

Delivering our strategy

ANNUAL REPORT
AND ACCOUNTS

2019

CONTENTS

BUSINESS OVERVIEW	
About Gem Diamonds	1
2019 in review	2
Market review	6
Chairman's statement	8
Our strategy	11
Viability statement	14
Principal risks and uncertainties	15
MANAGEMENT REVIEW	
Chief Executive's review	22
Group financial performance	26
OPERATING REVIEW	
Letšeng	33
Technology and innovation	38
Business transformation	40
GOVERNANCE	
Directorate and executive management	44
Chairman's introduction to corporate governance	49
UK Corporate Governance	51
Audit Committee	59
Nominations Committee	62
HSSE Committee	65
Annual Statement on Directors' Remuneration	68
Directors' Remuneration policy	70
The Annual Report on Remuneration	79
Directors' Report	94
FINANCIAL STATEMENTS	
Responsibility Statement of the Directors	100
Independent Auditor's Report	101
Annual Financial Statements	104
OTHER INFORMATION	
Abbreviations and Definitions	161
Contact Details and Advisers	162

Navigations



This icon indicates additional information available on the Group's website at www.gemdiamonds.com



This icon refers the reader to further information about the Group's sustainable development activities on the Group's website at www.gemdiamonds.com



This icon indicates a link to the Remuneration Report, which starts on page 68



This QR code refers the reader to the Group's website www.gemdiamonds.com

WELCOME TO THE GEM DIAMONDS ANNUAL REPORT AND ACCOUNTS 2019

The Annual Report and Accounts (this report) have been prepared in accordance with:

- applicable English and British Virgin Islands law;
- regulations and best practice as advised by the Financial Reporting Council (FRC) and the Department of Business, Innovation and Skills in the United Kingdom (UK);
- guidance from the International Integrated Reporting Council (IIRC) Integrated Reporting <IR> Framework;
- International Financial Reporting Standards (IFRS); and
- the UK Corporate Governance Code 2018.

The report covers Gem Diamonds Limited and its subsidiaries (the Group) for the financial year ended 31 December 2019.

REPORTING SUITE

In addition to the Annual Report and Accounts 2019 our reporting suite includes:

Report on Payments to Governments 2019

Information related to payments made to governments will be compiled as required under the UK's Report on Payments to Governments Regulations 2014 (as amended December 2015). These regulations enact domestic rules in line with Directive 2014/34/EU and apply to companies involved in extractive activities. The report also intends to satisfy the requirements of the Disclosure and Transparency Rules of the Financial Conduct Authority in the UK. Details regarding payments made to governments will be made available at www.gemdiamonds.com.

Sustainable Development Report 2019 (report and interactive platform)

Information relating to sustainable development has been compiled in accordance with the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines and Gem Diamonds' internal reporting guidelines, with consideration of the UN Global Compact. Details regarding sustainable development can be found at www.gemdiamonds.com.

BOARD APPROVAL

The Board, supported by the Audit Committee, acknowledges its responsibility to ensure the integrity and completeness of this report. The Board applied its collective mind to the preparation and presentation of this report. We consider the interests of employees and other stakeholders, including the communities and environment in which we operate, when making decisions. We believe that the report provides a balanced and appropriate representation of the Group's performance, strategy and material risks and acting fairly, in good faith, considered what is most likely to promote the success of Gem Diamonds in the long term.

The Board approved the Annual Report and Accounts 2019, which includes the Strategic Report on pages 1 to 43 on 10 March 2020.

ABOUT GEM DIAMONDS



Purpose

Unearthing unique possibilities



Vision

To support, develop and empower our people so that:

- a meaningful, sustainable contribution can be made to the countries in which we operate; and
- we can deliver long-term value to our shareholders.



The way we do things

Care – We listen and respond responsibly to the needs of our employees, communities and shareholders. We honour our commitments to all stakeholders, which include the natural environment in which we operate.

Trust – We empower our people and trust them to make decisions which will deliver on our strategy.

Ethical – We have zero tolerance for bribery and corruption and conduct ourselves in a manner consistent with good governance practices. We pride ourselves on being socially and environmentally responsible.

Respect – Everyone matters and is treated equally. We cultivate an open and transparent environment where we value the beliefs, ideas and contributions of our employees, communities and shareholders.

Flexible and open minded – We encourage and consider ideas from employees while remaining responsive and agile.

Passionate and fun – We enjoy the work that we are fortunate to do and the people we do it with. We seek opportunities to explore and develop while encouraging a work-life balance.

* Image supplied by Graff Diamonds International.



How we create value

This is detailed in our business model which follows on page 4.

ENGAGING OUR EMPLOYEES ON CULTURE

S172 (1)(b)&(e)

The Board should establish the Company's values and promote the desired culture. The Gem Diamonds Board engaged its employees through a survey and a strategic session on mission and values to collaboratively define the way we do things. Internal stakeholder feedback was used to reach a conclusion on the desired culture within Gem Diamonds. This was important to achieve a desired culture within the Company.

ABOUT GEM DIAMONDS

CARAT

Purpose

Unearthing unique possibilities

CLARITY

Vision

To support, develop and empower our people so that:

- a meaningful, sustainable contribution can be made to the countries in which we operate; and
- we can deliver long-term value to our shareholders.



CUT

The way we do things

Care – We listen and respond responsibly to the needs of our employees, communities and shareholders. We honour our commitments to all stakeholders, which include the natural environment in which we operate.

Trust – We empower our people and trust them to make decisions which will deliver on our promises.

Ethical – We have zero tolerance for bribery and corruption and conduct ourselves in a manner consistent with good governance practices. We pride ourselves on being socially and environmentally responsible.

Respect – Everyone matters and is treated equally. We cultivate an open and transparent environment where we value the beliefs, ideas and contributions of our employees, communities and shareholders.

Flexible and open minded – We encourage and consider ideas from employees while remaining responsive and agile.

Passionate and fun – We enjoy the work that we are fortunate to do and the people we do it with. We seek opportunities to explore and develop while encouraging a work-life balance.

COLOUR

How we create value

This is detailed in our business model which follows on page 4.

“

13.32 carat pink diamond that sold for a Letšeng record of US\$656 934 per carat. The use of pink in this report is dedicated to this remarkable recovery.

”

ENGAGING ON CULTURE
The Board should establish the Company's values and promote the desired culture. The Gem Diamonds Board engaged its employees through a survey and a strategic session on mission and values to collaboratively define the way we do things. Internal stakeholder feedback was used to reach a conclusion on the desired culture within Gem Diamonds. This was important to achieve a desired culture within the Company.

* Image supplied by Graff Diamonds International.

2019 IN REVIEW

Measure	2019	2018	% change	Movement
Average price per carat achieved (US\$)	1 637	2 131	(23)	●
Revenue (US\$ million)	182.0	267.3	(32)	●
Total direct cost per tonne treated (LSL)	181.2	182.5	(1)	●
Total operating cost per tonne treated (LSL)	245.9	295.1	(17)	●
EBITDA ¹ (US\$ million)	41.0	87.7	(53)	●
Profit for the year (from continuing operations) (US\$ million)	15.0	52.4	(71)	●
Corporate costs (US\$ million)	9.4	10.0	(6)	●
Basic EPS ² (from continuing operations) (US cents)	5.1	22.9	(78)	●
Cash and short-term deposits (US\$ million)	11.4	50.8	(78)	●
Drawn down bank facilities (US\$ million)	21.6	33.3	(35)	●
Net (debt)/cash ³ (US\$ million)	(10.2)	17.5	(157)	●
Available bank facilities (US\$ million)	69.9	57.8	21	●
Business Transformation benefits delivered (US\$ million)	54.9	20.7	165	●

Capital expenditure (US\$ million)	9.7	23.0	(58)	●
Ore tonnes treated (millions)	6.7	6.5	3	●
Waste tonnes mined (millions)	24.0	25.8	(7)	●

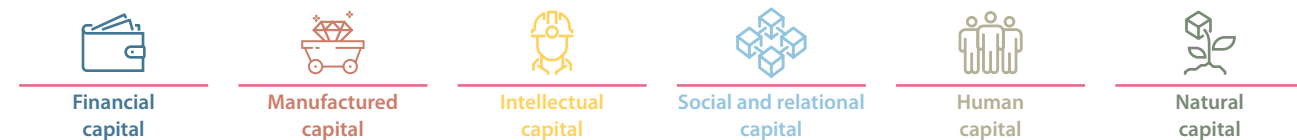
ISO 14001 (environmental management) accreditation	Yes	Yes		●
ISO 45001 (occupational health and safety) certification	Yes	Yes		●

Fatalities	1	0	100	●
Major or significant stakeholder incidents	0	0	-	●
Lost time injuries (LTIs)	7	4	75	●
Lost time injury frequency rate (LTIFR) (%)	0.28	0.15	87	●
Corporate social investment (US\$ million)	0.8	0.8	-	●

Average employees (including contractors)	1 956	2 189	(11)	●
Skills development (training hours)	30 816	18 260	69	●

Carats recovered (thousands)	114.0	126.9	(10)	●
Carats sold (thousands)	111.3	125.1	(11)	●
Major or significant environmental incidents	0	0	-	●

Improvement from prior year ● Not improved from prior year ● No movement from prior year ●



¹ Refer Note 4, operating profit on page 130, for the definition of non-GAAP (Generally Accepted Accounting Principles) measures.
² Refer to Group financial performance for GAAP measures.
³ Net cash/(debt) is a non-GAAP measure and calculated as cash and short-term deposits less drawn down bank facilities (excluding the asset-based finance facility).

DIAMOND ANALYSIS AND MANUFACTURING

The Group's **HIGH-TECH ROUGH DIAMOND ANALYSIS AND MANUFACTURING** operation is tasked with:

- understanding the value of exceptional large high-value rough diamonds through mapping and analysis; and
- managing the manufacturing process of selected diamonds for final polished sale.

Baobab Technologies (100% ownership)

SALES AND MARKETING

The Group's diamond sorting, sales and marketing operation in Belgium focuses on:

- maximising the revenue achieved on diamond sales;
- developing the Gem Diamonds brand in the market; and
- enhancing customer relationships.

Our diamonds are predominantly sold through a tender process. Through mapping and analysis, the value of the Letšeng high-quality diamonds is determined and used to achieve the highest rough value **THROUGH MULTIPLE SELLING CHANNELS**.

Gem Diamonds Marketing Services (100% ownership)

A new electronic tender platform was introduced to facilitate sales. Refer to page 39.

TECHNOLOGY AND INNOVATION

The Group established this company in Cyprus in 2017 to house the Group's innovation and technology research and development projects.

Gem Diamonds Innovation Services (100% ownership)

UNITED KINGDOM LISTED HEAD QUARTERS

The Group's holding company and oversight of Governance structures and the Board's strategic plans.

GHAGHOO

Underground diamond mining development in Botswana, which was placed on care and maintenance in 2017 and classified as a discontinued operation held for sale in 2019.

TECHNICAL AND ADMINISTRATIVE SERVICES

South African subsidiary providing technical support across the entire value chain.

Gem Diamond Technical Services (100% owned)

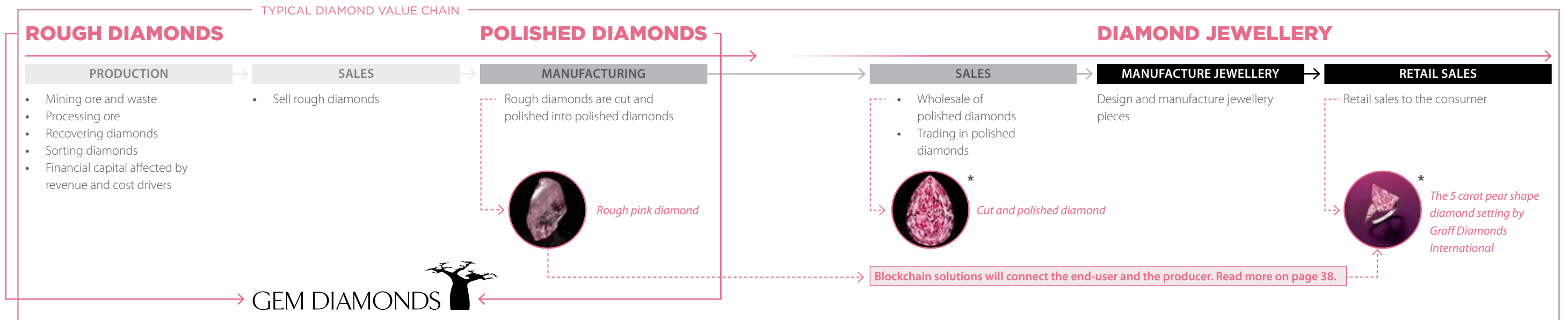
LETŠENG

Our flagship open pit diamond mine, is the **HIGHEST ACHIEVING AVERAGE US\$ PER CARAT KIMBERLITE MINE IN THE WORLD**.

This operation in Lesotho focuses on mining and processing ore efficiently and safely from its two kimberlite pipes (Main and Satellite) which are 17.0ha and 5.2ha respectively. Ore is processed through three treatment plants with an annual throughput of 6.5 million to 7.0 million tonnes and carat recoveries of 114 000 carats to 130 000 carats.

70% owned by Gem Diamonds Limited and 30% owned by the Government of the Kingdom of Lesotho

OUR BUSINESS MODEL



INPUTS REQUIRED

Letšeng, a long-term asset with a strong resource base with the optionality of underground expansion. Letšeng is also a low-cost operation with a track record of successful mine plan optimisation and cost reduction initiatives.

- Current LoM extends to **2036**
- Extended mine lease period to **2039**
- Total mineral resource of **5 million carats**
- 1 377 867**GJ of energy consumed
- Per tonne treated we used **1.19m³ water**
- 1 956** employees (including contractors) with an absenteeism rate of 1.6 days per annum per person.
- The health, wellness and development of employees are front of mind**
- We have a **zero tolerance to harm** of employees, human rights violations, bribery and corruptions
- Social licence** to operate
- Vastly experienced **global management team**
- 349** registered clients

<ul style="list-style-type: none"> Top revenue drivers: <ul style="list-style-type: none"> Grade performance and carats recovered Diamond market Number of large (>10ct) high-quality diamonds recovered Exceptional diamond recoveries Reduction in diamond damage Main versus Satellite pipe ore mix 	<ul style="list-style-type: none"> Top cost drivers: <ul style="list-style-type: none"> Continued waste stripping Depth of pits Cost of remoteness Foreign exchange rate
--	---

- Available debt facilities **US\$69.9 million**
- Average annual capex investment of **US\$17 million**

OUTPUTS

ROUGH DIAMONDS SOLD: 111 292	NUMBER OF >20CT DIAMONDS: 252
ROUGH DIAMONDS RECOVERED: 113 974	DIAMONDS SELLING FOR MORE THAN US\$1 MILLION: 27 CONTRIBUTING US\$68.2 MILLION TO REVENUE

OUTCOMES: 2019 DELIVERY

<p>Total carbon footprint: 172 968tCO₂e</p> <p>Major or significant environmental incidents: 0</p> <p>28ha new land disturbed as a result of mining activities</p> <p>Diamond exports complying to the Kimberly Process: 100%</p> <p>Letšeng rehabilitation provision of US\$15.6 million</p>	<p>Sustainable Development Reporting Platform, available on Gem Diamonds' website (www.gemdiamonds.com), provides a comprehensive report on social, employees, safety, environmental and governance matters.</p>
<p>1 fatality</p> <p>LTIFR of 0.28</p> <p>AIFR of 0.93</p> <p>Human rights training included in employee induction programme</p> <p>Major or significant stakeholder incidents: 0</p> <p>A supply chain preventing child and forced labour</p>	<p>Resettled PACs: 0</p> <p>CSI spend of US\$0.8 million</p> <p>Letšeng in-country procurement: US\$164.6 million</p> <p>Letšeng paid income taxes of US\$17.4 million</p> <p>Letšeng paid royalties of US\$15.5 million</p>
<p>BEPS 5.1 (US cents)</p> <p>Average price per carat achieved US\$1 637</p> <p>Return on average capital employed of 7%</p> <p>EBITDA of US\$41.0 million</p> <p>Revenue of US\$182.0 million</p>	

Our viability statement on page 14 explains how the outcomes ultimately lead to a sustainable business model which delivers on our vision.

* Image supplied by Graff Diamonds International.

MARKET REVIEW

External factors impacting value creation

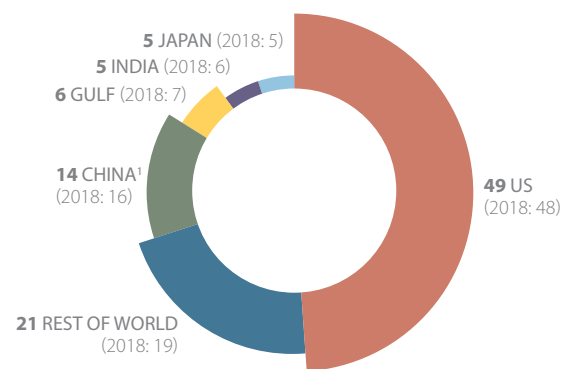
THE DIAMOND MARKET IN SUMMARY

Diamond prices, as with most commodities, are driven by the industry's unique supply/demand dynamics. The diamond industry's dynamics commence with the rough diamonds produced from mines and consumer demand for cut and polished diamonds, primarily in the form of jewellery. Between the mines and the jewellers, the middle market buys rough diamonds from the mines to cut and polish for sale to jewellers, who in turn sell to retailers and consumers. Demand for diamonds is broadly driven by global economic growth and disposable income, whilst supply is directly linked to the economics of diamond mining. Where prices paid for rough diamonds by the middle market are below the production cost per diamond for the mines, mining becomes uneconomical. Should this continue over time, mines will close and supply will diminish. Diamond resources deplete over time and as mines reach the end of their lives, the supply of diamonds will lessen.

GLOBAL DEMAND TRENDS

The US, China and India together account for nearly 70% of global polished diamond demand, and nearly half of all polished diamonds are sold in the US. While global economic growth remains subdued against a backdrop of rising geopolitical tensions and the threat of a US/Sino trade war, and the emerging but largely unquantified coronavirus threat, diamond demand none-the-less continued to grow in real value terms in the US and emerging economies, particularly India and China.

GLOBAL POLISHED DIAMOND DEMAND BY GEOGRAPHY (%)



Source: Derived from De Beers Group, Diamond Insight Reports 2019 and 2018.

¹ Greater China includes Mainland China, Hong Kong and Macau.

Demand is supported by the growing social custom of diamonds used in bridal jewellery in India and China; increased use of diamonds across a wider range of luxury goods; and continued growth in the number of high-net-worth individuals worldwide.

At the start of the year, inventories of polished diamonds were high after a disappointing 2018 holiday sales season. Restocking by jewellers and retailers was weak and the supply and pricing of polished diamonds was affected by several complicating factors in the middle market. India is the largest purchaser of rough diamonds and due to the devaluation of the rupee against the US dollar, the real cost of rough diamonds for these purchasers significantly increased. Declining prices of polished diamonds reduced the value of the inventory held by the middle market at the same time as funders tightening lending requirements for the middle market to acquire new stock. This liquidity squeeze resulted in reduced demand for rough diamonds and a need to sell off a surplus of polished diamonds into an already saturated polished diamond market.

Diamond prices of the smaller, commercial quality goods were most affected, and this category was further impacted by the entry of lab-grown diamonds into the fashion jewellery retail market, particularly through De Beers' Lightbox jewellery. Historically the prices for larger high-quality diamonds have been more resilient to market pressures, but this category of goods also experienced some price pressures in 2019.

Another visible trend is seen in generational shifts in consumer preferences as a social influencer. Younger consumers demand diamonds produced by responsible mining companies committed to meaningful social benefit and diamonds from conflict-free sources. Blockchain technology (read more on page 38) will allow consumers to track the source of diamonds and consider the corporate citizenship demonstrated by producers before making a purchase.

The link between source and consumer has further led to an emerging trend of luxury jewellery brands partnering directly with producers to enhance the value of the final polished product. This is also due to consumers favouring sustainable sources linked with exclusive design.

GLOBAL SUPPLY TRENDS

Continued low prices for rough diamonds will put additional pressure on marginal mines, with possible mine closures, and the ageing and depletion of existing diamond mines will, in the medium term, result in a steady decrease in the global rough diamond supply. Rough diamond production is believed to have peaked at 151 million carats in 2017 and annual global diamond production is expected to steadily decrease to around 110 million carats by 2030. Additional supply from new mines is not expected to compensate for the expected growth in demand during this period.

Advances in lab-grown diamond sizes and quality, together with growth in the supply of these diamonds, are expected to negatively impact the demand for natural diamonds, particularly the smaller, commercial type diamond production.

Current production of lab-grown diamonds is estimated at three to five million carats per annum and is estimated to grow at 20% annually through 2023.

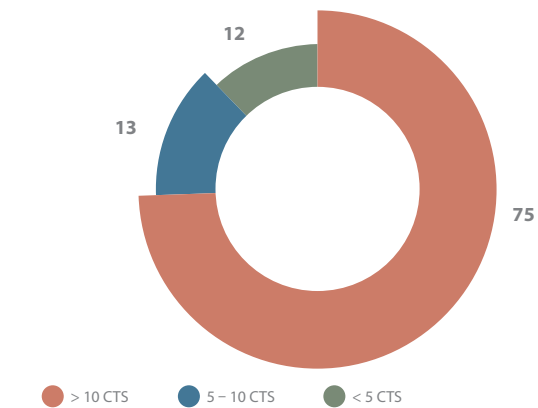
While there is a view that the popularity of lab-grown diamonds will rise for fashion jewellery, but natural diamonds will continue to be in demand for momentous occasions, the potential impact on natural diamond demand and price is not yet fully understood and will depend on consumer preferences and perceptions. Lab-grown diamonds sell at a significantly lower price than natural diamonds and continue to take market share, representing a real threat to the natural diamond industry.

POSITIONING GEM DIAMONDS

Diamonds from Letšeng are at the top end of the market in terms of size, colour and quality, and diamonds greater than 10 carats accounted for 75% of revenue in 2019 (2018: 80%). Such remarkable recoveries in 2019 included a 13.32 carat pink diamond that sold for a Letšeng record of US\$656 934 per carat and a 70.69 carat Type IIa white diamond that sold for US\$48 255 per carat. Customers for the manufactured polished diamonds are wealthy and tend to be less affected by global economic fluctuations. While these large, ultra-high-quality diamonds have historically been less vulnerable to market pressures, the prices for these larger high-quality diamonds also came under pressure during 2019. Letšeng achieved an average price of US\$1 637 per carat during the year, retaining its standing as the highest average dollar per carat kimberlite diamond producer in the world. This represents a decline from the average price of US\$2 131 per carat (including

the Lesotho Legend that sold for US\$40 million) realised in 2018 and 11 diamonds greater than 100 carats were recovered in 2019 compared to 15 the year before. Prices for Letšeng's high-quality diamonds have seen a moderate rise in the early part of 2020.

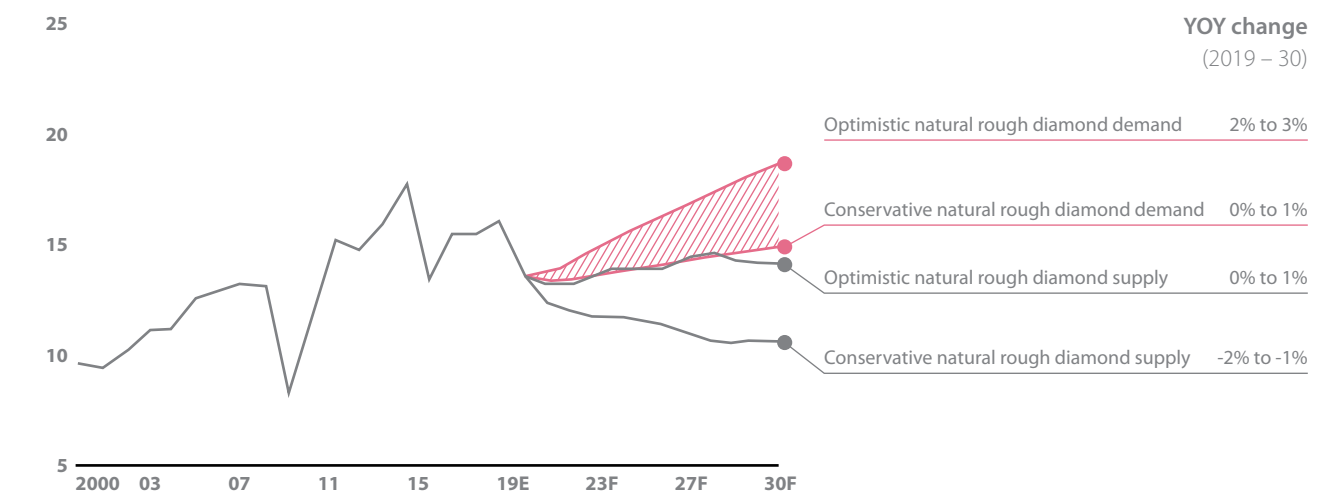
REVENUE PERCENTAGE BY SIZE FRACTION (%)



Prices for smaller and commercial type goods were under pressure but improvements in demand were noted towards the end of the year and in early 2020. In the medium to long term, rough diamond prices are expected to be supported by the favourable demand/supply fundamentals, which are underpinned by a continued growth in demand from emerging markets contrasted with a limited growth in supply. These dynamics are expected to benefit the high end of the market, where Letšeng is positioned.

This graph illustrates the positive demand and supply fundamentals for natural rough diamonds as the conservative demand estimate exceeds the optimistic supply.

NATURAL ROUGH DIAMOND SUPPLY AND DEMAND VALUES, US\$ BILLION (IN REAL TERMS), 2000 - 30F, 2019 PRICES, CONSTANT EXCHANGE RATES, OPTIMISTIC AND CONSERVATIVE SCENARIOS



Note: Natural rough diamond supply value corresponds to the value of natural rough diamond production; rough diamond demand has been converted from polished diamond demand using historical ratio of rough diamond and polished diamond values.

Source: Used with permission from Bain & Company (www.bain.com/insights/global-diamond-industry-report-2019/).

CHAIRMAN'S STATEMENT

“

Resilience in the face of tough economic conditions.

”

by **Harry Kenyon-Slaney**
Chairman

Dear shareholders,

On behalf of the Board, it gives me great pleasure to present to you the Gem Diamonds Annual Report and Accounts 2019, which provides an update on how we are progressing with delivery of the Company's strategic objectives and an overview of our activities during the year.



DEMONSTRATING RESILIENCE UNDER CHALLENGING CONDITIONS

The challenging operating and market conditions in 2019 required Gem Diamonds to demonstrate its resilience. The prolonged weakness in the rough diamond market affected producers across the industry. Drivers underlying this trend included an oversupply of rough diamonds and funding issues affecting buying patterns in the middle market. While the prices achieved for Letšeng's high-quality goods had held up in 2017 and 2018, during 2019 prices were impacted by the overall weakness in the market.

To offset this market weakness we focused our efforts firmly on controlling operating costs and delivering the commitments we made in 2018 under the Company's Business Transformation (BT) programme where we targeted material improvements in production and overhead costs and in improved efficiencies. The programme is on track to deliver the planned cumulative benefits of US\$100 million by the end of 2021 with US\$55 million realised to date. Gem Diamonds' position as a low-cost producer strengthens the Company's resilience and sustainability, as well as improving our ability to create long-term value for our stakeholders.

SAFE AND RESPONSIBLE WORKING ENVIRONMENT

There is nothing more important to me than ensuring that everyone goes home safely at the end of a day's work and a considerable proportion of the Board's deliberations are directed towards securing the safety and security of our colleagues and the integrity of our operations. We are committed to providing a safe, healthy and nurturing work environment for all our employees, contractors and visitors in pursuit of the target of zero harm.

We were therefore deeply saddened that Mr Abele Mtambo, a colleague from a sub-contracting company working at the Letšeng mine, lost his life in a tragic vehicle accident early in the year. Following the accident we have engaged extensively with all our contractors to ensure that the issues identified by the resulting investigation were resolved and we have provided appropriate support for Mr Mtambo's family.

SECURING THE FUTURE OF LETŠENG MINE

Following a successful statutory negotiation process, the mining lease for Letšeng was renewed by the Government of the Kingdom of Lesotho for a period of 20 years (which includes a 10-year exclusive renewal option from 2029). The new lease agreement creates stability for all stakeholders in Letšeng and provides a modern framework for our partnership with the Government. It also secures the long-term future of the operation and provides support for the current drilling

programme which aims to improve our understanding of the resources below the current pit.

The new lease agreement includes provisions aimed at developing the local mining industry. These were included to support government's stated intention to create a regulatory framework for the industry that can contribute significantly to the country's growth. We are committed to working with government to develop Lesotho's geological potential to support local communities and to foster skills development.

While Gem Diamonds' primary goal is to maximise the potential of the Letšeng deposit, doing so aligns with the interests of the Basotho nation through their government's 30% direct ownership of the mine.

INNOVATION AS A DRIVER OF VALUE

All business needs to innovate, and the Board regards the application of new ideas to improve operational and financial efficiency and effectiveness as pivotal to the success of the Letšeng mine.

Letšeng unearths some of the highest quality and largest diamonds anywhere on the planet, and the potential for and impact of diamond damage during crushing and extraction adversely affects the prices received for these diamonds. In 2019 the Group established a pilot plant to prove technology that would reduce diamond damage, improving yield and reducing operating costs. The project is on schedule and we look forward to providing more details to shareholders as the work progresses.

The Group is also in the process of incorporating the use of blockchain technology into its marketing activities to create greater transparency in the supply chain and to bring retail customers closer to the source of their diamond. The technology enables customers to connect with the story of their unique diamond and to understand the operational, social and environmental principles and processes that are applied in its production.

ENVIRONMENTAL PERFORMANCE

Gem Diamonds is committed to operating in the most environmentally responsible manner at all times and I am pleased to report to shareholders that there were no major or significant environmental incidents reported at any of our operations during the year. The high standard of our environmental, social and governance practices were recognised with the inclusion of the Company's shares in the FTSE4Good index once more.

DAM SAFETY

The safety and integrity of TSFs was brought into the spotlight after the recent failure of a number of major structures around the world. These failures highlighted awareness of the potential dangers if these structures are not correctly engineered, managed and monitored. Gem Diamonds takes a proactive approach in this matter to ensure that risks are fully understood at our water and TSFs, and that these structures are continuously managed according to international best practice. Dam safety is a standing agenda item at operational and Group Health, Safety, Social and Environment (HSSE) sub-Committee meetings and at Group Board meetings. More information on the Group's approach to dam safety management is available in our Sustainable Development Reporting Platform at www.gemdiamonds.com.

CONTRIBUTING TO COMMUNITY AND SOCIAL DEVELOPMENT

The Board understands that the Group's sustainability requires a responsible balance between the need to deliver returns for our investors and the need to deliver tangible benefits for local communities. We work closely with these communities to identify and implement meaningful social projects that improve community resilience, create viable and sustainable community income streams that last beyond the life of the mine, and improve education, skills and access to services and infrastructure in the areas in which we operate.

Investor Mining and Tailings Safety Initiative –
Church of England¹

727 companies
contacted for disclosure

Only **47%** of
companies responded

Companies who did respond represent **83%**
of the mining industry by market capitalisation

Gem Diamonds voluntarily disclosed all relevant details of its TSFs.

In addition to the details available on the Group's website, more details on our facilities can be found under Gem Diamonds at <http://tailing.grida.no/>.

¹ Information as at 8 March 2020.

CHAIRMAN'S STATEMENT continued

Watch the video:
www.gemdiamonds.com/video.php



GENERATING SUSTAINABLE RETURNS FOR OUR SHAREHOLDERS

Gem Diamonds takes a conservative approach to the allocation of capital and the Board is continuously assessing where and how capital should be applied. The current focus is on the twin objectives of ensuring the Letšeng mine has the sustaining capital required to maintain and improve its operational performance as well as strengthening the Group's balance sheet for the long-term benefit of shareholders. The Board's policy is to pay a dividend to shareholders when the financial strength of the Group permits, in line with our commitment to delivering sustainable shareholder returns. Based on the current financial position of the Company and the outlook for the global diamond market, the Board has decided that no dividend will be paid in respect of the 2019 financial year.

GOVERNANCE TO SUPPORT SUSTAINABLE VALUE CREATION

During 2019, the Board oversaw the review of the Company's governance policies and terms of reference in order to ensure that they are aligned with the requirements of the UK Corporate Governance Code 2018 as well as to our own commitment to high standards of governance. Read more on page 44.

During the year I was very pleased to welcome Ms Mazvi Maharasoa to the Board as a non-Executive Director. Mazvi brings considerable knowledge, experience and insight to the Board's deliberations on account of her long and distinguished career both in the diamond industry and as an advisor on corporate governance to government and industry bodies in Lesotho. It also facilitates improved decision-making by extending the Board's diversity.

The Board is committed to proactive and regular engagement with the Company's stakeholders to understand their views and to assess any concerns they may have. Mazvi was appointed as the Board representative with responsibility for engaging with communities, the Government of Lesotho and employees.

OUR PURPOSE

As a Board we need to ensure that Gem Diamonds' purpose extends beyond the Company to include the wider society within which we operate. As explained on page 1, we engaged and collectively cemented our purpose by articulating our vision as being *"To support, develop and empower our people so that a meaningful, sustainable contribution can be made to the countries in which we operate; and we can deliver long-term value to our shareholders."*

We achieve this purpose through collaboration with our employees and with the communities and governments of the countries in which we operate. As a Board, we monitor these working relationships very closely and we are satisfied that our values or 'the way we do things' are indeed aligned with our vision and purpose.

OUTLOOK

While the short-term outlook for the diamond market is unclear, we believe that in the longer-term demand for the unique high-value diamonds produced at Letšeng will remain firm. The mine is a well-established operation, is actively supported by the local communities and is looking confidently to the future now that agreement has been reached with our fellow shareholder – the Government of Lesotho, on the lease extension. With the main initiatives identified under the BT programme now well embedded and a continuous improvement programme in place, the Board's focus is shifting towards driving the innovation that can deliver improved value for shareholder.

APPRECIATION

I would like to thank my fellow Board members for their contribution and support during the period. On behalf of the Board, I would also like to thank the community leaders in our host communities and the Government of the Kingdom of Lesotho as our long-standing partners at Letšeng.

In closing, thank you to our employees for their efforts during the year. The resilience the Group demonstrated in the face of such challenging conditions is testament to our employees' dedication and commitment.

Harry Kenyon-Slaney
Chairman

10 March 2020

OUR STRATEGY

The goal of our strategy is to maximise shareholder value in a sustainable manner. It is shaped by Gem Diamonds' purpose, vision and values, which were developed during the year through a process that included extensive input from our employees (refer to page 1 for more information). These provide a broader context to our business activities that emphasise the Company's ambition to create social benefit and duty to be responsible stewards of our natural resources.

The management team, led by the Chief Executive Officer (CEO), is responsible for developing the business strategy for the Group, which is reviewed and approved by the Board. The strategy is reviewed annually and where necessary, revised to adjust for developments in regulations, governance requirements, current market conditions and the short, medium and long-term outlook.

Our strategy is underpinned by three key priorities which we believe will deliver maximum value for all stakeholders:

- Extracting Maximum Value from Our Operations;
- Working Responsibly and Maintaining Our Social Licence; and
- Preparing for Our Future.

2019 STRATEGY REVIEW

The strategy review conducted in November 2019 considered a range of options to create shareholder value, including diversification of assets, commodities, industries and business models. We will continue to assess opportunities as these arise and will engage with shareholders should these represent compelling options to unlock value. The review also included an assessment of the potential opportunities presented by lab-grown diamonds. Our outlook for lab-grown diamonds is summarised on page 6.

