supply of larger volumes of well-graded, quality rough emeralds to selected stakeholders.

A solid foundation has been established for further growth and improved profitability. Our strategic review has realised encouraging results and combined with improved operating environments, we are well positioned to deliver sustainable growth and success in the years ahead, as is demonstrated by our maiden profit and reduced operating costs.

While Gemfields' performance has been lower than projected at the time of readmission to AIM in June 2008, a solid base has been established and is providing a sound foundation for further growth and profitability as our operating environment continues to improve.

### Operations

- *Mining – Kagem*

The Kagem emerald mine in Zambia is presently Gemfields' only operating emerald mine and serves as the source of emeralds and beryl for our downstream business. Given the level of uncertainty which continues to prevail in the global markets, Gemfields took the decision early in 2009 to reduce the scale of mining at Kagem and seek operational efficiencies. Operating costs averaged US\$193 per tonne of ore (known as "Reaction Zone") during the year under review, a reduction of 20% (compared to US\$241 per tonne in 2009), demonstrating improved operational efficiencies.

Kagem's key annual production parameters are summarised below:

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

During the year, Kagem's operating cost averaged US\$0.73 per carat (counting both emerald and beryl production), compared to an average of US\$0.69 per carat in 2009. Although absolute costs have continued to fall, the per carat production costs increased slightly on account of lower production volumes.

The stripping ratio is anticipated to increase in the short to medium term as areas of overburden are mined in order to expand the levels of available ore, and is thus expected to have a commensurate impact on total mining costs.

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

# Gemfields PLC

## Chairman's statement (Continued)

Post the delivery of three additional dump trucks and one excavator in 2009, an additional US\$3.9 million was spent on the acquisition of five new dump trucks and four excavators in 2010. The constant upgrading of the fleet is in line with the Gemfields' growth plans, its confidence in the mine's underlying profitability and its ongoing drive to improve operating efficiencies.

### • *Sales and Inventories*

Gemfields has elected to offer its rough production to selected market participants by way of sealed bid auctions where all material offered is certified by Gemfields as natural, untreated and of Zambian origin. Many of the world's top gem houses and emerald lapidaries are invited to attend these events.

During the period, Gemfields hosted high quality emerald auctions in July and November 2009 followed by a low quality emerald auction in March 2010. Some thirty companies drawn from Germany, India, Israel and the USA attended these events which saw 31.38 million carats of emerald and beryl offered in 102 separate lots. The sales from these auctions totalled US\$18.7 million with 89 out of the 102 lots being sold. The total sales after including specimens and cut and polished emeralds totalled US\$19.9 million. The results of the auctions are summarised below.

<b>AUCTION RESULTS SUMMARY</b>	<b>JULY '09 AUCTION</b>	<b>NOVEMBER '09 AUCTION</b>	<b>MARCH '10 AUCTION</b>
Dates	20-24 July 2009	23-27 November 2009	11-15 March 2010
Location	London, England	Johannesburg, South Africa	Jaipur, India
Type	Higher Quality	Higher Quality	Lower Quality
Carats offered	1.36 million	1.12 million	28.90 million
Carats Sold	1.36 million	1.09 million	22.80 million
No. of lots offered	27	19	56
No. of lots sold	26	14	49
Percentage of lots sold	96%	74%	88%
Percentage of lots sold by weight	99.8%	97.2%	78.9%
Percentage of lots sold by value	82%	76%	89%
Total sales realised at auction	US\$ 5.9 million	US\$ 5.6 million	US\$ 7.2 million
Average per carat sales value	US\$ 4.40 per carat	US\$ 5.10 per carat	US\$ 0.31 per carat

Significant interest in attending the Gemfields' auctions provides sound evidence of an increase in demand for our products across all grades. This trend was further demonstrated in the auction held in July 2010.

Despite the improving market conditions and demonstrated sales successes, Gemfields' Directors continue to prefer a conservative approach when estimating the possible net realisable value of the rough emerald inventories. Similarly, the internal valuation of the net realisable value of Gemfields' cut and polished emerald inventory has been assumed as the estimated value of the rough material consumed, plus the physical costs of cutting and polishing.

### • *Geology and Exploration*

Given the improving market and financial conditions, the decision has been taken to re-initiate a number of geological and exploration projects, some of which were put on hold in 2009 and some of which are new projects motivated by the developments that have taken place over the past year. These include:-

- Fwaya Fwaya 3 (FF3) - Work on the separate FF3 pit commenced in February 2010. The pit is currently around 30 metres deep, exposing one concordant and four discordant pegmatites over a strike length of 40 metres. A total of approximately 201kt of rock that has been handled to date (against a bulk sampling target of 500kt) and has generated 630t of Reaction Zone (ore) and produced approximately 10,000 carats of emerald and beryl;
- Geological and geotechnical assessment of the various Oriental Mining SARL licences areas in Madagascar; and

# Gemfields PLC

## Chairman's statement (*Continued*)

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- The establishment of an in-house diamond-core drilling team, including the acquisition of a drill-rig, to facilitate continued drilling of various key target sites within the Gemfields' various Zambian emerald licence areas.

- ***Security***

Securing the Group's assets, protecting its people and limiting the theft of gemstones remain a key operational priority. While the various security initiatives implemented during the past year have begun to show positive results, and are attested to by a reduction in the volumes of material available in the informal markets neighbouring the mine, the reduction of theft and challenges of physically securing the mining licence area require the continuous efforts by our security team and is an ongoing challenge. Various capital projects have been investigated and are proposed for the coming year, including the installation of new and upgraded CCTV systems and associated IT infrastructure.

- ***Marketing and Promotions***

Apart from our core focus on rough emeralds, Gemfields is also in the process of repositioning itself as a leader in the mining and marketing of ethically-produced "Premium Coloured Gemstones"; gemstones that can be traced directly from mine to market.

These rebranding efforts include demonstrated successes in terms of the level of exposure achieved for the Group's products in leading trade and consumer magazines, the development of trade and consumer brochures, corporate and consumer DVDs and a comprehensive emerald training program made available to our distribution partners and retailers.

Further to the above, Gemfields has collaborated with the World Land Trust and eight world-class jewellery designers to create a unique 'pop up' collection of bespoke emerald jewellery. With a view to creating awareness of the World Land Trust's 'Indian Elephant Corridor' project and to raise crucial funds, the collection was placed on display at Selfridges Wonder Room and was auctioned by Sothebys to a select group of high profile personalities in June 2010. The auction was a considerable success.

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

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

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

### *The Zero Carbon Project*

Kagem embarked on a "Zero Carbon Project" in March 2009 involving the planting of circa 300,000 trees to neutralise the effect of emissions. In excess of 60,000 trees have been planted to-date.

# Gemfields PLC

## Chairman's statement (*Continued*)

### *Corporate Social Responsibility*

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

- ***Impairment***

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

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

- ***Kariba Amethyst Mine***

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

### **Key financial performance indicators**

	<b>2010</b>	<b>2009</b>
Share price	£0.05	£0.06
Cash and cash equivalents	US\$2,878,812	US\$6,868,789
Emerald inventory	US\$16,545,106	US\$17,715,627
Revenue from emerald sales	US\$19,906,203	US\$815,456
Profit/(Loss) for the year	US\$2,582,868	US\$(201,407,565)

### **Oriental Mining S. a. r. l.**

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

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

Madagascar is recognised as one of the most exciting colour gemstone provinces in the world today, with several key discoveries having been made there during the last decade. Gemfields believes that, in the medium to long term, gemstone-related activity in the country has the potential to become a valuable part of Gemfields' asset portfolio. Given Madagascar's improving political and security environment, Gemfields has recently contracted Mineralogical and Petrological Services ("M.A.P.S.") to undertake a geological and geotechnical assessment of the various licence areas.

# Gemfields PLC

## Chairman's statement (*Continued*)

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### **New Appointments**

Devidas Shetty, a qualified chartered accountant with 10 years' of diverse international experience encompassing mergers and acquisitions, business start-ups, business turnarounds, strategic planning, treasury, tax and financial reporting, was appointed as CFO during the period.

### **Illegal mining activities within the Kagem Licence area**

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

### **Post reporting period events**

Gemfields held an auction of (predominantly higher quality) rough emeralds in London from 19 to 23 July 2010. The auction was attended by 37 companies drawn from India, Israel and the United States. The auction saw 0.85 million carats offered, with 0.80 million carats being sold, raising record auction revenues of US\$7.5 million.

Gemfields' next auction of (predominantly higher quality) rough emeralds is scheduled to take place during December 2010.

### **Outlook and Objectives for the year ahead**

#### **Objectives:**

- Build on the solid rough sales platform that has been established and which is showing encouraging signs of growth;
- Continue to reposition and rebrand Gemfields as a world leader in the Premium Coloured Gemstone sector;
- Expand the underground mining project to a point where it can be initiated on a significantly larger scale;
- Expand open cast mining activities to new target sites within the Kagem licence area;
- Continue the focus on cost reduction and improved operating efficiencies;
- Focus on improved and upgraded security across the mine site supported by skilled manpower;
- Open a rough gemstone trading business in Kitwe, Zambia (aimed at purchasing rough emeralds from local dealers and small scale operators); and
- The establishment of a trial cutting facility on the mine to establish the feasibility of local beneficiation.

#### **Outlook:**

- Improving mining efficiencies, targeting of higher grade areas and further reducing relative operating costs continues to drive the Kagem mine plan. Possible expansion of mining activities within the Kagem mining licence will continue to be reviewed, assessed and implemented where appropriate.
- Gemfields continues to pursue its strategy of consolidating the supply chain and increasing consumer awareness. It is becoming increasingly evident that demand for the Gemfields' products is increasing across all levels within the supply chain, supporting increased prices and improving margins.
- While the year ahead will offer a number of challenges Gemfields is reasonably optimistic of its ability to achieve its targets of internal growth and expansion.

**Graham Mascal**

4 October 2010

# **Gemfields PLC**

## **Report of the Directors for the year ended 30 June 2010**

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The Directors present their report together with the audited financial statements for the year ended 30 June 2010.

### **Results and dividends**

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

The Directors do not recommend the payment of a dividend (2009 - Nil).

### **Principal activities**

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

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

### **Business review**

The consolidated statement of comprehensive income is set out on page 13 and shows a profit for the year of US\$2.6 million (2009 - US\$201.4 million loss).

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

### **Financial instruments and risks**

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

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

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

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

The Directors have considered the Group's exposure to liquidity and cash flow risks and they consider that the Group has adequate funds to finance current operations (note 26).

### **Going concern**

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

# Gemfields PLC

## Report of the Directors for the year ended 30 June 2010 (*Continued*)

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### **Principal risks and uncertainties**

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

#### *Exploration and development risk*

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

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

#### *Key performance indicators*

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

### **Directors**

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

Mr. Devidas Shetty was appointed as a director on 1 April 2010.

Mr. Richard James resigned as a director on 31 December 2009.

Messrs Sean Gilbertson, Finn Benkhen and Devidas Shetty retire in accordance with the Company's Articles of Association and, being eligible, offer themselves for re-election.

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

### **Directors' responsibilities**

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

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

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

- select suitable accounting policies and then apply them consistently;

# Gemfields PLC

## Report of the Directors for the year ended 30 June 2010 (*Continued*)

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

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

### **Website publication**

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

### **Policy and practice on the payment of creditors**

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

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

At the reporting date creditor payment days are 67 (2009 - 62).

### **Charitable and political donations**

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

### **Events after the reporting period**

Details of events after the reporting date are disclosed in note 28.

### **Related party transactions**

Details of related party transactions are given in note 23. Key management disclosures are disclosed in note 5.

### **Independent Auditors**

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

# Gemfields PLC

## Report of the Directors for the year ended 30 June 2010 (*Continued*)

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### *Disclosure of information to the independent auditors*

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

### **By order of the Board**

Devidas Shetty

### **Secretary**

4 October 2010

# Gemfields PLC

## Report of the independent auditors

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### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GEMFIELDS PLC

We have audited the financial statements of Gemfields Plc for the year ended 30 June 2010 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### *Respective responsibilities of Directors and auditors*

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

#### *Scope of the audit of the financial statements*

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

#### *Opinion on financial statements*

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 30 June 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### *Opinion on other matters prescribed by the Companies Act 2006*

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

# Gemfields PLC

## Report of the independent auditors (*Continued*)

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### *Matters on which we are required to report by exception*

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

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

Anne Sayers (senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
55 Baker Street  
London  
United Kingdom  
4 October 2010

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

# Gemfields PLC

## Consolidated statement of comprehensive income for the year ended 30 June 2010

	Note	2010 US\$'000	2009 US\$'000
<b>Revenue</b>		<b>19,906</b>	815
(Decrease) / Increase in inventory		<b>(1,169)</b>	10,927
Mining and production costs	<b>3</b>	<b>(11,784)</b>	(17,447)
<b>Total cost of sales</b>		<b>(12,953)</b>	(6,520)
<b>Gross profit/(loss)</b>		<b>6,953</b>	(5,705)
Other income		<b>199</b>	246
<b>Administrative expenses</b>			
Other administrative expenses		<b>(5,134)</b>	(8,009)
Depreciation	<b>10</b>	<b>(3,248)</b>	(14,743)
Impairment of available-for-sale investments	<b>27</b>	<b>(1,018)</b>	(5,201)
Impairment of mining assets	<b>27</b>	-	(249,731)
Release of decommissioning liabilities	<b>16</b>	<b>4,561</b>	-
<b>Total Administrative expenses</b>		<b>(4,839)</b>	(277,684)
<b>Profit/(loss) from operations</b>	<b>4</b>	<b>2,313</b>	(283,143)
Finance income	<b>6</b>	<b>10</b>	1,423
Finance expenses	<b>6</b>	<b>(822)</b>	(9,358)
<b>Profit/(loss) before taxation</b>		<b>1,501</b>	(291,078)
Tax credit	<b>7</b>	<b>1,082</b>	89,670
<b>Profit/(loss) and total comprehensive income/(loss) for the year</b>		<b>2,583</b>	(201,408)
Attributable to:			
Equity shareholders of the parent		<b>2,068</b>	(164,757)
Minority interest		<b>515</b>	(36,651)
		<b>2,583</b>	(201,408)
<b>Earnings/(loss) per share</b>			
Basic	<b>8</b>	<b>US\$0.01</b>	US\$(0.51)
Diluted	<b>8</b>	<b>US\$0.01</b>	US\$(0.51)

All amounts relate to continuing activities.

The notes on pages 17 to 53 form part of these financial statements.

# Gemfields PLC

## Consolidated statement of changes in equity for the year ended 30 June 2010

Attributable to equity holders of the parent									
	Share capital \$000s	Share premium \$000s	Merger Reserve \$000s	Option Reserve \$000s	Cumulative Translation Reserve \$000s	Retained deficit \$000s	Total \$000s	Minority Interest \$000s	Equity \$000s
Balance at 30 June 2008	5,904	89,686	121,005	1,111	(7)	(43,568)	<b>174,131</b>	36,651	<b>210,782</b>
Total comprehensive loss for the year	-	-	-	-	-	(164,757)	<b>(164,757)</b>	(36,651)	<b>(201,408)</b>
Issue of new share capital (net of issue costs)	256	7,137	-	-	-	-	<b>7,393</b>	-	<b>7,393</b>
Share based payments	-	-	-	1,321	-	-	<b>1,321</b>	-	<b>1,321</b>
Expired options	-	-	-	(228)	-	228	-	-	-
Balance at 30 June 2009	6,160	96,823	121,005	2,204	(7)	(208,097)	<b>18,088</b>	-	<b>18,088</b>
Total comprehensive income for the year	-	-	-	-	-	2,068	<b>2,068</b>	515	<b>2,583</b>
Share based payments	-	-	-	274	-	-	<b>274</b>	-	<b>274</b>
Expired options	-	-	-	(865)	-	865	-	-	-
<b>Balance at 30 June 2010</b>	<b>6,160</b>	<b>96,823</b>	<b>121,005</b>	<b>1,613</b>	<b>(7)</b>	<b>(205,164)</b>	<b>20,430</b>	<b>515</b>	<b>20,945</b>

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

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

The notes on pages 17 to 53 form part of these financial statements.

# Gemfields PLC

## Consolidated statement of financial position at 30 June 2010

	Note	2010 US\$'000	2009 US\$'000
<b>Non-current assets</b>			
Property, plant and equipment	10	6,008	5,993
Available-for-sale Investments	12	1,412	2,430
		7,420	8,423
<b>Current assets</b>			
Inventory	13	17,380	18,445
Trade and other receivables	14	3,051	1,620
Cash and cash equivalents		2,879	6,869
<b>Total current assets</b>		<b>23,310</b>	26,934
<b>Total assets</b>		<b>30,730</b>	35,357
<b>Non-current liabilities</b>			
Deferred taxation	18	(46)	(1,134)
Borrowings	15	-	(1,637)
Other non-current liabilities	15	(1,579)	(6,211)
		(1,625)	(8,982)
<b>Current liabilities</b>			
Trade and other payables	17	(2,204)	(2,640)
Current tax	17	(31)	(23)
Borrowings	17	(3,506)	(3,561)
Other current liabilities	17	(2,419)	(2,063)
		(8,160)	(8,287)
<b>Total liabilities</b>		<b>(9,785)</b>	(17,269)
<b>Total net assets</b>		<b>20,945</b>	18,088
<b>Capital and reserves attributable to equity holders of the parent</b>			
Share capital	19	6,160	6,160
Share premium		96,823	96,823
Merger reserve		121,005	121,005
Option reserve		1,613	2,204
Cumulative translation reserve		(7)	(7)
Retained deficit		(205,164)	(208,097)
		20,430	18,088
Minority interests		515	-
<b>Total equity</b>		<b>20,945</b>	18,088

The financial statements were approved by the Board of Directors and authorised for issue on 4 October 2010.

**Devidas Shetty**  
Director

Company Registration Number 05129023  
The notes on pages 17 to 53 form part of these financial statements.