Therefore, our short to medium-term focus remains on maximising value from our current operation. This takes the form of three main thrusts:

Optimising the current operating model	We continue to implement and investigate new ways to improve our operating model to ensure that we are running efficiently and appropriately, particularly in the current market conditions.
Using early identification and anti-breakage technology	We are testing technology that improves early identification of diamonds within kimberlite and a non-mechanical method of liberating diamonds from kimberlite. These technologies show potential to improve diamond recovery, reduce diamond damage and decrease costs.
Reducing diamond damage	Damage to diamonds through mining and processing activities can significantly impact the price we realise for rough diamonds. Reducing diamond damage remains a key focus. This includes redesigning blasting patterns and improving the front end of our processing plants.

SECTION 172 OF THE UK COMPANIES ACT 2006


The Board considers the interests of the Group's employees and other stakeholders, including the impact of its activities on the community, environment and the Group's reputation, when making decisions. The Board, acting fairly between members, and acting in good faith, considers what is most likely to promote the success of the Group for its shareholders in the long term. Page 49 of this report summarises and cross-references the areas covered regarding:

- how the views and interests of all our stakeholders were represented in the boardroom during the year;
- the Group's goals, strategy and business model;
- how we manage risks; and
- how we are responding to the UK Corporate Governance Code 2018.

Stakeholder engagement is also detailed throughout the report through the use of pop-up boxes.

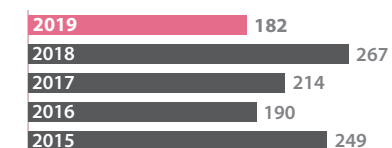
OUR STRATEGY continued

The table below further defines our strategic objectives and links them to relevant key performance indicators (KPIs) and targets.

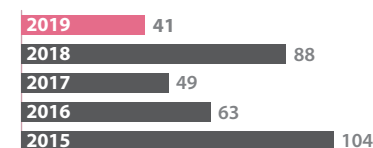
Objective	Meaning	Measuring
Extracting maximum value from our operations 	<ul style="list-style-type: none"> Driving business optimisation and sustaining organisational health Building balance sheet strength Exploring new sales avenues to maximise value 	<ul style="list-style-type: none"> Revenue Underlying EBITDA¹ Return on average capital employed Basic earnings per share Cash generated from operating activities Ore tonnes treated Carats recovered Delivery of BT target Energy and water consumption

2019 performance

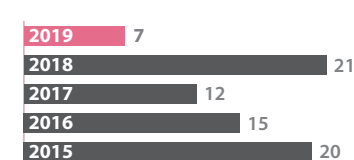
REVENUE (US\$ MILLION)*



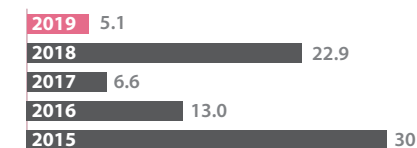
UNDERLYING EBITDA¹ (US\$ MILLION)*



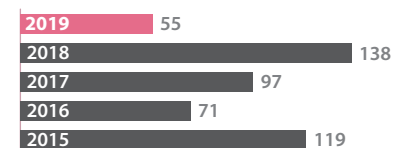
RETURN ON AVERAGE CAPITAL EMPLOYED (%)*



BASIC EARNINGS PER SHARE (BEPS) (US CENTS)*



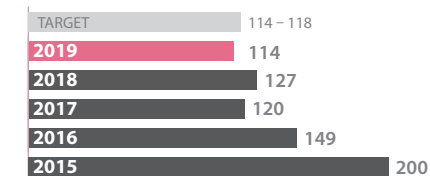
CASH GENERATED FROM OPERATING ACTIVITIES (US\$ MILLION)*




ORE TONNES TREATED (MILLION)



CARATS RECOVERED (THOUSAND)



* Target not disclosed due to commercial sensitivity and/or the risk associated with the target considered a profit forecast
¹ Refer Note 4, operating profit on page 130, for the definition of non-GAAP measures.

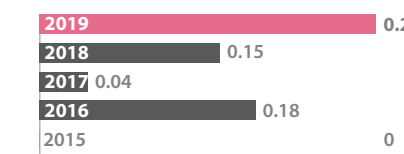
Objective	Meaning	Measuring
Working responsibly and maintaining our social licence 	<ul style="list-style-type: none"> Promoting a culture of zero harm and responsible care Delivering sustainable returns for our investors while optimising the benefit for our communities and minimising our impact on the environment Building long-term, transparent and mutually beneficial relationships with all stakeholders 	<ul style="list-style-type: none"> Fatalities LTIFR² AIFR² Major environmental or community incidents HSSE legal compliance Community investment ISO certifications

2019 performance

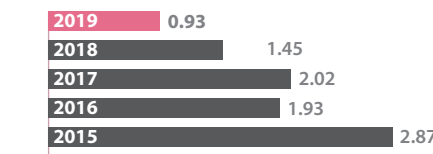
FATALITIES




LTIFR²



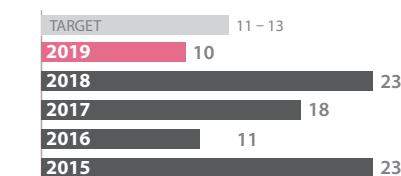
AIFR²



Objective	Meaning	Measuring
Preparing for our future 	<ul style="list-style-type: none"> Advancement of innovative technologies focusing on reducing diamond damage and reducing costs Renewal of the mining lease at Letšeng Assessing external growth opportunities 	<ul style="list-style-type: none"> Capital expenditure Waste tonnes mined Extending life of lease beyond life of open pit Mining in accordance with life of mine plan

2019 performance

CAPITAL EXPENDITURE (US\$ MILLION)



WASTE TONNES MINED (MILLION)



Read more in the Chief Executive's review, page 22, Financial performance, page 26, and Operating review page 33.

² Measures the safety performance of the Group and includes contractors and expressed as a frequency rate per 200 000 man hours.

ENGAGING OUR EMPLOYEES ON STRATEGY

S172 (1)(b)&(e)

The Board engaged with senior management to gain input to proposed scenarios available to Gem Diamonds in terms of long-term strategic choices including diversification, corporate activity and changes in business model.

VIABILITY STATEMENT

The Board has assessed the viability of the Group over a period significantly longer than 12 months from the approval of the financial statements in accordance with the UK Corporate Governance Code. The Board considers three years from the approval of the financial statements to be the most relevant period for consideration for this assessment given the Group's current position and the potential impact of the principal risks documented on pages 15 to 21 that could impact the Group's viability.

While the Group maintains a full business model, based predominantly on the life of mine (LoM) plan for Letšeng, the Group's annual business and strategic planning process also uses a three-year time horizon. This process is led by the CEO and involves all relevant functions including operations, technology and innovation, sales and marketing, finance, treasury and risk. The Board participates in the annual review process through structured Board meetings and annual

strategic sessions. A three-year period provides sufficient and realistic visibility in the context of the industry and environment in which the Group operates, even though LoM, the mining lease tenure and available estimated reserves exceed three years.

The business and strategic plan reflects the Directors' best estimate of the Group's prospects. The Directors evaluated several additional scenarios to assess the potential impact on the Group by quantifying their financial impact and overlaying this on the detailed financial forecasts in the plan.

The Board's assessment of the Group's viability focused on the critical principal risks categorised within the strategic, external and operational risks, together with the potential effectiveness of the potential mitigations that management reasonably believes would be available to the Company over this period.

The scenarios tested considered the Group's revenue, EBITDA¹, cash flows and other key financial ratios over the three-year period. The scenarios tested included the compounding effect of the factors below.

Effect	Extent of sensitivity analysis	Related principal risks	Area of business model affected
A decrease in forecast rough diamond revenue from reduced market prices or production volumes	18%	<ul style="list-style-type: none"> Rough diamond demand and prices Production interruption Knowledge of resource 	<ul style="list-style-type: none"> Entire business model i.e. inputs, activities, outputs and outcomes
A strengthening of local currencies to the US dollar from expected market forecasts	7%	<ul style="list-style-type: none"> Currency volatility 	<ul style="list-style-type: none"> Financial capital inputs and outcomes
Impact of amended tax assessment being payable prior to the resolution of the objection lodged. Refer Note 1.2.28, in the financial statements	Full payment within viability period	<ul style="list-style-type: none"> Cash generation 	<ul style="list-style-type: none"> Financial capital inputs

The Group's current net debt² position of US\$10.2 million as at 31 December 2019 and available standby facilities of US\$69.9 million would enable it to withstand the impact of these scenarios over the three-year period. This position is supported by the cash-generating nature of the Group's core asset, Letšeng, and its flexibility in adjusting its operating plans within the normal course of business.

Based on the robust assessment of the principal risks, prospects and viability of the Group, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending March 2023.

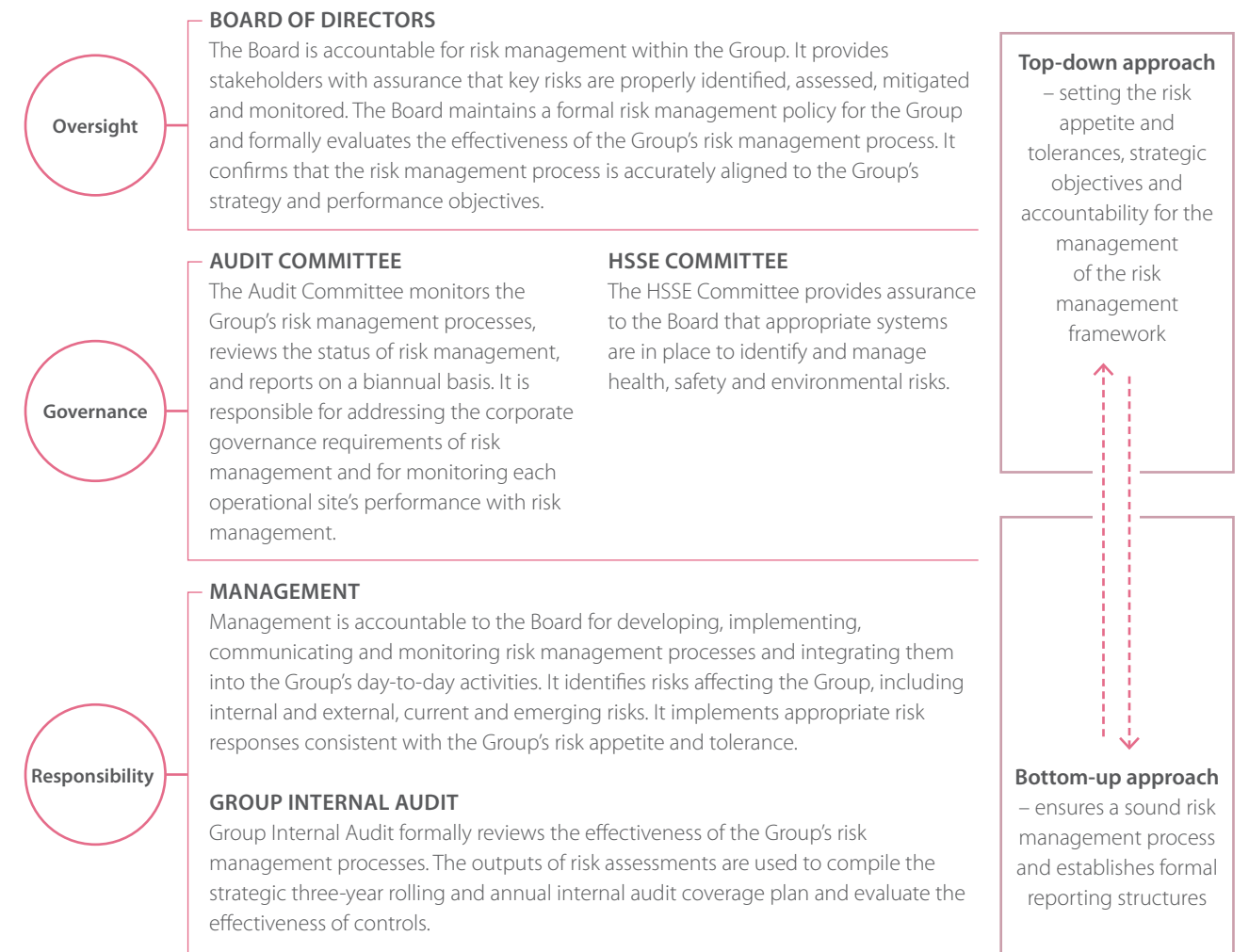
¹ Refer Note 4, operating profit on page 130, for the definition of non-GAAP measures.
² Net debt is calculated as cash and short-term deposits less drawn down bank facilities (excluding asset-based finance facility).

PRINCIPAL RISKS AND UNCERTAINTIES

HOW WE APPROACH RISK

Effective identification, management and mitigation of the risks and uncertainties to which the Group is exposed are key to achieving the Company's strategic objectives and are core focus areas for the Group. These risks, if not appropriately managed and mitigated, could result in financial, operational and compliance impacts on the Group's performance, reputation and long-term growth.

The risk management framework combines top-down and bottom-up approaches with appropriate governance and oversight, as shown in the table below.






RISK MANAGEMENT FRAMEWORK








The Board and its Committees have identified the most material risks facing the Group, including strategic, operational and external risks, both current and emerging. These risks are actively monitored and managed and their impact, individually or collectively, could potentially affect the Group's ability to operate profitably and generate positive cash flows in the medium to long term. This year risk disclosure intentionally follows guidelines from the IIRC's <IR> Framework to clarify between inherent and residual risk, indicate risk movements, and link the areas of the business model and strategy to each risk.

Gem Diamonds' risk management framework focuses on risk identification and mitigation. Many factors that give rise to these risks also offer opportunities. The Group continues to monitor existing and emerging opportunities and will incorporate them into the strategy where they support the Group's vision.

PRINCIPAL RISKS AND UNCERTAINTIES

continued

 Extracting maximum value from our operations	 Working responsibly and maintaining our social licence	 Preparing for our future
--	--	--

Risk type	External	Operational	Strategic and operational	Operational	Operational	Strategic	Operational
Description	Rough diamond demand and prices	Diamond damage	Knowledge of the resource	Cash generation	Security of product	Growth and return to shareholders	Workforce
Impact	Numerous factors beyond the control of the Group may affect the price and demand for diamonds. These factors include international economic and political trends, as well as consumer trends. Even though the medium to long-term demand is forecast to outpace supply, in the short term the prevailing climate of global economic uncertainty and liquidity constraints within the diamond sector is causing pressure in rough diamond pricing. These trends are discussed on page 6 and directly affect Gem Diamonds' cash flows and EBITDA and its ability to fund operations, projects and growth plans.	Letšeng's valuable Type II diamonds are highly susceptible to damage during the mining and recovery process.	Letšeng's low grade orebodies (average carats recovered per tonne of ore processed) and its dependence on the regular recovery of large high-quality diamonds makes the operation sensitive to resource variability. Mineral resource underperformance affects the Group's ability to operate profitably.	Reduced cash flows may negatively affect the Group's ability to effectively operate, repay debt and fund capital projects. The risk is directly impacted by other principal risks such as rough diamond demand and prices, diamond damage, knowledge of the resource and security of product.	Theft is an inherent risk in the diamond industry. The high-value nature of the product at Letšeng could result in theft and significant losses which will negatively affect revenue and cash flows.	The volatility of the Group's share price and lack of growth negatively impacts the Group's market capitalisation. Constrained cash flows also add pressure on returns to shareholders. The Group currently relies on a single mine for its revenues, profits and cash flows.	Achieving the Group's objectives and sustainable growth depends on its ability to attract and retain key suitably qualified and experienced personnel. Gem Diamonds operates in an environment and industry where experience and skills shortages are prevalent, and in jurisdictions with localisation policies.
Opportunity if managed	Additional viewings in new areas could introduce new clients and improve prices realised.	Improvements to blasting techniques and introducing new technology can reduce damage, thereby improving value recovered.	Improving knowledge of the orebody through bulk sampling, geological mapping and ahead of face drilling supports effective forecasting and the ability to plan accurately and optimally, which will improve operating efficiencies and cash flows.	Cash constraints drive more efficient capital allocation and cost disciplines.	Advanced security control measures increase employees' and product's safety and improves revenue.	Delivery on the strategy should improve cash flows, reinforce the balance sheet strength and improve shareholder returns, thereby strengthening Gem Diamonds' position in the industry.	Retaining skills and continuous improvement initiatives build the Group's human capital and can create a competitive advantage.
Key priorities							
Area of business model affected	<ul style="list-style-type: none"> Funding the business model Sales and marketing activities Chosen distribution channels 	<ul style="list-style-type: none"> Increase diamond pricing Outputs of carats recovered Reduced financial inputs Increased financial outputs 	<ul style="list-style-type: none"> Natural capital inputs and outputs of carats recovered LoM affects the long-term viability of the business model 	<ul style="list-style-type: none"> Funding the business model 	<ul style="list-style-type: none"> Outputs of carats recovered Increase financial outputs Human capital and safety outcomes 	<ul style="list-style-type: none"> Viability of business model and financial capital 	<ul style="list-style-type: none"> Human, intellectual and financial capital inputs into the business model
Mitigation	<ul style="list-style-type: none"> Monitoring market conditions and trends Flexibility in sales processes and the utilisation of multiple sales and marketing channels, and increased viewing opportunities Reassessing capital projects and operational plans to align with market conditions and preserve cash balances 	<ul style="list-style-type: none"> Continuous diamond damage monitoring and analysis to identify opportunities to reduce diamond damage An online system is in place to monitor plant parameters and evaluate trends within the treatment process An on-mine Diamond Value Management Committee oversees and drives the focus of overall value recovery 	<ul style="list-style-type: none"> Furthering orebody knowledge through various bulk sampling programmes, combined with geological mapping and modelling methods Improving confidence in ore volumes and grades per rock type through grade control, reduced ore blending, increased bulk sampling, measuring (density and moisture content), regularly updating geological models, monitoring and controlling external and internal dilution and waste rafts and focusing on waste management Improving understanding of diamond populations, size frequency distributions and value profiles per kimberlite type through rigorous daily and monthly data plotting and trend analysis. 	<ul style="list-style-type: none"> Reassessment of capital expenditure and operational strategies Treasury management practices in place Access to available facilities Delivering of BT targets Regular review of the mine plan to optimise cash flow and to identify rescheduling opportunities 	<ul style="list-style-type: none"> An advanced security access control and surveillance system is in place complimented by off-site surveillance Zero tolerance on non-conformance to policy and regulations The Diamond Recovery Protection Committee (a sub-Committee of the Letšeng Board) monitors security process effectiveness Appropriate diamond specie insurance cover in place Regular vulnerability assessments complimented with internal and independent third-party assurance audits undertaken 	<p>Group strategy review performed with objective of improving the share price through:</p> <ul style="list-style-type: none"> Renewing the Letšeng mining lease Delivering the BT target Reviewing capital allocation Implementing early identification and anti-breakage technology Assessing diversification opportunities 	<ul style="list-style-type: none"> Human resources practices are designed to identify skills shortages and implement development programmes and succession planning for employees. Incentives are in place to retain key individuals through performance-based bonus and long-term share awards. Remuneration committees are set-up at a subsidiary level, which review current remuneration policies, skills and succession planning.
Heatmap key	1	2	3	4	5	6	7
Risk exposure	Increased	Decreased	Increased	Increased	Decreased	Increased	No change

PRINCIPAL RISKS AND UNCERTAINTIES

continued

Risk type	External and operational	Operational	External	Operational	External and operational	Operational	External
Description	Environmental	Sustainability of Business Transformation	Social licence to operate	Production interruption	Information Technology Systems (IT) and cybersecurity	Health and safety	Currency volatility
Impact	Climate and environmental issues, such as recent dam failures, are recognised as top global risks by the World Economic Forum and investors are increasingly focussed on environmental performance. Failure to manage vital natural resources, environmental regulations and pressure from neighbouring communities can affect the Group's ability to operate sustainably.	The BT process identified savings and efficiencies of US\$100 million over four years from 2018, with ongoing sustainable benefit of US\$30 million per annum from 2022 onwards. The sustainability of the BT benefit is highly dependent on organisational health, change management, skills, workforce motivation and behaviour and contract renegotiations. Failure to sustain the savings identified could impact the Group's cash resources.	Gem Diamonds' social licence to operate arises from the approval of its stakeholders, particularly employees, regulators, communities and society, to conduct its business. This approval is an outcome of the way the Group manages issues such as ethics, labour practices and sustainability in our wider environment, as well as our risk management and engagement activities with stakeholders.	Material mine and/or plant shutdowns or periods of decreased production could arise from various events. These events could lead to personal injury or death, environmental impacts, damage to infrastructure and delays in mining and processing activities and could potentially result in monetary losses and possible legal liability. The Group relies on the use of external contractors in its mining and processing activities. Disputes with these contractors could materially impact the Group's operations.	The Group's operations rely on secure IT systems to process and record financial and operating data in its information management systems. If these IT systems are compromised, there could be a material adverse impact on the Group.	The risk that a major health or safety incident, such as recent dam failures, may occur within the Group is inherent in mining operations. These risks could impact the wellbeing of employees, our licence to operate, the Company's reputation and compliance with debt facility agreements.	The Group receives its revenue in US dollars, and costs are incurred in the local currency of the countries in which the Group operates. Exchange rate volatility between these currencies and the US dollar impacts the Group's profitability and cash flow.
Opportunity if managed	Responsible environmental stewardship improves relationships with regulators and communities while strengthening our brand. Increased investor focus on environmental responsibility could translate into a competitive advantage.	Delivery of the BT target improves cash flow, credibility and positions the Group ahead of the industry.	Realising the Group's vision to make a meaningful and sustainable contribution to the countries in which we operate builds Gem Diamonds' reputation with government, regulators, communities and investors.	Operating at or near steady state levels, improve efficiencies due to stability of production. Focused contract management impacts positively on cash generation through improved procurement and contract renegotiation practices.	IT solutions such as machine learning and artificial intelligence could provide an opportunity to assess mining and processing practices which could improve efficiencies and diamond recoveries. Technologies such as blockchain offer opportunities to create value in the Group's sales and marketing channels (see page 38).	Improving employee health and wellness can increase morale, reduce absenteeism and improve productivity. Ensuring that effective safety policies and processes are in place reduces risk to our workforce, strengthens our relationships with employees and regulators, and safeguards the Group's reputation.	Earning capability in currencies stronger than currencies in which operational costs are incurred result in maximum financial benefit to Letseng.
Key priorities							
Area of business model affected	<ul style="list-style-type: none"> Natural capital inputs into the business model and negative outcomes in the case of environmental incidents 	<ul style="list-style-type: none"> Entire business model 	<ul style="list-style-type: none"> Social capital and viability of business model 	<ul style="list-style-type: none"> Reduced operational activity could lead to a decline in financial capital and outputs Negative outcomes decline natural and human capital. 	<ul style="list-style-type: none"> Entire business model 	<ul style="list-style-type: none"> Social, relational and human capital and viability of business model if outcomes are negative 	<ul style="list-style-type: none"> Financial capital inputs and outcomes
Mitigation	<ul style="list-style-type: none"> Implemented appropriate Sustainability and Environmental policies which are subject to a continuous improvement review The current behaviour-based care programme instils environmental stewardship A climate change adaptation plan has been implemented A dam safety management framework has been implemented Annual social and environmental management plan (SEMP) audit program has been implemented ISO 14001 accreditation obtained Adopted a UN SDG framework 	<ul style="list-style-type: none"> Dedicated BT task team Monitoring through weekly cadence meetings Delivered US\$55 million to date, with medium/low risk of delivering remaining balance. 	<ul style="list-style-type: none"> Appropriate health, safety and sustainability policies are in place and subject to continuous improvement reviews The new mining lease caters for appropriate CSI spend Adopted a UN SDG framework 	<ul style="list-style-type: none"> Continuous review of business continuity plans A bespoke contract management role has been fulfilled to ensure proper contract management and minimise the potential for disputes Maintaining appropriate insurance Maintaining appropriate levels of resources (fuel, stockpiles etc.) to mitigate certain production interruptions Improvements implemented in the management of contractors' procurement practices. 	<ul style="list-style-type: none"> Application of technical and process IT controls in line with industry-accepted standards Appropriate back-up procedures are in place Firewalls and other appropriate security applications are in place Regular testing of back-up restorations are performed Consultations with professional external advisors take place when there is a need to better understand evolving risks and any mitigating factors to be implemented. 	<ul style="list-style-type: none"> Implemented appropriate Health and Safety policies and practices which are subject to continuous improvement reviews Corrective actions identified from incident investigations and internal and external audits are implemented timeously A dam safety management framework has been implemented ISO 45001 accreditation obtained. 	<ul style="list-style-type: none"> A framework to enter into short-term hedging instruments is in place Appropriate treasury management procedures are in place
Heatmap key	8	9	10	11	12	13	14
Risk exposure	New separately defined risk	Decreased	New separately defined risk	Decreased	New separately defined risk	Increased	Decreased

PRINCIPAL RISKS AND UNCERTAINTIES continued

ENGAGING OUR STAKEHOLDERS ON RISK

S172 (f)(a)-(f)

Risk disclosure

Selected Board members and senior executives collaborated and engaged with external consultants on the most effective manner to provide transparent risk disclosure.

2

Diamond damage

The Board and executive management regularly engage with experts regarding improvements in mining and treatment processes.

3

Knowledge of the resource

The Board and executive management engaged SRK Consulting Canada on several matters relating to geological modelling to gain knowledge of the resource.

4

Cash generation

The Board and executive management regularly engage with lenders by providing transparent performance results to maintain good relationships and secure additional external facilities.

6

Growth and return to shareholders

The Board engages analysts and investors through briefing sessions, update statements, research and events to provide performance feedback and updates on remuneration resolutions. Institutional investors required disclosure on auditor effectiveness and material non-audit fees. Please refer to page 59.

10

Social licence to operate

The Board ensures an appropriate stakeholder engagement framework exists, including a grievance management plan to ensure stakeholder input without fear of retribution.

Engaging the industry and government

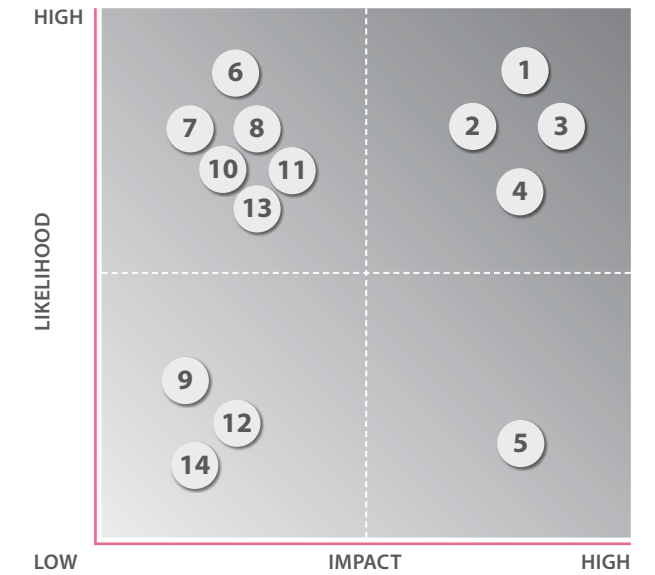
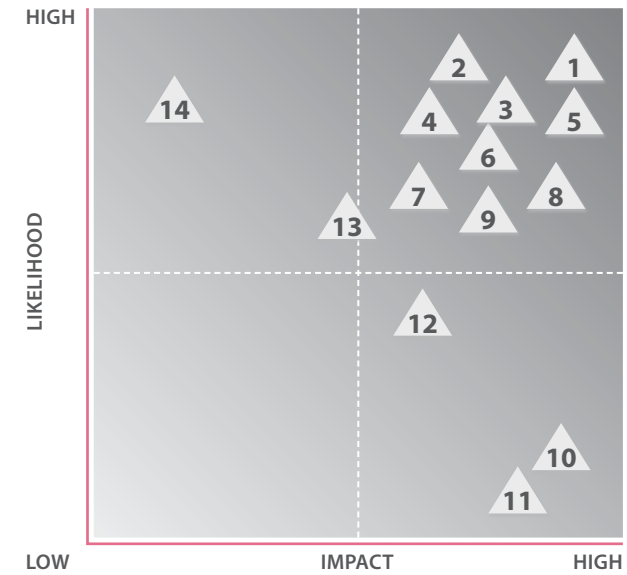
- Letšeng Diamonds is a member of the Lesotho Chamber of Mines which was formally registered and meets regularly
- Letšeng Diamonds provides regular compliance feedback to various departments within government

Engaging PACs

The Group actively participates and invests in Corporate Social Initiatives for its project-affected communities (PACs), in accordance with a needs analysis informed investment strategy.

Community representatives sit on the operational corporate social responsibility (CSR) committees.

The following table shows how the likelihood and impact scenarios change pre-mitigation (inherent risk ▲) and post-mitigation (residual risk ●). The order of importance was established taking guidance from the IIRC's <IR> Framework, where a material matter with a greater impact is considered more important than a matter with a higher likelihood.



EMERGING RISKS

The assessment of emerging risks is embedded within the risk management function of each operation. Emerging risks identified during these assessments are reported to the subsidiary boards on a structured quarterly basis and to the corporate office as they are identified.

Management evaluates emerging risks and presents them to the Board for consideration and evaluation.

Emerging risks are risks that:

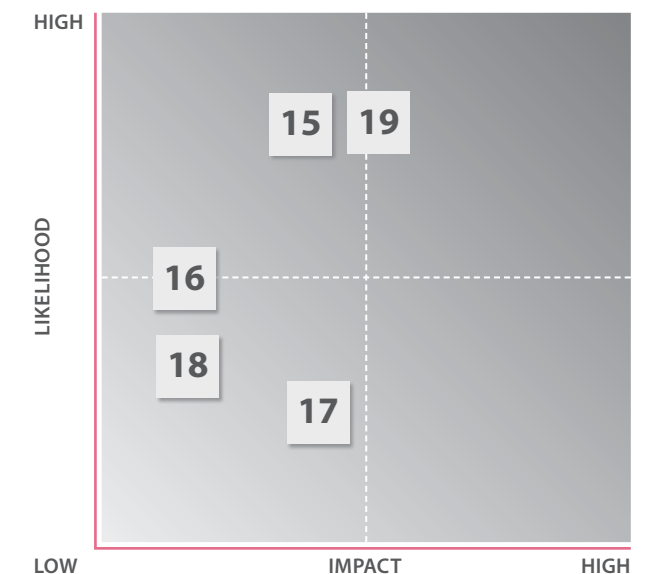
- are likely to materialise or impact over a longer timeframe than existing risks;
- do not have much to reference to by means of prior experience; and
- are likely to be assessed and monitored against vulnerability, velocity and preparedness when determining likelihood and impact.

The current emerging risks on the Group's radar are:

- lab-grown diamonds; (15)
- generational shifts in consumer preferences – social influencers; (16)
- the rate of advancement of digital technologies such as blockchain; (17)
- future workforce (automation, skills for the future etc.); (18) and
- Covid-19 (coronavirus): The sudden outbreak of the virus has the potential to create short-term uncertainty in global markets and to disrupt the viewing of diamonds to

be sold at upcoming tenders, which can negatively affect demand and price. In addition, it could also impact the availability and cost of imported goods required for mining operations. The risk is monitored and mitigated in conjunction with the current principle risks relating to 'rough diamond demand and prices' and 'production interruption'. (19)

Based on an inherent risk ranking over the medium to long-term time horizon we rank their importance as:



CHIEF EXECUTIVE'S REVIEW



“ Gem Diamonds concentrated on delivering operational excellence and managing the factors over which we have control, solidifying our status as one of the lowest-cost and safest diamond producers in the industry.



by **Clifford Elphick**
Chief Executive Officer

Rough diamond prices were under severe pressure during 2019 with the over supply of most categories of rough and polished diamonds. Events in Hong Kong affected turnout at the major trade shows for diamonds and credit provision to diamond manufacturers tightened considerably, reducing the ability of our direct customers to finance stock purchases, leading to a surplus of diamond stocks in the manufacturing sector. While the performance of shares in diamond companies has traditionally followed US stock markets, diamond mining companies' shares were under pressure during 2019, regardless of individual performance.

In these challenging circumstances, Gem Diamonds concentrated on delivering operational excellence and managing the factors over which we have control. It is significant that Gem Diamonds achieved all its operational guidance metrics for 2019. Moreover, operating costs per tonne were the lowest for the past three years.

EXTRACTING MAXIMUM VALUE FROM OUR OPERATIONS

Despite the challenging conditions, Gem Diamonds delivered positive results, including the recovery of 11 diamonds greater than 100 carats (2018: 15). These recoveries also brought the total number of diamonds of greater than 100 carats each to 100, since Gem Diamonds took ownership of Letšeng in July 2006. Early in the year, a 13.32 carat pink diamond was recovered that sold for a Letšeng record of US\$656 934 per carat, reaffirming the quality of the mine's production.

In the context of the decline in the overall diamond market, the average price achieved decreased 23% to US\$1 637 per carat (2018: US\$2 131 per carat) from the sale of 111 292 carats (2018: 125 111). The additional tender viewings in Tel Aviv, introduced in 2017, increased flexibility and improved sales values realised, while providing a valuable opportunity to interact with customers and investors. The new customised electronic tender platform that was launched in September 2019 has been successfully integrated. It offers an enhanced client experience and improved internal efficiencies.

The volume of tonnes treated for the year increased 3% year on year and the plants continue to focus on enhancing value over volume. Carats recovered decreased 10% to 113 974 (2018: 126 875), mainly due to the planned limited contribution of the higher-grade, high-value Satellite pipe material during the year. This was the result of Letšeng transitioning into a new cutback within the pipe to accommodate future increases in contribution from this high-value pipe. More information on Letšeng's operational performance is available on page 33.

Revenue decreased 32% to US\$182.0 million (2018: US\$267.3 million), which translated into underlying EBITDA¹ of US\$41.0 million and earnings per share of 5.1 US cents. Although the Group returned to a cash generative position in Q4 2019, cash flow from operations decreased 60% to US\$55.5 million during 2019, resulting in net debt at year-end of US\$10.2 million, compared to net cash² of US\$17.5 million at the end of 2018. The Group's financial results are discussed in detail in the Group Financial Performance report on page 26.

The Business Transformation (BT) programme is delivering its targeted gains and is on track to achieve the goal of US\$100 million in cost savings and efficiencies by the end of 2021, as well as the sustainable annual net benefit of US\$30 million from 2022 onwards. The elements of the BT programme and progress against its objects are discussed on page 40. The programme has been instrumental in reducing costs and improving efficiencies in the Group since it was initiated in 2017 and Gem Diamonds' improved position on the global cost curve demonstrates the benefits of the programme. The next phase of the optimisation strategy involves the transition to continuous improvement (CI).

WORKING RESPONSIBLY AND MAINTAINING OUR SOCIAL LICENCE

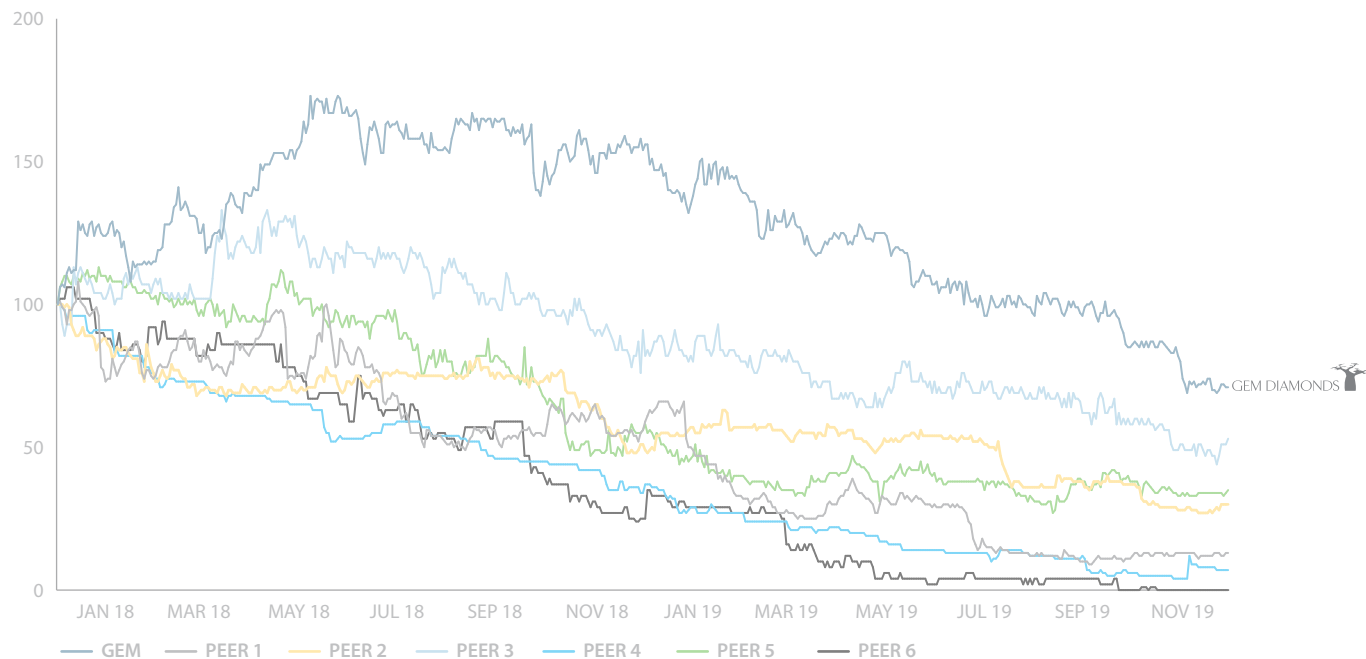
The Group's vision and values embody our commitment to delivering shareholder returns in a responsible and sustainable way, by creating social benefit and being responsible stewards of our environmental resources.

Gem Diamonds is committed to promoting a culture of zero harm and responsible care. Our goal is to create and sustain a safety culture that is underpinned by a deep sense of mutual care and collaboration across the workforce. We are disappointed that some of our safety statistics deteriorated during 2019 after several years of improvement. There was one fatality and seven LTIs during the year, compared to no fatalities and four LTIs in 2018. The Group-wide LTIFR increased to 0.28 (2018: 0.15). The root causes of reported injuries are investigated and addressed and shared across the organisation to improve safety outcomes.

Safeguarding our communities

While the freshwater dam and two tailings storage facilities (TSFs) at Letšeng are designed and managed to international best practice, we are aware of the potential risk that TSFs can pose to host communities, operations and the environment. Rigorous ongoing monitoring of these facilities is conducted by experts to timeously identify and mitigate risks. An early-warning system is in place and community training and awareness programmes have been implemented in downstream communities to improve emergency response readiness in the unlikely event of a failure. More information on how the Group ensures the highest standards of dam safety management is available on the Sustainable Development Reporting Platform at www.gemdiamonds.com.

PERFORMANCE AGAINST PEERS



¹ Refer Note 4, operating profit on page 130 for the definition of non-GAAP measures.

² Net cash/ debt is a non-GAAP measure and calculated as cash and short-term deposits less drawn down bank facilities (excluding asset-based finance facility).

CHIEF EXECUTIVE'S REVIEW

continued

Supporting local communities and contributing to national priorities

Gem Diamonds recognises PACs as vital stakeholders and views investments in initiatives to support community development and resilience as investments in the long-term sustainability of the Group. Over the years, Gem Diamonds has consistently invested in local communities with an emphasis on education, infrastructure development and local enterprises that create self-sustaining employment independent of the mine.

Community enterprise development initiatives to date include providing infrastructure, training and ongoing support for a vegetable farm, dairy farm, as well as a wool and mohair project. Read more about current initiatives on page 37.

The Letšeng operation provides jobs for more than 1 900 people and is a substantial employer in Lesotho. The Company's investment in training improves individual skills in the area and our local procurement initiatives support the local economy and the broader population of Lesotho. In 2019 total in-country procurement increased to US\$164.6 million (2018: US\$159.3 million). Of this amount, US\$2.4 million was procured directly from PACs (2018: US\$2.1 million) and US\$30.5 million from regional communities around Letšeng.

For the 10th year running, no major or significant stakeholder incidents occurred at any of Gem Diamonds' operations during 2019. There were also no incidents (2018: none) involving any violation of the rights of the indigenous people on whose land the Group operates.

PREPARING FOR THE FUTURE

The signing of the new mining lease secures Gem Diamonds' mining right at Letšeng for the next two decades (which includes a 10-year exclusive renewal option from 2029). The new lease sees the royalty rate payable increasing from 8% to 10%, the shareholding in the mine remaining unaltered (Gem Diamonds at 70% and Government of Lesotho at 30%) and there is, an increase in the number of work permits that may be granted in order to fill any skills gap at the operation. The BT initiatives that aim to reduce waste stripping (discussed on page 34) that were implemented a year earlier than initially estimated significantly improved LoM stripping ratios and increased the mine's net present value.

Capital expenditure was substantially reduced during the year and comprised mainly sustaining capital projects, investments in technology and innovation projects, and the extension of the Patiseng TSF. The Patiseng extension provides deposition space until 2024.

The diamond detection in kimberlite pilot plant was completed and commissioned on budget during the year. The plant is validating and testing two key technologies to identify

locked diamonds within kimberlite and to liberate diamonds using a non-mechanical process to limit diamond damage and lower operating costs.

OUTLOOK

Our focus in the year ahead remains on realising the full benefits of the BT and CI projects and driving efficiencies and cost reduction initiatives to maintain our status as a low-cost and safe operation. We continue to investigate and assess other opportunities to unlock value for shareholders.

The Company announced that it had entered into a binding agreement in July 2019 to sell the Ghaghoo mine, which has been on care and maintenance since 2017. The objective is to conclude this transaction in 2020.

APPRECIATION

I would like to take this opportunity to acknowledge the contribution of Louis Boag, the CFO at the Letšeng mine, who passed away unexpectedly at his home in January 2020. He was an effective and popular part of the management team whose commitment to training and developing those around him, made an immense contribution to the operation. He will be sorely missed.

I would also like to thank Gavin Beevers, who fulfilled the role of interim technical advisor for 9 months before retiring in April. Brandon de Bruin, the Business Transformation Officer, was appointed as the Operations and Business Transformation Executive to oversee the mining operations in the absence of an appointed COO. An Operations Steering Committee was set up to advise and assist Brandon in this role, and Johnny Velloza, the previous deputy CEO and a current Non-Executive Director on the Board was appointed as chairman of this Committee.

I would like to thank the Board and our Chairman for their leadership and support during the year. I am sincerely grateful to our employees for their efforts in delivering on our strategic goals, and for living the Group values.

Thanks to the representatives of the Government of the Kingdom of Lesotho for their constructive engagement and input during the negotiation of the lease period extension.

I would like to close by thanking our shareholders for their ongoing support.

Clifford Elphick
Chief Executive Officer

10 March 2020



GROUP FINANCIAL PERFORMANCE

“

We aim to maintain our position as a low-cost producer and the effects of the early start of the BT programme leave us in a favourable position in comparison with the rest of the industry.

”



by **Michael Michael**
Chief Financial Officer

SUMMARY OF FINANCIAL PERFORMANCE

While 2019 was a year of good operational performance and progress on our BT initiatives and other strategic objectives, revenue and EBITDA¹ declined on weaker diamond prices. Tender revenues tracked the weaker market for rough diamonds and 11 diamonds greater than 100 carats were recovered during the year, compared to 15 in 2018, which included the Lesotho Legend that sold for US\$40 million.

The Group has limited ability to influence rough diamond prices, so our focus remains on managing the areas of the business that are within our control. These include improving operational efficiencies, minimising waste mined, investing to sustain our future and reducing costs where possible. The Group also secures appropriate bank facilities to improve funding flexibility.

Underlying EBITDA¹ from continuing operations decreased to US\$41.0 million from US\$87.7 million. Profit attributable to shareholders from continuing operations for the year was US\$7.1 million, equating to earnings per share from continuing operations of 5.1 US cents on a weighted average number of shares in issue of 139.0 million. After including the loss of US\$4.5 million from the Ghaghoo discontinued operation, the Group's attributable profit was US\$2.6 million with earnings per share of 1.9 US cents.

Net cash² in the prior year of US\$ 17.5 million, decreased to a net debt² position of US\$10.2 million at year end. Notwithstanding the lower revenue, the Group continued to invest into future waste stripping and capital expenditure during the year.

The Group adopted IFRS 16 *Leases*, that requires a lessee to recognise right-of-use assets and lease obligations for qualifying leases. The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application being 1 January 2019. This resulted in an increase in underlying EBITDA¹ of US\$3.0 million due to allocating costs that would have previously been disclosed as cost of sales to a right-of-use asset. The recognition of the right-of-use assets in turn resulted in increased depreciation of US\$2.5 million for the year.

¹ Refer Note 4, operating profit on page 130, for the definition of non-GAAP measures.

² Net cash/(debt) is calculated as cash and short-term deposits less drawn down bank facilities (excluding asset-based finance facility).

Summary of financial performance

Please refer to the full annual financial statements starting on page 104.

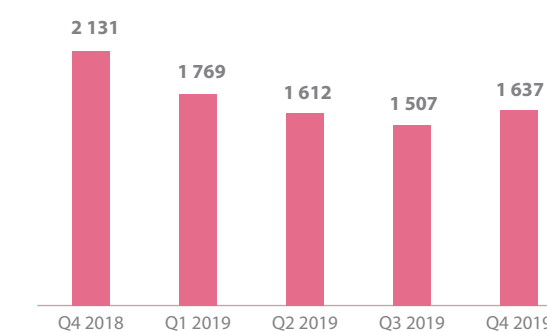
US\$ million	2019	2018 ³
Revenue	182.0	267.3
Royalty and selling costs	(16.9)	(22.9)
Cost of sales ⁴	(114.7)	(146.7)
Corporate expenses	(9.4)	(10.0)
Underlying EBITDA⁵ from continuing operations	41.0	87.7
Depreciation and mining asset amortisation	(14.7)	(8.5)
Share-based payments	(0.8)	(1.4)
Other income	1.1	0.4
Other expenses	(0.3)	–
Foreign exchange gain	3.6	2.2
Net finance costs	(5.8)	(1.7)
Profit before tax from continuing operations	24.1	78.7
Income tax expense	(9.0)	(26.4)
Profit for the year from continuing operations	15.1	52.3
Non-controlling interests	(8.0)	(20.6)
Attributable profit from continuing operations	7.1	31.7
Loss from discontinued operations	(4.5)	(5.7)
Attributable net profit	2.6	26.0
Earnings per share from continuing operations (US cents)	5.1	22.9
Loss per share from discontinued operations (US cents)	(3.2)	(4.1)

Revenue

Revenue of US\$182.0 million was generated at Letšeng, achieving an average price of US\$1 637 per carat⁶ (2018: US\$2 131 per carat). In the first half of the year, a 13.32 carat pink diamond was recovered that sold for a Letšeng record of US\$656 934 per carat and contributed US\$8.8 million to revenue. The Group sold 27 diamonds for more than US\$1.0 million each, contributing US\$68.2 million to revenue.

Mining mix is the ratio of high-value Satellite pipe ore compared to Main pipe ore, and plays a significant role in revenues realised. Letšeng transitioned into a new cutback during the year and the planned lower contribution of the higher-value Satellite pipe ore reduced price and volume of carats sold. During the latter part of the year, an unforeseen deviation in the contact face further reduced the contributions from the Satellite pipe. This, together with the prolonged weakness in the rough diamond market resulted in the lower revenues generated during 2019.

LETŠENG 12-MONTH ROLLING AVERAGE (US\$ PER CARAT)



US\$ million	2019	2018
Group revenue summary		
Letšeng sales – rough	182.1	266.6
Sales – polished margin	–	0.2
Sales – other	–	0.4
Impact of movement in inventory	(0.1)	0.1
Group revenue	182.0	267.3

Extracted diamond inventory on hand at the end of the year increased to US\$0.9 million (2018: US\$0.4 million). This includes US\$0.4 million of diamond inventory held over for sale in early 2020.

Expenditure

Operating expenditure

Group cost of sales decreased by 22% to US\$114.7 million from US\$146.7 million in 2018, mainly due to decreased waste stripping amortisation costs driven by the different ore mining mix and the benefits of the BT initiatives impacting the full 12 month period in the year. Total waste stripping costs amortised were US\$43.1 million compared to US\$68.2 million in 2018.

³ Prior year comparatives have been restated due to the recognition of the discontinued operation

⁴ Including waste stripping costs amortisation but excluding depreciation and mining asset amortisation.

⁵ Underlying EBITDA as defined in note 4 of the notes to the consolidated financial statements.

⁶ Includes carats extracted at rough valuation and carry-over inventory.

GROUP FINANCIAL PERFORMANCE

continued

Total operating costs in local currency decreased by 14% to Lesotho loti (LSL) 1 649.6 million compared to LSL 1 928.0 million in 2018, resulting in total operating costs per tonne treated of LSL245.92, which is 17% lower than 2018 of LSL295.14 per tonne treated.

UNIT COST PER TONNE TREATED

	Operating costs			Sub-total	BT costs		Total direct operation cash costs	Non-cash accounting charges ¹	
	Direct cash costs ²	Plant 3 operator costs	Once-off maintenance costs		Tailings treatment plant operating costs	Fees and employee reward scheme		Charges	Total operating cost
2019 (LSL)	150.61	20.40	–	171.01	2.01	8.14	181.16	64.76	245.92
2018 (LSL)	141.54	24.18	2.82	168.54	1.61	12.36	182.51	112.63	295.14
% change	6	(16)	–	1	25	(34)	(1)	(43)	(17)
2019 (US\$)	10.42	1.41	–	11.83	0.14	0.57	12.54	4.48	17.02
2018 (US\$)	10.68	1.83	0.21	12.72	0.12	0.93	13.77	8.50	22.27
% change	(2)	(23)	–	(7)	17	(39)	(9)	(47)	(24)

Direct cash cost² per tonne is LSL150.61, representing a 6% increase from 2018. Waste cash cost per waste tonne mined increased by 8% to LSL38.62 (2018: LSL35.78). These cash cost increases were driven by local country inflation, increased costs of imported mining accessories and increased hauling distances. The decrease in waste tonnes mined of 7%, of which the largest reduction occurred in Q4 2019, contributed to the increase in waste cash cost per tonne, but resulted in an overall decrease in waste cash costs. The cost savings derived from BT initiatives specifically targeting mining contractor costs and efficiencies within blasting and plant consumables partially offset these increases.

Letšeng pays the third plant operator contractor according to the revenue generated by the sales from diamonds recovered through the contractor plant. In 2019, the cash costs per tonne treated in local currency decreased by 16% in line with the reduction in revenue generated from these activities.

Operating costs of the tailings treatment plant, consultancy fees and a provision for an employee reward plan related to the successful delivery of the BT initiatives decreased to LSL10.15 per tonne treated (2018: LSL13.97) as the consultancy agreement and employee rewards scheme concluded during the year.

Non-cash accounting charges per tonne treated decreased mainly due to the lower waste amortisation costs associated with the lower contributions of Satellite pipe material as mentioned above. In addition, the implementation of IFRS 16 Leases in the current year, reduced the operating costs by LSL6.17 per tonne treated due to these costs being re-allocated to lease liabilities in the statement of financial position.

Exchange rate influences

The Group's revenue is generated in US dollar and most operational expenses are incurred in the local currencies of the operational jurisdictions. The average Lesotho loti (LSL), which is pegged to the South African rand, and Botswana pula (BWP) weakened 9% and 5% respectively against the US dollar during the year, which reduced underlying US dollar reported costs.

Exchange rates	2019	2018	% change
LSL per US\$1.00			
Average exchange rate	14.45	13.25	9
Year end exchange rate	13.98	14.39	(3)
BWP per US\$1.00			
Average exchange rate	10.76	10.20	5
Year end exchange rate	10.58	10.73	(1)
GBP per US\$1.00			
Average exchange rate	1.28	1.34	(4)
Year end exchange rate	1.32	1.27	4

Royalties and marketing costs

Royalties are paid to the Government of the Kingdom of Lesotho on the value of rough diamonds sold by Letšeng in terms of the operation's mining lease. The royalty rate increased from 8% to 10% with the renewal of the lease, and the increased rate was applicable from October 2019. The Group's sales and marketing operation in Belgium incurs costs relating to diamond selling and marketing-related expenses. During the year, royalties and selling costs decreased by 26% to US\$16.9 million (2018: US\$22.9 million) in line with the reduction in sales.

Diamond manufacturing operation

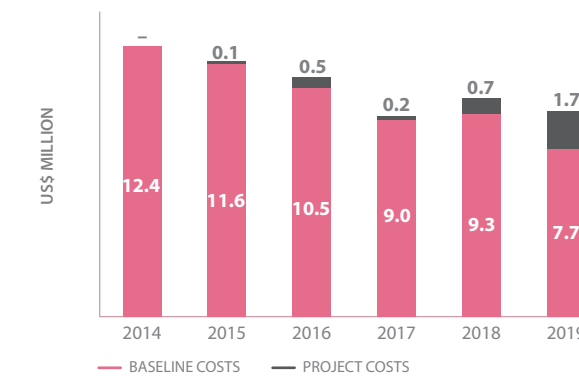
During the year no diamonds were extracted for manufacturing and no polished diamonds were sold.

Corporate expenses

These central costs are incurred to provide expertise in all areas of the business model to realise maximum value from the Group's assets. These costs are incurred by the Group through its technical and administrative offices in South Africa (in South African rand) and head office in the UK (in British pound).

Reducing corporate expenses is one of the focus areas for the BT programme without the risk of compromising the Group, and baseline costs decreased to US\$7.7 million in 2019 (2018: US\$9.3 million). This includes an equity-settled bonus provision of US\$1.5 million which was recognised during the year. Project-related costs amounted to US\$1.7 million (2018: US\$0.7 million), resulting in total corporate costs of US\$9.4 million (2018: US\$10.0 million).

HISTORICAL CORPORATE COSTS DATA



Underlying EBITDA¹ and attributable profit

Group underlying EBITDA¹ from continuing operations decreased to 53% to US\$41.0 million (2018: US\$87.7 million) as a result of the decrease in revenue. Profit attributable to shareholders was US\$7.1 million, which translates to 5.1 US cents per share based on a weighted average number of shares in issue of 139.0 million.

The Group's effective tax rate was 37.5%. Most of the Group's taxes are incurred in Lesotho, which has a corporate tax rate of 25.0%. The effective tax rate is above the Lesotho corporate tax rate as a result of deferred tax assets not recognised on losses incurred in non-trading operations, partially offset by a reduction in the deferred tax liability on unremitted earnings.

During the year the Group paid US\$18.8 million in taxes, predominately at Letšeng. This included a payment of US\$9.1m by Letšeng relating to the profits generated in 2018 which together with the provisional payments made during 2019, resulted in an estimated tax receivable of US\$8.2 million.

In December 2019, an amended tax assessment was issued to Letšeng by the Lesotho Revenue Authority (LRA), contradicting the application of certain tax treatments in the current Income Tax Act. An Objection has been lodged by Letšeng, and based on senior counsel's advice, which is legally privileged, is expected to have good prospects of success. (Refer Note 25 for further detail.)

Statement of financial position – selected indicators

US\$ million	2019	2018
Property, plant and equipment	323 853	289 640
Receivables and other assets	6 337	5 433
Inventory	32 517	33 084
Cash and short-term deposits	11 303	50 812
Assets held for sale	3 943	859
Non-current: interest-bearing loans and borrowings	(6 009)	(19 954)
Current: Interest-bearing loans and borrowings	(16 332)	(14 212)
Liabilities associated with assets held for sale	(4 221)	–
Deferred tax	(83 124)	(74 054)
Provisions	(15 588)	(17 876)
Income tax receivable/(payable)	8 176	(8 964)

Capital expenditure

The Group focused on prioritising spend within the cash constraints experienced, and all capital projects during 2019 were funded out of internally generated cash flows.

Capital expenditure (excluding waste stripping) was reduced during the year, with US\$9.7 million spent (2018: US\$23.0 million) mainly on the completion of the 'detecting diamonds within kimberlite' pilot plant (US\$1.1 million), extension of the footprint of the Patiseng TSF (US\$1.5 million), replacement of the jaw crusher of the primary crushing area (PCA) (US\$0.7 million) and on reserve and resource studies ahead of releasing an updated reserve and resource statement (US\$1.5 million).

¹ Non-cash accounting charges include waste stripping cost amortised, inventory and ore stockpile adjustments, and the impact of adopting IFRS 16 Leases, and excludes depreciation and mining asset amortisation.

² Direct cash costs represent all operating costs, excluding royalty and selling costs.

¹ Refer Note 4, operating profit on page 130, for the definition of non-GAAP measures.

GROUP FINANCIAL PERFORMANCE

continued

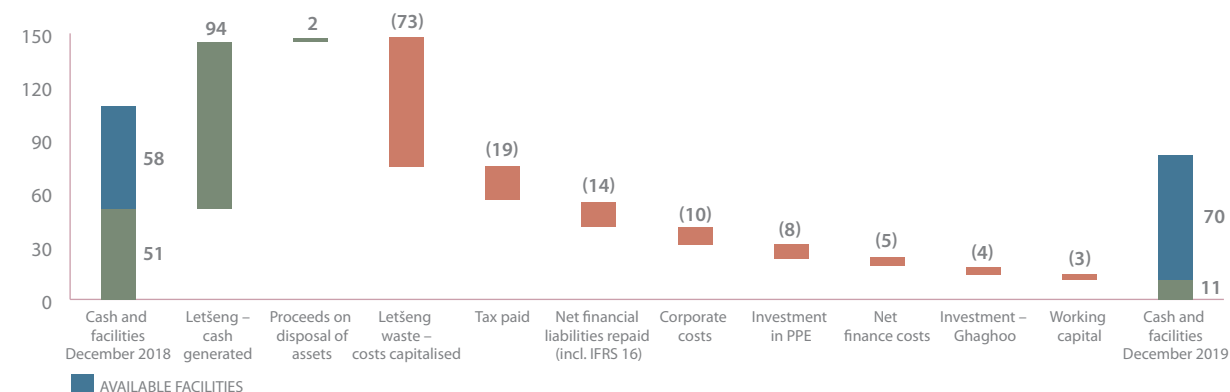
Cash at hand

The Group generated cash from operating activities (before capital and waste investment of US\$82.8 million) of US\$55.5 million.

Group cash on hand at 31 December 2019 was US\$11.4 million (2018: US\$50.8 million) of which US\$9.2 million is attributable to Gem Diamonds and US\$0.1 million is restricted. Significant tax payments totalling US\$18.8 million were made mainly relating to the high profits generated by Letšeng in 2018. All scheduled debt repayments were made, consuming a further US\$14.1 million.

The overall result is a decrease in cash of US\$39.4 million year on year.

CASH MOVEMENT (US\$ MILLION)



Loans and borrowings

At year end, the Group had undrawn facilities of US\$69.9 million available, comprising US\$27.0 million (after US\$2.0 million draw down) at Gem Diamonds and US\$42.9 million at Letšeng.

In December 2019, the Company accessed US\$2.0 million of its three-year RCF. In addition repayments of US\$10.0 million on the Gem Diamonds Limited facility, relating to the Ghaghoo US\$25.0 million debt were made. The remaining balance of US\$10.0 million will be repaid in quarterly instalments, and the final repayment is due on

31 December 2020. Similarly, repayments of LSL57.3 million (US\$4.0 million) were made on the project debt facility for the construction of the mining complex at Letšeng. The outstanding balance of LSL133.7 million (US\$9.6 million) will be repaid by September 2022.

Available facilities were further increased, when Letšeng concluded a 12-month overdraft facility of LSL100.0 million (US\$7.2 million) with Nedbank Corporate and Investment Banking division, to facilitate with working capital requirements. This facility expires in December 2020 and bears interest at South African prime rate less 0.7%.

Summary of loan facilities as at 31 December 2019

Company	Term/ description	Lender	Expiry	Interest rate ¹	Amount US\$ million	Drawn down US\$ million	Available US\$ million
Existing facilities							
Gem Diamonds Limited ²	Three-and-a-half-year RCF	Nedbank	December 2020	London US\$ three-month London	29.0	2.0	27.0
	Three-and-a-half-year term facility (Ghaghoo US\$25 million)	Nedbank	December 2020	Interbank Offered Rate (LIBOR) + 4.5%	25.0	10.0	-
Letšeng Diamonds	Three-year RCF	Standard Lesotho Bank and Nedbank Lesotho	July 2021	Lesotho prime rate minus 1.5%	35.7	-	35.7
Letšeng Diamonds	5.5-year project facility	Nedbank/ Export Credit Insurance Corporation	March 2022	Tranche 1 (R180 million) South African Johannesburg Interbank Average Rate (JIBAR) + 3.15%	12.9	7.7	-
			September 2022	Tranche 2 (LSL35 million) South African JIBAR + 6.75%	2.5	1.9	-
Letšeng Diamonds	12-month overdraft	Nedbank	December 2020	South African prime rate minus 0.7%	7.2	-	7.2
Total						21.6	69.9

Discontinued operation (Ghaghoo operation on care and maintenance)

In line with the strategic objective to dispose of non-core assets, Gem Diamonds entered into a binding agreement with Pro Civil Proprietary Limited (Pro Civil) for the sale of 100% of the share capital of Gem Diamonds Botswana Proprietary Limited in June 2019, which owns the Ghaghoo Diamond Mine, for US\$5.4 million. The sale is still subject to regulatory approvals in Botswana and other conditions.

The operation was classified as a discontinued operation in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Care and maintenance costs of US\$4.5 million have been recognised and disclosed separately

in the statement of profit or loss for the year and disclosed separately in the statement of financial position at the lower of carrying value and fair value less costs to sell.

Share-based payment

The share-based payment charge for the year was US\$0.8 million (2018: US\$1.4 million). On 20 March 2019, 1 303 000 zero-cost options were granted to certain key employees and Executive Directors under the Company's long-term incentive plan (LTIP). Vesting of these options is subject to the satisfaction of certain market and non-market performance conditions over a three-year period, in line with previous awards within the LTIP.

¹ At 31 December 2019 LIBOR was 1.94% and JIBAR was 6.8%.

² Refer Note 18 of the Annual Financial Statements for the reconciliation of the US\$45 million facility.

GROUP FINANCIAL PERFORMANCE continued

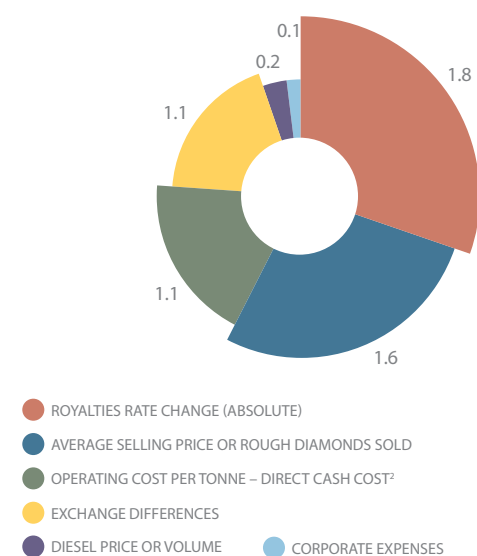
DIVIDEND

Letšeng paid no dividends during 2019. Based on the Group's 2019 financial performance and position, the Board will not recommend a dividend distribution for 2020.

SENSITIVITIES

In the conduct of its business, the Group is exposed to a range of external factors that are outside of its control. The Group has the necessary resilience, balance sheet strength and access to funds to adjust for shifts in these factors. The graph below illustrates the sensitivity of 2019's EBITDA¹ to various factors that have the most significant impact on our ability to create value.

SENSITIVITY IMPACT OF 1% CHANGE (US\$ MILLION)



¹ Refer Note 4, operating profit on page 130, for definition of non-GAAP measures.
² Direct mine costs represent all operating costs, excluding royalty and selling costs.

OUTLOOK

Our focus in the year ahead remains on mining in line with the revised mine plan to drive down Letšeng's waste stripping costs and increase Satellite pipe contribution, which will further improve the net present value of the operation. Continued focus on optimising the operations, delivering on the targets of the BT programme and embedding continuous improvement will improve free cash flow, enable repayment of financial debts as they fall due and complete capital projects on time.

The outbreak of Covid-19 (coronavirus) impacting trading and financial markets could potentially have an impact on upcoming tenders and availability of imported goods. Current focus will include monitoring and mitigating risks associated to this in line with the risk management framework.

Michael Michael
Chief Financial Officer

10 March 2020

LETŠENG

HIGHLIGHTS

- Mining lease renewed for a period of 10 years from October 2019 with an exclusive right granted to renew for a further period of 10 years to 2039
- Recovered and sold a 13.32 carat pink diamond for US\$8.8 million, achieving a Letšeng record price of US\$656 934 per carat
- Recovered 11 diamonds greater than 100 carats and sold 27 diamonds for over US\$1.0 million each
- Total greater than 100 carat diamond recoveries reached 100 since Gem Diamonds took ownership of Letšeng in July 2006
- Implemented inter-ramp pit slope steepening, resulting in lower LoM stripping ratios
- Average price of US\$1 637 per carat achieved in challenging market conditions
- Realising the benefits and savings of BT initiatives
- Additional diamonds recovered through the re-treatment of tailings material
- Improved fleet maintenance times
- Lowest AIFR in 10 years
- Third year ISO 14001 and 45001 certification

CHALLENGES

- One fatality and seven lost time injuries (LTIs)
- A deviation was discovered in the anticipated contact face position that reduced the expected contribution from Satellite pipe in H2 2019
- Technical challenges in implementing the diamond detection pilot plant

OUR UNIQUE VALUE PROPOSITION

Letšeng is famous for its large top-quality diamonds. It has the highest proportion of large, high-value diamonds, making it the highest average dollar per carat kimberlite diamond mine in the world. Operating costs per tonne are among the lowest in the world.

KEY PROJECTS 2019

- The extension of the footprint of the Patiseng TSF, which provides deposition space until 2024
- Successful replacement of the jaw crusher and refurbishment of the PCA
- Implementation of fleet management system
- Commenced construction of centralised security servers and control rooms to improve maintenance and security
- Kick-off of CI (see pages 40 to 43)

FUTURE FOCUS AREAS

- Ensure the sustainability of BT initiatives implemented and transitioning of BT into continuous improvement (CI) (see pages 40 to 43)
- Commence feasibility study to replace and upgrade the PCA facilities
- Investigate further options to reduce waste mining
- Reduce diamond damage through changing blasting patterns and changing front-end plant configuration
- Progress studies relating to the updating of the Resource and Reserve Statement

KPIs

KPI	Unit	2019	2018	% change
Fatalities	Number	1	0	n/a
LTIFR	200 000 man hours	0.28	0.15	n/a
Ore mined	tonnes	6 297 805	6 139 077	3
Ore treated	tonnes	6 707 791	6 532 596	3
Carats recovered ¹	carats	113 974	126 875	(10)
Carats sold	carats	111 292	125 111	(11)
Average price per carat	US\$/carat	1 637	2 131	(23)

¹ Includes carats produced from the Letšeng plants, the Alluvial Ventures (AV) plant and the tailings treatment plant.

LETŠENG

continued

Enhancing value over volume

PERFORMANCE

Safety

Letšeng’s safety ethos aims to build on the culture of behaviour-based care at work and to strive for zero harm. In February 2019, Mr Abele Mtambo, an operator of a sub-contractor’s vehicle, was involved in a vehicle accident and sadly passed away in hospital a short while later. The Group conducted a detailed investigation and implemented additional targeted health and safety management initiatives to improve the safety performance on the mine. Seven LTIs were recorded at Letšeng during 2019 (2018: four), the LTIFR increased to 0.28 (2018: 0.15) and the AIFR improved to 0.97 (2018: 1.48). Although there was an increase in LTIs during 2019, there has been an overall decrease in all injuries. Letšeng is focusing on implementing a strategy to reduce LTIs, and to ensure behaviour-based care is integrated at the operation.

Operations

Waste tonnes mined decreased 7% to 24.0 million tonnes from 25.8 million tonnes in 2018. The decrease is mainly due to several BT initiatives to reduce waste mining, particularly the initiative to steepen the inter-ramp slope angles, which reduced tonnes of waste mined during the year by 5.8 million compared to the previous mine plan that did not incorporate steeper slopes. This initiative has significantly reduced LoM stripping ratios while increasing and bringing forward the volume of ore tonnes mined from the higher-value Satellite pipe, increasing the LoM net present value.

Ore tonnes treated during 2019 of 6.7 million tonnes comprise 5.6 million tonnes treated by Letšeng’s plants (2018: 5.4 million) and 1.1 million tonnes treated by the third-party processing contractor Alluvial Ventures (AV) (2018: 1.1 million). Of the total ore treated, 4.7 million was sourced from the Main pipe, 1.6 million from the Satellite pipe and 0.4 million from the Main pipe stockpiles. During a 15-day shutdown in the second half of the year to replace the jaw crusher in the PCA and to perform extensive maintenance to this area, the plants were fed from stockpiles with a mobile crusher and the operation was still able to meet its stated targets.

The transition into the new cutback to accommodate the planned increase in contribution from Satellite pipe ore

revealed a deviation in the anticipated contact face position, which was last mined in 2014. This transition resulted in limited supply from Satellite pipe ore during this period which, together with the deviation, resulted in a 27% lower contribution of Satellite pipe ore to 1.6 million tonnes (2018: 2.2 million tonnes). The results of the core drilling programme and ahead of face drilling will be used to further improve our understanding of the orebodies to mitigate the risk of deviations in the short term.

The plants continue to focus on enhancing value over volume by ensuring appropriate maintenance planning, well-controlled and consistent feed rates that enhance process stability and increased plant uptime and reliability. Improvements were implemented to the fine dense medium separation circuit to improve the feed rate in Plant 2. While the volume of tonnes treated in the first half of the year were negatively affected for a limited period while implementing these improvements, it subsequently led to an overall improvement in the volume of tonnes treated, especially in the second half of 2019.

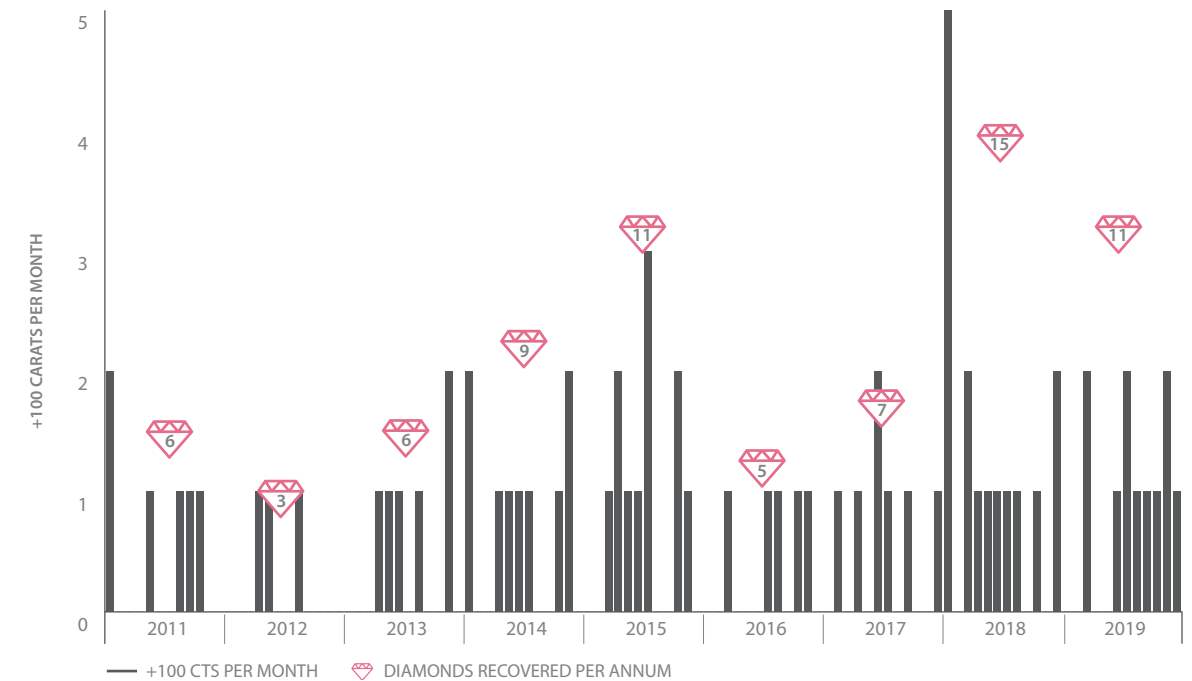
Carats recovered from all sources in 2019 decreased 10% to 113 974 (2018: 126 875). The BT initiative to re-treat tailings through the mobile XRT sorting machine yielded 5 420 carats in 2019 (2018: 11 905 carats). Overall grade for 2019 was 1.70cph, a decrease of 12% on the 1.94cph realised in 2018 due to the higher contribution of Main pipe ore in 2019, which has a lower grade relative to Satellite pipe ore. The grade for the ore processed during the year was in line with its expected reserve grade.