# Gemfields PLC

## Consolidated statement of cash flows for the year ended 30 June 2010

	Note	2010 US\$'000	2009 US\$'000
<b>Cash flows from operating activities</b>			
<b>Profit/(loss) for the year before tax</b>		<b>1,501</b>	(291,078)
Depreciation	10	3,248	14,743
Share-based payments		274	1,321
Finance income		(10)	(1,423)
Finance expense		822	9,358
Profit on sale of property, plant and equipment		(148)	-
Release of decommissioning liabilities	16	(4,561)	-
Impairment of evaluated mining properties	10,27	-	249,731
Impairment of available for sale investments	27	1,018	5,201
(Increase) in trade and other receivables		(1,431)	(469)
(Decrease) in trade and other payables		(518)	(1,881)
Increase/(decrease) in provisions		369	(802)
Decrease / (Increase)/ in inventory		1,065	(10,945)
<b>Net cash inflow /(outflow) from operating activities</b>		<b>1,629</b>	(26,244)
<b>Cash flows from investing activities</b>			
Acquisition of available for sale investment	12	-	(7,631)
Interest received		10	974
Dividend received		-	449
Purchase of property, plant and equipment	10	(3,262)	(2,338)
Sale of property, plant and equipment	10	147	534
<b>Net cash flow from investing activities</b>		<b>(3,105)</b>	(8,012)
<b>Cash flows from financing activities</b>			
Issue of ordinary shares (net of issue costs)		-	7,360
Exercise of share options		-	33
Repayment of borrowings		(3,777)	(4,986)
Receipt of loans		2,085	-
Finance expense		(559)	(653)
<b>Net cash flow from financing activities</b>		<b>(2,251)</b>	1,754
<b>Net decrease in cash and cash equivalents</b>		<b>(3,727)</b>	(32,502)
Cash and cash equivalents at start of year		6,869	48,078
Exchange differences on translation		(263)	(8,707)
<b>Cash and cash equivalents at end of year</b>		<b>2,879</b>	6,869

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010

### 1 Accounting policies

#### *Basis of preparation*

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

In forming its opinion as to going concern, the Board prepares a working capital forecast based upon its assumptions as to trading as well as taking into account the available borrowing facilities in line with the capital management policies referred to in note 26. The Board also prepares a number of alternative scenarios modelling the business variables and key risks and uncertainties. Based upon these, the Board has concluded that the Group has adequate working capital and therefore confirm their belief that it is appropriate to use the going concern basis of preparation for the financial statements of the Company and the Group.

The financial statements of the Group for the twelve months ended 30 June 2010 have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by European Union.

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

The IFRS financial statements have been drawn up on the basis of accounting standards, interpretations and amendments effective at the beginning of the accounting period on 1 July 2009:

#### *(a) Standards, amendment and interpretations effective in the year ended 30 June 2010*

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

International Accounting Standards (IAS/IFRS)	Effective date (periods beginning on or after)
• IAS 1 Amendment - Presentation of financial statements: a revised presentation	1 Jan 2009
• IAS 23 Amendment - Borrowing costs	1 Jan 2009
• IFRS 2 Amendment - Share-based payment: vesting conditions and cancellations	1 Jan 2009
• IFRS 7 Amendment – Improving Disclosures about Financial Instruments	1 Jan 2009
• Improvements to IFRSs (2009)	1 Jan 2009
• IAS 27 Amendment - Consolidated and separate financial statements	1 Jul 2009
• IFRS 3 Revised - Business combinations	1 Jul 2009

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

New Standards effective in the year relevant to the Group:

- IFRS 8 Operating Segments 1 Jan 2009

The adoption of IFRS 8 and the amendment to IAS 1 and IFRS 7 affected the presentation and disclosure of the financial statements. The amendment to IAS 23 and IFRS 2 did not have any financial effect in the year however the accounting policies of the Group have been updated to reflect the required amendments. The revision to IFRS 3 would affect the presentation and disclosure of future business combinations completed in the period, the accounting policies have been updated to reflect the required change.

Standards, interpretations and amendments to published standards effective in the year but which are not relevant to the Group:

International Accounting Standards (IAS/IFRS)	Effective date (periods beginning on or after)
• IFRIC 16 Hedges of a Net Investment in a Foreign Operation	1 Oct 2008
• IFRS 1 and IAS 27 Amendments – Cost of an Investment in a subsidiary, jointly controlled entity or associate	1 Jan 2009
• IFRS 2 Amendment - Vesting conditions and cancellations	1 Jan 2009
• IAS 32 and 1 Amendments - Puttable financial instruments and obligations arising on Liquidation	1 Jan 2009
• IFRIC 15 Agreements for the Construction of Real Estate	1 Jan 2009
• IFRIC9 and IAS 39 Amendments – Embedded derivatives	30 Jun 2009
• IAS 39 Amendment –Recognition and measurement: Eligible hedged items	1 Jul 2009
• IFRIC 17 Distributions of Non-cash assets to owners	1 Jul 2009
• IFRIC 18 Transfers of assets from customers	1 Jul 2009
• IFRS 1 First-time adoption of international accounting standards	1 Jul 2009

Standards, Interpretations and amendments, which are effective for reporting periods beginning after the date of these financial statements:

International Accounting Standards (IAS/IFRS)	Effective date (periods beginning on or after)
• IFRS 1 Additional exemptions for first-time adopters	1 Jan 2010
• IFRS 2 Amendment – Group cash-settled share based payment transactions	1 Jan 2010
• Improvements to IFRSs (2009) generally	1 Jan 2010
• IAS 32 Amendment – Classification of rights issues	1 Feb 2010
• IFRIC19* Extinguishing financial liabilities with equity instruments	1 Apr 2010
• IFRS 1 Amendment – first-time adopters of IFRS	1 Jul 2010
• IAS24 Revised – Related party disclosures	1 Jan 2011
• IFRIC 14 Amendment to IFRIC 14 – IAS 19 Limit on a defined benefit asset Minimum funding requirements and their interaction	1 Jan 2011
• Improvements to IFRSs (2010)* generally	1 Jan 2011
• IFRS9* Financial instruments	1 Jan 2013

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

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

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

### *Basis of consolidation*

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

### *Business combinations*

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

### *Foreign currency*

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

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the consolidated statement of comprehensive income.

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

Exchange differences recognised in the statement of comprehensive income of Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the cumulative translation reserve on consolidation.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

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### 1 Accounting policies (*Continued*)

#### *Financial assets and liabilities*

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

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

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

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

#### *Financial liabilities*

Financial liabilities include the following items:

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

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

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

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### 1 Accounting policies (*Continued*)

#### *Exploration and evaluation expenditure*

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

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

An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. The amounts attributed to such intangibles are arrived at using appropriate valuation techniques. (See section on critical estimations and judgements).

#### *Investment in Joint Ventures*

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

#### *Revenue*

Revenue and associated costs from the sale of rough emeralds are recognised when control together with the risks and rewards of ownership are transferred to the customer. This transfer of ownership is deemed to occur at the date of receipt of cash.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

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### 1 Accounting policies (*Continued*)

#### *Share-based payments*

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

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

#### *Impairment*

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

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

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

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

#### *Leased assets*

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

#### *Property, plant and equipment*

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

Freehold land is not depreciated. Depreciation is provided on all other items of property, plant and equipment to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

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

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

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### 1 Accounting policies (*Continued*)

#### *Inventory*

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

During the process of extracting emeralds, beryl is also produced. This production is treated as a by-product, and is measured at net realisable value. The net realisable value is accounted for as a contribution to the costs of producing emeralds in the equivalent period. Upon sale of the beryl, the sale is recognised as revenue, with any profit over its previous carried value being recognised within revenue in the period of sale.

#### *Deferred taxation*

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

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

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

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

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

- the same taxable Group Company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

#### *Provision for decommissioning and restoration*

A provision for decommissioning and restoration costs is recognised at the commencement of mining. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created, which is subsequently depreciated as part of the cost of production. Any change in the present value of the estimated future expenditure is reflected and adjusted against the provision and evaluated mining property, unless the asset to which the provision relates has been impaired in which case the reversal of the provision is taken through the statement of comprehensive income.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

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### 1 Accounting policies (*Continued*)

#### *Other provisions*

Provisions are recognised for liabilities of uncertain timing or amounts that have arisen as a result of past transactions. The other provisions balance consists of the long service benefit provision for employees of Kagem Mining Limited. Other provisions are measured using best estimates of the expenditure required to settle the obligation.

#### *Critical accounting estimates, judgements and assumptions*

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

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

(a) Acquisition of Kagem Mining Limited via the acquisition of Krinera Group SA and Greentop International Inc:

On 5 June 2008 Gemfields acquired control of a 75% interest in Kagem Mining Limited through the acquisition of the holding companies Krinera Group SA and Greentop International Inc. from Rox Limited ("Rox"). The consideration for the transaction was 137,910,340 new ordinary shares in Gemfields, which gave Rox a 56% interest in the enlarged Gemfields' share capital after the transaction.

The transaction has been accounted for using the purchase method of accounting for a business combination under IFRS 3 – Business Combinations. The Directors have considered the facts of the transaction and conclude that the transaction did not result in a reverse acquisition whereby Rox gained control of Gemfields. This conclusion is based on the following information:

- The motivation for the transaction was for Gemfields to gain control of the Kagem mine, to enable Gemfields to apply the operational management experience and advanced mining techniques to improve production levels, and move towards Gemfields' strategic goal of becoming an integrated supplier of high quality coloured gemstones.
- Although Kagem/Rox Directors have been appointed to the Board of Gemfields, the original Gemfields Directors still dominated the Board on a 2:1 basis following the transaction.
- Pre-existing Gemfields' operational management are now in charge of the Kagem mine. The operational management and control is driven by Gemfields.
- A legally binding relationship agreement is in place between the Company and Rox to ensure that Rox's control by way of percentage shareholding is not abused. Each party has undertaken to ensure that all transactions, agreements, relationships and arrangements (contractual or otherwise) entered into between the Company and Rox will only be made on a commercial arm's length basis and that the Company will be able to carry on its business independently of Rox.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

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### 1 Accounting policies (*Continued*)

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

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

#### (c) Carrying values of unevaluated mining properties

During 2009, the carrying values of the Group's unevaluated mining properties were all written down to zero. In the current year, the Group has reviewed the net realisable value of its mining properties and no adjustment to the carrying value has been made (refer note 27).

#### (d) Inventories (Note 13)

The Group reviews the net realisable value of, and demand for, its inventory on a quarterly basis to provide assurance that recorded inventory is stated at the lower of cost or net realisable value. Factors that could impact estimated demand and selling prices include competitor actions and economic trends.

Since the reporting date rough emeralds with a valuation of US\$7.5 million have been sold at auction. The Directors have used the prices achieved at this auction as the basis for the estimated net realisable value of the remaining uncut stones. The internal valuation of the net realisable value of the cut and polished stones has been estimated using the rough emeralds estimate of the stones and adding the costs of cutting and polishing.

There is not an active and transparent market for coloured gemstones and the prices are volatile. Therefore the amount actually realised for these inventories may differ, either positively or negatively, from those values estimated by the Directors due to factors outside the control of the Group.

#### (e) Share-based payments (Note 25)

The Group has an equity-settled share-based remuneration schemes for employees and Directors. Employee services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of grant, excluding the impact of any non-market vesting conditions. The fair value of share options is estimated by using the Black-Scholes valuation model on the date of grant based on certain assumptions. Those assumptions are described in note 25 and include, among others, the dividend growth rate, expected volatility, expected life of the options and number of options expected to vest.

#### (f) De-commissioning provision (Note 16)

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

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

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

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### 1 Accounting policies (*Continued*)

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

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

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

These estimates are reviewed annually.

#### (g) Available-for-sale investments (Note 12)

The significant fall in the market value of the investment in TanzaniteOne is judged to be prolonged and significant, therefore the charge has been recognised in the income statement, in accordance with IAS 39.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 *(Continued)*

### 2 Segmental analysis

The Group operated in two principal operating segments of business being the mining operations and corporate activities. Activities are spread over five geographic locations and reporting to Management is on this basis. The reporting on these investments to Management focuses revenue, operating costs and capital expenditure. The impact of such criteria is discussed further in the Chairman's Statement on pages 1 to 6 of the annual report.

<b>2010</b>	<b>Zambia US\$'000</b>	<b>UK US\$'000</b>	<b>BVI US\$'000</b>	<b>Canada US\$'000</b>	<b>India US\$'000</b>	<b>Total US\$'000</b>
Total revenues	5,784	6,523	632	-	7,166	20,105
Share of operating profit / (loss)	1,082	(2,076)	265	(20)	3,062	2,313
Net Finance expense	(699)	(260)	(5)	-	152	(812)
Profit/(loss) after tax	1,469	(2,340)	260	(20)	3,214	2,583
Total non-current assets	5,818	1,522	-	-	80	7,420
Total non-current liabilities	(1,625)	-	-	-	-	(1,625)
Total assets	22,189	6,978	604	449	511	30,730
Total liabilities	(7,612)	(2,123)	(26)	-	(24)	(9,785)
<i>Other charges</i>						
Depreciation	3,211	22	-	-	15	3,248
Impairment	-	1,018	-	-	-	1,018
Share based payments charge	-	274	-	-	-	274

These figures are presented after intercompany adjustments have been accounted for.

96% of the total revenue relates to customers of Indian origin. Of this figure, no single customer commands more than 10% of the total.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 *(Continued)*

### 2 Segmental analysis *(Continued)*

<b>2009</b>	<b>Zambia US\$'000</b>	<b>UK US\$'000</b>	<b>BVI US\$'000</b>	<b>Canada US\$'000</b>	<b>India US\$'000</b>	<b>Total US\$'000</b>
Total revenues	497	19	-	-	545	1,061
Share of operating loss	(155,051)	(123,203)	(292)	(35)	(4,562)	(283,143)
Net Finance expense	(1,233)	(6,656)	(5)	-	(41)	(7,935)
Profit/(loss) after tax	(69,341)	(129,726)	(296)	(35)	(2,010)	(201,408)
Total non-current assets	5,860	2,470	-	-	93	8,423
Total non-current liabilities	(8,982)	-	-	-	-	(8,982)
Total assets	16,285	11,093	121	93	7,765	35,357
Total liabilities	(15,049)	(2,141)	(12)	-	(67)	(17,269)
<i>Other charges</i>						
Depreciation	14,726	4	-	-	13	14,743
Impairment	127,038	124,526	-	-	3,368	254,932
Share based payments charge	-	1,321	-	-	-	1,321

These figures are presented after intercompany adjustments have been accounted for.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 3 Mining and Production costs

	<b>2010</b>	<b>2009</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Fuel costs	2,796	4,792
Labour costs	5,112	4,584
Contract mining	100	2,970
Repairs & maintenance	1,404	2,152
Blasting	572	1,028
Other actual mining and processing costs	1,800	1,553
Purchases	-	368
	11,784	17,447
	11,784	17,447

In 2009, labour costs include a US\$1.2 million reversal of terminal benefits provision.

### 4 Profit / (loss) from operations

	<b>2010</b>	<b>2009</b>
	<b>US\$'000</b>	<b>US\$'000</b>
This has been arrived at after charging:		
Auditors' remuneration		
- Fees payable to the Company's auditor for the audit of the Group and Company's annual accounts	54	60
- Fees payable to the Company's auditor for the audit of the Zambian subsidiaries	26	22
- Other taxation services	-	28
Staff costs (Note 5)	5,678	6,652
Directors' remuneration (Note 5)	824	494
Depreciation, depletion and amortisation	3,248	14,743
Impairment charges (Note 27)	1,018	254,932
Operating lease costs – land and buildings	73	100
Share based payments	274	1,321

Included in the Group audit fee is an amount of US\$20,000 (2009 - US\$30,000) in respect of the Company.

The staff costs above include US\$5,112,402 relating to mining and production costs (2009 – US\$4,584,001)

Impairment charges relate to the provision against the Group's projects at the Kagem mine and the value of the investment in TanzaniteOne (note 27).

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 5 Employees and Directors

	2010 Number	2009 Number
Administration Staff	88	61
Mining Staff	354	402
Cutting and polishing Staff	-	53
	442	516
	US\$'000	US\$'000
Gross salaries	5,358	6,391
Social security costs	320	261
	5,678	6,652

Included within gross salaries, there have been termination payments made to ex directors in the year. These payments total US\$240,174.

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

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 5 Employees and Directors (Continued)

	Fees/ Salary \$'000s	Share based payments \$'000s	2009 \$'000s
Executive Director - Ian Harebottle (appointed 11 February 2009)	127	50	177
Executive Director - Sean Gilbertson	-	274	274
Executive Director - Richard James	242	137	379
Executive Director - Rajiv Gupta	24	-	24
Non-Executive Director - Finn Behnken	-	82	82
Non-Executive Director - Clive Newall	29	55	84
Non-Executive Director - Graham Mascall	72	69	141
Total Key Management 2009	494	667	1,161
	494	667	1,161

### 6 Finance income and expense

	2010 US\$'000	2009 US\$'000
<b>Finance income</b>		
Interest received	10	974
Dividend income	-	449
	10	1,423
<b>Finance expense</b>		
Interest on bank loans and overdrafts	559	653
Exchange differences on translation	263	8,705
	822	9,358
	822	9,358

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 *(Continued)*

### 7 Taxation of profit / (loss) for the period

	<b>2010</b>	<b>2009</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<i>Current tax</i>		
Tax charge for year - Zambia	6	23
<i>Deferred tax</i>		
Release of the fair value deferred tax liability (Note 18)	<b>(1,088)</b>	(89,693)
	<hr/>	<hr/>
Total taxation credit	<b>(1,082)</b>	(89,670)
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>2010</b>	<b>2009</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Profit/(Loss) on ordinary activities before tax	<b>1,501</b>	<b>(291,078)</b>
	<hr/>	<hr/>
Profit/(Loss) on ordinary activities at the standard rate of corporation tax in the UK of 28% (2009: 28%)	<b>420</b>	<b>(81,502)</b>
Effects of:		
Permanent differences	<b>(1,681)</b>	<b>75,532</b>
Release of fair value deferred tax liability (Note 18)	<b>(1,089)</b>	<b>(89,693)</b>
Tax losses carried forward	<b>1,268</b>	<b>5,993</b>
	<hr/>	<hr/>
Total tax credit	<b>(1,082)</b>	<b>(89,670)</b>
	<hr/> <hr/>	<hr/> <hr/>

#### *Factors that may affect future tax charges*

The Group has tax losses of US\$36,414,627 (2009 - US\$33,634,088) carried forward which will be utilised against future profits.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 8 Earnings / (loss) per share

Earnings/(loss) per ordinary share has been calculated using the weighted average number of shares in issue during the year. During the year, the weighted average number of equity shares in issue is 324,114,883 (2009 - 324,114,883) and the profit, being profit after tax attributable to equity holders of the parent is US\$2,068,031 (2009 - US\$164,756,574 loss).

Diluted earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of shares that would be issued on the conversion of dilutive potential ordinary shares into ordinary shares. The calculation, of the dilutive potential ordinary shares related to employee and director share option plans, includes only those options with exercise prices below the average share trading price for each period. In 2009, due to the loss, the options are anti-dilutive because they would only decrease the loss per share.