Large diamond recoveries

In 2019 Letšeng recovered 11 diamonds greater than 100 carats and total diamonds recovered greater than 10 carats increased by 2% year on year.

Number of large diamond recoveries	FY average		
	2019	2018	2008 – 2018
> 100 carats	11	15	7
60 – 100 carats	20	22	18
30 – 60 carats	82	83	74
20 – 30 carats	139	137	111
10 – 20 carats	472	455	423
Total diamonds > 10 carats	724	712	633

LETŠENG +100 CARAT DIAMONDS



Mineral resources and reserves

Studies related to the updating of Letšeng’s Resource and Reserve Statement continued throughout 2019. Progress was made on the identification, delineation and confirmation of geological continuity of the subdomains within each of the historical resource categories. Several of the work components were completed towards the end of 2019, and analysis and interpretation of results will continue into the first half of 2020. This work includes comprehensive petrography, mineral chemistry (Mantle Mapper and chromite microprobe test work) and microdiamond analysis of drill core and grab samples, all of which complement the core logging data and guide the 3D geological modelling process.

In parallel, bulk sampling of the various volumetrically significant subdomains has been ongoing within the plants’ production schedule. Considering the low grades of all kimberlites at Letšeng, the bulk samples must be substantial in tonnage for collection of sufficient diamond data to confidently estimate grade and diamond value. Bulk sampling will continue in 2020 until all inputs required for optimisation studies to be undertaken have been gathered and the updated Resource and Reserve Statement can be finalised.

Diamond sales

Rough diamond tender viewings were completed in Antwerp and Tel Aviv during the year. A total of 111 292 carats were sold by Gem Diamonds Marketing Services, a wholly owned Gem Diamonds subsidiary (2018: 125 111) (refer to page 39 for details on the upgraded tender platform). Letšeng generated rough diamond revenue of US\$182.1 million, at an average price of US\$1 637 per carat (2018: US\$2 131) in a challenging market.

Capital projects

The capital project that commenced in November 2017 for the required extension of Letšeng’s TSF is ongoing and will provide deposition space until 2024. Other key capital projects included reserve and resource studies ahead of releasing an updated reserve and resource statement, as well as the replacement of the jaw crusher in the PCA. Details of overall costs and capital expenditure incurred at Letšeng during the period are included in the Group financial performance section on pages 28 to 29.

Through the Group’s subsidiary GDIS, the integrated pilot plant for the early detection of diamonds within kimberlite,

LETŠENG continued

with the aim to reduce diamond damage, was completed and commissioned at Letšeng during the year. Ramp-up and ongoing testing of the technology continues. Refer to the technology and innovation section on page 38 for more information on this plant.

Dam safety and integrity

Tailings dam integrity has come under the spotlight in recent times¹, with investors becoming increasingly aware of the possible adverse impact these facilities may have on life and the environment.

Letšeng recognises that the potential risk posed by both its TSF and raw water dam necessitates a proactive approach to risk management at every stage of the lifecycle of its facilities. There are three facilities at Letšeng – the Patieseng TSF which is in continual use, the old TSF which is used as a semi-dormant facility, and the mine’s freshwater supply resource, the Mothusi Dam. Gem Diamonds voluntarily disclosed all relevant details of these facilities as part of the Investor Mining & Tailings Safety initiative set up by the Church of England that can be found under Gem Diamonds at <http://tailing.grida.no/>.

Letšeng reviewed the construction methods, operating procedures and inspections of the old and recently constructed tailings and water dams internally and with independent expert consultants. The Letšeng dams were constructed using the “centre line and downstream tipping” method². Most recent dam failures reported in the mining industry were related to dams built using “upstream” construction methods.

The dams at Letšeng are built and maintained according to sound structural and environmental standards, using international best practice guidelines to inform our approach. Dam safety is a standing agenda item at operational HSSE Sub-Committee meetings, operational Board meetings, Group HSSE Sub-Committee meetings, and Group Board meetings where findings from the stringent safety monitoring processes are discussed and regularly reviewed.

Stringent safety checks and inspections are conducted daily, weekly and monthly. Independent professional engineers perform audits routinely every quarter, or more often as required. Risks identified are mitigated and any required remedial steps are implemented. Training and awareness programmes regarding the early-warning system have been

implemented on site and at local communities. The communication and alarm systems are regularly tested and used to ensure the emergency readiness of response teams and potentially affected communities (PACs).

The emergency procedures and actions in the event of a dam wall failure have also been reviewed and drills involving the mine site and downstream communities are regularly held. For further detail on how the Group ensures the highest standards of dam safety management, refer to the Sustainable Development Reporting Platform and the tailings-related reports and disclosures available on our website www.gemdiamonds.com.

Health, safety, social and environment (HSSE)

Letšeng’s occupational health, safety and environmental management systems were independently audited and certified under the International Organization for Standardisation (ISO) 14001 (environmental management) and ISO 45001 (occupational health and safety management) standards.

The protection of the natural environment within which Letšeng operates, is key to the sustainable success of the organisation. The mine continues to mitigate potential impacts on the environment, with water protection and waste management being key focus areas. No significant or major environmental incidents occurred at Letšeng for the 10th year running.

The Group is committed to rehabilitating the natural environment within which it operates at the end of the lifespan of its mines. Rehabilitation requirements are included in the decision-making processes to ensure that current mining activities do not hinder future rehabilitation efforts. The Group, on an annual basis, undertakes a review of its rehabilitation plans to ensure its provision for rehabilitation liability is a true reflection of the investment needed for the eventual restoration of land. The 2019 rehabilitation provision for Letšeng amounted to US\$15.6 million (2018: US\$14.5 million). The Group leased 6 174ha (2018: 6 174ha) of land during 2019 and approximately 28ha was disturbed during the year (2018: 159ha) as a result of mining activities. This brings the total disturbed land leased by the Group to 764ha (2018: 736ha).

ENGAGING OUR COMMUNITIES

5172 (1)(d)

Letšeng is committed to working closely and in collaboration with its stakeholders. The operation’s PACs play a vital role in the success of the operation and Letšeng is committed to ensuring that PACs benefit from the operation. The mine invested US\$0.8 million in community projects during 2019 (2018: US\$0.8 million) which focuses on infrastructure, education and small and medium enterprise development in these communities. Projects are selected to address the most pressing community concerns identified through ongoing community engagement informed by our operation-specific social and environmental impact assessments (SEIA) and community needs analyses.

The SEIAs and community needs analyses are informed by extensive public participation, host country legislation and international best practice guidelines such as the World Bank Equator Principles and the International Finance Corporation’s Performance Standards on Environmental and Social Performance.

Pae-La-Itlhatsoa community footbridge	Following engagement with local community leaders regarding their most pressing needs, Letšeng constructed a pedestrian footbridge over the Khubelu River to provide safe crossing. The footbridge helps children to get to school safely and provides access to crucial services and local infrastructure. The footbridge was completed and officially handed over to the community in May 2019.
Community infrastructure	During 2018, Letšeng started construction of classrooms at the Tšepong Primary School in the Pae-La-Itlhatsoa community and in 2019 handed over the classrooms along with built offices for the local community leadership.
The Mokhotlong dairy farm project	This project created a dairy business providing locally produced pasteurised and packaged fresh milk as an alternative to milk imported from South Africa. The project has 32 cows with a projected output of 450 litres a day. Mentoring, business coaching and education in animal welfare is provided by the local dairy farmers association. Letšeng will continue to provide mentorship and training as required to ensure the ongoing viability and positive contribution of the project.
The Lesotho Legend Project	To mark the recovery of the 910 carat Lesotho Legend in 2018, the project is investigating the optimum operating model to establish a commercial egg farming co-operative. This project has the potential to create viable socio-economic growth in the future, meeting community needs and contributing meaningfully to local economic development.
Educational support	Letšeng invests in local skills development by providing scholarships to local students, thereby improving localisation of the mine’s workforce. The programme has supported 43 students over 13 years.

“

“I am very proud of Letšeng mine. Of all mines in this country, Letšeng is the only one that sticks to the promises and commitments it made to the public. I so wish other mines could learn from Letšeng that it is a great thing to work well with the communities. I am happy for the chief for the new office building. As a country ruled by chiefs, what Letšeng has done is a great sign of respect. I am also happy for the school children because even during rainy season, they won’t have an excuse not to show up at school. As one of my favourite partners in this industry, I am proud that you keep your promise to this nation... they truly are part of this community”

The former Minister of Mines of Lesotho, Keketso Sello, at the official handover of the footbridge and chief’s office at Pae-La-Itlhatsoa on 22 May 2019.

”

¹ Mining Weekly, December 2019, page 26.

² A discussion of the construction and applicability of the various types of tailings facilities is available on the International Council of Mining and Metals website at www.icmm.com/en-gb/environment/tailings.

TECHNOLOGY AND INNOVATION

HIGHLIGHTS

- Construction of pilot plant at Letšeng completed
- Launch of the enhanced electronic tender platform

CHALLENGES

- Proving early detection of diamonds within kimberlite and anti-breakage technology under challenging operating conditions

KEY PROJECTS 2019

- Completion and commissioning of the pilot plant at Letšeng
- Developing and implementing of the enhanced electronic tender platform

OUR UNIQUE VALUE PROPOSITION

- Gem Diamonds regards technology and innovation as a critical means of improving operational performance and unlocking value. The Group continues to monitor new developments to identify ways of supporting long-term value creation.

FUTURE FOCUS AREAS

- Continue the ramp-up and testing of the pilot plant
- Introduction of blockchain technology linking end users to the source of their diamond

PERFORMANCE

Advances in technology are creating significant opportunities to unlock value across the diamond value chain. These include technologies that can increase the effectiveness and efficiency of diamond mining and processing, ones that reduce friction in selling and marketing rough diamonds, and others that help consumers to understand the unique journey of their finished diamond, where it came from and how it got to them.

Reducing diamond damage

The Letšeng mine has a unique diamond distribution within its orebody. A significant portion of its revenue is held in the larger high-value diamonds. Larger high-value Type II diamonds are more susceptible to damage in mining and processing. Therefore, reducing diamond damage is a key aspect of Gem Diamonds' strategy that can significantly enhance revenue.

Opportunities to reduce diamond damage that show the most potential include:

- early identification of diamonds within kimberlite; and
- non-mechanical means of liberating these diamonds within kimberlite.

Gem Diamonds has made significant progress on the identification, validation and testing of technologies from various industries to complement its innovation drive of early detection and non-mechanical means of liberating diamonds.

Following the successful proof of concept, the Group's wholly owned subsidiary, Gem Diamonds Innovation Solutions, constructed a pilot plant at Letšeng to test the technology under operating conditions. The pilot plant uses scanning technology in conjunction with proprietary imaging and sorting algorithms to detect diamonds within kimberlite, combined with high-voltage pulse power for non-mechanical fragmentation of composite materials to liberate the encapsulated diamonds. The plant was completed and commissioned during 2019 and ramp-up and ongoing testing of the efficiency of the technology continues. Once proven, the next step would be to scale up the project, targeting 1 000 tonnes per hour of material, 150mm in size. The scalability of the project will be dependent on capital requirements.



Gem Diamonds electronic tender platform

During 2019, Gem Diamonds Marketing Services implemented a new customised electronic tender platform that went live for the September tender. The new platform is more robust and has an improved user-friendly client interface, automated just-in-time communication with clients, automatic invoicing, upgraded security and access controls and an interactive integrated know your client database. The platform provides an enhanced experience for clients and significantly increases internal efficiencies in the sales and marketing function.

Providing clarity for customers

With consumers increasingly considering social and environmental factors in their purchasing decisions, technologies that can prove authenticity, provenance and traceability of diamonds support ethical sourcing and processing in the diamond value chain. This is particularly relevant with younger consumers where these considerations are even more likely to influence buying patterns. Technologies such as blockchain represent a secure means

of linking the source of rough diamonds with the final cut and polished diamonds. Solutions are available that provide consumers with information about the mine and country of origin of their diamonds, as well as the positive impact that the mine and the broader industry have on the communities and countries in which they operate. These technologies support the sales and marketing of diamonds from environmentally and socially responsible mining companies like Gem Diamonds.

BUSINESS TRANSFORMATION

On track to deliver US\$100 million by 2021

The Group successfully concluded the implementation of the Business Transformation (BT) programme which is on track to deliver the planned US\$100 million in revenue, productivity and cost saving (against the 2017 base) by 2021. 325 initiatives were identified at the start of the project that create a step change in efficiency, productivity and cost management, and position Gem Diamonds favourably in its peer group. Having started this programme in 2017, it supported Gem Diamonds' resilience through prolonged constrained economic conditions the industry is experiencing.

The targeted benefits are stated net of implementation costs, consultant fees and an employee incentive plan which related to the successful delivery of initiatives contributing to the overall target. The target includes US\$7.1 million related to once-off savings and US\$92.9 million in cumulative recurring annualised benefits over the four-year period.

Work streams of the BT programme include:

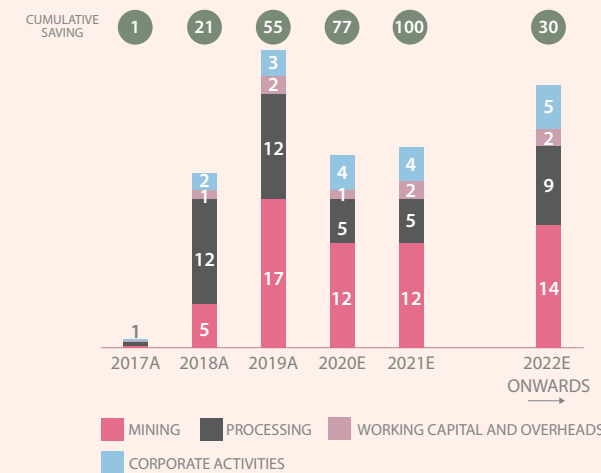
- Mining
- Processing
- Working capital and overheads
- Corporate activities

OVERVIEW OF PROGRESS

To date, most focus areas have delivered more than the planned benefits with US\$54.9 million of the implemented initiatives cash flowed by 31 December 2019 (2018: US\$20.7 million). The focus for achieving the remaining balance will be on maintaining strict contract mining costs, realising efficiencies in plant uptime and additional throughput opportunities, and continued slope monitoring and waste minimisation.

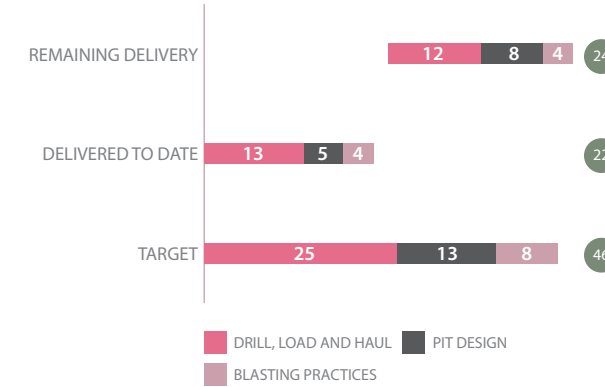
US\$55 million benefit achieved to date

BT PROGRAMME ANNUAL CASH SAVING (US\$ MILLION)



Many initiatives identified during the BT process resulted in efficiencies in natural resource use, thereby, mitigating the operational impact on the natural environment. This aligns with our Group strategy of maximising benefit for our communities and minimising our impact on the environment. More information on energy reduction initiatives and greenhouse gas emissions is available in the Sustainable Development Reporting Platform at www.gemdiamonds.com.

MINING (US\$ MILLION)

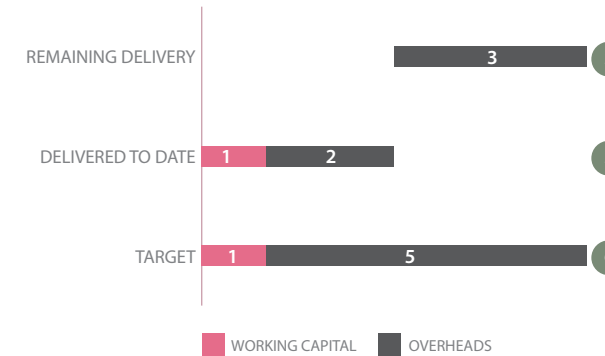


Sustainable benefits in the mining workstream will depend on the annual contract rate negotiations with blast, drill, load and haul contractors.

Steepening of the inter-ramp slope angles in January 2019 was completed a year ahead of schedule. In the current year waste mined reduced by 5.8 million tonnes compared to the previous pit design. Sustained benefit is dependent on continued berm retention and steeper slope angle sustainability. Initial indications are that opportunities exist to further steepen slope angles in the pits.

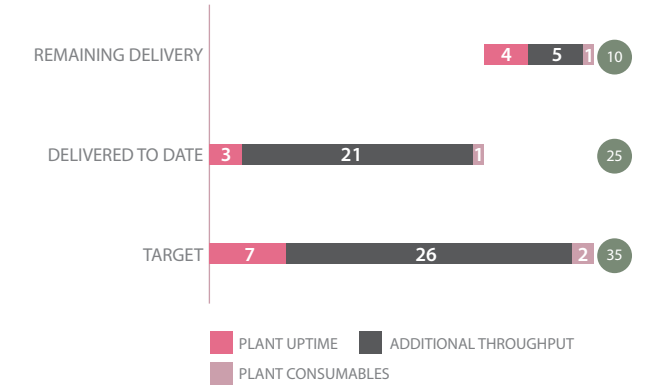
Optimising blasting patterns and practices, accessories and explosive mix, leading to a reduction in blasting consumables and together with early settlement discounts secured with explosives suppliers, were the key to the success of the blasting initiative.

WORKING CAPITAL AND OVERHEADS (US\$ MILLION)



Overhead costs at Letšeng were reduced by implementing a systematic approach of contract review and assessment to identify excess footprint and then renegotiate contracts based on a right-sized business. Once-off sale of scrap material also contributed to the benefit.

PROCESSING (US\$ MILLION)

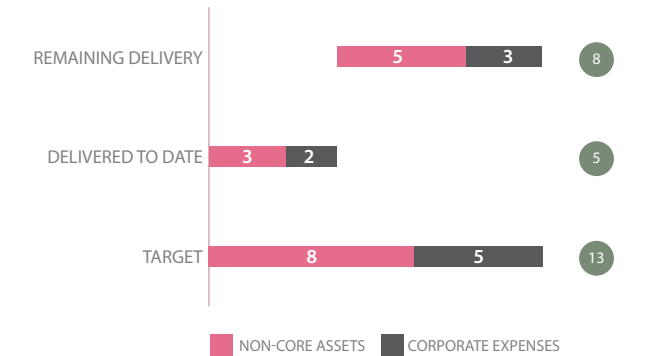


Through the implementation of 76 initiatives since commencement of BT, the improvement in plant uptime and stability continues to contribute to the overall target.

To further improve plant uptime, various incremental improvement projects, requiring capital investment, are being considered.

The re-treatment of tailings material through the XRT machine recovered 5 420 carats in 2019, and to date has contributed considerably to the additional throughput initiatives. As the material earmarked to be processed through the retreatment plant to the end of 2021 is of a lower grade, the forecast benefit has been set at a lower value.

CORPORATE ACTIVITIES (US\$ MILLION)



Assets associated with Ghaghoo, specifically the aircraft servicing the mine, certain non-core mining fleet and inventory have been sold.

The continued costs incurred in care and maintenance at Ghaghoo while awaiting the preconditions of the sale agreement to be satisfied, resulted in some of the benefit from the disposal of non-core assets lagging behind its target.

As explained in the group financial performance on page 29, corporate expenses relating to the corporate office were well contained during the year, reducing baseline corporate costs to US\$7.7 million from US\$9.3 million in 2018.

BUSINESS TRANSFORMATION continued

2020 FOCUS

The transition from BT to continuous improvement (CI) throughout the Group is in progress, with the main focus at Letšeng. CI focuses on behavioural strategies and the implementation of meaningful KPIs for effective visual management at all levels. The CI methodology, supported by software training, enables companies to continuously improve efficiencies by unlocking the inherent capabilities of employees at all levels to implement CI best practices, build effective teams and drive incremental improvements. The additional financial benefit associated with incremental improvements related to the CI process is being assessed, and any value attributed to CI will be in addition to the current US\$100 million BT target.

 **14**
EMPLOYEES

from across the levels part of
CI Steering Committee

 **25**
EMPLOYEES
making up taskforces

 **15**
champions trained

 **12**
EMPLOYEES upskilled
and accredited as trainers
through 'train the trainer' principle

160 hours
of training in CI

700 EMPLOYEES
introduced to CI

MAKING HIS MARK THROUGH INNOVATIVE THINKING

Having received a bursary from Gem Diamonds to study metallurgy, Mothobi Erasmus has been employed at Letšeng for the past eight years. "I joined as an intern in 2011 after completing my MSc in extractive metallurgy at Stellenbosch University," he says.

During the BT process, all employees were invited to contribute collectively to the transformation of the business in line with stated goals. It was during this time that Mothobi realised he could be involved in more than the traditional role of a plant metallurgist.

"Each department presented ideas for improvements in overall efficiency and effectiveness. I was one of the initiative owners and my role was to ensure that my ideas reached execution stage. When my superiors realised that I was progressing well, they asked me to assist all project owners."

Mothobi flourished in this role. "While I was a BT agent, management recognised my efforts and I was promoted to Continuous Improvement Lead. Truly, the BT process has helped me to realise my true potential and to grow both professionally and personally."

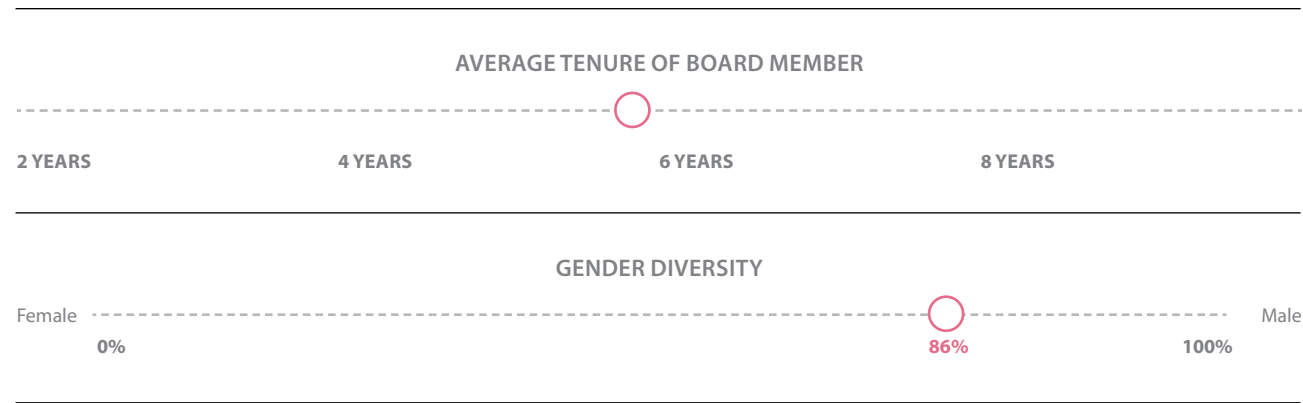


DIRECTORATE AND EXECUTIVE MANAGEMENT

PROFILE OF THE BOARD

The non-Executive Directors possess a range of experience and competencies and bring independent judgement to bear on issues of strategy, performance and resources that are vital to the success of the Group.

The current non-Executive Directors, including the Chairman, except for Johnny Velloza and Mazvi Maharasoa, are regarded as independent by the Board as defined in the UK Corporate Governance Code 2018 (the Code).



BOARD SKILLS AND EXPERIENCE (%)



NON-EXECUTIVE DIRECTORS



Harry Kenyon-Slaney (59)
 Non-Executive Chairman
*BSc Geology (Southampton University),
 International Executive Programme
 (INSEAD France)*

INDEPENDENCE
 Chairman tenure <9 years
 No independence conflict exists

Appointed to the Board in June 2017

Skills and experience

Harry has over 37 years of experience in the mining industry, principally with Rio Tinto. He is a geologist by training and his experience spans operations, marketing, projects, finance and business development. He has worked in South Africa, Australia and the UK. Until 2015, Harry was a member of the Group executive committee of Rio Tinto where he held the roles of CEO of Energy, and before that CEO of Diamonds and Minerals. Prior to this he variously led Rio Tinto's global titanium dioxide business, was CEO of Rio Tinto's listed subsidiary, Energy Resources of Australia Limited, was general manager of operations at Palabora Mining Company in South Africa and held senior marketing roles in copper, uranium and industrial minerals. He began his career as an underground geologist with Anglo American on the gold mines in South Africa.

Current external appointments

Harry is currently a senior adviser to McKinsey & Co.

Harry is also the senior independent director of Petropavlovsk Plc; a member of the advisory board of Schenck Process AG; a non-executive director of Sibanye-Stillwater; and a non-executive director of several private companies.

Chairperson Member



Michael Lynch-Bell (66)
 Non-Executive Director
*BA Hons Economics and Accountancy
 (University of Sheffield); FCA of the Institute of
 Chartered Accountants in England and Wales*

Appointed to the Board in December 2015; appointed Senior Independent Director in November 2017

Skills and experience

Michael spent a 38-year career with Ernst & Young (EY) having led its Global Oil and Gas, UK IPO and Global Oil and Gas and Mining transaction advisory practices. He was a member of EY's assurance Practice from 1974 to 1996 when he transferred to the Transaction Advisory Practice. He was also UK Alumni sponsor and a member of the firm's Europe, Middle East, India, and Africa and Global Advisory Councils. He retired from EY as a partner in 2012 and continued as a consultant to the firm until November 2013.

Current external appointments

Michael is currently deputy chair and senior independent non-executive director at Kaz Minerals Plc; chair of the audit committee at Lenta Limited; chair of Little Green Pharma Ltd; and non-executive director of Barloworld Limited.

Audit Remuneration Nominations HSSE

DIRECTORATE AND EXECUTIVE MANAGEMENT continued



Mike Brown (59)
Non-Executive Director

BSc Engineering; Mining PR Eng (ECSA) Engineering (University of Witwatersrand); Strategic Executive Programme (London Business School)

Appointed to the Board in January 2018

Skills and experience

Mike has over 35 years' experience in the resources industry in operational, senior management, and director roles. He spent six years in Switzerland as the managing director technical at Pala where he oversaw all technical aspects of the mining sector investments, including the risks associated with resource performance, project management, ramp-up, operations, and the associated working capital and financial controls. Prior to joining Pala, Mike spent 21 years with De Beers in southern Africa in various roles, culminating in the post of chief operating officer where he was accountable for five operating mines, including greenfield and brownfield growth projects. He also managed the restructuring at De Beers Consolidated Mines in 2005/2006 and again in 2009. Mike has overseen growth projects and building of mines in Namibia, South Africa, Sierra Leone, Vietnam and USA.

Current external appointments

Mike is currently a non-executive director of Nevada Copper.

Chairperson Member



Johnny Velloza (49)
Non-Executive Director

BSc Mining and Mineral Engineering (University of Johannesburg), BSc Business/Commerce General (University of South Africa)

Appointed Chief Operating Officer in June 2016; Deputy Chief Executive Officer in May 2018; Executive Director to the Board in July 2018; non-Executive Director from September 2018

Skills and experience

Johnny is a Mining Engineer with broad mining experience in both open pit and underground operations across southern, central and east Africa, Chile and Australia. Johnny has worked in a number of different commodities including iron ore, copper, cobalt, gold and diamonds. Johnny has held senior operational management roles in large mining companies, including De Beers, AngloGold Ashanti and BHP Billiton. Since starting his career 25 years ago, Johnny has gained experience in exploration, feasibility studies, opening new mines and running mines.

Current external appointments

Johnny is currently a non-executive director of Zanaga Iron Ore Co. Limited.

Member



Mazvi Maharasoa (50)
Non-Executive Director

LLM International and Commercial Law (University of Buckingham)

Appointed to the Board in July 2019

Skills and experience

Mazvi has over 20 years' experience in senior management positions, including leading roles in the mining sector having served as the resident director and chief executive officer of Letšeng Diamonds Proprietary Limited until 2017. Furthermore, Mazvi was also the founder and president of the Lesotho Chamber of Mines (2016). Prior to her work in the mining industry, Mazvi was involved in the Ministry of Natural Resources and the Central Bank of Lesotho, where she was the senior legal counsel for each of these entities.

Mazvi has also established an advisory firm that specialises in corporate governance practice and advice.

Since joining the Board, Mazvi has been appointed as the designated non-Executive Director for steering engagement with the workforce.

Current external appointments

Mazvi is currently a non-executive director of Stanlib Lesotho Proprietary Limited and Intellectual Disabilities and Autism Lesotho.

Member

EXECUTIVE DIRECTORS



Clifford Elphick (59)
Chief Executive Officer

BCom (University of Cape Town); BCompt Hons (University of South Africa)

Founded Gem Diamonds in July 2005

Skills and experience

Clifford joined Anglo American Corporation in 1986 and was seconded to E Oppenheimer & Son Proprietary Limited as Harry Oppenheimer's personal assistant in 1988. In 1990, he was appointed managing director of E Oppenheimer & Son, a position he held until leaving in December 2004. During that time, Clifford was also a director of Central Holdings, Anglo American and DB Investments. Following the privatisation of De Beers in 2000, Clifford served on the De Beers executive committee.

Current external appointments

Clifford is currently the non-executive chairman of Zanaga Iron Ore Co. Limited.

Member until June 2019

DIRECTORATE AND EXECUTIVE MANAGEMENT continued



Michael Michael (49)
Chief Financial Officer

*BCom Hons (Rand Afrikaans University);
CA(SA)*

Appointed to the Board in April 2013

Skills and experience

Michael has over 20 years' experience in financial management. He joined the audit firm RSM Betty & Dickson in Johannesburg, South Africa in January 1993 and became audit partner at the firm in March 2000. From August 2006 to February 2008 Michael was seconded to Gem Diamonds Limited to assist with the financial aspects of the Main London Listing including the financial reporting, management accounting and tax relating to the initial public offering. In March 2008 Michael joined Gem Diamonds on a full-time basis as the Group Financial Manager. On 2 April 2013 he was promoted to the position of Chief Financial Officer.

Current external appointments

None

EXECUTIVE MANAGEMENT



Glenn Turner (59)
Chief Legal and Commercial Officer
and Company Secretary

*BA; LLB (University of Cape Town);
LLM (Cambridge)*

Served on the Board from April 2008 to November 2017

Skills and experience

Glenn was called to the Johannesburg Bar in 1987 where he spent 14 years practising as an advocate specialising in general commercial and competition law and took silk in 2002. Glenn was appointed De Beers' first general counsel in 2002 and was also a member of its executive committee. Glenn was responsible for a number of key initiatives during his tenure, including overseeing De Beers' re-entry into the USA.

Current external appointments

None



Brandon de Bruin (48)
Operations and Business
Transformation Executive

*BCom; LLB (University of the Witwatersrand);
Qualified attorney in South Africa and solicitor
in England and Wales*

Skills and experience

Brandon joined Gem Diamonds from Clifford Chance LLP, one of the world's leading international law firms. Practising in New York and London, he specialised in debt and equity capital markets and corporate finance. Brandon gained extensive commercial and legal experience in international corporate and finance transactions working for clients such as Citigroup, UBS, JPMorgan, ABN Amro, Bank of America, Lehman Brothers and Morgan Stanley. He also gained valuable experience in stock exchange listings in London, Luxembourg and New York and in the UKLA (UK) and SEC (USA) rules and regulations. At Gem Diamonds, Brandon has been responsible for numerous corporate and financial transactions and has managed the Group's Sales, Marketing and Manufacturing division. In 2017 he was appointed as the Group Transformation Officer, and during the current year has been appointed as the Group's Operations and Business Transformation Executive.

Current external appointments

None

CHAIRMAN'S INTRODUCTION TO CORPORATE GOVERNANCE

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Throughout the year the Board has sought to evolve and improve our corporate governance.

”

We continued to implement the necessary adjustments identified from the Code, as well as ensuring we have enhanced our reporting in relation to section 172 of the UK Companies Act 2006 and voluntary disclosures in relation to the Miscellaneous Reporting Regulation (MRR).

During the year we spent considerable time evaluating the work of the Board and its Committees, for which we brought in external expertise to assess our performance. This was a very valuable exercise and resulted in several recommendations which the Board and the Committees have started to implement over the course of the year. Many areas were positively or highly rated such as Board dynamics, information and support received by the Board, management of meetings, and engagement with communities. Recommendations for further focus included more regular strategic discussions, addressing talent and succession, current and emerging risk management and increased time allocation to the Board and Committee meetings.

The table below, together with the reports from the Audit, Nomination, HSSE and Remuneration Committees beginning on page 59, provides a description of how the Group has complied with and applied the main principles of the Code, S172 of the UK Companies Act 2006, and the MRR.

Governance change	Responsible Committee	Read more on page
Employee engagement	Board/Nomination Committee/ Remuneration Committee	Page 1, 13, 56, 74
CEO pay ratio	Remuneration Committee	Page 69
Establish a company's purpose	Board	Page 1
Assess and monitor culture	Board	Page 1, 56, 57, 85
Stakeholder engagement	Board	Throughout report as well as Mazvi Maharasoa appointed as designated non-Executive Director for workforce and communities engagement
Board evaluations	Nominations Committee	Page 54, 64
Talent and succession planning	Nominations Committee	Page 55, 63, 64
Length of service (tenure and prior experience for Chair)	Nominations Committee	Page 45
Robust assessment of emerging risks	Audit Committee	Page 21
Aligning pay practices with business strategy and reviewing wider workforce remuneration and related policies	Remuneration Committee	Page 80, 74
Wider remit of Nominations Committee matters to include senior management	Nominations Committee	Page 63
Policy on diversity and inclusion	Nominations Committee	Page 55, 63
Role profiles	Nominations Committee	Page 52
Pension contribution rates for Executive Directors should be aligned with those available to the wider workforce	Remuneration Committee	Page 68, 71, 89
Post-employment shareholding requirements policy development	Remuneration Committee	Page 68

CHAIRMAN'S INTRODUCTION TO CORPORATE GOVERNANCE continued

One of the changes that came into effect is the requirement for a Board to demonstrate that it is engaging not only with employees but also with the wider stakeholder community. The Board fully supports this objective and in line with our existing efforts in this area appointed Mazvi Maharasoa, who joined the board as a non-Executive Director during the year, as the Board's representative to engage with the broader workforce and communities.

At the 2019 Annual General Meeting two of the proposed resolutions received less than 80% support and the Board and members of the senior management team engaged actively with some of our larger investors to understand their concerns. In November last year we issued an update on these discussions and we continue to seek and encourage dialogue with all stakeholders on any matters of interest or concern.

During the year the Nominations Committee adopted a new planning framework which enabled it to monitor and plan appropriately for both Board and senior management succession. The Committee understands the need for the Board to maintain a broad set of skills and capabilities and constantly reviews its diversity and its ability to ensure a deep level of independent thinking and constructive and critical challenge.

Risk management remains a critical responsibility of both the Board and senior management and the Audit Committee continued to monitor the risks that the Group faces alongside ensuring that its approach to, and adoption of, new financial standards and regulations were correct and that internal controls remained robust.

The work of the HSSE Committee is very important in ensuring that the health and safety of employees is maintained, that the integrity of environmental management systems remains in place and that we work effectively with our local communities. The committee focused particularly on ensuring that a penetrating investigation was conducted into the tragic

accident that resulted in the death of a colleague from a sub-contracting company, Mr Abele Mtambo at the Letšeng mine in February 2019, and that the findings of this and all safety investigations are promptly implemented. I and my fellow Board members remain deeply committed at all times to the health and safety of those that work for and with us.

Remuneration Committee has the responsibility to ensure that remuneration policies and practices across the Group remain aligned with best practice and that they offer an appropriate balance of incentive and fairness to staff and shareholders alike. During the year the Committee assessed developments arising from the Code and with external support considered shareholder positions to ensure that the Company's remuneration policies and practices remain aligned with these requirements.

All the current Directors will offer themselves for re-election by the shareholders at the 2020 AGM.

I remain grateful to Clifford, Michael and to all our executive colleagues, as well as to my fellow Directors, for the excellent work they have done during the year to ensure that our standards of corporate governance are exemplary. I would also like to take this opportunity to thank you, our shareholders, for your continued support.

My fellow Board members and I will be available at the 2020 AGM to respond to any questions you may have on this report or on any of the Committees' activities and I look forward to welcoming those of you who are able to attend.

Harry Kenyon-Slaney
Non-Executive Chairman

10 March 2020

UK CORPORATE GOVERNANCE

This report combines the Directors' Report, the Strategic Report and the Group's compliance with the principles and provisions of the Code. It includes details of the key policies, processes and structures that apply to the Company. It incorporates sections on the role and work of the Audit, Nominations, HSSE and Remuneration Committees in line with the Disclosure Guidance and Transparency Rules (DTR).

The Board continues to review and assess all policies and practices throughout the organisation considering changes to the Code and best practice principles. It also looks at forthcoming legislative and regulatory changes that may affect the governance and compliance of the structure and functions of the Board and its Committees.

The Board ensures it is kept apprised of all revisions and market practice recommendations issued by institutional investor bodies such as the Institutional Shareholder Services, the Institutional Voting Information Service and the Pension and Investment Research Consultant. The Company considers that it is compliant with all provisions of the Code, unless highlighted otherwise in this report.

BOARD OF DIRECTORS

The role of the Board

The Board is responsible for the overall conduct of the Group's business, with its primary focus as follows:

- Setting the Group's purpose and values and establishing the overall Group strategy and satisfying itself that these are aligned with its culture
- Approving the Group's commercial strategy and the annual operating and capital expenditure budget and any material changes to them
- Ensuring the workforce policies and practices are consistent with the Group's values and support its long-term success and regularly assess and monitor the Group's culture
- Establishing procedures to manage risk, oversee the internal control framework and consider the nature and extent of the emerging and principal risks identified by the Group
- Considering the views of shareholders and other key stakeholders when making decisions
- Ensuring adequate succession planning for the Board and senior management and within this context promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths and monitor

performance and agree the structure of management and its responsibilities

- Approving changes to the Group's capital structure and corporate structure
- Determining the Group's remuneration policy
- Monitoring the effectiveness of and reporting on the structure of corporate governance

The Board meets on a regular basis focusing on strategic issues, such as financial performance, risk management and other critical business concerns and has a formal schedule of matters reserved for its decision. The agenda for each Board meeting includes discussion, decision-making and appropriate resource allocation surrounding these matters.

While all Directors have equal responsibility in terms of the law for managing the Group's affairs, it is the role of the executive management to run the business within the parameters established by the Board and to produce clear, accurate and timely reports to enable the Board to monitor and assess the Group's performance. The Board reviews financial and operational performance at each meeting. It receives regular updates on the Group's performance across a range of metrics. Regular reports presented to the Board include the CEO Report; operations reviews; sales, marketing and manufacturing reports; half-year and full-year financial results; employee surveys; BT status and investor relations updates. The executive management draws on the expertise and experience of the non-Executive Directors.

All Directors are free to express their views and may ask that these be recorded in the minutes where appropriate.

Board and Committee meetings

Four scheduled Board meetings and three special meetings of the Board were held during 2019. Attendance by Directors at Board and Committee meetings is shown below. There are six formally constituted Committees of the Board, each of which has specific terms of reference. Those for the Audit, Nominations, HSSE and Remuneration Committees can be viewed on the Group's website together with the matters reserved for the Board. www.gemdiamonds.com/investors-corporate-governance.php.

The remaining two Committees (Standing and Share Scheme) facilitate the administration of the Board's delegated authority. If Board approval is required between Board meetings, Board members are emailed the details, including supporting information for decision-making. The decision of each Board member is communicated and recorded at the following Board meeting.

UK CORPORATE GOVERNANCE continued

Director	Board: 7 held	Audit: 4 held ¹	Remuneration: 4 held	Nominations: 4 held ²	HSSE: 4 held ³
Executive Board members					
C Elphick	7	–	–	2	–
M Michael	7	–	–	–	–
Non-Executive Board members					
H Kenyon-Slaney	7	3	4	4	3
M Lynch-Bell	7	4	4	4	3
M Brown ⁴	6	3	4	4	4
J Velloza	7	1	–	–	4
M Maharasoja	4	1	–	–	1

¹ M Maharasoja and J Velloza were appointed to the Audit Committee from 4 September 2019 and were eligible to attend one meeting. M Brown and H Kenyon-Slaney stood down from the Audit Committee at the same time and were eligible to attend three meetings during the year.

² C Elphick stood down from the Nominations Committee following the meeting in June 2019.

³ H Kenyon-Slaney, M Lynch-Bell and G Turner stepped down from the HSSE Committee and M Maharasoja was appointed from 4 September 2019. M Maharasoja was eligible to attend one meeting.

⁴ M Brown was unable to join one of the special Board meetings.

Non-Executive Directors' meetings

The non-Executive Directors meet independently of the Executive Directors, in accordance with the practice adopted by many listed companies.

Chairman and Chief Executive Officer

A clear separation is maintained between the responsibilities of the Chairman and the Chief Executive Officer. The Board has operated on this basis for over 10 years thereby ensuring there is a clear division of responsibilities between the leadership of

the Board and the executive leadership of the Company's business. The Chairman is responsible for creating the conditions for the effective working of the Board. The CEO is responsible for the leadership, operations and management of the Group within the strategy and business plan agreed by the Board. Their individual responsibilities, together with the responsibilities of the Senior Independent Director and non-Executive Directors are detailed on the following pages. During the year the Nominations Committee reviewed the role profiles of the Chairman and Chief Executive Officer to ensure these encompassed the responsibilities from the Code.

Roles of the Chairman and Chief Executive Officer

Chairman, Harry Kenyon-Slaney

- The effective operation and leadership of the Board and setting the highest standards of corporate governance
- Providing strategic guidance to the executive team
- Setting the agenda, style and tone of Board discussions
- Through the Nominations Committee, ensuring that the Board comprises individuals with appropriate skill sets, experience, knowledge and diversity and that there are succession plans in place for the Board and senior management team
- Ensuring that the Company maintains effective communication with shareholders and that the Board understands their views and concerns
- Working with the CEO to ensure that the Board receives accurate and timely information on the performance of the Group
- Leading the evaluation of the performance of the Board, its Committees and individual Directors
- Encouraging a culture of openness and discussion to foster a high-performing collegial team of Directors
- Ensuring that relevant stakeholder and shareholder views, as well as strategic issues, are regularly reviewed, clearly understood and underpin the work of the Board
- Facilitating the relationship between the Board and the CEO
- Ensuring that adequate time is available for discussion on all agenda items

CEO, Clifford Elphick

- Developing a business strategy for the Group to be approved by the Board
- Producing the business plans for the Group to be approved by the Board
- Overseeing the management of the executive resource and succession planning processes and presenting the output from these to the Board and Nominations Committee
- Ensuring that effective business and financial controls and risk management processes are in place across the Group, as well as compliance with all relevant laws and regulations
- Making recommendations to the Board on the appropriate delegation of authority within the Group
- Keeping the Board informed about the performance of the Group and bringing to the Board's attention to all matters that materially affect, or are capable of materially affecting, the performance of the Group and the achievement of its strategy
- Developing, for the Board's approval, appropriate values and standards to guide all activities undertaken by the Group
- Providing clear and visible leadership in responsible business conduct

Roles of the Senior Independent Director and non-Executive Directors

Senior Independent Director, Michael Lynch-Bell

Acting as a sounding board for the Chairman

Serving as an intermediary for other Directors if necessary

Being available to shareholders if concerns they have raised with the executive team and/or the Chairman have not been satisfactorily resolved

Non-Executive Directors

Scrutinising the performance of executive management in meeting agreed goals and objectives and monitoring the reporting of performance

Reviewing the integrity of financial information and determining whether internal controls and systems of risk management are robust

Determining the Company's policy for executive remuneration, as well as the remuneration packages for the Chairman and Executive Directors through the Remuneration Committee

Ensuring a satisfactory dialogue with shareholders on strategy, remuneration policy and other relevant matters as well as engagement with key stakeholders

Strengthening links between the Board and the workforce by designating a non-Executive Director who, in conjunction with management, will aim to develop and implement workforce engagement initiatives and report to the Board on relevant matters, or issues of concern, highlighted by the workforce

Providing a wide range of skills and independence, including independent judgement on issues of strategy, performance and risk management

For more on the roles of Board Committees please refer www.gemdiamonds.com/investors-corporate-governance.php. 

Board skills, balance and independence

The Board annually reviews the composition and chairmanship of its primary Committees, namely the Audit, Nominations, HSSE and Remuneration Committees. The Company complies with the requirement of the Code that there should be a balance of Executive and non-Executive Directors so that no individual or group can dominate the Board's decision-making.

As a mining company, the efficiency of the day-to-day operations, in both the medium and long-term, is essential to the Group's progress in producing shareholder value.

Knowledge of the diamond industry is crucial to foster new business opportunities and to enhance the Group's operations in cutting and polishing and sales and marketing strategies.

Knowledge of financial markets is also necessary to ensure fulfilment of the Group's strategy. The biographies, which can be found on pages 44 to 48, provide more information on each Director's competencies. All Directors allocate sufficient time to the Group to fulfil their responsibilities effectively.

Non-Executive Directors should be independent in character and judgement. In applying the independence test, the Board considers relationships with executive management, major shareholders, subsidiary and associated companies and other parties with whom the Company transacts business against

predetermined materiality thresholds. The Board considers the majority of the non-Executive Directors, being Harry Kenyon-Slaney, Michael Lynch-Bell and Mike Brown, to be independent in accordance with the Code. Both Johnny Velloza and Mazvi Maharasoja bring a wealth of skills and experience to the Board. However, under the criteria from the Code cannot be considered independent due to their previous roles within the Group. Both Johnny and Mazvi were appointed during the year to the Audit Committee and Mazvi to the HSSE Committee. The knowledge that both Directors can bring to these Committees was considered by the Board to outweigh the need for membership of the Committee to be independent non-Executive Directors.

The letters of appointment for the non-Executive Directors and the contracts of the Executive Directors are available for inspection at the place of business of the Company in London.

Appointments and re-elections to the Board (see also Board diversity on page 44)

The Code requires there to be a formal, rigorous and transparent procedure for the appointment of new Directors, which should be made on merit, against objective criteria and with due regard to the benefits of diversity on the Board. Since 2007, recruitment to the Board has been based on recommendation; therefore, no outside consultants have been engaged. The Board currently comprises a broad and

UK CORPORATE GOVERNANCE continued

highly relevant skill set, and the Nominations Committee continues to make appointments based on merit while considering diversity (of gender, social and ethnic background), cognitive and personal strengths and the specialist skill set which is required by the business. Further details are in the Nominations Committee Report.

The Nominations Committee's section of this report is set out on pages 62 to 64. It is required that all Directors retire at the AGM and, if appropriate, offer themselves for re-election in accordance with the Code. This practice will continue for future re-elections. The Nominations Committee has considered and concluded that the Board has demonstrated commitment to its role. The Committee is also satisfied that the collective skills, experience, background and knowledge of the Company's Directors enables the Board and its Committees to conduct their respective duties and responsibilities effectively.

Continuing Board development, independent professional advice and the Company Secretary

Board evaluation

In accordance with the Code, the Board is responsible for undertaking a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. Towards the end of 2018 and the first few months of 2019 the Board undertook an evaluation that was externally facilitated by Chris Stamp from Prism Boardroom. Neither Chris Stamp nor Prism Boardroom had any other connection with the Company. The review was initiated by the Board and arranged by the Nominations Committee, recognising in accordance with the Code the importance of undertaking an externally facilitated Board evaluation. The scope of the evaluation was discussed with the Chairman and the Company Secretary and Prism Boardroom were provided with access to a number of documents including Board and Committee papers as part of the review. One-on-one interviews were conducted with all the Board Directors as well as an informal discussion with the Company Secretary. The findings were consolidated into a report which, along with a number of recommendations were circulated to all Directors and discussed during a Board meeting.

Training and induction

All new Directors receive a full, formal and tailored induction upon joining the Board. This includes meetings with management and access to external auditors and covers the Board Committees that they join. In addition, ongoing support and resources are provided to Directors, enabling them to extend and refresh their skills, knowledge and familiarity with

the Group. Professional development and training are provided through four measures:

- providing regular updates on changes (actual and proposed) in laws and regulations affecting the Company or its business;
- planning, including site visits, to ensure Directors are familiar with Group operations, including its commitment to and application of the Group's corporate and social responsibility policies;
- creating opportunities for professional and skills training, such as Committee chairmanship; and
- through appropriate Board presentations and formal professional seminars.

Site visits

Visiting the Group's operations and interacting with Senior Management and employees is an integral part of the Directors' ongoing knowledge of the business.

A full Board site visit to Letšeng was last held in November 2018. In the current year, the following visits were conducted by the non-Executive Directors:

Mike Brown visited Letšeng in April and August 2019, with the main focus areas on verifying that the corrective actions identified in the fatality and LTI incident investigations were implemented and obtaining a comprehensive overview of the TSFs. He also visited the sales and marketing operation in Antwerp.

Johnny Velloza visited Letšeng in August and December 2019, mainly focusing on the TSFs and as part of his duties as the chairman of the Operations Steering Committee. Refer to page 63 for further details on this committee.

Mazvi Maharaoa visited Letšeng as part of her induction to the Board.

In addition to these visits, Executive Directors and management visited the operations on a regular basis as part of their day-to-day business.

Independent advice

All Directors either independently or collectively may take independent professional advice at the expense of the Company, in the conduct of their duties, subject to prior consultation with the Chairman. Furthermore, all Directors have access to executive management and the advice and services of the Company Secretary. The Company Secretary is accountable to the Board for ensuring that all governance matters are complied with and assisting with professional development as required. The Board approved a new policy on members seeking independent advice in March 2020.

Company Secretary

An independent firm of Chartered Secretaries in Public Practice advises the Company Secretary. Bruce Wallace Associates is engaged to ensure that all company secretarial and governance issues are attended to and the Board is kept apprised of all compliance and best practice matters throughout the year.

Conflicts of interest

The UK Companies Act (the Act) requires Directors to avoid any situation where they may have a direct or indirect interest that conflicts, or may conflict, with the Group's interests, unless approved by the non-interested Directors. In accordance with this Act, the Company operates a procedure, which was updated and approved by the Board during the year, to ensure the disclosure of conflicts and, if appropriate, for the consideration and authorisation of them by non-conflicted Directors. The Board maintains a register of 'conflicts of interest' that it reviews annually (most recently in March 2019). The Company voluntarily complies with this requirement. The Board considered all external Director's appointments made during the year.

Dealings in shares and the EU market abuse regime

The Company's share dealing policy and reporting procedures are in line with the EU Market Abuse Regulations implemented in July 2016.

Directors' remuneration

While the Board is ultimately responsible for Directors' remuneration, the Remuneration Committee, consisting of independent non-Executive Directors, is responsible for determining the remuneration and conditions of employment of Executive Directors, as well as the Chairman. The Directors' remuneration policy was updated in 2017 and approved by shareholders at the 2017 AGM, and the renewal of this policy will be put to the shareholders at the 2020 AGM in line with the Company's three-year review policy. The details of the Directors' remuneration policy and all Directors' remuneration are detailed in this report on remuneration on pages 70 to 93.

Bribery Act

The Group applies a zero-tolerance approach to acts of bribery and corruption involving any of its staff and third-party representatives or associates and is committed to upholding and complying with the requirements of the UK Bribery Act. The Group's terms of business require all customers and third parties with whom business is transacted to adopt the same zero-tolerance approach to bribery and corruption as implemented by the Board. During the year the Board

approved an updated policy on anti-bribery and corruption following recommendations from Group Internal Audit's compliance review.

Refer to the Audit Committee Report page 59.

Board diversity

The Board is mindful of the continuing Hampton-Alexander reviews and its objective to improve diversity in executive leadership and senior management. Further detail on the new framework to succession planning can be found in the Nominations Committee report on page 62. Similarly, the Board is conscious of the trends evidenced in the Code to increase diversity in boardrooms. The Company recognises the importance of diversity, including gender, at all levels across the Group. In this regard it is significant that 98% of the total Group workforce are Lesotho citizens and 20% of the total workforce is female. Throughout the Group, succession planning is considered a key priority with a focus on the development of women into leading roles, which drives a diverse pipeline of talent. During the year the Nominations Committee approved a new diversity and inclusion policy covering both Board diversity and the Company's approach across the organisation.

More information on gender-based employment is contained in the Sustainable Development Review on the Company's website www.gemdiamonds.com.

Communication of business development during the year

Detailed information on the Group's business developments and projects can be found on the Company's website in the investors section, where all published information and shareholder communication is available. This includes trading updates; year end and half year results; resource and reserve statements; and all other announcements.

Accountability and audit

The Board is conscious of its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects and is satisfied that the Strategic Report on pages 1 to 43 has met this obligation. The Responsibility Statement of the Directors in respect of the Annual Report and Accounts 2019 is set out on page 100.

Financial reporting to the Board is continuously modified and enhanced to cater for changing circumstances. The Group's comprehensive planning and financial reporting procedures include detailed operational business plans for the year ahead and a three-year rolling plan. The Board reviews and approves the Group's annual business plan. These are prepared in co-operation with all Group functions based on specified economic assumptions. Performance is monitored, and

UK CORPORATE GOVERNANCE continued

relevant action taken throughout the year through monthly reporting of KPIs and updated forecasts for the year, together with information on key risk areas.

In addition, routine management reports, including results to date and updated forecasts for the year, are prepared and presented to the Board. These reports form the cornerstone of the Group's system of internal control. Detailed consolidated management accounts, as well as an executive summary, are circulated prior to each scheduled Board meeting. Between Board meetings, summary update reports covering matters such as operational performance, sales results, cash flow and progress on strategic issues are circulated to Board members and senior executives.

Internal control

The Board has responsibility for the Group's overall approach to risk management and internal control, which are embedded in all key operations. In accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting Guidance published by the FRC in September 2014, the Board has defined the processes adopted for its ongoing monitoring and assessment and relies on reviews undertaken by the Audit Committee throughout the year, as well as the approval of the Annual Report and Accounts 2019. In addition, regular management reporting and a balanced assessment of key risks and controls is an important component of Board assurance.

The principal aim of the system of internal control is the management of business risks that significantly threaten the fulfilment of the Group's business and strategic objectives, with a view to enhance the value of shareholders' investments and safeguarding assets. The internal control systems have been designed to manage, rather than eliminate, the risk of failure, to achieve business objectives and to provide reasonable but not absolute assurance that the Group's business objectives will be achieved within the risk tolerance levels identified by the Board. The Directors have reviewed the effectiveness of the system of internal control. For the review, the Audit Committee considered reports dealing with internal audit plans and outcomes, as well as risk logs and sign-off from external audit and management representations. These did not reveal any significant findings or weaknesses. A full report of the work carried out by the Audit Committee on behalf of the Board is set out in the Audit Committee Report on pages 59 to 61.

Internal audit

The Group internal audit function, as an independent assurance provider, is an important element of the overall process by which the Audit Committee and the Board obtain the assurance it requires that risks are being effectively managed and controlled and the adequacy and effectiveness of the Group's control environment.

The Group internal audit function is provided through an in-house Internal Audit department supplemented by external industry experts when required. The Group Internal Audit department reports directly to the Audit Committee and is responsible for co-ordinating the Group's risk-based audit approach and to evaluate the effectiveness and contribute to the improvement of the risk management process, control environment and governance systems. Various ad hoc assignments are also performed during the year at the request of management.

The risk-based audit plan, approved by the Audit Committee, covers all operating units, focusing on the principal risks. It involves discussions with management on the risks identified in the subsidiaries' and Group risk registers, emerging risks, operational changes and capital projects. Findings and agreed actions are reported to management and the Audit Committee.

External audit

A principle of the Code is that the Board should establish formal and transparent arrangements for considering how it should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Group's external auditors, EY. These responsibilities are delegated to and discharged by the Audit Committee, whose role is defined on pages 59 to 61.

Risk assessment and management

Risks are monitored continually and formally reviewed annually. A more comprehensive report of the Group's principal and emerging risks and how these are managed and/or mitigated can be found on pages 15 to 21 of the Strategic Report.

The Group's operations perform regular risk assessment reviews and maintain risk registers. Objectives in the business plan are aligned with risks and a summary of the key risks, related internal controls, accountabilities and further mitigating actions are tabled and approved by the Audit Committee. The Committee at times delegates its authority to the Board for completeness. The Audit Committee and the Board, where appropriate, are kept informed on progress against the plans and any significant changes to review the

ENGAGING ON RECOMMENDATIONS BY INTERNAL AUDIT

S172 (1)(b)&(e)

One of the manners in which culture is monitored is by Internal Audit testing anti-bribery controls. Following Internal Audit's recommendations, the Board approved updates to certain provisions in the anti-bribery and corruption policy.

risk profile. This enables the suitable management and non-Executive Directors to holistically review the risk, mitigate and implement controls as necessary.

Investment appraisal

Capital expenditure is managed through a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals are submitted to the Board. There is an approval procedure for investments, which includes a detailed calculation of return based on current assumptions that are consistent with those included in management reports.

Post-investment reviews are carried out after the project is completed and, for material projects, steering committees are established to monitor the progress against the approved plan.

Commercial, legal and financial due diligence are carried out, using external consultants as appropriate, in respect of acquisitions and disposals.

Whistleblowing programme

The Company has formal means of reporting suspected fraud, corruption and irregularities via independently operated and confidential toll-free phone hotlines in each country in which the Group operates. Employees can report any breach of the Group's business principles including, but not limited to, bribery, breaches of ethics and fraud.

All whistleblowing incidences reported are distributed by the Group internal auditor or Company Secretary for investigation by the relevant operations.

All incidents reported are fully investigated and the results are reported to the boards of local operations and the Group's Audit Committee. Group Internal Audit periodically reviews the design and effectiveness of the hotline and reports the results to the Audit Committee.

The Board continues to be satisfied the whistleblowing programme is being utilised correctly by concerned individuals and that all queries raised during the year have been properly investigated and reported.

The policy was expanded during the year and the most significant outcome was in the case where an employee was reinstated after dismissal and the whistleblowing process identified that a reinstatement was necessary.

Shareholder and stakeholder engagement

Communication with industry analysts, institutional investors and shareholders and wider groups of stakeholders is of great importance to the Board. Understanding the views of stakeholders and shareholders has proven to be highly beneficial to the Group. These engagements have been

flagged throughout the report. The Board recognises the enhanced responsibilities from the Code for the Board to engage with its workforce and the wider community of stakeholders.

Shareholders have direct access to the Chairman to address their views and concerns. The Chairman has continued to engage with several significant shareholders over the year. Shareholder views are communicated to the Board and are tabled at each Board meeting. The Company's Senior Independent Director is available to shareholders if contact through normal channels fails to resolve their concerns, or if such contact would be inappropriate.

The Executive Directors conduct regular roadshows to engage with several of the Group's larger investors creating a suitable platform for them to express any concerns. The responsibility of investor relations is that of the Chief Legal and Commercial Officer.

The shareholder base comprises 139.0 million issued ordinary shares of US\$0.01 each. There are institutional shareholders that hold 129.3 million shares (93%) and private shareholders who hold 9.7 million shares (7%).

Assessing and monitoring culture

We measure our workplace culture through an annual culture and engagement survey, which enables us to explore the collective experience within the organisation and the prevalent patterns of behaviour. Metrics have been put in place to link the outcomes of the survey to our values and determine areas for future focus. Read more in our Remuneration Committee Report on page 79.

Annual General Meeting (AGM)

The AGM is an opportunity for investors to engage with the Directors. All Directors attend the AGM, and shareholders are invited to ask questions during the meeting and to meet Directors after the formal proceedings have closed. Shareholders attending the Company's next scheduled meeting will be advised as to the level of proxy votes received, as well as the percentages for and against in respect of each resolution. The results of the resolutions will be announced through the Regulatory News Services and on the Company's website.

In accordance with the Code, if any resolution put to shareholders receives over 20% votes against, the Board will seek to actively engage with investors to understand their concerns and publish a report on the actions taken and any next steps within six months of the meeting. At the AGM held in 2019 two resolutions received over 20% votes against. Following this result, members of the Board and the executive management team engaged in consultation with several of the Company's larger shareholders on concerns raised. The

UK CORPORATE GOVERNANCE continued

matters and outcomes during these discussions related to the Board's composition and wider share capital issues. Since the AGM Mazvi Maharasoa has been appointed to the Board and there continues to be consideration of the composition of the Board and broader share capital matters. The Company released an update statement in November 2019 on actions taken in response to the votes received and can be viewed on the Company's website www.gemdiamonds.com.

The 2020 AGM will be held on Wednesday, 3 June 2020. Details of the resolutions to be proposed at the AGM can be found in the Notice of AGM, which will be published on the Company's website or sent to shareholders who requested to continue to receive paper copies, a minimum of 20 business days before the meeting. Therefore, shareholders who receive electronic communications can access the Annual Report and Accounts 2019 and the AGM documentation through the Company's website.

Shareholders

Majority interest in shares

On 14 February 2020, the Company was notified of the following major interests (at or above 3%) in the issued ordinary shares of the Company in accordance with the DTR 5:

Shareholders	Number of ordinary shares	% share-holding
Sustainable Capital	27 948 386	20.1
Graff Diamonds International	20 861 931	15.0
Lansdowne Partners	20 721 413	14.9
Aberforth Partners	14 164 995	10.2
Gem Diamonds Holdings	9 325 000	6.7
Hosking Partners	5 322 700	3.8
Dimensional Fund Advisors	4 692 606	3.4

There were no further updates to the date of this report. Changes in major interests in the Company are updated on the Company's website as and when these occur.

AUDIT COMMITTEE



M Lynch-Bell
Chairperson
Non-Executive Director

The role of the Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring:

- the integrity of the financial and narrative statements and other financial information provided to shareholders;
- the Group's system of internal controls and risk management;
- the internal and external audit process and auditors; and
- the processes for compliance with laws, regulations and ethical codes of practice.

Membership¹ as at 31 December 2019:

- M Lynch-Bell
- M Maharasoa
- J Velloza

Other attendees

- H Kenyon-Slaney
- C Elphick
- M Michael
- B de Bruin
- Group Financial Controller
- External and internal audit
- Secretary (Bruce Wallace Associates)

AUDIT COMMITTEE SKILLS AND EXPERIENCE (%)



¹ H Kenyon-Slaney and M Brown stood down from the Committee and M Maharasoa and J Velloza were appointed from 3 September 2019.

AUDIT COMMITTEE continued

2019 value adding activities

Financial disclosure

The Committee continued to ensure during the year that the Group's Annual Report and Accounts 2019 and the Half Year Report 2019 were fair, balanced and understandable by continuing to challenge and debate the judgements made and ensure information necessary for shareholders to assess the Group's performance, business model and strategy is provided.

The significant issues reviewed by the Committee relating to the 2019 results were:

- (1) the impact of adopting the new accounting standard, IFRS 16 *Leases* on 1 January 2019;
- (2) the judgements applied by management in the assessment of Ghaghoo as a discontinued operation and the application of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* to its results;
- (3) the impact on the estimates of useful lives of assets following the renewal of the Letšeng mining lease;
- (4) the judgement applied by management in the re-allocation between the share-based payment reserve and retained income, aligning the reserves to the outstanding awards which have vested;
- (5) the judgements applied by management in assessing impairment reviews, going concern and viability assessments and the conclusions reached thereon, after considering the financial position of the Group, its cash flows, liquidity position and borrowing facilities; and
- (6) the judgements applied by management in concluding that there were no uncertainties in income taxes in terms of IFRIC 23 *Uncertainty over Income Tax Treatments*, specifically regarding the amended tax assessment issued to Letšeng by the Lesotho Revenue Authority in December 2019.

External audit

In advance of the 2019 audit, the Committee reviewed and assessed the appropriateness of the external auditor's plan, audit strategy, scoping, materiality and audit risks and had the opportunity to request additions to the scope and risk areas prior to approving the final plan. The significant areas of audit focus identified by the external auditors to be addressed during the course of the audit were primarily: revenue recognition, impairment of property, plant and equipment and goodwill, implementation of IFRS 16, deferred waste stripping calculation, taxation, rehabilitation provision and share-based payments as mentioned in the Independent Auditor's Report on page 101. The Committee was satisfied that all material audit risks were covered within the auditor's scope. The Committee assessed the materiality level applied as appropriate to identify relevant audit risks.

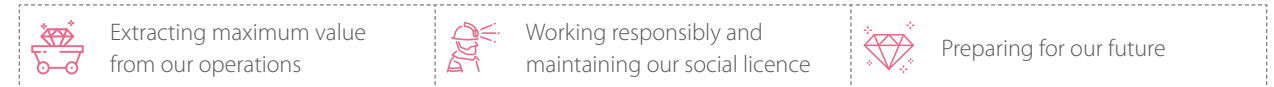
Auditor appointment and independence

The transition from EY UK to EY South Africa (EY SA) was completed in early 2019 for the Annual Report and Accounts 2018 audit. The Committee remains satisfied with the performance of EY SA and recommends their reappointment to the Board.

The Committee welcomed Philippus Grobbelaar during the year as the lead engagement partner, who will serve no more than five consecutive years. Other senior audit employees will serve no longer than seven consecutive years with a two-year cooling off period. The Committee assessed the tenure of the partners and senior employees as adequate, considering the recent transition to EY SA.

EY was engaged to assist with a series of non-audit matters, particularly with regards to tax services during the year. The Committee received regular reports on any proposed non-audit work to be undertaken by EY and monitored the fees in line with the delegation of authority framework. All fees during the year were below the Committee's thresholds for approval. Through monitoring these activities, the Committee ensured it safeguarded auditor objectivity and independence. The fees for such work amounted to US\$58 377. This was against the external audit fee of US\$468 499, representing 12% of external audit fees.

Link to
strategic pillar



2019 value adding activities

Audit effectiveness

The 2018 audit was the first year that the audit was performed by EY SA. This audit had unique and once-off challenges associated with transitioning auditors from EY UK. As a result, a post review assessment was conducted through verbal feedback and workshops between management and the auditors. The feedback identified issues to be addressed but concluded that the audit was effective and that the planning, execution and reporting was appropriately dealt with.

In line with the Code and the duty of the Committee to assess the effectiveness of the audit process, a framework for a detailed audit assessment by way of a set list of questions has been proposed and agreed by the Committee. An audit effectiveness review of the 2019 audit will be carried out in June 2020.

Anti-bribery and corruption policy review and approval

The Committee approved an updated policy during the year following a scheduled review by Group Internal Audit and recommendations therefrom. The Committee is satisfied that the policy remains robust regarding compliance and diligence procedures. There were no incidences of bribery or fraud and irregularities during the year.

Acting on whistleblowing

The Committee regularly received reports on whistleblowing matters and monitored the actions and progress on the matters that arose.

Monitoring internal audit

The principal matters to be reviewed by the internal audit team were reviewed by the Committee and they continued to monitor management's responsiveness to the findings and recommendations from the internal auditor. In line with the inherent risk within the mining and especially diamond industry, dam safety and diamond security were focus areas for Group internal audit during the year.

The proposed 2020 internal audit plan was approved by the Committee and is linked to the current risk profile of the organisation. Based on the disappointing safety performance in 2019 and increased actions implemented to address this, the Committee approved the additional audits planned for 2020 relating to safety procedures.

Risk management and internal controls

The Committee focused on the principal and emerging risks during the year. These are listed on pages 15 to 21.

As part of scrutinising the risks identified by management, the Committee undertook a detailed overview of the risk management strategy looking at the potential impact of the Group's operations should the risks occur and the likelihood of the risk occurring.

The Committee remained satisfied that no material weaknesses in internal control systems were identified through the review of regular reports from the Group's internal auditor and CFO, and through consideration of the external auditor's audit reports and face-to-face discussion between the Audit Partner, the Committee chairman and Committee members.

Annual review

During the year the Committee updated its terms of reference to ensure these encompassed the updated provisions from the Code. The Board evaluation undertaken included the Audit Committee within its remit and it was agreed that there could be some enhancements made to the reports received by the Board.

Future focus areas

Priorities for the forthcoming year will include continuing to monitor the effectiveness of risk management processes, with special focus on emerging risks; formally assessing the quality and effectiveness of the external audit and the procedures and controls to ensure auditor independence; and monitoring the market impact on the viability of the business.

Link to
strategic pillar



NOMINATIONS COMMITTEE



Harry Kenyon-Slaney
Non-Executive Chairman

The role of the Committee is to:

- ensure that there is a formal, rigorous and transparent procedure for the appointment of new directors to the Board;
- lead the process for Board appointments and make recommendations to the Board;
- assist the Board in ensuring its composition is regularly reviewed and refreshed, considering the length of service of the Board as a whole, so that it is effective and able to operate in the best interests of shareholders;
- ensure plans are in place for orderly succession to positions on the Board and as regards the Executive Committee (senior management);
- oversee the development of a diverse pipeline for succession; and
- work and liaise with other Board Committees, as appropriate including the Remuneration Committee in respect of any remuneration package to be offered to any new appointment of the Board.

Membership¹ as at 31 December 2019:

- H Kenyon-Slaney
- M Brown
- M Lynch-Bell


Other attendees

- C Elphick
- Secretary (Bruce Wallace Associates)


NOMINATIONS COMMITTEE SKILLS AND EXPERIENCE (%)




¹ Clifford Elphick stepped down as a member of the Committee in June 2019 in recognition of the Code's provisions on membership.



Extracting maximum value from our operations



Working responsibly and maintaining our social licence



Preparing for our future

2019 value adding activities

[Link to strategic pillar](#)

Appointments



The Committee oversaw the appointment of Ms Mazvi Maharasoa, who joined the Board in July 2019. Having been recommended as a suitable candidate to join the Board, Mazvi was interviewed, and the Board members were satisfied that her qualifications and experience would add value to the Board. In light of the fact that some years ago Mazvi had been employed as a senior executive of Letšeng, the Committee carefully considered her independence against the provisions of the Code. While under a strict interpretation of the Code she might not be considered fully independent it was the Committee's view that the elapse in time since her employment and her in-depth knowledge and experience of the Group, the diamond industry and the broader Lesotho political, economic and cultural landscape make her a very valuable addition to the Board, and the Board is satisfied that she carries out her duties in an independent manner.

The Committee also considered and recommended to the Board the election/re-election of each continuing director ahead of their election/re-election by shareholders at the Company's 2020 AGM.

The Committee recommended changes to the Audit and HSSE Committees' membership during the year, in order to enable the newly appointed non-Executive Directors to be included on those Committees where other members would benefit from their knowledge and expertise. Both Johnny Velloza and Mazvi Maharasoa were appointed to the Audit Committee and Mazvi Maharasoa to the HSSE Committee. Clifford Elphick stood down from the Nominations Committee in accordance with the Code.