	2010 US\$'000	2009 US\$'000
<b>Net profit/(loss) attributable to equity holders used in basic calculation</b>	<b>2,068</b>	(164,757)
Net profit/(loss) attributable to equity holders used in dilutive calculation	<b>2,068</b>	(164,757)
Basic weighted average number of shares	<b>324,114,883</b>	319,956,936
<b>Earnings/(loss) Per Share</b>		
- Basic	<b>0.01</b>	(0.51)
- Diluted	<b>0.01</b>	(0.51)
<b>Dilutive potential ordinary shares</b>		
Employee and Director share option plans	<b>8,450,000</b>	14,043,334
Diluted weighted average number of shares	<b>332,564,883</b>	334,000,270

The dilutive share schemes and options are detailed within Share based payments (note 25). The calculation of the diluted EPS assumes all criteria giving rise to the dilution of the EPS are achieved and all outstanding share options are exercised.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

### 9 Intangible assets

	<b>Unevaluated mining properties US\$'000</b>
<i>Cost</i>	
At 1 July 2008	12,514
	<hr/>
<b>At 30 June 2009 and 2010</b>	<b>12,514</b>
	<hr/> <hr/>
<i>Depreciation</i>	
At 1 July 2008	(12,514)
	<hr/>
At 30 June 2009 and 2010	(12,514)
	<hr/>
<i>Net book value</i>	
<b>At 30 June 2010</b>	<b>-</b>
	<hr/> <hr/>
At 30 June 2009	-
	<hr/> <hr/>

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

### 10 Property, plant and equipment

	<b>Freehold land and buildings US\$'000</b>	<b>Plant, machinery and motor vehicles US\$'000</b>	<b>Fixtures, Fittings and equipment US\$'000</b>	<b>Evaluated mining properties US\$'000</b>	<b>Total US\$'000</b>
<i>Cost</i>					
At 1 July 2008	758	9,603	208	269,753	280,322
Additions	646	1,560	132	-	2,338
Disposals	-	(649)	-	-	(649)
	-----	-----	-----	-----	-----
At 30 June 2009	1,404	10,514	340	269,753	282,011
Additions	101	3,058	103	-	3,262
Disposals	-	(895)	(26)	-	(921)
	-----	-----	-----	-----	-----
<b>At 30 June 2010</b>	<b>1,505</b>	<b>12,677</b>	<b>417</b>	<b>269,753</b>	<b>284,352</b>
	-----	-----	-----	-----	-----
<i>Depreciation</i>					
At 1 July 2008	36	2,177	124	9,322	11,659
Provided during the year	24	3,972	47	10,700	14,743
Disposals	-	(115)	-	-	(115)
Impairment (Note 27)	-	-	-	249,731	249,731
	-----	-----	-----	-----	-----
At 30 June 2009	60	6,034	171	269,753	276,018
Provided during the year	28	3,124	96	-	3,248
Disposals	-	(895)	(27)	-	(922)
	-----	-----	-----	-----	-----
<b>At 30 June 2010</b>	<b>88</b>	<b>8,263</b>	<b>240</b>	<b>269,753</b>	<b>278,344</b>
	-----	-----	-----	-----	-----
<i>Net book value</i>					
<b>At 30 June 2010</b>	<b>1,417</b>	<b>4,414</b>	<b>177</b>	<b>-</b>	<b>6,008</b>
	=====	=====	=====	=====	=====
At 30 June 2009	1,344	4,480	169	-	5,993
At 30 June 2008	722	7,426	84	260,431	268,663
	=====	=====	=====	=====	=====

Security against borrowings from the Finance Bank Zambia is detailed in Note 26.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

### 11 Investments

	<b>Joint Venture US\$'000</b>
<i>Cost</i>	
At 1 July 2009 and 30 June 2010	<b>287</b>
<i>Share of losses</i>	
At 1 July 2009	<b>(287)</b>
Loss for the year	-
At 30 June 2010	<b>(287)</b>
<i>Net book value</i>	
At 30 June 2010	-
At 30 June 2009	-

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

#### *Joint ventures*

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

The Group's share of the joint venture was:

	<b>2010 US\$'000</b>	<b>2009 US\$'000</b>
Non-current assets	<b>1,411</b>	360
Current assets	<b>427</b>	324
Current liabilities	<b>(2,122)</b>	(867)
Non-current liabilities	-	-
Share of net liabilities	<b>(284)</b>	(183)
Revenue	<b>1,565</b>	581
Operating Expenditure	<b>1,647</b>	602

The Group equity accounts for its investment in joint ventures and does not recognise its share of losses in excess of the carrying amount of the investment. Unrecognised losses for the year are \$439,794 (2009 - \$471,168).

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

### 11 Investments (Continued)

#### *Subsidiary undertakings*

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

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

\* Interest held indirectly through interest in Gemfields Canada Inc

\*\* Interest held indirectly through interest in Gemfields Limited BVI

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

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

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

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

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 *(Continued)*

### 12 Available-for-sale investments

	<b>US\$'000</b>
<b>Cost</b>	
At 1 July 2008	-
Purchase of TanzaniteOne shares	7,631
Impairment	(5,201)
At 1 July 2009	
TanzaniteOne shares	2,430
Impairment	(1,018)
	1,412
<b>At 30 June 2010</b>	<b>1,412</b>

During the year ending 30 June 2009, the Group acquired a total of 11,668,330 shares (10%) in TanzaniteOne Ltd (T1), a miner of the gemstone tanzanite, listed on the AIM Stock Exchange for a total cost of US\$7,630,781.

At 30 June 2010 the market value of the Group's investment in T1 was US\$1,411,825. The Group has assessed that the T1 investment is impaired as the decline in the value of the investment has been both prolonged and significant. The cumulative loss of US\$6,218,956, being the difference between the acquisition cost and the fair value of the investment as at 30 June 2010, was charged to the income statement.

### 13 Inventories

	<b>2010 US\$'000</b>	<b>2009 US\$'000</b>
Rough and cut emeralds	<b>16,545</b>	17,716
Fuel and consumables	<b>835</b>	729
	<b>17,380</b>	18,445

Rough and cut emeralds are recognised at net realisable value. Since the reporting date rough emeralds with a valuation of US\$7.5 million have been sold at auction. The Directors have used the prices achieved at recent auctions as the basis for the estimated net realisable value of the remaining rough emeralds. The internal valuation of the net realisable value of the cut and polished stones has been estimated using the rough estimate of the stones and adding the costs of cutting and polishing.

As disclosed in the section on critical estimates and judgements in Note 1 there is not an active and transparent market for coloured gemstones and the prices are volatile. Therefore the amount actually realised for these inventories may differ, either positively or negatively, from those values estimated by the Directors due to factors outside the control of the Group.

The charges to cost of sales in relation to inventory are presented in note 3.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 14 Trade and other receivables

	<b>2010</b> <b>US\$'000</b>	<b>2009</b> <b>US\$'000</b>
Trade receivables	<b>546</b>	-
Other receivables	<b>2,372</b>	1,468
Prepayments	<b>133</b>	152
	<hr/>	<hr/>
	<b>3,051</b>	1,620
	<hr/> <hr/>	<hr/> <hr/>

The increase in other receivables relates to a deposit payment made for mining machinery, amounting to US\$1.3million.

All amounts shown under receivables fall due for payment within one year. Further information on other receivables is provided in Note 26.

### 15 Non-current liabilities

	<b>2010</b> <b>US\$'000</b>	<b>2009</b> <b>US\$'000</b>
Borrowings	-	1,637
Decommissioning & restoration provision (Note 16)	<b>690</b>	5,251
Other provisions (Note 16)	<b>889</b>	960
	<hr/>	<hr/>
	<b>1,579</b>	7,848
	<hr/> <hr/>	<hr/> <hr/>

The aging of non-current liabilities and further disclosures regarding liquidity risk are presented in Note 26. Borrowings were secured over the value of the assets in Zambia (note 26).

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 *(Continued)*

### 16 Provisions

	<b>Environmental restoration provision US\$'000</b>	<b>Other provisions US\$'000</b>	<b>Total provisions US\$'000</b>
<b>Non-current Provisions</b>			
At 1 July 2008	5,251	2,185	7,436
Release	-	(1,225)	(1,225)
	<hr/>	<hr/>	<hr/>
At 1 July 2009	5,251	960	6,211
Release	(4,561)	(71)	(4,632)
	<hr/>	<hr/>	<hr/>
At 30 June 2010 (Note 15)	690	889	1,579
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Current Provisions</b>			
At 1 July 2008	-	-	-
Additions in year	-	423	423
	<hr/>	<hr/>	<hr/>
At 1 July 2009	-	423	423
Addition in year	-	440	440
	<hr/>	<hr/>	<hr/>
At 30 June 2010 (Note 17)	-	863	863
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The provision relates to the environmental restoration obligations in accordance with the Group's environmental policy. The Company has reviewed the environmental decommissioning and restoration provision and after considering a report by African Mining Consultants, the board has decided to reduce the provision by US\$4,561,000.

The "other provisions" balance consists of the long service benefits provision for employees of Kagem Mining Limited.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 *(Continued)*

### 17 Current Liabilities

	<b>2010</b>	<b>2009</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Trade payables	2,204	2,640
Corporation tax	31	23
Accruals	376	460
Borrowings (Note 15)	3,506	3,561
Withholding tax provision	1,180	1,180
Other provisions (Note 16)	863	423
	8,160	8,287
	8,160	8,287

Further information on trade and other payables is provided in Note 26.

Further information on withholding tax provisions is provided in Note 22.

### 18 Deferred tax

Deferred tax is calculated in full on temporary differences under the balance sheet liability method using a tax rate of 35% (2009 - 35%). The tax rate of 35% was used in the current year, being the rate applicable in Zambia where the liability will arise.

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

	<b>2010</b>	<b>2009</b>
	<b>US\$'000</b>	<b>US\$'000</b>
At 1 July	1,134	90,827
Fair value deferred tax liability released to statement of comprehensive income.	(1,088)	(89,693)
	46	1,134
	46	1,134

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

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

### 18 Deferred tax (*Continued*)

Following the impairment of the Kagem mining asset in 2009, there has been a release of the corresponding deferred tax liability. The remaining deferred tax liability has been reversed in the current year as the directors feel it is not payable in the near future considering the large tax losses the company is carrying forward.

The Group has tax losses of US\$36,414,627 (2009 - US\$33,634,088) carried forward which will be utilised against future profits (Note 7).