Succession planning



During the year the Committee enhanced its focus on succession planning across the organisation and adopted a new framework for succession planning. In accordance with the Code, succession to positions at Board and senior management level were reviewed. The Committee focused on the skills and experience required to meet the organisation's current and future needs to ensure business success and long-term shareholder value. Within this analysis the Board also considered how it could actively work to promote a diverse pipeline of talent throughout the organisation recognising that this is a continual process.

Over the year the Committee oversaw the executive management arrangements, with specific focus on the Chief Operations Officer (COO) role and responsibilities. Gavin Beevers, who fulfilled the role of interim technical adviser for 9 months, retired in April 2019. Brandon de Bruin, the Business Transformation Officer, was appointed as Operations and Business Transformation Executive. An Operations Steering Committee was set up, and Johnny Velloza appointed as chairman of this Committee to advise and assist executive management in its oversight of the mining operations through reviewing and monitoring key operational areas, in the absence of an appointed COO. Feedback from this committee is a standing Board agenda item.

Diversity



During the year the committee approved a new Diversity and Inclusion policy which sets out the Company's approach to this important aspect of leadership across the organisation. The policy defines how the Company ensures that it retains an inclusive and welcoming culture and how it endeavours always to appoint people on merit while simultaneously ensuring a wide range of skills and experience from different geographical, social and cultural backgrounds. In line with the policy the diversity of the board was enhanced through the appointment of Mazvi Maharasoa and there was an improvement in the diversity of the leadership pipeline through the appointment of a number of women to senior management positions.

NOMINATIONS COMMITTEE

continued

2019 value adding activities

Board evaluation

The Committee oversaw the Board evaluation process and the outcomes and agreed actions.

The outcome of the evaluation relevant to the Committee was to focus in the coming year on addressing talent and succession.

Link to strategic pillar



Conflicts of interests

The Committee reviewed and made recommendations to the Board in respect of each director's actual, potential or perceived conflicts of interests and approved a new conflicts of interest policy in accordance with the revised Code provisions.



Additional activities

The Committee also updated its terms of reference and revised elements of the role profiles of the Chief Executive and Chair to ensure these were in accordance with increased responsibilities of these roles from the Code.



Future focus areas

The role of the Nominations Committee requires a continual assessment of appointments, succession planning and diversity. The Committee will continue to build on the work undertaken over the last year to advance the progress made.

Extracting maximum value from our operations	Working responsibly and maintaining our social licence	Preparing for our future
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HSSE COMMITTEE



Mike Brown
Non-Executive Director

The role of the Committee is to assist the Board in fulfilling its oversight responsibilities in order to:

- promote a culture of zero harm and responsible care through effective risk management that prioritises the workforce, creating a safe and healthy environment;
- minimise environmental impact and reduce resource consumption;
- achieve the goal of sustainable development, meeting the needs of the present while sustaining the ability of future generations to support their needs; and
- review and monitor the Group's approach, policies and measures on health, safety, corporate social responsibility and the environment.

Membership¹ as at 31 December 2019:

- M Brown
- J Velloza
- M Maharasoa

Other attendees



- H Kenyon-Slaney
- B de Bruin
- G Turner
- Group HSSE superintendent
- Secretary (Bruce Wallace Associates)

HSSE COMMITTEE SKILLS AND EXPERIENCE (%)



¹ H Kenyon-Slaney, M Lynch-Bell and G Turner stepped down from the Committee and M Maharasoa was appointed on 3 September 2019.

HSSE COMMITTEE continued

 Extracting maximum value from our operations	 Working responsibly and maintaining our social licence	 Preparing for our future
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2019 value adding activities

Improving our health and safety

The Committee continued to monitor critical health and safety matters throughout the year.

These critical matters included:

- Short term contractor management;
- Vehicle and vehicle operations management;
- Tailings and water storage facility management; and
- Safety turnaround strategy.

Following the unfortunate fatality in February 2019, the Committee commissioned an internal incident investigation in conjunction with a third-party investigator who sought the input on the incident from senior management as well as external reports. Following the findings from the report the Committee approved several immediate and long-term interventions, including mobile equipment access management, operator competency assessments and vehicle road worthiness audits.

The Committee received regular reports on safety performance across the Group, including LTIs and near-miss incidents. Concerning trends were immediately acted on including ensuring accountability for any incidents that had occurred. Several behaviour-based projects were put in place during the year – a leadership and mentorship programme and a revamp of the Behaviour-Based Care (BBC) campaign “Why work safely” was launched in December. The Committee received reports on the review and renewal of the BBC campaign.

As part of the work of the Committee, there were frequent reports on the tailings and water storage dams at Letšeng, the purpose of which were to give the assurances that all such dams were being satisfactorily monitored and managed and were functional and safe.

The Committee received feedback on independent audits conducted to identify opportunities for improvement of the health and safety management system. These audits included:

- Legal compliance;
- ISO 45001 occupational health and safety management;
- TSFs; and
- Health and safety systems and management.

Mike Brown and Johnny Velloza visited Letšeng on two occasions during the year, with specific focus on safety and TSF matters.

Progressing our corporate social responsibility

The Committee continued to oversee the initiatives proposed and implemented within the local environments where the Company operated to ensure projects are managed in a fair and transparent manner. By monitoring their progress, the Committee remains committed to working responsibly within the community. Initiatives included are listed on page 37. The Committee reviewed the urgent request received from the Church of England Pension Board and council on Ethics Swedish National Pension Funds regarding information concerning tailings dam management. The Committee oversaw the final voluntary submission and public disclosure of the Group’s tailing management system and specifically how the Group effectively manages this risk. Details of this disclosure are available on www.tailing.grida.no/profile under Gem Diamonds.

Link to strategic pillar



2019 value adding activities

Minimising environmental impact

The Committee is pleased to report that no major or significant environmental incidents were recorded during the year. The Committee continues to monitor the environmental impact of the Company’s operations

During 2019, the following environmental matters were discussed by the Committee:

- Water quality management;
- Bioremediation and nitrate management;
- Extreme weather events; and
- Drought response.

The Committee also received external non-financial audit reports on the management of environmental parameters and resultant impact on the environment to benchmark performance and identify areas for improvement. These reports included a Group Carbon and Water Footprint, ISO 14001 environmental systems audit and a social and environmental management plan (SEMP) compliance report.

Revising the Group sustainability principles

Following a sustainability impact assessment conducted on the BT process, the Committee approved the review and update of the Group sustainability principles, having last been adopted in 2012. The Committee also approved the adoption of a United Nations (UN) Sustainable Development Goal (SDG) based framework for the Group. The UN SDG Framework commits the Group to working towards the advancement of 6 SDGs, as approved by the Committee, that demonstrate the direct link between sustainability and value for improvement. Further details on these SDGs are available on the Sustainable Development Reporting platform at www.gemdiamonds.com

Future focus areas

- Oversight and monitoring of the new CSR requirements in terms of the renewed Letšeng mining lease.
- Monitoring of the new revised Corporate KPIs which have been updated for 2020.
- Monitoring of the new Group UN SDG Framework.
- Monitoring of the safety turnaround strategy and implementation of corrective actions.

Link to strategic pillar



ANNUAL STATEMENT ON DIRECTORS' REMUNERATION

The Committee believes that the remuneration policy is appropriate to motivate and reward Senior Executives and align their interests with the Group's purpose and values as well as the interests of the shareholders.

DEAR SHAREHOLDERS

On behalf of the Board, I am pleased to present the Remuneration Committee's Directors' Remuneration Report for 2019. The report is presented in three sections: this Annual Statement, the Directors' Remuneration Policy (page 70) and the Annual Report on Remuneration (page 79).

2020 REMUNERATION POLICY

The Annual General Meeting (AGM) in June 2020 will mark the third anniversary of the adoption of the current remuneration policy, and therefore the Company will be submitting a proposed 2020 remuneration policy to shareholders at the AGM. During 2019, the Committee reviewed the effectiveness of the existing remuneration policy to ensure that it remains appropriate for the Company over the coming years. The review included an assessment against the Company's evolving business strategy, developments in corporate governance guidelines, prevailing market practice, and the views of relevant stakeholders.

In particular, the Committee reviewed the Policy in the context of recent revisions to the UK Corporate Governance Code. The conclusion of the Committee's review was that the existing remuneration structure generally remained fit-for-purpose. Notwithstanding this, the Committee believes that a few amendments should be introduced to the 2020 remuneration policy to reflect evolving best practice and shareholder expectations:

- **Aligning pension contributions for all newly appointed Executive Directors with pension contributions available to the wider workforce** – the Committee supports the principle of reducing, over time, the disparity in pension contributions between Executive Directors and the wider workforce. Therefore, from 2020, pension contributions to any new appointments to the Board will be capped at the prevailing workforce pension rate at the time, and the relevant rate will be disclosed. With respect to incumbent Executive Directors, the Committee will keep this area under review.

- **Formalising post-vesting holding of Employee Share Option Plan (ESOP) awards from 2020** – the 2017 remuneration policy provided the flexibility for the Committee to introduce a holding period of up to two years (or such other period the Committee may determine) for vested awards, during which time Executive Directors may not sell shares save to cover tax. The Committee proposes to formalise the introduction of post-vesting holding from ESOP awards made in 2020.
- **Introducing the flexibility for bonus deferral into shares** – the annual bonus, which provides an opportunity of up to 100% of salary, is currently payable in cash. The Committee proposes to introduce the flexibility to deliver some or all of the bonus in shares which may vest immediately or be deferred for up to two years (or such other period the Committee may determine).

The Committee also reviewed the appropriateness of introducing a post-termination shareholding requirement. Having debated the issue, the Committee concluded that the combination of the ESOP post-vesting holding period (which would normally continue to apply until the original expiry date if an Executive Director leaves), the in-post shareholding guideline, and existing malus and clawback provisions provides appropriate post-employment shareholding and ensures the safeguarding of shareholder interests. The Committee considers that this approach provides appropriate alignment with shareholder interests post-employment at this time and will keep this area under review in line with evolving best practice guidance and market practice.

REMUNERATION DECISIONS TAKEN DURING 2019

The initiatives generated as a result of the BT process continued to be implemented at Letšeng and across the Group. The targeted benefits of the project have to date been realised ahead of schedule. Despite the strong operational performance and progress on the Group's strategic goals, the 23% fall in the price per carat of rough diamonds sold during the year contributed to a 53% decline in underlying EBITDA¹. Earnings per share decreased 78% and the share price closed the year 54% lower

than at the start, although it should be noted that this share price trend was considerably better than that of our peer group. The Group ended 31 December 2019 in a net debt² position of US\$10.2 million with access to facilities of US\$69.9 million.

In this context, the Committee's key decisions during the year related to the following areas:

Short-term incentive bonus (STIB)

For 2019, the STIB was based on a range of financial, operational and personal objectives that support the delivery of the Group's key strategic priorities, with 80% linked to business performance and 20% to personal performance.

During 2019, performance against operational targets as well as personal objectives was strong, with production performance achieving between 93% and 97% of target. However, this achievement was not reflected in performance against financial targets, mainly due to the weak performance of the diamond market resulting in a decreased price per carat achieved. HSSE performance was disappointing considering the fatality in February 2019 and the increase in the LTIFR.

The resulting formulaic STIB outcome for the business scorecard was 58.3% of maximum. Subject to the approval of the proposed Directors Remuneration Policy and the amended ESOP 2020 rules at the June AGM, the Committee applied its discretion in awarding the bonus in Nil-cost options which will vest on the grant date. No further discretion has been applied in determining remuneration outcomes.

ESOP

Based on the performance to 31 December 2019, 25.93% of the share awards made under the 2017 ESOP will vest in July 2020, subject to continued employment at that time. The 2017 ESOP rewards performance against relative total shareholder return (TSR) against the constituents of the FTSE350 Mining Index (25%), profit (37.5%) and production (37.5%), measured over three years.

The Company's three-year TSR over the period was below that of the median of the constituents of the FTSE350 Mining Index, which resulted in 0% of the element vesting. 13.99% (out of a maximum of 37.5%) and 11.94% (out of a maximum of 37.5%) of the profit and production elements will vest, respectively, based on performance over the three-year period. The overall vesting level is 25.93% of the maximum award.

The specific targets and outturns underlying these elements are discussed in detail on page 88 of the Annual Report on Remuneration. The Committee believes that the formulaic vesting outcome is a fair reflection of the Company's underlying performance over the three-year period to 31 December 2019 and therefore no discretionary adjustment was applied.

We have not included a CEO pay ratio in this report as the Company has only one employee based in the UK, and any resulting ratios would not be meaningful.

IMPLEMENTATION OF THE REMUNERATION POLICY IN 2020

The Executive Directors' salaries were reviewed in February 2020 and all received an inflationary increase of 2% effective 1 April, in line with the general practice of applying inflation as a base for salary increases across the Group. Consideration was also given to current market conditions and relevant benchmarks.

For 2020, the annual bonus opportunity will remain 100% of salary in line with the 2020 remuneration policy. Group performance will continue to be measured with reference to a business scorecard linked to three key priorities: Extracting Maximum Value from Our Operations; Working Responsibly and Maintaining Our Social Licence; and Preparing for Our Future. Group performance will continue to be weighted 80% of maximum, with the remaining 20% linked to personal performance. Malus and clawback provisions will apply during the performance period and for a period of two years following payment.

The CEO and CFO will be granted awards under the ESOP in 2020 of 230,000 shares and 170,000 shares respectively, equivalent to 28% and 32% of salary for the CEO and CFO respectively, well within the ESOP policy limit of 125% of salary. Since the 2015 ESOP cycle, the Committee has granted the same number of ESOP shares to the Executive Directors on the basis that this approach is more aligned with shareholders as it inherently rewards growth in the share price.

Consistent with the approach in 2019, awards will vest on performance over the three financial years to 31 December 2022, and the performance conditions will remain 25% on relative TSR against a tailored peer group and 75% on operating performance which includes profit and production targets. A mandatory post-vesting holding period will apply for a period of two years following vesting, during which time Executive Directors may not sell shares save to cover tax. Malus and clawback provisions will apply during the vesting period and for a period of two years following vesting.

Please refer to pages 89 to 93 for further details on the implementation of the proposed 2020 remuneration policy.

Resolutions to approve the proposed 2020 remuneration policy (subject to a binding vote) and the 2019 Annual Report on Remuneration (subject to an advisory vote) will be put to our shareholders at the forthcoming AGM. We value feedback from our stakeholders, and I am available to meet and discuss our remuneration arrangements. We hope to receive your support at the AGM.

Michael Lynch-Bell
Chairman of the Remuneration Committee

10 March 2020

¹ Refer Note 4, operating profit on page 130, for the definition of non-GAAP measures.

² Net cash/(debt) is a non-GAAP measure and calculated as cash and short-term deposits less drawn down bank facilities (excluding asset-based finance facility).

DIRECTORS' REMUNERATION POLICY

The report has been prepared in accordance with the principles of the UK Companies Act 2006, Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the EU Market Abuse Regulations. The auditor of Gem Diamonds has audited information within this remuneration report which has been appropriately marked as such.

As required by legislation, the proposed remuneration policy as set out in this section of the report will be put to a binding shareholder vote at the 2020 AGM and, subject to shareholder approval, will become effective from the date of the 2020 AGM. The proposed policy is broadly consistent with the approved 2017 Policy, save for the changes highlighted in the Remuneration Committee Chairman's Statement and for some non-significant changes as follows:

- References to financial years have been updated where appropriate;
- New Non-Executive Directors' appointment and expiry dates have been updated;
- References to performance measures have been updated for the latest business strategy, as appropriate; and

- Pay-for-performance charts have been updated to reflect 2020 salaries.

THE COMPANY'S REMUNERATION POLICY

The Company's remuneration policy is designed to provide a level of remuneration which attracts, retains and motivates executives of a suitable calibre to carry out business strategy and maximise long-term shareholder wealth. It is intended that, as far as possible, remuneration policies and practices will conform to best practice in the markets in which the Company operates and will be aligned with shareholder interests and promote effective management of business risk.

The Committee's policy is to weight remuneration towards variable pay to provide base salaries and benefits that are fair, and variable pay incentives linked to the achievement of realistic performance targets relative to the Company's strategy and corporate objectives.

The Committee is satisfied that the proposed Policy is clear, simple, and appropriately aligned with the Company's strategy, risk appetite and culture, and that incentives are appropriately capped.

Policy table for Executive Directors

Salary

Purpose and link to strategy	To offer a market competitive base salary to recruit and retain individuals of the necessary calibre to execute the Company's business strategy
Operation	<p>Base salaries are reviewed annually with changes effective from 1 April.</p> <p>Salaries are typically set after considering the salary levels in companies of a similar size, complexity and risk profile, the responsibilities of each individual role, progression within the role, and individual performance.</p> <p>In setting salaries for Executive Directors, the Committee takes note of the overall approach to salary reviews for the wider workforce.</p>
Opportunity	<p>There is no prescribed maximum annual increase.</p> <p>It is expected that salary increases for Executive Directors will ordinarily be (in percentage of salary terms) in line with those of the wider workforce in countries of a similar inflationary environment.</p> <p>In certain circumstances (for example, where there is a change in responsibility, role size or complexity, or progression in the role), the Committee has discretion to award a higher increase to ensure salary levels remain competitive.</p>
Performance measures	N/A

Benefits

Purpose and link to strategy	To provide competitive benefits considering the market value of the role and benefits offered to the wider UK management population, in line with the Company's strategy to keep remuneration simple and consistent
Operation	Executive Directors receive a cash allowance in lieu of non-cash benefits.
Opportunity	The benefit value may vary by role to reflect market practice. It is not anticipated that the current cost of benefits (as set out in the Annual Report on Remuneration) will increase materially over the term of this policy, though the Committee retains discretion to approve a higher cost in exceptional circumstances (for example relocation or an increase in insurance premiums).
Performance measures	N/A

Pension

Purpose and link to strategy	To provide retirement benefits that are appropriately competitive
Operation	Executive Directors receive a cash allowance in lieu of non-cash benefits.
Opportunity	<p>The CEO and the CFO receive pension benefits equal to 14.5% and 13.0% of base salary, respectively.</p> <p>Any new Executive Director will receive pension benefits aligned to that of the wider workforce at the time of the appointment.</p>
Performance measures	N/A

DIRECTORS' REMUNERATION POLICY

continued

STIB

Purpose and link to strategy	To drive and reward performance against financial and operational KPIs, as well as personal objectives, all of which are directly linked to business strategy
Operation	<p>The STIB is reviewed annually by the Committee at the start of the year to ensure the opportunity and performance measures are appropriate and continue to support business strategy.</p> <p>The Committee has discretion to adjust the formulaic outcome of the bonus to more accurately reflect the underlying business and personal performance during the year.</p> <p>The STIB is paid entirely in cash. The Committee has discretion to pay some or all of the bonus in shares or nil-cost options which may vest and/or become exercisable immediately or be deferred for up to two years (or such other period the Committee may determine).</p> <p>Malus and clawback provisions may be applied for a period of two years following payment in exceptional circumstances, including, but not limited to, misstatement, misconduct or error.</p>
Opportunity	<p>Participants can receive a maximum of up to 100% of their base salary.</p> <p>For threshold level and target level performance, the bonus earned is up to 50% and 68% of maximum opportunity, respectively.</p>
Performance measures	<p>Performance is determined by the Committee annually by reference to a scorecard of Group targets as detailed in the Group's business plan and encapsulated in specific KPIs, as well as a discretionary assessment of personal performance.</p> <p>Group scorecard targets may include one or more of the three key strategic priority areas of Extracting Maximum Value from Our Operations, Working Responsibly and Maintaining Our Social Licence, and Preparing for Our Future. The Group scorecard will typically be weighted at least 70% in any one year.</p> <p>Details of the measures and weightings for the current year are provided in the Annual Report on Remuneration.</p>

ESOP

Purpose and link to strategy	To balance the delivery of absolute and relative returns to shareholders in the long-term, support alignment with shareholders, and attract, retain and motivate executives of the appropriate calibre.
Operation	<p>Executive Directors are granted awards of performance shares and/or options as determined by the Committee, which vest after a minimum of three years based on performance.</p> <p>Awards are normally made annually after the announcement of the full-year results but may be made at other times deemed appropriate by the Committee.</p> <p>The Committee may vary the ratio of performance shares and options from year to year, but it is the current intention of the Committee that only awards of performance shares are made over the term of this policy.</p> <p>The Committee will consider the impact of any external factors when determining the final vesting outcome of awards under the ESOP. Any such discretion would be disclosed and explained in the following year's Annual Report on Remuneration.</p> <p>For performance shares, any dividends paid would accrue over the vesting period and would be paid only on those awards that vest.</p> <p>In respect of awards granted in 2020 and future years, a holding period of two years will apply for vested awards, during which time Executive Directors may not sell shares save to cover tax.</p> <p>Malus and clawback provisions may be applied for a period of two years post-vesting in exceptional circumstances, including but not limited to misstatement, misconduct or error.</p>
Opportunity	Maximum opportunity is up to 125% of salary in performance shares and 250% in performance options (subject to overall maximum with fair value equivalent to 125% of salary in performance shares). For threshold performance, 20% of the maximum award vests.
Performance measures	<p>Awards vest based on continued employment and the Company's performance measured over a minimum of three years. It is the Committee's current intention that performance be based on relative TSR, and operational measures, but may for future awards include additional measures such as HSSE or strategic objectives, as determined by the Committee.</p> <p>Vesting is ultimately also subject to the Committee's assessment of the Company's underlying performance.</p>

DIRECTORS' REMUNERATION POLICY

continued

NOTES TO POLICY TABLE

Payments from existing arrangements

Executive Directors will be eligible to receive remuneration or other payments in respect of any award granted or payment agreed prior to the approval and implementation of the 2020 remuneration policy, or prior to the individual becoming a Director and in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director. Details of any such awards or payments are disclosed in the Annual Report on Remuneration.

Selection of performance measures (STIB and ESOP)

Performance measures used in the Company's executive incentive schemes, being the STIB and the ESOP, are selected to ensure incentives reinforce the Company strategy and align executive interests closely with those of shareholders. It is the Committee's opinion that the financial and operational measures used in the STIB support the strategic priorities of Extracting Maximum Value from Our Operations, Working Responsibly and Maintaining Our Social Licence, and Preparing for Our Future, and are well accepted measures for the mining sector. The ESOP uses profit and production targets, measures which are consistent with the Company's KPIs. The inclusion of a relative TSR element is strongly aligned with shareholders and ensures that executives are rewarded only if they exceed the returns which a shareholder could achieve elsewhere in the sector.

Performance targets are set to be stretching and achievable, considering a range of reference points including the Group's business plan, the Company's strategic priorities and the economic environment in which the Company operates. The Committee believes it has a robust approach to target setting, and that the maximum outcomes are achievable only for exceptional performance.

Remuneration policy for other employees

Salary reviews are implemented with a consistent approach across the Group and consider the level of responsibility, experience, individual performance, market levels and the Company's ability to pay.

Senior management (below Board level) employees' remuneration is set by the Remuneration Committee. Senior management participate in an annual bonus scheme on a similar basis as the Executive Directors, although the weighting on Group performance measures increases with seniority. Certain management level employees also receive

ESOP awards. Performance conditions and award sizes vary appropriately according to the organisational level.

A once-off Transformation Incentive Plan (TIP) was developed in 2017 for senior managers below Board level to reward individual performance and drive specific improvements around key BT activities, behaviours and metrics. Executive Directors did not participate in this plan as delivery of the BT target is already built into the STIB and ESOP scorecards for outstanding cycles. A total of US\$2.8 million (7%) of the targeted BT savings of US\$40 million was set aside for payment of the TIP across the Group. Following engagement with operational staff a percentage of the TIP was earmarked for the development of a recreational centre on site.

Shareholding guidelines

The guideline for Executive Directors is that they hold 100% of their salary in beneficially owned shares. Until the guideline has been met, Executive Directors will be required to retain 50% of vested awards under the ESOP or any other share-based incentive.

ENGAGING OUR EMPLOYEES

S172 (1)(a),(b),(e)&(f)

Mazvi Maharasoa had agreed to be the designated non-Executive Director responsible for workforce engagement going forward. When determining remuneration for Executive Directors and senior management, the Committee considers the remuneration and employment conditions elsewhere in the Group. Although the Committee does not currently consult specifically with employees on the executive remuneration policy, it receives regular updates from the Chief Financial Officer on the pay conditions for employees across the Group and takes these into account when determining Executive Director remuneration.

Going forward Mazvi Maharasoa intends to focus on enhancing existing safety and operational forums into a wider workforce engagement, providing feedback to the Board in the quarterly Board feedback meetings. Workforce surveys will be reviewed to ensure a general understanding of Group related matters are included and understood. Social media may be considered as another avenue of communication, with HR providing the administrative support to Mazvi Maharasoa.

Pay for performance: scenario analysis

The graph below illustrates an estimate of the potential future remuneration for the Executive Directors and the potential split between the different elements of pay under four performance scenarios: fixed, at target, maximum, and maximum plus 50%. Potential remuneration is calculated on the incentive opportunities set out in the 2020 remuneration policy applied to the salaries effective 1 April 2020.

The maximum STIB is 100% of the salary. Illustrative ESOP values in the graph use the three-month average share price to 31 December 2019 of 60.6 pence and the proposed number of shares to be awarded in 2020, which equate to 28% and 32% of 2020 salary. These projected values exclude

the impact of any share price movements except in the maximum +50% scenario.

The fixed scenario includes base salary, pension and benefits only.

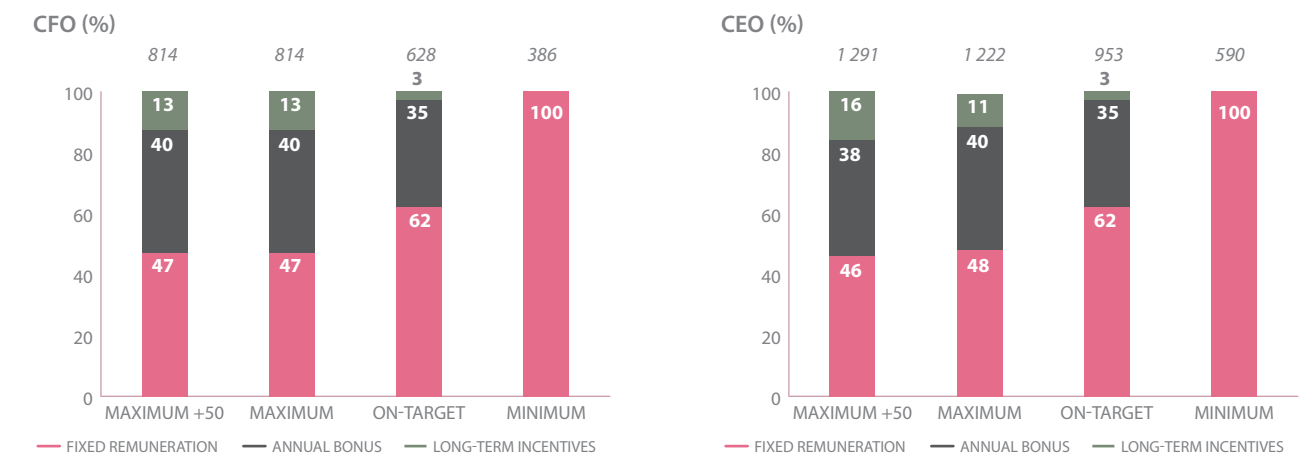
The at target scenario includes fixed remuneration as above, plus target pay-out of STIB, and threshold vesting for the ESOP.

The maximum scenario includes fixed remuneration, plus full pay-out and vesting of all incentives.

The maximum + 50% share price appreciation scenario includes fixed remuneration, plus full pay-out and vesting of all incentives, plus 50% share price appreciation on the ESOP.

The assumptions are summarised in the table below:

Component	Fixed	At target	Maximum	Maximum + 50% share price appreciation
Salary	Base salary for 2019			
Benefits	5.5% and 6% of salary for the CEO and the CFO, respectively			
Pension	14.5% and 13% of salary for the CEO and the CFO, respectively			
STIB	0% of maximum	68% of maximum	100% of maximum	100% of maximum
ESOP	0% of maximum	20% of maximum	100% of maximum	100% of maximum + 50% share price appreciation



DIRECTORS' REMUNERATION POLICY

continued

Approach to remuneration on executive recruitment

The Committee will follow the remuneration policy as set out in the policy table when recruiting new Executive Directors. Any arrangement specifically established to recruit an external Executive Director would be capped at the limits described in the policy table on appointment. Where an individual forfeits outstanding incentive payments and/or contractual rights at a previous employer as a result of their appointment, the Committee may offer additional compensatory payments or awards (buy-out) in such form as it considers appropriate. Any such buy-out compensation would be on a comparable basis to the forfeited benefit, considering factors including the performance conditions attached to these awards, the likelihood of conditions being met, and the remaining vesting period of these awards. The Committee would normally use the remuneration components under the regular policy to make such buy-out awards but may also exercise its discretion under Listings Rule 9.4.2 if an alternative incentive structure were required. Where an Executive Director is required to

relocate from their home location to take up their role, the Committee may provide reasonable, time-limited assistance with relocation in line with local market norms.

In the case of internal promotions, any commitments made prior to promotion and the approval of the remuneration policy (except for pension entitlements) will be honoured. Where the new appointee has an initial salary set below market, any shortfall will be managed with phased increases over a period of several years, subject to the individual's performance and development in the role.

SERVICE CONTRACTS

The Company's policy is to limit termination payments to pre-established contractual arrangements. If the employment of an Executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans. Details of the Executive Directors' service contracts are summarised in the table below.

Director	Contract date	Unexpired	Notice period	Contractual termination payment ¹
CT Elphick	13 February 2007			
M Michael	22 April 2013	Rolling contract	12 months	Pay basic salary on summary termination. Benefits are payable only at the Committee's discretion.

¹ There are no special provisions in the contracts extending the notice period on a change of control or other corporate events.

Payments for loss of office under all service contracts

On termination of an Executive Director's contract, payments equal to salary in lieu of notice may be made monthly during the notice period. Benefits are payable only at the Committee's discretion. Payment in lieu of unused annual leave entitlement can be made at the effective salary rate at the point of termination.

Where employment is terminated by the Company and the departing Executive Director has a legal entitlement (under statute or otherwise) to additional amounts, these would need to be met. Should the Company wish to enter into a

settlement agreement and the individual must seek independent legal advice, the Committee retains discretion to settle any claims by or on behalf of the Executive Director in return for making an appropriate payment and contributing to the legal fees incurred by the Executive Director in connection with the termination of employment.

In exceptional circumstances, the Committee may approve new contractual arrangements with departing Executive Directors including (but not limited to) settlement, confidentiality, outplacement services, restrictive covenants and/or consultancy arrangements. These will be used only in circumstances where the Committee believes that it is in the best interests of the Company and its shareholders to do so.

The table below provides details of exit payments under different leaver scenarios.

Incentive plan	Scenario	Time of payment/ vesting	Calculation of payment/ vesting
STIB	Death, disability, ill health, redundancy, retirement, or any other reasons the Committee may determine (normally not including resignation or where there are concerns as to performance)	Normal payment date, although the Committee has discretion to accelerate (for example, in relation to death)	Performance against targets will normally be assessed by the Committee at the end of the year and any resulting bonus is normally pro rated for the proportion of the year worked
	Change of control (whether or not employment is terminated as a result)	Immediately, on change of control	Performance against targets will normally be assessed by the Committee up to the date of change of control and any resulting bonus is normally pro rated for time
	All other reasons	Not applicable	No bonus is paid
ESOP	Death, disability, ill health, redundancy, retirement, or any other reasons the Committee may determine (normally not including resignation or where there are concerns as to performance)	Normal vesting date, although the Committee has discretion to accelerate	Unvested awards will normally be pro rated for time unless the Committee decides otherwise, and vesting will be based on performance
	Change of control (whether or not employment is terminated as a result)	Immediately, on change of control	Unvested awards will normally be pro rated for time unless the Committee decides otherwise, and vesting will be based on performance up to the date of change of control. Executive Directors can elect to exchange ESOP awards for those of the acquiring company, if offered
	All other reasons	Not applicable	Awards lapse

DIRECTORS' REMUNERATION POLICY

continued

NON-EXECUTIVE DIRECTORS

Non-Executive Directors do not receive benefits from the Company, and they are not eligible to participate in any cash or share-based incentive scheme.

Directors' fees

Purpose and link to strategy	To attract and retain a high-calibre Chairman and non-Executive Directors with experience relevant to the Company
Operation	<p>Fees are reviewed annually, with any changes effective from 1 April.</p> <p>Fees are typically set after considering current market levels and considering time commitment and responsibilities involved.</p> <p>All Non-Executive Directors, including the Chairman, are each paid an all-inclusive fee. No additional fees are paid for Chairmanship of Committees.</p> <p>All fees are payable monthly in cash in arrears.</p> <p>The Non-Executive Directors do not participate in any of the Group's incentive plans. No other benefits or remuneration are provided to Non-Executive Directors.</p>
Opportunity	<p>There is no prescribed maximum annual increase.</p> <p>It is expected that the fees increase will typically be in line with market levels of fee inflation.</p> <p>In certain circumstances (for example, where there is a change in time commitment required or a material misalignment with market), the Committee has the discretion to adjust fee levels to ensure they remain competitive.</p> <p>The maximum aggregate annual fee for all Non-Executive Directors, including the Chairman, allowed by the Company's Articles of Association is £750 000.</p>

Director	Contract date	Unexpired term	Notice period	Contractual termination payment
H Kenyon-Slaney	6 June 2017	Rolling appointment	Three months	No provision for payment of compensation
M Brown	1 January 2018			
M Lynch-Bell	15 December 2015			
J Velloza	15 September 2018			
M Maharasoa	1 July 2019			

CONSIDERATIONS OF SHAREHOLDER VIEWS

The Committee considers shareholder views and the guidelines of investor bodies when determining remuneration. The Committee values feedback from shareholders on the Company's remuneration policy and commits to consulting shareholders in advance of any significant changes to the policy. Details on the votes received on the 2018 Annual Report on Remuneration (at the 2019 AGM) and the 2017 remuneration policy (at the 2017 AGM) are provided in the Annual Report on Remuneration.

EXTERNAL DIRECTORSHIPS

Executive Directors are permitted to accept external directorships with prior approval of the Chairman. Approval will only be given where the appointment does not present a conflict of interest with the Group's activities and the experience gained will be beneficial to the development of the individual. Where fees are payable in respect of such appointments, these would be retained by the Executive Director. Refer to page 93 for further details.

THE ANNUAL REPORT ON REMUNERATION

This report provides information regarding the implementation of the Company's approved 2017 remuneration policy during the financial year ended 31 December 2019 and how the Remuneration Committee intends to implement the proposed 2020 remuneration policy during the financial year ending 31 December 2020.

The Committee's Terms of Reference are available on the Company's website and complies with the UK Corporate Governance Code.



M Lynch-Bell
Non-Executive Director

The role of the Committee is to assist the Board to fulfil its responsibility to shareholders to ensure that:

- remuneration policy and practices of the Company are designed to support strategy and promote long-term sustainable success and reward fairly and responsibly, with a clear link to corporate and individual performance, having regard to statutory and regulatory requirements; and
- executive remuneration is aligned to Company purpose and values and linked to the delivery of the Company's long-term strategy.

Membership as at 31 December 2019:

- M Lynch-Bell
- H Kenyon-Slaney
- M Brown

Other attendees

- C Elphick*
- M Michael*
- Group human resources manager
- Mercer Kepler (Independent remuneration consultants)
- Secretary (Bruce Wallace Associates)

* Except when issues relating to their own remuneration are discussed.