### 19 Share capital

	2010 Number of shares	2010 US\$'000	2009 Number of shares	2009 US\$'000
<i>Authorised</i>				
Ordinary shares of 1p each	<b>600,000,000</b>	<b>11,600</b>	600,000,000	11,600
<i>Allotted, called up and fully paid</i>				
Ordinary shares of 1p each				
At 1 July	<b>324,114,883</b>	<b>6,160</b>	309,302,740	5,904
Issued during the year	-	-	14,812,143	256
<b>At 30 June</b>	<b>324,114,883</b>	<b>6,160</b>	324,114,883	6,160

Share capital is denominated in Pounds Sterling.  
Details of the share option scheme are detailed in Note 25.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

### 20 Acquisition of Kagem Mining Limited ("Kagem") in the prior period

On 5 June 2008 the Group completed the acquisition of 75% of the share capital in Kagem via the acquisition of Greentop International Inc and Krinera Group S.A. The acquisition consideration was 137,910,340 1p ordinary shares. The fair value of the consideration was determined by the market price on the date of the acquisition, which was 42p. The purchase consideration equalled the aggregate of the fair values of identifiable assets and liabilities acquired; therefore no goodwill was recognised on acquisition.

The acquisition also included an option to acquire a licence to use the Faberge brand name in respect of coloured gemstones (excluding diamonds) and an option to acquire Oriental Mining S.a.r.l. (granted in December 2007 and exercised in June 2008). No value was attributed to the option to acquire the Faberge licence or Oriental Mining S.a.r.l. on acquisition, as the fair value could not be reliably measured.

	<b>Book value of assets acquired</b>	<b>Fair value adjustments</b>	<b>Fair value to the Group</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Acquiree's net assets at the acquisition date:			
Property, plant and equipment	6,214	-	6,214
Evaluated mining properties	4,587	257,123	261,710
Cash	3,346	-	3,346
Trade and other receivables	236	-	236
Inventory	3,428	-	3,428
Deferred tax	(1,090)	(89,993)	(91,083)
Other non-current liabilities	(14,695)	-	(14,695)
Current liabilities	(19,041)	-	(19,041)
	(17,015)	167,130	150,115
Net identifiable assets and liabilities			(37,528)
Minority interests			112,587
Net identifiable assets and liabilities Attributable to the Group			112,587
Share consideration			113,221
Costs and fees			3,368
Receivable reassigned to Gemfields from Rox on acquisition			(3,692)
Warranty claim			(310)
			112,587
Total acquisition consideration			112,587

The value of the Kagem mining asset has been impaired in the prior financial year. Note 27 details the impairment process and includes a breakdown of this impairment.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 21 Capital commitments

At year end the Group had capital commitments of US\$1.5 million relating to mining equipment (2009 - Nil).

### 22 Contingencies

On 29 June 2004 the Group acquired 100 per cent of the share capital of Gemfields Canada Inc. A withholding tax liability was considered to have crystallised, in Canada, in connection with shares that were issued to non-residents of Canada. In December 2009 a notice of assessment was received from the Canada Revenue Agency detailing the amount of the aforementioned withholding tax liability of CDN\$2,302,373 equivalent to US\$2,195,980 (including penalty for late payment of US\$135,182 and interest of US\$713,744). The Group financial statements include a provision of US\$1,180,000 and a deposit amount of US\$526,303 in respect of this claim. In the opinion of the Directors it is unlikely that the full amount of the liability will crystallise because the Company filed a notice of objection against the assessment in February 2010, with management clearly stating that the total liability should not exceed US\$197,747. However it should be noted that in the event that the settlement with the Canadian Revenue Agency equals the assessment received by the Company a further US\$489,677 liability may be payable over and above that which has been provided in the financial statements.

### 23 Related party transactions and ultimate controlling party

- (a) A Pallinghurst Resources Group (a shareholder in the Company) entity purchased emeralds from the Company during the year. These emeralds were invoiced at market value of \$10,000.
- (b) Gemfields Mining Limited had a receivable of \$1,481,000 (2009: \$1,481,000) from Kariba Minerals Limited (a joint venture partner) at the year end.
- (c) The Group has made payments to Pallinghurst Advisors LLP (a firm which is part of the Pallinghurst Resources group) ("Pallinghurst") during the year in relation to expenses incurred by Pallinghurst on behalf of the Group. These expenses were generally related to travel costs. Payments totalled £26,255 (2009: £137,605).

Key Management personnel are considered to be the Directors. The relevant disclosure is included within note 5 to the financial statements.

### 24 Commitments under operating leases

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

	2010 US\$'000	2009 US\$'000
Land and buildings:		
Expiring within year	73	80

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

### 25 Share-based payments

#### *Share option scheme*

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

At 30 June 2009, the following share options had been granted and were outstanding in respect of the ordinary shares:

Exercise price	Number of options				Outstanding 30 June 2009	Final exercise date
	Outstanding 1 July 2008	Granted	Expired	Exercised		
15¢ (7.5p)	2,735,000	-	-	50,000	2,685,000	January 2014
50¢ (25p)	3,020,000	-	75,000	50,000	2,895,000	April 2015
150¢ (75p)	50,000	-	-	-	50,000	January 2014
90¢ (45p)	6,885,000	-	681,666	-	6,203,334	September 2016
22¢ (15p)	-	736,667	-	-	736,667	February 2019
36¢ (25p)	-	736,667	-	-	736,667	February 2019
50¢ (35p)	-	736,666	-	-	736,666	February 2019
<b>Total</b>	<b>12,690,000</b>	<b>2,210,000</b>	<b>756,666</b>	<b>100,000</b>	<b>14,043,334</b>	

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

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

The above options vest over three years and contain no performance criteria. The number of options exercisable at 30 June 2010 was 5,935,004 (2009: 9,048,334).

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 25 Share-based payments (Continued)

The fair values of the options are calculated using the Black-Scholes method. There were no options granted in 2010. Assumptions used in this model for the 12 months ended 30 June 2009 were:

	<b>Directors and employees 2009</b>
Fair value at measurement date	26¢ – 47¢
Exercise price	22¢ – 50¢ (15p - 35p)
Share price at date of grant	22¢ – 50¢ (15p - 35p)
Expected volatility	55%
Option life	5 years
Expected dividends	-
Risk free interest rate (based on Bank of England rate)	1.00%

The volatility of the shares is based on the peer group average.

In 2009, 50,000 options were exercised at a price of 50¢ and 50,000 were exercised at 15¢. No options have been exercised in the current financial year. The share price on 30 June 2010 was 8¢ (5p).

### 26 Financial instruments

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

Financial assets:

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

Financial liabilities:

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

*Financial assets*

	<b>2010 US\$'000</b>	<b>2009 US\$'000</b>
Available for sale investments	<b>1,412</b>	2,430
Trade and other receivables	<b>2,918</b>	1,468
Cash and cash equivalents	<b>2,879</b>	6,869
	<hr/>	<hr/>
	<b>7,209</b>	10,767
	<hr/> <hr/>	<hr/> <hr/>

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 26 Financial instruments (Continued)

#### Financial liabilities

	2010 US\$'000	2009 US\$'000
Held at amortised cost:		
Trade payables	2,204	2,640
Other payables	376	460
Borrowings	3,506	5,198
	<hr/>	<hr/>
	6,086	8,298
	<hr/>	<hr/>

#### Fair value of financial assets and liabilities

At 30 June 2010 and 2009, the carrying value of the Group's financial assets and liabilities approximated their fair values.

#### Financial risk management

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

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

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

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

#### Credit risk

The Group essentially has no credit risk because it does not ship emeralds sold at auction to customers until payment has been received. There is a debtor balance at the end of the year relating to cut and polished emerald sales. The entire balance has been received post year end. Some trade receivables were inherited from Kagem but there will be no further receivable in Kagem in the future as Kagem has been brought into line with Group policy. At 30 June 2010 Kagem had trade receivables of \$362,033 (2009: \$362,394) but these have been fully provided against in the financial statements.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 26 Financial instruments (Continued)

#### *Cash and cash equivalents*

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

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

At the year end, 51% of the cash balance was held by Barclays Bank, 25% was held by the Standard Chartered Bank, 18% was held by HSBC Bank and the remaining 6% was held by other financial institutions.

#### *Maximum exposure to credit risk*

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

	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>Carrying</b>	<b>Maximum</b>	<b>Carrying</b>	<b>Maximum</b>
	<b>Value</b>	<b>exposure</b>	<b>value</b>	<b>exposure</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Trade and other receivables	<b>3,051</b>	<b>3,051</b>	1,468	1,468
Cash and cash equivalents	<b>2,879</b>	<b>2,879</b>	6,869	6,869
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<b>5,930</b>	<b>5,930</b>	8,337	8,337
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

#### *Liquidity risk*

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

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

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

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

# Gemfields PLC

## Notes forming part of the financial statements For the year ended 30 June 2010 (Continued)

### 26 Financial instruments (Continued)

#### Liquidity risk (Continued)

The following table illustrates the contractual maturity analysis of the Group's financial liabilities, including the liabilities that must be settled gross, based where relevant, on interest rates and exchange rates prevailing at the reporting date.

	Trade payables US\$'000	Accruals US\$'000	Borrowings US\$'000	Total US\$'000
<i>As at 30 June 2009</i>				
In 1 month	-	435	-	435
Between 1 and 6 months	1,923	25	-	1,948
Between 6 months and 1 year	393	-	3,561	3,954
Between 1 year and 3 years	324	-	1,637	1,961
	<u>2,640</u>	<u>460</u>	<u>5,198</u>	<u>8,298</u>
<i>As at 30 June 2010</i>				
In 1 month	-	376	1,169	1,545
Between 1 and 6 months	1,130	-	2,337	3,468
Between 6 months and 1 year	214	-	-	214
Between 1 year and 3 years	860	-	-	860
	<u>2,204</u>	<u>376</u>	<u>3,506</u>	<u>6,087</u>

The borrowings held by the Group are entirely denominated in US Dollars. They are held with the Finance Bank Zambia. They are secured by stand no 6374 Kitwe, Zambia (comprising of the land and buildings), the hypothecation of stocks of emeralds located at the Kagem mine and a first charge over the fixed and floating assets of Kagem Mining Limited.