REMUNERATION COMMITTEE SKILLS AND EXPERIENCE (%)



THE ANNUAL REPORT ON REMUNERATION

continued

2019 activities	Link to strategic pillar
Reviewed the remuneration policy to ensure that it is appropriate to motivate and reward senior executives and align their interests with the Company's purpose and values, as well as the interest of shareholders.	
Reviewed and assessed developments in the Code and shareholder positions to ensure Gem Diamonds' proposed 2020 remuneration policy and practices align appropriately with these requirements.	
Ensuring that incentives include an appropriate balance of financial, operational and HSSE elements to ensure the long-term sustainability of the organisation.	
Applying its collective mind to the appropriateness of the formulaic output from the incentive calculations to ensure that these accurately reflect performance during the year.	
The Terms of Reference of the Committee had been reviewed, updated in line with the changes introduced in the 2018 UK Corporate Governance Code and approved	
Reviewed and approved the Directors' Remuneration Report for 2019.	
Reviewed and approved base salaries and total remuneration for the Executive Directors and Senior Management and fees for Non-Executive Directors in line with consideration of recent developments in remuneration market trends and best practice.	
<p>Consideration of independence</p> <p>Mercer Kepler was appointed by the Committee in February 2010 and provided independent remuneration advice to the Committee and attended Committee meetings during 2019. Mercer Kepler provides remuneration advice to a large portfolio of clients including many in the FTSE 350 and FTSE Small Cap, which gives the Committee comfort that the advice provided is appropriate and relevant. Mercer Kepler is a signatory to, and abides by, the Remuneration Consultants Group Code of Conduct. Further details can be found at www.remunerationconsultantsgroup.com.</p> <p>Neither Mercer Kepler nor Mercer Kepler's parent company, the MMC Group, provides non-remuneration services to the Group or is in any other way connected to the Group, and Mercer Kepler is therefore considered to be independent. The fees payable in relation to work for the Committee in 2019 were US\$31 659 excluding VAT.</p>	
<p>Future focus areas</p> <p>The Committee will focus on encouraging an open and transparent dialogue with shareholders on remuneration matters and seek to consult with major shareholders prior to implementing any significant changes to the remuneration policy.</p> <p>The Code sets out an expectation that pension contribution rates for Executive Directors should be aligned with those available to the wider workforce. The Gem Diamonds CEO and CFO currently receive a cash allowance in lieu of pension equal to 14.5% and 13% of salary, respectively. Most of the workforce receive a maximum employer pension contribution of 7.5% of salary, as a 1:1 match on any employee contribution. The Committee is considering how best to apply this provision and will engage with shareholders to seek their views.</p> <p>The Code sets out an expectation for Remuneration Committees to develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares. The Committee is considering how best to apply this provision and will engage with shareholders to seek their views.</p>	

Extracting maximum value from our operations	Working responsibly and maintaining our social licence	Preparing for our future
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SUMMARY OF SHAREHOLDER VOTING

The table below shows the results of the advisory vote on the 2018 Annual Report on Remuneration at the 2019 AGM, and the binding vote on the 2017 remuneration policy at the 2017 AGM.

		For	Against	Total votes cast	Withheld
2018 Annual Report on Remuneration	Total number of votes	93 250 698	17 881 133	111 131 831	2 380 902
	Percentage of votes cast	83.91%	16.09%	-	-
2017 Remuneration Policy	Total number of votes	85 580 439	9 354 785	94 935 224	6 000
	Percentage of votes cast	90.15%	9.85%	-	-



THE ANNUAL REPORT ON REMUNERATION

continued

TOTAL SINGLE FIGURE OF REMUNERATION FOR DIRECTORS

The table below sets out the total single figure remuneration received by each Director for 2019 and the prior year. Although the Group's reporting currency is US dollar, these figures are stated in sterling as the Directors' emoluments are paid in sterling.

	Salary and fees ¹		Cash payments in lieu of other non-cash benefits ²		Cash payments in lieu of pension ²		Total fixed remuneration		STIB ³		ESOP ⁴		Total variable remuneration		Total	
	2019 £	2018 £	2019 £	2018 £	2019 £	2018 £	2019 £	2018 £	2019 £	2018 £	2019 £	2018 £	2019 £	2018 £	2019 £	2018 £
Executive Directors as at 31 December 2019																
C Elphick	478 745	468 211	26 332	25 752	69 419	67 891	574 496	561 854	302 060	389 430	36 137	43 877	338 197	433 307	912 693	995 161
M Michael	315 952	309 000	18 957	18 540	41 073	40 170	375 982	367 710	199 347	263 188	26 710	32 431	226 057	295 619	602 039	663 329
Non-Executive Directors as at 31 December 2019																
H Kenyon-Slaney	137 500	110 000	–	–	–	–	137 500	110 000	–	–	–	–	–	–	137 500	110 000
M Lynch-Bell	64 166	55 000	–	–	–	–	64 166	55 000	–	–	–	–	–	–	64 166	55 000
M Brown	64 166	55 000	–	–	–	–	64 166	55 000	–	–	–	–	–	–	64 166	55 000
J Velloza ⁵	96 250	15 865	–	–	–	–	96 250	15 865	–	–	10 684	–	10 684	–	106 934	15 865
M Maharasoja	27 500	–	–	–	–	–	27 500	–	–	–	–	–	–	–	27 500	–
Executive and non-Executive Directors resigned																
J Velloza ⁶	–	65 048	–	3 902	–	8 456	–	77 406	–	37 105	–	24 704	–	61 865	–	139 271
G Turner ⁷	–	–	–	–	–	–	–	–	–	–	–	32 431	–	32 431	–	32 431

Audited

¹ Salary and fees. During 2019 Non-executive directors received additional fees relating to special projects.

² Benefits and pension: cash payments in lieu.

³ Annual bonus/STIB: payments in relation to performance for the year, paid in Nil-cost options, rather than cash, subject to approval at the June 2020 AGM.

⁴ ESOP: The 2019 figures relate to the values at vesting of awards vesting on performance over the three-year period ended 31 December 2019. The share price on the vesting date is currently unknown, therefore the awards are valued using the three-month average share price to 31 December 2019 of 60.6 pence. The 2018 figures have been adjusted to reflect the share price on the vesting date of 89.0 pence. The values at vesting reflect the impact of a 37% reduction in share price over the period.

⁵ J Velloza was appointed as non-Executive Director on 15 September 2018. The 2018 remuneration reported in the table relates to the period 15 September 2018 to 31 December 2018. The 2019 ESOP value relates to the 2017 pro-rated award granted before his Board appointment.

⁶ J Velloza was appointed to the Board on 1 July 2018 and subsequently resigned from the Board as an Executive Director on 15 September 2018. The 2018 remuneration reported in the table relates to the period 1 July 2018 to 15 September 2018.

⁷ G Turner resigned from the Board on 14 November 2017.

THE ANNUAL REPORT ON REMUNERATION

continued

SALARY INCREASES

The Committee approved the following salary increases from 1 April 2019:

Executive Director	2019 salary £	2018 salary £	% increase
C Elphick	482 257	468 211	3
M Michael	318 270	309 000	3

PENSION AND OTHER BENEFITS

No formal pension provision is made by the Company. Instead Executive Directors receive a cash allowance in lieu of pension. In 2019, this was equivalent to 14.5% and 13% of salary for the CEO and the CFO, respectively. Executive Directors received a cash allowance in lieu of other non-cash benefits, the values of which were 5.5% and 6% for the CEO and the CFO, respectively, during 2019.

INCENTIVE OUTCOMES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

STIB in respect of 2019 performance

Executive Directors participate in a discretionary annual bonus arrangement designed to focus participants on the business strategy of Extracting Maximum Value from Our Operations, Working Responsibly and Maintaining Our Social Licence, and Preparing for Our Future, all of which are underpinned by specific KPIs and included in the business plan approved by the Board.

In 2019, the maximum bonus opportunity for Executive Directors was 100% of base salary, with 80% linked to a business scorecard and 20% linked to a discretionary assessment of personal performance. The business scorecard performance measures, targets and actual outturns in respect of 2019 are disclosed in full in the table below.

Performance measure	Weighting (% of max)	Threshold target	Stretch targets	Actual performance	Pay-out (% of max)
Preparing for Our Future	20	Judged by Committee on a discretionary basis			15
Extracting Maximum Value from Our Operations	60				
BT	15	35.0	52.5	54.9	15
Organisational Health	5	Judged by Committee on a discretionary basis			5
Operating performance					
Underlying EBITDA ¹ (US\$) (millions)	6.7	55.2	82.8	41.0	0
Earnings per share (US\$ cents)	6.7	10.3	15.44	5.1	0
Cash flows from operating activities (US\$) (millions)	6.7	68.0	102.0	55.5	0
Waste tonnes mined (millions)	6.7	23.4	24.7	24.0	4.9
Ore tonnes treated (millions)	6.7	6.6	6.9	6.7	4.3
Carats recovered (carats)	6.7	109 800	128 100	113 974	4.1
Working Responsibly and Maintaining Our Social Licence	20				
HSSE					
Fatalities	5	0	0	1	0
AIFR	5	2.2	<1.8	0.93	5
LTIFR	5	0.11	0	0.28	0
Major environmental or community incidents	5	0	0	0	5
Total score achieved	100				58.3

¹ Refer Note 4, operating profit on page 130, for definition of non-GAAP measures

Preparing for Our Future

The current diamond market placed significant stress on the Group's cash flows. Significant time was spent on managing the Group's cash flows to ensure that the Group was sufficiently funded during the market downturn. The corporate operating costs for 2019 reduced to US\$6.2m (excluding bonuses and project costs) down from US\$7.8m in 2018 and the lowest it's ever been.

The Company's share price fell in 2019 in line with the general market sentiment of the sector but was the best performing share price over two years when compared to its peer group.

Letšeng's application for a renewal of its mining lease under the 2005 Mines and Minerals Act was lodged initially in March 2018. The final lease was signed in October 2019 with extended tenure.

Various organic growth projects form part of the strategy to extract maximum value from Letšeng. A review of the blasting practices and techniques has enabled pit design to be based on steeper slopes which was implemented with effect from 1 January 2019. The impact of this has resulted in a revised mine plan which delivered a total saving of 5.8m waste tonnes in 2019 when compared to the 2017 mine plan and a total estimated 100m tonnes of waste saving over the LoM.

In June, the Company entered into a binding agreement for the sale of the Ghaghoo mine in Botswana and by December the application to transfer the mining license was with the Department of Mines for approval. Although the payment of the sale proceeds had not been received by year end, the process to close the deal continues and awaits the approval from the Department of Mines.

The Group ended 31 December 2019 in a net debt position of US\$10.2 million with access to facilities of US\$69.9 million.

The Committee reviewed performance in this area during 2019 on a holistic basis, and determined that a score of 15 out of 20 was appropriate.

Extracting Maximum Value from Our Operations

In respect of the discretionary 'organisational health' element of the business scorecard, the format of the employee culture survey for 2019 was adapted as the Company transitioned from the Business Transformation process to a Continuous Improvement (CI) process during 2019. This transition necessitated a renewed view of the behaviours and principles which are required to successfully drive the CI journey. These principles are in turn mapped to the Company's values to track the desired culture. A cultural survey was undertaken in December 2019 and the outcomes were typical of an organisation at the start of a CI journey. The results provide a valuable baseline to measure the Company's culture moving forward. Organisational health initiatives that were generated and implemented during the BT process are continuing in the areas where they remain relevant. The Committee reviewed performance in this area and determined that a score of 5 out of 5 was appropriate for this element.

Changes to the performance measures for 2019

During 2019, the HSSE legal compliance measure was replaced with an LTIFR target, in line with the Company's commitment to the principle of zero harm. HSSE legal compliance is well managed and no major compliance matters were identified or raised during the year. No discretionary element remains under the HSSE element of the scorecard.

Personal performance

20% of the STIB is linked to personal performance, with personal performance objectives linked to each Executive Director's individual areas of responsibility and designed to collectively support the achievement of the Group's strategic targets for the year. Individual targets comprised contributions to the Group's overall performance and the delivery of strategic projects and initiatives as set out by the Board including, but not limited to, operational performance, strengthening of key stakeholder relationships, bank financing and treasury management and HSSE objectives.

¹ Net cash/(debt) calculated as cash and short-term deposits less drawn down bank facilities (excluding asset-based finance facility).

THE ANNUAL REPORT ON REMUNERATION

continued

Clifford Elphick

Strategic focus area	Performance
Preparing for our future	<ul style="list-style-type: none"> Secured extended mining tenure for the Letšeng mining lease. Developed key relationships with stakeholders in order to mitigate the impact of political in-country instability at the operations. Progressed innovation technology with the aim of reducing diamond breakage. Developed the Group's purpose, vision and values. Identified and pursued growth opportunities through corporate transactions.
Extracting maximum value from operations	Focused on operational efficiencies through the BT process, such as pit slope steepening, resulting in continued savings delivered through the process, with a cumulative net saving of US\$54.9m by the end of 2019.
Working responsibly and maintaining social licence	<ul style="list-style-type: none"> Established sustainability strategy to be rolled-out in 2020, focussing on six areas aligned with UN sustainability goals. Established an Inclusion and Diversity policy, which resulted in increased female representation on the Board, in Senior Management and in the talent pipeline.

Michael Michael

Strategic focus area	Performance
Preparing for our future	<ul style="list-style-type: none"> Appropriately progressed the disposal of the Ghaghoo asset. Developed the finance talent population in support of the Company's strategic objectives. Commenced the roll-out of the Group's purpose, vision and values Explored and assessed viability/profitability/ of corporate M&A activities. Assessed viability of identified growth opportunities of corporate transactions.
Extracting maximum value from operations	<ul style="list-style-type: none"> Forged strong relationships with lenders and secured increased available facilities. Corporate operating costs for 2019 reduced to US\$6.2m (excluding bonuses and project costs) down from US\$7.8m in 2018, the lowest it's ever been. Ensured the benefits of the BT programme continued to deliver results and the Group is in line to meet its US\$100m target by end 2021.
Working responsibly and maintaining social licence	<ul style="list-style-type: none"> Successfully monitored appropriate risk and governance processes and responses consistent with the Group's risk appetite. Together with the Group Operations Executive, drove the implementation of the safety turnaround programme. Established a benchmark to measure culture going forward, through alignment of company values with the principles of the cultural survey.

It was the Committee's conclusion that each Executive Director made strong contributions in their respective areas during 2019, successfully carried out their duties and collectively achieved the Group's objectives. The CEO and CFO both scored 16% out of a maximum of 20%.

The formulaic outcome from the business scorecard for Group performance was 46.6% out of 80% which, combined with the personal element, resulted in formulaic STIB outcomes of 62.6% of maximum for the CEO and the CFO, respectively. The Executive Directors and Remuneration Committee jointly agreed to override formulaic determination of the 2019 STIB to align with the shareholder experience over the year. Subject to shareholder approval of the proposed Directors

Remuneration Policy at the June 2020 AGM, the bonus will be paid in Nil-cost options, rather than cash, under the amended ESOP 2020 rules. These Nil-cost options will vest on the grant date.

Based on business and personal performance, actual bonuses for 2019 were as follows:

	% of salary	Bonus £
C Elphick	62.6	302 060
M Michael	62.6	199 347

Audited

ESOP: 2017 awards vesting in 2020

The Executive Directors were granted awards of performance shares in July 2017, which are set out in the table below.

Executive Director	Date of grant	Awards made during 2017	Share price on date of award £	Face value on date of award £	Face value as % of salary	Vesting date
Directors as at 31 December 2019						
C Elphick	4 July 2017	230 000	0.96	219 949	47%	4 July 2020
M Michael		170 000		162 571	53%	
Directors resigned or retired						
G Turner	4 July 2017	170 000	0.96	162 571	52%	4 July 2020

THE ANNUAL REPORT ON REMUNERATION

continued

Vesting of the awards was dependent on relative TSR against the constituents of the FTSE 350 Mining Index (25% of the award), profit (37.5%) and production (37.5%), measured over the three-year performance period ended 31 December 2019. Relative TSR was measured over the period 1 January 2017 to 31 December 2019. Profit and production were measured on an annual basis with respect to the business plan for the year, with final vesting based on the average achievement of targets over the three years. The performance conditions that applied to these awards are summarised in the table below.

Performance measure	Weighting (% of max)	Performance period	Threshold (20% vesting)	Stretch (80% vesting)	Super-stretch (100% vesting)	Actual performance	Vesting outcome (% of max)
TSR versus FTSE 350 Miners	25		Median	75th percentile	85th percentile	9th percentile	0.00
Profit	18.75	Underlying EBITDA ¹ (US\$ million)	80% of business plan	120% of business plan	132% of business plan		
		2017	55.1	82.7	91.0	48.6	0.00
		2018	43.5	65.2	71.8	82.3 ²	18.75
		2019	55.2	82.8	91.0	40.9	0
		Average					6.25
EPS (US cents)	18.75	80% of business plan	120% of business plan	132% of business plan			
		2017	6.23	9.35	10.28	6.50	4.46
		2018	5.44	8.16	8.98	18.80 ²	18.75
		2019	10.30	15.44	16.99	5.1	0
		Average					7.74
Production	18.75	Ore tonnes treated (millions)	95% of business plan	105% of business plan	115.5% of business plan		
		2017	6.7	7.4	8.1	6.4	0.00
		2018	6.4	7.1	7.8	6.5	4.95
		2019	6.6	6.9 ³	7.2 ⁴	6.7	7.16
		Average					4.04
Carats recovered	18.75	85% of business plan	115% of business plan	126.5% of business plan			
		2017	100 320	135 728	149 300	111 811	7.40
		2018	106 104	143 552	157 907	126 875	9.99
		2019	109 800 ⁵	128 100 ⁶	140 300 ⁷	113 974	6.32
		Average					7.9
Total award	100						25.93

¹ Refer Note 4, operating profit on page 130, for definition of non-GAAP measures.

² As previously reported. Any adjustments relating to IFRS restatements are not included.

³ Adjusted to 100%.

⁴ Adjusted to 105%.

⁵ Adjusted to 90% of business plan.

⁶ Adjusted to 105% of business plan.

⁷ Adjusted to 115% of business plan.

For each measure, for achievement between threshold and stretch, and stretch and super-stretch, the award vested on a straight-line basis. Achievement of less than threshold received no vesting.

Based on performance to 31 December 2019, 25.93% of the maximum award will vest for Clifford Elphick and Michael Michael in July 2020, subject to their continued employment at the time.

ESOP awards granted in 2019

In March 2019, the CEO and the CFO received performance shares with face values of 44% and 50% of their then salaries, respectively, as summarised in the table below.

Executive Director	Date of grant	Awards made during 2019	Share price on date of award £ ¹	Face value on date of award £	Face value as % of salary
C Elphick	20 March 2019	230 000	0.904	207 920	44%
M Michael		170 000		153 680	50%

The performance conditions that apply to these awards are summarised in the table below.

Performance measure	Weighting (% of award)	Threshold (20% vesting)	Stretch (80% vesting)	Super-stretch (100% vesting)
TSR versus tailored diamond mining peer group	25%	Median	75th percentile	85th percentile
Business Transformation	25%	90%	100%	110%
Operating performance (measured annually)	10%	Underlying EBITDA ²	120%	132.0%
		Earnings per share	80%	120%
		US\$ per carat	85%	115%
		Ore tonnes treated	95%	100%
		Carats recovered	90%	105%

For each measure, for achievement between threshold and stretch, and stretch and super-stretch, the award will vest on a straight-line basis. Achievement of less than threshold will receive no vesting.

TSR and BT will be measured over three years, from 1 January 2019 to 31 December 2021. Under the TSR performance condition, Gem Diamonds' TSR will be measured against a tailored diamond mining peer group comprising Firestone Diamonds, Lucapa Diamond, Lucara Diamond, Mountain Province Diamonds, Petra Diamonds, Stornoway Diamond, and Trans Hex Group. The BT performance condition relates to the achievement of BT targets of US\$100 million saving by 2021. Refer page 8.

Operating performance will be measured annually against the business plan for the year, with final vesting based on the average achievement of targets over the three years. The Board considers the business plan to be aspirational in nature, where achievement of stretch and super-stretch targets – particularly in relation to operating performance – would represent an outstanding level of performance that far surpasses the industry standard. The Committee carefully considered the business plan for 2019 for each measure and determined that in respect of the ore tonnes treated and carats recovered elements, the stretch and super-stretch targets (as percentages of business plan) should be adjusted to be realistically achievable, yet sufficiently stretching.

Operating performance targets relate to the Company's business plan and strategy and, as such, are considered

commercially sensitive and will therefore be disclosed in full after the performance period has ended.

IMPLEMENTATION OF REMUNERATION POLICY FOR 2020

The Committee approved the following salary increases from 1 April 2020:

Executive Director	2019 salary £	2020 salary £	% increase
C Elphick	482 257	491 902	2
M Michael	318 270	324 635	2

Increases for Executive Directors were considered in line with the practice applied to the broader workforce, where salaries are benchmarked against the market and increases are based on the relevant Consumer Price Index rate.

Pension and benefits

The Executive Directors will continue to receive cash supplements in lieu of pension and benefits in 2020. The values will remain unchanged from 2019.

From 2020, pension contributions to any new Executive Director appointments will be capped at the prevailing workforce pension rate at the time.

¹ The prior year figures reported have been adjusted to reflect the share price on the award date of 90.4 pence.

² Refer Note 4, operating profit on page 130, for definition of non-GAAP measures.

THE ANNUAL REPORT ON REMUNERATION

continued

STIB

The maximum STIB opportunity will remain 100% of salary for 2020. Performance measures will continue to include a range of financial, operational and personal objectives that support the delivery of the Group's key strategic priorities as set out on page 69 of this Annual Report and Accounts 2019, with 80% linked to business performance and 20% to personal performance. For the business performance element, performance will continue to be linked to the Group's three key strategic priorities of Extracting Maximum Value from Our Operations; Working Responsibly and Maintaining Our Social Licence; and Preparing for Our Future. Performance measures and targets will be disclosed in full on a retrospective basis in next year's report.

ESOP

The Committee reviews the performance measures and corresponding targets before the start of each ESOP cycle to ensure they are appropriately stretching over the performance period. The 2020 ESOP will operate on the same basis as in 2019. The CEO and the CFO will receive awards of 230 000 and 170 000 performance shares (equivalent to approximately 28% and 32% of basic salary, respectively). The share price on the award date is currently unknown. Therefore, the awards are valued using the three-month average share price to 31 December 2019 of 60.6 pence.

The performance conditions are:

- 25% on relative TSR, measured against a tailored diamond mining peer group;
- 75% weighted towards operational performance, which includes profit and production elements.

Achievement against target will be measured over the three-year performance period ending 31 December 2022. The relative TSR performance condition remains unchanged from 2019. The operational performance targets will be disclosed after the performance period has ended as these targets relate to the Company's business plan and are therefore considered commercially sensitive. Malus and clawback provisions will apply during the vesting period and for a period of two years following vesting, respectively. A post-vesting holding period of two years will be introduced for any awards from 2020 onwards, during which period the Executive Directors may not sell shares save for the purpose of covering taxes related to the exercising of options.

Shareholding guidelines

In order to further align Executive Directors' interests with those of the Company's other shareholders, the Company introduced a shareholding guideline of 100% of salary from 1 January 2017. Until the guideline has been met, Executive Directors will be required to retain at least 50% of vested (and released, in respect of ESOP awards from 2020, which are subject to post-vesting holding) awards under the ESOP or any other share-based incentive.

CHAIRMAN AND NON-EXECUTIVE DIRECTOR FEES

Chairman and non-Executive Director fees were reviewed in February 2020 and found to be generally in line with market fee levels for companies of similar size and sector. A CPI related increase of 2% was approved in line with the increases applied to the Executive Directors for 2020.

THE PERCENTAGE INCREASE IN CEO REMUNERATION COMPARED WITH OTHER EMPLOYEE PAY

The table below shows the percentage change in the CEO's remuneration from 2018 compared with the average percentage change in remuneration for all other "own employees" (i.e. excluding contractors). Employee remuneration reflects the average number of own employees in the Group for 2019 totalling 425 (2018: 412). Employees throughout the Group are remunerated in different denominations but reported in GBP.

	C Elphick			Other employees		
	2019 £	2018 £	% change	2019 £	2018 £	% change
Base salaries	482 257	468 211	3	12 204 772	11 951 578	2%
Benefits	96 451	93 642	3	987 643	840 850	17%
Annual bonuses	302 060	389 430	(22)	2 865 998	1 582 235	81%
Total	880 769	951 283	(7)	16 058 413	14 374 663	12%

Audited

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (i.e. dividends, share buy-backs and return of capital) from the financial year ended 31 December 2018 to the financial year ended 31 December 2019.

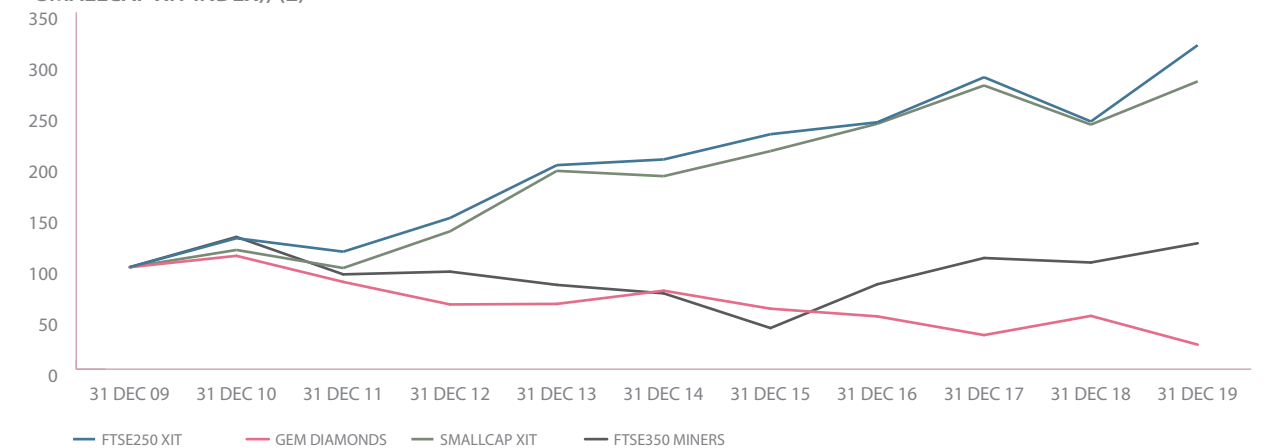
	2019 salary US\$	2018 salary US\$	% increase
Executive Director			
Distribution to shareholders	–	–	–
Employee remuneration ¹	22 808 815	22 158 284	3%
Return of capital	n/a	n/a	n/a

¹ Includes salary, pension and benefits, bonus, accounting charge for the ESOP, and employer national insurance contribution.

PAY FOR PERFORMANCE

The graph shows the Company's TSR performance compared with the performance of the FTSE SmallCap (excluding investment trusts), FTSE 250 (excluding investment trusts), and the FTSE 350 Mining Index over the 10-year period to 31 December 2019. The FTSE SmallCap and FTSE 250 have been selected to provide broad market comparator groups, and the FTSE 350 Mining Index has been selected because the Group and the constituents of the index are affected by similar commercial and economic factors. The table below the graph details the CEO's single figure of remuneration and actual variable pay outcomes over the same period.

VALUE OF £100 INVESTED ON 1 JANUARY (GEM DIAMONDS VS. FTSE350 MINING INDEX, FTSE250 XIT AND FTSE SMALLCAP XIT INDEX) (£)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CEO single figure of remuneration (£)	726 050	797 755	564 419	776 406	892 935	879 719	611 314	681 191	995 161	912 693
Annual bonus outcome (% of maximum)	67	75	13	61	83	74	0	20	83	62.6
ESOP vesting outcome (% of maximum)	Nil	Nil	Nil	Nil	Nil	Nil	28.26	14.54	21.43	25.93

DILUTION

ESOP awards may be satisfied with newly issued shares subject to aggregate dilution limits. The issue of shares to satisfy awards under the Company's share schemes will not exceed 10% of the Company's issued ordinary share capital in any rolling 10-year period. As of 31 December 2019, a total of 13 898 382 shares (10% of issued share capital) may be issued pursuant to all current awards outstanding over the last 10 years.

THE ANNUAL REPORT ON REMUNERATION

continued

DETAILS OF OUTSTANDING AWARDS OF PERFORMANCE SHARES TO DIRECTORS

Directors	Date of grant	Performance shares ¹ as at 1 January 2019	Granted in the year	Vested in the year	Lapsed in the year	Exercised in the year	Exercise price US\$	Market value at date of grant US\$	Earliest normal exercise date	Expiry date	Performance shares outstanding as at 31 December 2019
C Elphick (CEO)	10 Jun 14	58 209	–	–	–	–	0.01	556 200	10 Jun 17	10 Jun 24	58 209
	01 Apr 15	33 425	–	–	–	–	0.01	453 100	01 Apr 18	01 Apr 25	33 425
	15 Mar 16	230 000	–	49 300	180 700	–	0.01	322 000	15 Mar 19	15 Mar 26	49 300
	04 Jul 17	230 000	–	–	–	–	0.01	253 000	04 Jul 20	04 Jul 27	230 000
	20 Mar 18	230 000	–	–	–	–	0.01	308 200	20 Mar 21	20 Mar 28	230 000
	20 Mar 19		230 000	–	–	–	–	0.01	274 454	20 Mar 22	20 Mar 29
Total		781 634	230 000	49 300	180 700	–	–				830 934
M Michael (CFO)	11 Sep 12	18 544	–	–	–	–	0.01	68 400	01 Jan 16	31 Dec 23	18 544
	10 Jun 14	31 648	–	–	–	–	0.01	302 400	10 Jun 17	10 Jun 24	31 648
	01 Apr 15	24 706	–	–	–	–	0.01	334 900	01 Apr 18	01 Apr 25	24 706
	15 Mar 16	170 000	–	36 439	133 561	–	0.01	238 000	15 Mar 19	15 Mar 26	36 439
	04 Jul 17	170 000	–	–	–	–	0.01	187 000	04 Jul 20	04 Jul 27	170 000
	20 Mar 18	170 000	–	–	–	–	0.01	227 800	20 Mar 21	20 Mar 28	170 000
20 Mar 19		170 000	–	–	–	–	0.01	202 858	20 Mar 22	20 Mar 29	170 000
Total		584 898	170 000	36 439	133 561	–	–				621 337

Audited

¹ Conditional right to acquire shares.

DETAILS OF OUTSTANDING AWARDS OF PERFORMANCE OPTIONS TO DIRECTOR

Director	Performance options as at 1 January 2019 ¹	Granted in the year	Vested in the year	Lapsed in the year	Exercise price £	Date of grant	Earliest normal exercise date	Expiry date	Performance shares outstanding as at 31 December 2019
M Michael	37 088 ²	–	–	–	177.6	11 September 2012	1 January 2016	31 December 2023	37 088

DIRECTORS' SHAREHOLDINGS AND INTERESTS IN SHARES

Details of interests in the share capital of the Company of those Directors in office as at 31 December 2019 are given below. It is confirmed that there were no changes to the Directors' holdings between 31 December 2019 and up to the date of this report. No Director held an interest in the shares of any subsidiary company.

Executive Directors	Shares owned outright as at 31 December 2019	Performance shares held			Performance options held			Total shareholding as a % of salary	Shareholding guideline met
		Subject to performance conditions	Unvested and subject to continued employment only	Vested but not exercised	Subject to performance conditions	Vested but not exercised	Total		
C Elphick ³	9 325 000	690 000	59 633	140 934	–	–	1189	✓	
M Michael	10 000	510 000	44 076	111 337	–	37 088	30	⁴	
Non-executive Director									
J Velloza ⁵	–	27 790	17 630	27 820	–	–	n/a	n/a	

¹ An option is a right to acquire shares granted under the plan including, unless indicated otherwise, a zero-cost option. The three-month average share price to December 2019 was 60.6 pence. The highest and lowest closing prices in the year were 113.5 pence and 48.1 pence respectively. Details of the vesting conditions, which are subject to audit, for awards made under the ESOP are included in note 28 of the financial statements and a full set of the rules will be available for inspection at the AGM.

² These awards were granted to M Michael before he became a Director.

³ CT Elphick is interested in these ordinary shares by virtue of his interest as a potential beneficiary in a discretionary trust which has an indirect interest in those ordinary shares.

⁴ In terms of the shareholding guidelines, M Michael is required to retain at least 50% of his vested awards until the guideline has been met. The year on year shareholding as a % of salary has decreased by 14% as a result of the decrease in share price.

⁵ These awards were granted to J Velloza prior to his appointment as a Non-executive director.

Currently the only non-Executive Director with a shareholding is Johnny Velloza, by virtue of his employment before taking up a non-Executive position on 15 September 2018.

DIRECTORS' EXTERNAL APPOINTMENTS

Apart from private Group interests listed in the prospectus dated 1 April 2009, no Executive Director holds any significant executive directorship or appointments outside the Group except for Clifford Elphick. He was appointed non-Executive Chairman of Zanaga Iron Ore Co Limited, which listed on the AIM Market of the London Stock Exchange in November 2010. Total fees paid to Clifford Elphick by Zanaga are £83 000. Any fees paid to Clifford Elphick in fulfilling these external roles are retained by him.

By order of the Board

Michael Lynch-Bell

Chairman of the Remuneration Committee

10 March 2020

DIRECTORS' REPORT

The Directors are pleased to submit the financial statements of the Group for the year ended 31 December 2019.

As a British Virgin Islands (BVI) registered company, Gem Diamonds Limited is not obliged to conform with the Companies Act, 2006. However, the Directors have elected to conform to the requirements of the Companies Act, 2006.

This requires that the Directors present a Strategic Report and a Directors' Report to inform shareholders of the Company and help them assess the extent to which the Directors performed their fiduciary duty. The 2019 Annual Report and Accounts will include disclosure on how the Directors have performed their duty to promote the success of the Company, in line with the incoming changes to the Companies Act, 2006.

For the purposes of compliance with DTR 4.1.5R(2) and DTR 4.1.8R, the required content of the Management Report can be found in the Strategic Report and the Directors' Report, including the sections of the Annual Report and Accounts which are incorporated by reference.

The Strategic Report can be found on pages 1 to 43 and has been prepared to provide the Company's shareholders with a fair review of the business of the Company and a description of the principal risks and uncertainties facing it. It may not be relied upon by anyone, including the Company's shareholders, for any other purpose.

The Strategic Report and other sections of this report contain forward-looking statements. By their nature, forward-looking statements involve several risks, uncertainties and future assumptions because they relate to events and/or depend on circumstances that may or may not occur in the future which could cause actual results and outcomes to differ materially from those expressed or implied by the forward-looking statements. No assurance can be given that the forward-looking statements in the Strategic Report will be realised. Statements about the Directors' expectations, beliefs, hopes, plans, intentions and strategies are inherently subject to change and are based on expectations and assumptions about future events, circumstances and other factors which are, in some cases, outside the Company's control. The information contained in the Strategic Report has been prepared based on the knowledge and information available to Directors at the date of its preparation and the Company does not undertake any obligation to update or revise the Strategic Report during the financial year ahead. It is believed that the expectations set out in the forward-looking statements are reasonable, but they may be affected by a wide range of variables which could cause actual results or trends to differ materially. The forward-looking statements should be read in context with actual historic information provided. The Company's shareholders are cautioned not to place undue reliance on the forward-looking statements. Shareholders should note that the Strategic Report has not been audited, but the Auditor's Report does include a

statement that the Strategic Report is consistent with the financial statements herein.

CORPORATE GOVERNANCE

The UK Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR 7.2) require that certain information be included in a corporate governance statement set out in the Directors' Report. The Group has an existing practice of issuing a separate Corporate Governance Code Compliance Report as part of its Annual Report. The information required by the Disclosure Guidance and Transparency Rules and the UK Financial Conduct Authority's Listing Rules (LR 9.8.6) is located on pages 51 to 58.

DIRECTORS

The Directors, as at the date of this report, are listed on pages 44 to 48 together with their biographical details. Details of the Directors' interests in shares and share options of the Company can be found on page 92.