#### Interest rate risk

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

The Group is exposed to interest rate changes on its borrowings. US\$2,637k (2009: US\$3,160k) of the borrowings are at an interest rate of EURIBOR plus 3%, with the remaining balance based on a flat rate of 9%. Based on the year end borrowing balance, every 1% change in interest rate would have an impact of approximately \$37,000 per annum in interest charges.

The annualised effect of a decrease in the interest rate at the reporting date would, all other variables held constant, have been negligible given that the current floating component interest rate is 0.5% (2009: 0.5%). At the year end the rates received on deposits were between 0.1% and 0.9%

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 26 Financial instruments (Continued)

#### Currency risk

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

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

At 30 June 2010 and 2009 the Group's financial assets and liabilities were denominated in the following currencies:

	UK Pounds Sterling US\$'000	US Dollar US\$'000	Zambian Kwacha US\$'000	Indian Rupees US\$'000	Total US\$'000
<i>As at 30 June 2009</i>					
Cash and cash equivalents	5,158	1,031	280	400	6,869
Trade and other receivables	641	81	738	8	1,468
Borrowings	-	(5,198)	-	-	(5,198)
Trade and other payables	(1,140)	(607)	(1,286)	(67)	(3,100)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net financial assets/(liabilities)</b>	<b>4,659</b>	<b>(4,693)</b>	<b>(268)</b>	<b>341</b>	<b>39</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>As at 30 June 2010</i>					
Cash and cash equivalents	238	2,240	318	83	2,879
Trade and other receivables	618	1,566	763	104	3,051
Borrowings	-	(3,506)	-	-	(3,506)
Trade and other payables	(593)	-	(1,585)	(26)	(2,204)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net monetary assets/(liabilities)</b>	<b>263</b>	<b>300</b>	<b>(504)</b>	<b>161</b>	<b>220</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

If there was a 10% strengthening of the US\$ against Sterling at the reporting date, the effect on the income statement would be a charge of US\$26,300 with a corresponding effect on net assets.

#### Other market price risk

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

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 26 Financial instruments (Continued)

#### Capital

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

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

The net debt to equity ratios at 30 June 2010 and 30 June 2009 are as follows:

	<b>2010</b>	<b>2009</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Debt	<b>3,506</b>	5,198
Cash and cash equivalents	<b>(2,879)</b>	(6,869)
	<hr/>	<hr/>
Net debt	<b>627</b>	(1,671)
Total equity attributable to equity holders of the parent Company	<b>20,945</b>	18,088
Debt to equity ratio	<b>0.03:1</b>	(0.09:1)

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

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 27 Impairment charges

An impairment review of the Group's assets resulted in an impairment charge in relation to the carrying value of the mining assets.

The following impairment charges were incurred during the year:

	<b>2010</b>	<b>2009</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<i>Mining assets</i>		
Impairment of Kagem emerald mine	-	249,731
<i>Available for sale investments</i>		
Write-down of investment in TanzaniteOne to market value (Note 12)	<b>1,018</b>	5,201
	<hr/>	<hr/>
	<b>1,018</b>	254,932
	<hr/>	<hr/>

#### *Mining Asset:*

In 2009, the Group assessed whether an impairment was required by comparing the carrying value of the assets to their recoverable amount. The recoverable amount was the higher of the asset's fair value less costs to sell and value in use. The fair value of the asset was assessed and compared to value in use. The Group estimates value in use using a discounted cash flow model.

The Group's CGUs are determined on an operational basis, and have been defined as the Kagem mine, the Indian cutting plant and head office.

The calculation of value in use is most sensitive to the following assumptions:

- Production volumes;
- Discount rates;
- Future capital expenditure;
- Emerald prices; and
- Operating costs.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

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### 27 Impairment charges (*Continued*)

Estimated production volumes are based on detailed plans in relation to the life of the mine and incorporate planned capital expenditure in relation to ongoing production. They are based on the production historically achieved as adjusted for the new production capabilities.

The Group estimates value in use using a discounted cash flow model. The future cash flows are adjusted for inflation and risks specific to the asset and discounted using a pre-tax discount rate based on the Group's weighted cost of capital. Management also believes that currently there is no expected change in discount rate, which has been estimated at 20%.

Management has also made an assessment of estimated future emerald price increase at 10% per annum, and believes that there are no expected changes in this which would reduce the Group's projections as calculated.

Management has also made an assessment of the estimated future operating costs adjusted for inflation at 5% per annum, and believes that there are no expected changes which would reduce the Group's projections as calculated.

Based on the projections, and sensitivity analysis conducted on these projections, it has been assessed that the Kagem mining asset would be written down to nil value in the statement of financial position. During 2010, management re-assessed the impairment provision recorded in 2009 and concluded that no adjustment to the provision was required.

At 30 June 2010 the market value of the Company's investment in T1 was US\$1,411,825. The Company has assessed that the T1 investment is impaired as the decline in the value of the investment has been both prolonged and significant. The cumulative loss of US\$6,218,956, being the difference between the acquisition cost and the fair value of the investment as at 30 June 2010, was charged to the income statement.

### 28 Events after the reporting date

#### *Rough emerald auctions*

Gemfields held an auction of (predominantly higher quality) rough emeralds in London from 19 to 23 July 2010. The auction was attended by 37 companies drawn from India, Israel and the United States. The auction saw 0.85 million carats offered, with 0.80 million carats being sold, raising US\$7.5 million.

## Company Financial Statements

# Gemfields PLC

## Report of the independent auditors

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### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GEMFIELDS PLC

We have audited the parent Company financial statements of Gemfields Plc for the year ended 30 June 2010 which comprise the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### *Respective responsibilities of Directors and auditors*

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

#### *Scope of the audit of the financial statements*

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

#### *Opinion on financial statements*

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### *Opinion on other matters prescribed by the Companies Act 2006*

In our opinion:

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

# Gemfields PLC

## Report of the independent auditors (*Continued*)

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### *Matters on which we are required to report by exception*

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

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

Anne Sayers (senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
55 Baker Street  
London  
United Kingdom  
4 October 2010

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

# Gemfields PLC

## Company balance sheet at 30 June 2010

	Note	2010 US\$'000	2010 US\$'000	2009 US\$'000	2009 US\$'000
<b>Fixed assets</b>					
Tangible assets	4	110		40	
Investments	5	7,346		8,364	
		7,456		8,404	
<b>Current assets</b>					
Debtors	6	16,667		16,657	
Stocks	7	3,279		1,126	
Cash at bank and in hand		1,471		6,184	
		21,417		23,967	
<b>Creditors: amounts falling due within one year</b>	8	(10,544)		(11,663)	
		10,873		12,304	
<b>Net current assets</b>			10,873		12,304
<b>Total assets less current liabilities</b>			18,329		20,708
<b>Capital and reserves</b>					
Called up share capital	9		6,160		6,160
Share premium account	10		96,823		96,823
Merger reserve	10		121,005		121,005
Option reserve	10		1,613		2,204
Profit and loss reserve	10		(207,272)		(205,484)
			18,329		20,708
<b>Shareholders' funds - equity</b>			18,329		20,708

The financial statements were approved by the Board of Directors and authorised for issue on 4 October 2010.

**Devidas Shetty**

**Director**

Company number 05129023

The notes on pages 58 to 70 form part of these financial statements.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010

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### 1 Accounting policies

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

The following principal accounting policies have been applied:

#### *Investments*

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

Unlisted investments are carried at cost less provision for impairment.

#### *Leased Assets*

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

#### *Inventory*

Inventory consisting of finished and unfinished gemstones have been valued at estimated market values prevailing at the year end, with amounts so determined reduced by the application of anticipated margins. The use of this method results in a carrying value of stock which approximates to the lower of cost and net realisable value.

#### *Tangible fixed assets*

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

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

Fixtures, fittings and equipment - 20% per annum

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

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### 1 Accounting policies (*Continued*)

#### *Deferred taxation*

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

Deferred tax balances are not discounted.

#### *Foreign currency*

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

Exchange rates used during the year were as follows:

	<b>GBP 2010</b>	<b>GBP 2009</b>
Year end rate	1.51	1.65
Average rate	1.58	1.62

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

#### *Finance costs*

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

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 1 Accounting policies (Continued)

#### Share-based payments

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

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

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

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

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

#### Cash flow

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

### 2 Employees and Directors

	2010	2009
Administration staff (including Directors)	6	6
Average number of employees (including Directors)	6	4
	<b>US\$'000</b>	<b>US\$'000</b>
Gross salaries	677	638
Executive Directors' remuneration	491	392
Non-Executive Directors' fees	93	102
Termination payments to Directors	240	-
Share based payments to Directors	241	667
	<b>1,065</b>	<b>1,161</b>

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

Emoluments of the highest paid director amounted to \$297,000 (2009 - \$242,000) with share based payments totalling \$3,000 (2009 - \$137,000).

### 3 Loss for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in the financial statements. The loss for the year includes a loss after tax and before dividends of US\$1,787,710 (2009 - US\$195,258,611).

### 4 Tangible assets

	<b>Total fixtures, fittings and equipment US\$'000</b>
<i>Cost</i>	
At 1 July 2009	46
Additions	86
	<hr/>
At 30 June 2010	132
	<hr/>
<i>Depreciation</i>	
At 1 July 2009	6
Provided during the year	16
	<hr/>
At 30 June 2010	22
	<hr/>
<i>Net book value</i>	
<b>At 30 June 2010</b>	<b>110</b>
	<hr/> <hr/>
At 30 June 2009	40
	<hr/> <hr/>

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

### 5 Investments

	<b>Listed Investments US\$'000</b>	<b>Unlisted Investments US\$'000</b>
<i>Cost</i>		
At 30 June 2009 and 30 June 2010	7,631	123,958
	_____	_____
<i>Provision for impairment</i>		
At 30 June 2009	(5,201)	(118,024)
Impairment (note 17)	(1,018)	-
At 30 June 2010	_____	_____
	(6,219)	(118,024)
	_____	_____
<i>Net book value</i>		
<b>At 30 June 2010</b>	<b>1,412</b>	<b>5,934</b>
	=====	=====
At 30 June 2009	2,430	5,934
	=====	=====

The listed investments relates to TanzaniteOne. Refer to Note 12 in the Group financial statements for further details.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 5 Investments (Continued)

#### Subsidiary undertakings

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

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

\* Interest held indirectly through interest in Gemfields Canada Inc

\*\* Interest held indirectly through interest in Gemfields Limited BVI

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

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

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

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

#### Joint ventures

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

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 6 Debtors

	2010 US\$'000	2009 US\$'000
Amounts due from Group companies	15,961	15,864
Other debtors and prepayments	706	793
	<u>16,667</u>	<u>16,657</u>

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

### 7 Stocks

	2010 US\$'000	2009 US\$'000
Finished goods	3,279	1,126
	<u>3,279</u>	<u>1,126</u>

### 8 Creditors: amounts falling due within one year

	2010 US\$'000	2009 US\$'000
Trade creditors	782	25
Withholding tax payable	1,180	1,180
Accruals	161	936
Amounts due to Group companies	8,421	9,522
	<u>10,544</u>	<u>11,663</u>

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

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

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

### 9 Share capital

	2010		2009	
	Number of shares	US\$'000	Number of shares	US\$'000
<i>Authorised</i>				
Ordinary shares of 1p each	<b>600,000,000</b>	<b>11,600</b>	600,000,000	11,600
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of 1p each				
At 1 July 2009	<b>324,114,883</b>	<b>6,160</b>	309,302,740	5,904
Issued during the year	-	-	14,812,143	256
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>324,114,883</b>	<b>6,160</b>	324,114,883	6,160
	<hr/>	<hr/>	<hr/>	<hr/>

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

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 10 Reserves

	Share premium account US\$	Merger reserve US\$	Option reserve US\$	Profit and loss reserve US\$	Total US\$
As at 1 July 2009	96,823	121,005	2,204	(205,484)	14,548
Loss for year	-	-	-	(1,788)	(1,788)
<i>Share-based payments</i>					
Charge for the year	-	-	274	-	274
Options expired	-	-	(865)	-	(865)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>As at 30 June 2010</b>	<b>96,823</b>	<b>121,005</b>	<b>1,613</b>	<b>(207,272)</b>	<b>12,169</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

### 11 Reconciliation of movements in shareholders' funds

	2010 US\$'000	2009 US\$'000
Loss for the year	(1,788)	(195,031)
(Decrease) / Increase in option reserve	(591)	1,093
Issue of shares	-	7,393
	<hr/>	<hr/>
	(2,379)	(186,545)
Opening shareholders' funds	20,708	207,253
	<hr/>	<hr/>
Closing shareholders' funds	18,329	20,708
	<hr/> <hr/>	<hr/> <hr/>

### 12 Capital commitments

At the year end the Company had no capital commitments (2009 - Nil).

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 13 Contingencies

On 29 June 2004 the Group acquired 100 per cent of the share capital of Gemfields Canada Inc. A withholding tax liability was considered to have crystallised, in Canada, in connection with shares that were issued to non-residents of Canada. In December 2009 a notice of assessment was received from the Canada Revenue Agency detailing the amount of the aforementioned withholding tax liability of CDN\$2,302,373 equivalent to US\$2,195,980 (including penalty for late payment of US\$135,182 and interest of US\$713,744). The Group financial statements include a provision of US\$1,180,000 and a deposit amount of US\$526,303 in respect of this claim. In the opinion of the Directors it is unlikely that the full amount of the liability will crystallise because the Company filed a notice of objection against the assessment in February 2010, with management clearly stating that the total liability should not exceed US\$197,747. However it should be noted that in the event that the settlement with the Canadian Revenue Agency equals their assessment a further US\$596,070 liability may be payable.

### 14 Related party transactions and ultimate controlling party

- (a) A Pallinghurst Resources group entity (a shareholder in the Company) purchased emeralds from the Group during the year. These emeralds were invoiced at market value of \$10,000.
- (b) Gemfields Mining Limited had a receivable of \$1,481,000 (2009: \$1,481,000) from Kariba Minerals Limited (a joint venture partner) at the year end. This balance has been fully provided for.
- (c) The Group has made payments to Pallinghurst LLP (a firm which is part of the Pallinghurst Resources group) during the year in relation to expenses incurred by Pallinghurst on behalf of the Group. These expenses were generally related to travel costs. Payments totalled £26,255 (2009: £137,605).

Key Management personnel are considered to be the Directors. The relevant disclosure is included within note 5 to the financial statements.

### 15 Commitments under operating leases

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

	2010	2009
	US\$'000	US\$'000
Land and buildings:		
Expiring within year	77	80

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

### 16 Share-based payments

#### *Share option scheme*

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

At 30 June 2009, the following share options had been granted and were outstanding in respect of the ordinary shares:

Exercise price	Number of options				Outstanding 30 June 2009	Final exercise date
	Outstanding 1 July 2008	Granted	Expired	Exercised		
15¢ (7.5p)	2,735,000	-	-	50,000	2,685,000	January 2014
50¢ (25p)	3,020,000	-	75,000	50,000	2,895,000	April 2015
150¢ (75p)	50,000	-	-	-	50,000	January 2014
90¢ (45p)	6,885,000	-	681,666	-	6,203,334	September 2016
22¢ (15p)	-	736,667	-	-	736,667	February 2019
36¢ (25p)	-	736,667	-	-	736,667	February 2019
50¢ (35p)	-	736,666	-	-	736,666	February 2019
<b>Total</b>	<b>12,690,000</b>	<b>2,210,000</b>	<b>756,666</b>	<b>100,000</b>	<b>14,043,334</b>	

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

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

The above options vest over three years and contain no performance criteria. The number of options exercisable at 30 June 2010 were 5,935,004 (2009: 9,048,334).

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

### 16 Share-based payments (*Continued*)

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

The fair value of the options is calculated using the Black-Scholes method. There were no new share options granted in 2010. Assumptions used in this model for the 12 months ended 30 June 2009 were:

	<b>Directors and employees 2009</b>
Fair value at measurement date	26¢ – 47¢
Exercise price	22¢ – 50¢ (15p - 35p)
Share price at date of grant	22¢ – 50¢ (15p - 35p)
Expected volatility	55%
Option life	5 years
Expected dividends	-
Risk free interest rate (based on Bank of England rate)	1.00%

The volatility of the shares is based on the peer group average.

In 2009, 100,000 options were exercised at a price of 50¢. No options have been exercised in the current financial year. The share price on 30 June 2010 was 8¢ (5p).

### 17 Impairment charges

The following impairment charges were incurred during the year:

	<b>Year ended 30 June 2010</b>	Year ended 30 June 2009
	<b>US\$000</b>	US\$000
<i>Tangible assets</i>		
Write-off of Kagem emerald mine	-	112,587
<i>Investments</i>		
Write-down of shares in Tanzanite One Ltd	<b>1,018</b>	5,201
	<hr/>	<hr/>
	<b>1,018</b>	117,788
	<hr/> <hr/>	<hr/> <hr/>

The Company has assessed whether an impairment is required by comparing the carrying value of the assets to their recoverable amounts. The recoverable amount is the higher of the assets fair value less costs to sell and value in use. The fair value of the assets have been assessed and compared to value in use. The Company estimates value in use using a discounted cash flow model.

# Gemfields PLC

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

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### 17 Impairment charges (*Continued*)

The calculation of value in use is most sensitive to the following assumptions:

- Production volumes;
- Discount rates;
- Future capital expenditure;
- Emerald prices; and
- Operating costs.

Estimated production volumes are based on detailed plans in relation to the life of the mine, and incorporate planned capital expenditure in relation to ongoing production. It is based on the production being historically achieved as adjusted for the new production capabilities.

The Company estimates value in use using a discounted cash flow model. The future cash flows are adjusted for inflation and risks specific to the asset and discounted using a pre-tax discount rate based on the Company's weighted average cost of capital. Management also believes that currently there is no reasonably possible change in the discount rate, which has been estimated at 20%.

Management has also made an assessment of estimated future emerald price increase at 10% per annum, and believes that there are no expected changes in this which would reduce the Group's projections as calculated.

Management has also made an assessment of the estimated future operating costs adjusted for inflation at 5% per annum, and believes that there are no expected changes which would reduce the Group's projections as calculated.

Based on the projections, and sensitivity analysis conducted on these projections, it has been assessed that the Kagem mining asset would be written down to nil value in the balance sheet.

### 18 Post balance sheet events

#### *Rough emerald auctions*

Gemfields held an auction of (predominantly higher quality) rough emeralds in London from 19 to 23 July 2010. The auction was attended by 37 companies drawn from India, Israel and the United States. The auction saw 0.85 million carats offered, with 0.80 million carats being sold, raising US\$7.5 million.