DIRECTORS WHO HELD OFFICE DURING THE YEAR AND DATE OF APPOINTMENT/ RESIGNATION

	Appointment	Resignation
Executive Directors		
C Elphick	20 January 2006	n/a
M Michael	22 April 2013	n/a
Non-executive Directors		
H Kenyon-Slaney	6 June 2017	
M Brown	1 January 2018	n/a
M Lynch-Bell	15 December 2015	n/a
J Velloza	1 July 2018	n/a
M Maharasoa	1 July 2019	n/a

RE-ELECTION OF DIRECTORS

The Articles of Association (81) provides that a third of Directors retire annually by rotation and, if eligible, offer themselves for re-election. However, in accordance with the Code, at each AGM all the Directors retire and, subject to being eligible, offer themselves for re-election. Details of the Directors' service contracts are included on pages 76 and 78.

PROTECTION AVAILABLE TO DIRECTORS

By law, Directors are ultimately responsible for most aspects of the Group's business dealings. Consequently, they face potentially significant personal liability under criminal or civil law, or the UK Listing, Prospectus and Disclosure and Transparency Rules and face a range of penalties including private or public censure, fines and/or imprisonment. In line with normal market practice, the Group believes that it is in its best interests to protect the individuals prepared to serve on

its Board from the consequences of innocent error or omission, as this enables the Group to attract prudent individuals to act as Directors.

The Group therefore has, and continues to maintain, at its expense, a Director and Officer's liability insurance policy to provide indemnity, in certain circumstances, for the benefit of Directors and other Group personnel.

In accordance with the Company's Articles of Association, the Company has, and continues to maintain, indemnities granted by the Company to the Directors of the Company and the Company's associated companies to the extent permitted by and consistent with BVI law and the UK Companies Act, 2006 and rules made by the UK Listing Authority.

Neither the insurance nor the indemnity provides cover where the Director or Group personnel member has acted fraudulently or dishonestly.

DIRECTORS' INTERESTS

No Director had, at any time during the year, a material interest in any contract of significance in relation to the Company's business. The interest of Directors in the shares of the Company is included on page 92.

RELATED-PARTY TRANSACTIONS

Other than those disclosed in Note 26 of the financial statements, the Company did not have any transactions with, nor made loans to, related parties during the period in which any Director had any interest.

SUPPLIERS AND CUSTOMERS

The extension of the mine lease at Letšeng is testament to how we work collaboratively with our strategic partners, including the Government of the Kingdom of Lesotho. We also build strong relationships with core suppliers. Formal written contracts and negotiations using the principles of transparency, our beliefs and attitudes drive the culture of the procurement supply chain. As part of the BT process, all major contracts were reviewed for efficiencies and regular meetings to discuss contract performance are held. These discussions have led to continued benefits being derived from the BT initiatives and in the current year the contracts relating to the load, haul and drilling activities and the operators of the processing plants were extended for more than 5 years ensuring the sustainability of long-term benefits. Contractor employees were also invited to partake in the Company's cultural survey.

A core part of our strategy is exploring new sales avenues to maximise value, and at the same time provide an opportunity to interact with our customers and investors. The additional tender viewings in Tel Aviv continued during the year and a new customised electronic tender platform was launched in September offering an enhanced client experience.

RESULTS AND DIVIDENDS

The Group's attributable profit after taxation amounted to US\$2.6 million (2018: US\$26.0 million).

The Group's detailed financial results are set out in the financial statements section on pages 98 to 143.

The Board has adopted a dividend policy that determines the appropriate dividend each year, based on consideration of the Company's cash resources; the level of free cash flow and earnings generated during the year; and expected funding commitments for capital projects relating to the Group's operational requirements. The Board has decided that no dividend will be paid in respect of the 2019 financial year. We believe that the focus on strengthening our balance sheet and positioning ourselves for the future will be to the benefit of our shareholders going forward.

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 1 to 43. The financial position of the Company, its cash flows and liquidity position are described in the Strategic Report on pages 26 to 32. In addition, Note 27 and Note 29 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit and liquidity risk.

After making enquiries which review forecasts and budgets, timing of cash flows, borrowing facilities and sensitivity analyses and considering the uncertainties described in this report either directly or by cross-reference, the Directors have a reasonable expectation that the Group has adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Annual Report and Accounts of the Company.

VIABILITY STATEMENT

In accordance with provision C.2.2 of the 2018 UK Corporate Governance Code, the Directors have assessed the prospect of the Company over a longer period of 12 months as required by the 'going concern' provision. The viability statement can be found in the Strategic Report on page 14.

BUSINESS DEVELOPMENT

The Group progressed its Business Transformation process over the year and remains on track to deliver on its cumulative four-year target to 2021 of US\$100 million in revenue, productivity improvements and cost savings. The transition from Business Transformation to Continuous Improvement has commenced to introduce behavioural strategies and meaningful KPIs for sustainability and continuously improving efficiencies. Further detail relating to the Business Transformation is set out on pages 40 to 43.

Advances in technology are creating significant opportunities to unlock value across the diamond value chain. These include technologies that can increase the effectiveness and efficiency of diamond mining and processing, ones that reduce friction in selling and marketing rough diamonds, and others that help consumers to understand the unique journey of their finished diamond, where it came from and how it got to them. Further detail on these innovative technologies is set out on pages 38 to 39.

DIRECTORS' REPORT

continued

SUBSEQUENT EVENTS

Refer Note 31 of the financial statements for details of events subsequent to the reporting date.

ANNUAL GENERAL MEETING

Details of the resolutions which will be put to the AGM are given in the Notice of AGM, which is a separate document from the Annual Report. For those shareholders who elected to receive company documentation electronically, an announcement will be released when the AGM documents are available to download from the Company's website (www.gemdiamonds.com). 

SHARE CAPITAL AND VOTING RIGHTS

Details of the authorised and issued share capital of the Company, including the rights pertaining to each share class, are set out in Note 17 to the financial statements.

As at 11 March 2019, there were 139.0 million fully paid ordinary shares of US\$0.01 each in issue and listed on the official list maintained by the FCA in its capacity as the UK Listing Authority.

The Company has one class of ordinary shares. Shareholders have the right to receive notice of and attend, speak and vote at any general meeting of the Company. Each shareholder who is present in person (or, being a corporation, by representative) or by proxy at a general meeting on a show of hands has one vote and, on a poll, every such holder present in person (or, being a corporation, by representative) or by proxy shall have one vote in respect of every ordinary share held by them. To be valid, the appointment of a proxy to vote at a general meeting must be received not less than 48 hours before the time appointed for holding the meeting. In addition, the holders of ordinary shares have the right to participate in dividends and other distributions according to their respective rights and interests in the profit of the Company.

There are no shareholders who carry any special rights with regard to the control of the Company. The Company is not aware of any agreements between holders of securities which may result in restrictions on transfers or voting rights, save as mentioned below.

There are no restrictions on the transfer of ordinary shares other than:

- as set out in the Company's Articles of Association;
- certain restrictions may from time to time be imposed by laws and regulations; and
- pursuant to the Company's share dealing code whereby the Directors and employees of the Company require approval to deal in the Company's ordinary shares.


At the AGM held in 2019, shareholders authorised the Company to make on-market purchases of up to 13 892 911

of its ordinary shares, representing approximately 10% of the Company issued share capital at that time. During 2019, the Company did not make any on-market or off-market purchases of its shares or shares under any buy-back programme. Shareholders will be asked at the 2020 AGM to renew this authority. The Directors have no present intention to exercise this authority, if granted. Details of deadlines for exercising voting rights and proxy appointments will be set out in the 2020 Notice of AGM.


MAJOR INTERESTS IN SHARES

Details of the major interests (at or above 3%) in the issued ordinary shares of the Company are set out in the UK Corporate Governance Code Compliance Report on page 58.

RESOURCE DEVELOPMENT

Resource development activities were concentrated on improving the understanding of existing resources at Letšeng. Further details can be found in the Letšeng Operating Review on page 33. For more information on the current Resources and Reserves statement refer to the Company's website www.gemdiamonds.com.  An updated Reserve and Resource statement is expected in 2020.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

A review of health, safety, corporate social responsibility, environmental performance and community participation is presented in the Sustainable Development Reporting Platform, available on Gem Diamonds' website www.gemdiamonds.com. 

CORPORATE SOCIAL INVESTMENT (CSI) EXPENDITURE

During 2019 the Group invested US\$0.8 million towards social initiatives, in line with the contribution made in 2018. The Group supports initiatives that benefit its PACs in the areas of health, education, infrastructure development, development of small to medium enterprises and also makes donations to relevant causes. Infrastructure development was recorded as the category receiving the most investment, followed by small and medium enterprise development and education.

POLITICAL DONATIONS

The Group made no political donations during 2019.

GREENHOUSE GAS (GHG) EMISSIONS CARBON FOOTPRINT ASSESSMENT (CFA) SUMMARY

In 2019, the total carbon footprint for the Group was 172 968 tCO₂e (compared to 161 491 tCO₂e in 2018), primarily

driven by electricity consumption and mobile and stationary fuel combustion. This figure includes the direct Greenhouse Gas (GHG) emissions (Scope 1), energy indirect GHG (Scope 2) emissions, and material Scope 3 emissions, and was calculated in accordance with the parameters defined by the GHG Protocol Corporate Accounting and Reporting Standard. The total carbon footprint for Scope 1 and Scope 2 emissions combined, was 143 229 tCO₂e, compared to 135 385 tCO₂e in 2018.

The total Group footprint signifies a 7.1% increase from 2018, and a 5.2% increase for Scope 1 and 2, on which the intensity reporting is based. This observed increase is the net result of increased mobile combustion related primarily to the mining fleet at Letšeng due to longer haul distances.

Intensity reporting is required to report on the Group's carbon efficiency performance, therefore the Group tracks tonnes of CO₂e emitted per employee and per carat recovered. The tonnes of CO₂e per employee increased from 73.7 tonnes of CO₂e per employee in 2018 to 87.1 tonnes of CO₂e per employee in 2019. This was mainly due to a decrease in the number of employees and an increase in scope 1 emissions, in particular mobile diesel consumption. The ratio for tonnes of CO₂e per carat increased to 1.52 in 2019 compared to 1.27 in 2018. This 19% increase is attributable to fewer carats recovered during the year and the higher scope 1 emissions.

WATER FOOTPRINT

Fresh water is one of the most important and increasingly scarce commodities on earth. As water stewards, Gem Diamonds aims to understand related risks of water scarcity and pollution and undertakes to ensure that water is managed sustainably. Monitoring the Group Water Footprint improves understanding of the Groups' water uses, the risks associated with water use and the impacts within the catchments in which the Group operates. As such, caring for water sources and monitoring water usage are crucial practices in both a commercial and moral aspect and helps the Group maintain its social licence to operate.

In 2019 the total water withdrawal for the Group was 5 635 805m³, a 33% reduction in the volume used in 2018 of 8 383 339m³. The key factor in the decreased water consumption for the Group was the extreme drought experienced in Lesotho during 2019 which drove an increased focus on recycling of water. Ghaghoo continued to pump water to maintain its underground tunnels, however as that water was not being used in the process plant and was discharged into the environment, it results in lower water withdrawal volumes. In 2019, the Total Water Footprint for the Group was 40m³/carat (2018: 37.6 m³/carat) and 1.19m³ per ore tonne treated (2018: 1.28m³ per ore tonne treated). The changes were directly related to a reduction in water usage, a 3% increase on ore tonnes treated and a 10% decrease in recovered carats.

EMPLOYEE POLICIES AND INVOLVEMENT

To gain a fuller understanding of matters related to employee policies and involvement, this segment should be read in conjunction with the information on employment matters contained in the Sustainable Development Platform, available on the Company's website.

The Group prioritises the health, safety and effective performance of employees, in conjunction with maintaining positive employee relations. The Group encourages a direct relationship with open communication between employees and management. Employees are informed about the Group's performance and objectives through direct and continuous communication with management as well as the Company's website, published information, the circulation of press cuttings and Group announcements. Equal opportunity forms the foundation of employment within the Group and Gem Diamonds is committed to achieving equality irrespective of gender, religion, race or marital status. Full consideration is given to applications from people with disabilities who apply for positions which they can adequately fill, having regard for their abilities and aptitude. Where existing employees become disabled, it is the Group's policy, where practical, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever possible.

Employment practices within the Group are aimed at attracting and retaining top calibre management and staff by creating a work environment that incentivises enhanced performance. Guidelines and frameworks in respect of remuneration benefit, performance management, career development, succession planning, recruitment, expatriate employment and the alignment of human resources management and policy have been implemented by the Group and are in line with international best practice. Each operating unit manages its human resources requirements locally, within the Group's guidelines and framework.

DISCLOSURE OF INFORMATION AND AUDITOR RE-ELECTION

The Lead Audit Partner is based in Johannesburg, South Africa. Further information regarding the appointment of EY SA are detailed in the Audit Committee Report on pages 59 to 61.

As required under section 418 of the Companies Act, 2006, to which the Directors have voluntarily elected to conform, each Director confirms that to the best of his knowledge and belief, there is no information relevant to the preparation of the Auditor's Report of which the Company's auditor is unaware of and that each Director has taken all reasonable steps as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

A resolution to re-appoint EY SA as the Company's auditor and to authorise the Board to determine the auditor's remuneration will be proposed at the 2020 AGM. The Strategic Report, the Directors' Report and the Directors' Remuneration Report were approved by the Board on 10 March 2020.

By order of the Board

Harry Kenyon-Slaney
Non-Executive Chairman

10 March 2020

FINANCIAL STATEMENTS

Responsibility statement of the Directors in respect of the Annual Report and financial statements	100
Independent Auditor's Report	101
Annual Financial Statements	104
Abbreviations and definitions	161
Contact details and advisers	162

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with International Financial Reporting Standards (IFRS). Having taken advice from the Audit Committee, the Board considers the report and accounts taken as a whole, are fair, balanced and understandable and that they provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

PREPARATION OF THE FINANCIAL STATEMENTS

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 their profit or loss for that period. In preparing the Group financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the Group financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose, with reasonable accuracy at

any time, the financial position of the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole. In addition, suitable accounting policies have been selected and applied consistently.

Information, including accounting policies, has been presented in a manner that provides relevant, reliable, comparable and understandable information, and additional disclosures have been provided when compliance with the specific requirements in IFRS have been insufficient to enable users to understand the financial impact of particular transactions, other events and conditions on the Group's financial position and financial performance. Where necessary, the Directors have made judgements and estimates that are reasonable.

The Directors of the Company have elected to comply with the Companies Act, 2006, in particular the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013 of the United Kingdom pertaining to Directors' remuneration which would otherwise only apply to companies incorporated in the UK.

Michael Michael
Chief Financial Officer

10 March 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gem Diamonds Limited

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Gem Diamonds Limited and its subsidiaries (the Group) set out on pages 104 to 160, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (Revised November 2018) (together the IRBA Codes) and other independence

requirements applicable to performing audits of financial statements of the Group and in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits of the Group and in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA code) and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants* (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

continued

Key audit matter (KAM)	How the matter was addressed in the audit
<p>Taxation – Uncertainty over income tax treatments on an amended tax assessment received by Letšeng Diamonds Proprietary Limited.</p> <p>In December 2019, an amended tax assessment was issued to Letšeng Diamonds (Pty) Ltd by the Lesotho Revenue Authority ('LRA') as noted in the consolidated financial statements in Note 1.2.1. and Note 1.2.28 respectively.</p> <p>The matter identified had to be evaluated to determine whether the tax treatment/position accounted for is appropriate. Management involved external senior legal counsel to assess the uncertainty to appropriately corroborate the Group position taken.</p> <p>The significant judgement involved in the process on the LRA matter, relates to:</p> <ul style="list-style-type: none"> Ambiguity in the application of the Lesotho Income Tax Act and related guidelines (such as ordinances, circulars and letters) and their interpretations; Income tax practices that are generally applied by the taxation authorities and tax payers in specific jurisdictions and situations; and Tax memoranda/opinions prepared by qualified in-house or external tax advisor. <p>Management believes the assessment to be contradictory to the application of certain tax treatments in the current Lesotho Income Tax Act and concluded the matter not to be an uncertain tax position.</p> <p>The matter is therefore considered to be a KAM due to the extensive audit effort assessing the various memoranda and opinions which required the assistance of our tax experts, and the extent of discussions required with management to understand their views.</p>	<p>Our audit procedures included amongst others the following:</p> <ul style="list-style-type: none"> We evaluated management's Group tax risk register and their determination and assessment of uncertain tax positions and tax contingencies and the application of IFRIC 23, Uncertainty over income tax treatments. Specifically, we inspected management's documentation of their assessment of "probable or not" relating to the amended assessment raised by the LRA; We engaged, as part of our team, tax specialists to assist us with our audit procedures, specifically relating to the amended assessment received from the LRA. Our experts on the audit team inspected and assessed the following documents: <ul style="list-style-type: none"> The amended assessment received from the LRA. For the key matters raised by the LRA, the references to the legislation by the LRA, the method of resolution suggested by the LRA, and the salient dates relevant to the matter; Objections and other correspondence with the LRA, to determine the reasonableness of management's response, relative to the tax legislation, other supporting information and documentation used by management to support their response, as well as prior treatment of the matter in their tax returns; Senior counsel's opinion, to determine whether the opinion corroborates managements position and response. We assessed the adequacy of the disclosures related to IFRIC 23, Uncertainty over income tax treatments and IAS 12, Income taxes, in the notes to the consolidated financial statements.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the 164-page document titled "Gem Diamonds Limited Annual Report and accounts 2019". The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated

financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated

financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young Inc.

Director – Philippus Dawid Grobbelaar
Registered Auditor
Chartered Accountant (SA)

10 March 2020

102 Rivonia Road
Sandton
Private Bag X14
Sandton
2146

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 US\$'000	2018* US\$'000
CONTINUING OPERATIONS			
Revenue from contracts with customers	2	182 047	267 290
Cost of sales		(129 482)	(154 953)
Gross profit		52 565	112 337
Other operating income	3	845	474
Royalties and selling costs		(16 904)	(22 905)
Corporate expenses		(9 418)	(10 319)
Share-based payments	28	(784)	(1 422)
Foreign exchange gain	4	3 550	2 200
Reclassification of foreign currency translation reserve	5	4	–
Operating profit	4	29 858	80 365
Net finance costs	6	(5 808)	(1 658)
Finance income		668	2 032
Finance costs		(6 476)	(3 690)
Profit before tax for the year from continuing operations		24 050	78 707
Income tax expense	7	(9 020)	(26 348)
Profit after tax for the year from continuing operations		15 030	52 359
DISCONTINUED OPERATION			
Loss after tax from discontinued operation	16	(4 454)	(5 718)
Profit for the year		10 576	46 641
Attributable to:			
Equity holders of parent		2 617	26 017
Non-controlling interests		7 959	20 624
Earnings per share (cents)			
	8		
– Basic earnings for the year attributable to ordinary equity holders of the parent		1.9	18.8
– Diluted earnings for the year attributable to ordinary equity holders of the parent		1.8	18.3
Earnings per share (cents) for continuing operations			
– Basic earnings for the year attributable to ordinary equity holders of the parent		5.1	22.9
– Diluted earnings for the year attributable to ordinary equity holders of the parent		5.0	22.4

* Prior period figures have been restated for the reclassification impact of accounting for the discontinued operation (refer Note 16, Assets held for sale).

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 US\$'000	2018 US\$'000
Profit for the year		10 576	46 641
<i>Other comprehensive income that could be reclassified to the statement of profit or loss in subsequent periods</i>			
Reclassification of foreign currency translation reserve	5	(4)	–
Exchange differences on translation of foreign operations		4 512	(43 217)
Other comprehensive income/(expense) for the year, net of tax		4 508	(43 217)
Total comprehensive income for the year, net of tax		15 084	3 424
Attributable to:			
Equity holders of the parent		1 763	(3 638)
Non-controlling interests		13 321	7 062

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 US\$'000	2018 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	323 853	289 640
Right-of-use asset	10	8 454	–
Intangible assets	11	13 653	13 272
Receivables and other assets	13	–	347
Deferred tax assets	23	7 871	5 746
		353 831	309 005
Current assets			
Inventories	14	32 517	33 084
Receivables and other assets	13	6 337	5 433
Income tax receivable	21	8 189	–
Cash and short-term deposits	15	11 303	50 812
		58 346	89 329
Assets held for sale	16	3 943	859
Total assets		416 120	399 193
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	17	1 391	1 390
Share premium		885 648	885 648
Other reserves	17	(202 857)	(152 029)
Accumulated losses		(525 449)	(578 834)
		158 733	156 175
Non-controlling interests		85 424	72 103
Total equity		244 157	228 278
Non-current liabilities			
Interest-bearing loans and borrowings	18	6 009	19 954
Lease liabilities	19	8 539	–
Trade and other payables	20	1 936	1 555
Provisions	22	15 588	17 876
Deferred tax liabilities	23	90 995	79 800
		123 067	119 185
Current liabilities			
Interest-bearing loans and borrowings	18	16 332	14 212
Lease liabilities	19	1 940	–
Trade and other payables	20	26 390	28 554
Income tax payable	21	13	8 964
		44 675	51 730
Liabilities directly associated with the assets held for sale	16	4 221	–
Total liabilities		171 963	170 915
Total equity and liabilities		416 120	399 193

Approved by the Board of Directors on 10 March 2020 and signed on its behalf by:

C Elphick
Director

M Michael
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to the equity holders of the parent						
	Issued capital US\$'000	Share premium ¹ US\$'000	Other reserves ¹ US\$'000	Accumulated (losses)/earnings US\$'000	Total US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
Balance at 1 January 2019	1 390	885 648	(152 029)	(578 834)	156 175	72 103	228 278
Total comprehensive income	–	–	(854)	2 617	1 763	13 321	15 084
Profit for the year	–	–	–	2 617	2 617	7 959	10 576
Other comprehensive income	–	–	(854)	–	(854)	5 362	4 508
Share capital issued (Note 17)	1	–	–	–	1	–	1
Transfer between reserves ²	–	–	(50 768)	50 768	–	–	–
Share-based payments (Note 28)	–	–	794	–	794	–	794
Balance at 31 December 2019	1 391	885 648	(202 857)	(525 449)	158 733	85 424	244 157
Balance at 1 January 2018	1 387	885 648	(123 811)	(604 851)	158 373	85 783	244 156
Total comprehensive income	–	–	(29 655)	26 017	(3 638)	7 062	3 424
Profit for the year	–	–	–	26 017	26 017	20 624	46 641
Other comprehensive income	–	–	(29 655)	–	(29 655)	(13 562)	(43 217)
Share capital issued (Note 17)	3	–	–	–	3	–	3
Share-based payments (Note 28)	–	–	1 437	–	1 437	–	1 437
Dividends paid	–	–	–	–	–	(20 742)	(20 742)
Balance at 31 December 2018	1 390	885 648	(152 029)	(578 834)	156 175	72 103	228 278
Attributable to discontinued operation	–	–	(51 916)	(190 107)	(242 023)	–	(242 023)

¹ Refer Note 17, Issued capital and reserves for further detail.

² The Company elected to release share-based equity reserve relating to lapsed and exercised options to accumulated (losses)/retained earnings.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 US\$'000	2018 US\$'000
Cash flows from operating activities		55 490	138 339
Cash generated by operations	24.1	81 644	149 755
Working capital adjustments	24.2	(2 854)	1 916
Interest received		668	2 033
Interest paid		(5 181)	(2 742)
Income tax paid	21	(18 787)	(12 623)
Cash flows used in investing activities		(80 769)	(99 449)
Purchase of property, plant and equipment		(9 671)	(22 963)
Waste stripping costs capitalised		(73 175)	(79 294)
Proceeds from sale of property, plant and equipment		2 077	2 808
Cash flows used in financing activities		(14 076)	(30 766)
Lease liabilities repaid		(1 901)	–
Net financial liabilities repaid	24.3	(12 175)	(10 024)
– Financial liabilities repaid		(47 056)	(12 937)
– Financial liabilities raised		34 881	2 913
Dividends paid to non-controlling interests		–	(20 742)
Net (decrease)/increase in cash and cash equivalents		(39 355)	8 124
Cash and cash equivalents at beginning of year		50 812	47 704
Foreign exchange differences		(24)	(5 016)
Cash and cash equivalents		11 443	50 812
Cash and cash equivalents at end of year – continuing operation		11 303	50 734
Cash and cash equivalents held at banks		11 188	50 581
Restricted cash		115	153
Cash and cash equivalents at end of year – discontinued operation		140	78
Cash and cash equivalents held at banks		83	22
Restricted cash		57	56

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1.1 Corporate information

1.1.1 Incorporation

The holding company, Gem Diamonds Limited (the Company), was incorporated on 29 July 2005 in the British Virgin Islands (BVI). The Company's registration number is 669758.

These financial statements were authorised for issue by the Board on 10 March 2020.

The Group is principally engaged in operating diamond mines.

1.1.2 Operational information

The Company has the following investments directly and indirectly in subsidiaries at 31 December 2019:

Name and registered address of company	Share-holding	Cost of investment ¹	Country of incorporation	Nature of business
Subsidiaries				
Gem Diamond Technical Services (Proprietary) Limited² Illovo Corner 24 Fricker Road Illovo Boulevard Johannesburg South Africa	100%	US\$17	RSA	Technical, financial and management consulting services.
Gem Equity Group Limited² Ground Floor, Coastal Building Wickhams Cay II Roadtown Tortola VG 1130 British Virgin Islands	100%	US\$52 277	BVI	Dormant investment company holding 1% in Gem Diamonds Botswana (Proprietary) Limited, 2% in Gem Diamonds Marketing Services BVBA and 1% in Baobab Technologies BVBA.
Letšeng Diamonds (Proprietary) Limited² Letšeng Diamonds House Corner Kingsway and Old School Roads Maseru Lesotho	70%	US\$126 000 303	Lesotho	Diamond mining and holder of mining rights. Letšeng Diamonds (Proprietary) Limited holds 100% of the A class shares and 70% of the B class shares in Letšeng Diamonds Manufacturing (Proprietary) Limited, which is a company established in Lesotho to operate the in-country diamond cutting and polishing. The company is currently dormant.
Gem Diamonds Botswana (Proprietary) Limited^{2,3} Suite 103, GIA Centre Diamond Technology Park Plot 67782, Block 8 Gaborone Botswana	100%	US\$5 844 579	Botswana	Diamond mining; evaluation and development; and holder of mining licences and concessions ³ .

¹ The cost of investment represents original cost of investments at acquisition dates.

² No change in the shareholding since the prior year.

³ During the year the Ghaghoo Diamond Mine, which is in the process of being sold, was classified as a discontinued operation held for sale and has been disclosed separately (refer Note 16, Assets held for sale).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.1 Corporate information (continued)

1.1.2 Operational information (continued)

Name and registered address of company	Share-holding	Cost of investment ¹	Country of incorporation	Nature of business
Subsidiaries				
Gem Diamonds Investments Limited^{2,3} 20 – 22 Bedford Row London WC1R 4JS United Kingdom	100%	US\$17 531 316	UK	Investment holding company holding 100% in each of Calibrated Diamonds Investment Holdings (Proprietary) Limited and Gem Diamonds Innovation Solutions CY Limited; 99% in Baobab Technologies BVBA; and 98% in Gem Diamonds Marketing Services BVBA, a marketing company that sells the Group's diamonds on tender in Antwerp.

¹ The cost of investment represents original cost of investments at acquisition dates.

² No change in the shareholding since the prior year.

³ During the year the Group abandoned Gem Diamonds Marketing Botswana (Proprietary) Limited, which was the sales and marketing office for Ghaghoo's diamonds and Gem Diamonds Technology DMCC, which owned an investment property in Dubai that was sold at the end of the prior year. As the operations are being closed and not sold the closure has been classified as an abandonment (refer Note 5, Reclassification of foreign currency translation reserve), both these companies were 100% held by Gem Diamonds Investments Limited.

1.1.3 Segment information

For management purposes, the Group is organised into geographical units as its risks and required rates of return are affected predominantly by differences in the geographical regions of the mines and areas in which the Group operates or areas in which operations are managed. The below measures of profit or loss, assets and liabilities are reviewed by the Chief Operating Decision-Maker, ie Board of Directors. The main geographical regions and the type of products and services from which each reporting segment derives its revenue from are:

- Lesotho (diamond mining activities);
- Belgium (sales, marketing and manufacturing of diamonds);
- BVI, RSA, UK and Cyprus (technical and administrative services); and
- Botswana (diamond mining activities), classified as discontinued operation held for sale during the year.

Management monitors the operating results of the geographical units separately for the purpose of making decisions about resource allocation and performance assessment.

During the year the Gem Diamonds Botswana (Ghaghoo Diamond Mine), which is in the process of being sold, was classified as a discontinued operation held for sale and has been disclosed separately (refer Note 16, Assets held for sale). The Ghaghoo mine was previously disclosed in the Botswana segment.

During the year, two immaterial operations, Gem Diamonds Marketing Botswana (Proprietary) Limited (GDMB) and Gem Diamonds Technology DMCC (GDTD) were abandoned. GDMB was the sales and marketing office for Ghaghoo's diamonds and was previously classified as part of the Botswana segment. GDTD owned an investment property in Dubai that was sold at the end of the prior year and was previously classified as part of the Belgium segment (refer Note 5, Reclassification of foreign currency translation reserve).

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.1 Corporate information (continued)

1.1.3 Segment information (continued)

Segment performance is evaluated based on operating profit or loss. Intersegment transactions are entered into under normal arm's length terms in a manner similar to transactions with third parties. Segment revenue, segment expenses and segment results include transactions between segments. Those transactions are eliminated on consolidation.

Segment revenue is derived from mining activities, polished manufacturing margins, and Group services.

The following table presents revenue, profit/(loss), EBITDA and asset and liability information from operations regarding the Group's geographical segments:

Year ended 31 December 2019	Lesotho US\$'000	Belgium US\$'000	BVI, RSA UK and Cyprus ¹ US\$'000	Total Continuing operations US\$'000	Discontinued operation ² US\$'000	Total US\$'000
Revenue						
Total revenue	179 313	182 788	8 440	370 541	–	370 541
Intersegment	(179 313)	(741)	(8 440)	(188 494)	–	(188 494)
External customers	–	182 047	–	182 047	–	182 047
Depreciation and amortisation	57 293	374	539	58 206	–	58 206
– Depreciation and mining asset amortisation	14 164	374	539	15 077	–	15 077
– Waste stripping cost amortisation	43 129	–	–	43 129	–	43 129
Share-based equity transactions	264	6	514	784	10	794
Segment operating profit/(loss)	38 524	863	(9 529)	29 858	(4 274)	25 584
Net finance costs	(3 792)	(262)	(1 754)	(5 808)	(180)	(5 988)
Profit/(loss) before tax	34 732	601	(11 283)	24 050	(4 454)	19 596
Income tax expense	(8 228)	(151)	(641)	(9 020)	–	(9 020)
Profit/(loss) for the year				15 030	(4 454)	10 576
EBITDA	49 014	1 206	(9 221)	(40 999)	(4 389)	36 610
Segment assets	393 107	2 477	8 722	404 306	3 943	408 249
Segment liabilities	59 854	600	16 293	76 747	4 221	80 968
Other segment information						
Capital expenditure						
– Property, plant and equipment ³	8 323	324	1 196	9 843	–	9 843
– Waste cost capitalised	73 175	–	–	73 175	–	73 175
Total capital expenditure	81 498	324	1 196	83 018	–	83 018

¹ No revenue was generated in BVI and Cyprus.

² The results of Gem Diamonds Botswana, which has been classified as a discontinued operation held for sale and which was previously included in the Botswana segment, has been reclassified to the discontinued operation segment.

³ Capital expenditure includes non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho segment.

Included in annual revenue for the current year is revenue from one customer which amounted to US\$21.1 million arising from sales reported in the Belgium segments.

Segment assets and liabilities do not include deferred tax assets and liabilities of US\$7.9 million and US\$91.0 million respectively.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.1 Corporate information (continued)

1.1.3 Segment information (continued)

Total revenue for the year is lower than that of the prior year mainly as a result of the lower volume of large diamonds recovered during the year. The revenue of the prior year was specifically bolstered by the recovery and sale of the 910 carat Lesotho Legend which sold for US\$40.0 million.

Year ended 31 December 2018	Lesotho US\$'000	Belgium ¹ US\$'000	BVI, RSA UK and Cyprus ² US\$'000	Continuing operations	Discontinued operation ³	Total US\$'000
Revenue						
Total revenue	262 636	267 370	9 440	539 446	–	539 446
Intersegment	(262 636)	(432)	(9 088)	(272 156)	–	(272 156)
External customers						
Depreciation and amortisation	76 537	204	120	76 861	43	76 904
– Depreciation and mining asset amortisation	8 332	204	120	8 656	43	8 699
– Waste stripping cost amortisation	68 205	–	–	68 205	–	68 205
Share-based equity transactions	317	6	1 099	1 422	15	1 437
Segment operating profit/(loss)	88 815	2 025	(10 475)	80 365	(5 528)	74 837
Net finance costs	743	–	(2 401)	(1 658)	(190)	(1 848)
Profit/(loss) before tax	89 558	2 025	(12 876)	78 707	(5 718)	72 989
Income tax expense	(20 779)	(542)	(5 027)	(26 348)	–	(26 348)
Profit for the year				52 359	(5 718)	46 641
EBITDA	95 607	2 114	(10 040)	87 680	(5 423)	82 257
Segment assets	358 648	3 305	27 552	389 505	3 942	393 447
Segment liabilities	62 753	689	23 637	87 079	4 036	91 115
Other segment information						
Capital expenditure						
– Property, plant and equipment ⁴	22 628	1 880	899	25 407	–	25 407
– Waste cost capitalised	79 294	–	–	79 294	–	79 294
Total capital expenditure	101 922	1 880	899	104 701	–	104 701

¹ The results of Gem Diamonds Marketing Botswana, previously included in the Botswana segment, have been reclassified to the Belgium segment.

² No revenue was generated in BVI and Cyprus.

³ The results of Gem Diamonds Botswana, which has been classified as a discontinued operation held for sale and which was previously included in the Botswana segment, has been reclassified to the Discontinued operation segment.

⁴ Capital expenditure includes non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho segment.

Included in annual revenue for the 2018 year is revenue from two customers which amounted to US\$88.3 million arising from sales reported in the Belgium segments.

Segment assets and liabilities do not include deferred tax assets and liabilities of US\$5.7 million and US\$79.8 million respectively.

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies

1.2.1 Basis of preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements have been prepared under the historical cost basis except for assets and liabilities measured at fair value. The accounting policies have been consistently applied except for the adoption of the new standards and interpretations detailed on the following pages.

The functional currency of the Company and certain of its subsidiaries is US dollar, which is the currency of the primary economic environment in which the entities operate. All amounts are expressed in US dollar and rounded to the nearest thousand. The financial statements of subsidiaries whose functional and reporting currency is in currencies other than US dollar have been converted into US dollar on the basis as set out in Note 1.2.16, Foreign currency translations.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 1.2.28, Critical accounting estimates and judgements.

Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group adopted IFRS 16 *Leases* for the first time using the modified retrospective method of adoption with the date of initial application being 1 January 2019 without restating comparative figures. The nature and effect of the changes as a result of adoption of this new accounting standard is described below. All other accounting policies adopted are consistent with those applied in the previous financial year.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of buildings, plant and equipment and vehicles. Before the adoption of IFRS 16 the Group determined whether an arrangement contained a lease based on whether the fulfilment of the arrangement was dependent on the use of a specific asset or assets or the arrangement conveyed a right to use the asset. For leases that contain one lease component and one or more additional lease or non-lease components, the Group allocated the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. A reassessment would be made after inception of the lease only if one of the following applied: (a) There was a change in contractual terms, other than a renewal or extension of the arrangement; (b) A renewal option was exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) There was a change in the determination of whether fulfilment is dependent on a specific asset; or (d) There was a substantial change to the asset. Where a reassessment was made, lease accounting commenced or ceased from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Leases where the lessor retained substantially all the risks and rewards of ownership were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the statement of profit or loss on a straight-line basis over the period of the lease. When the Group was a party to a lease where there was a contingent rental element associated within the agreement, a cost was recognised as and when the contingency materialised.

Upon adoption of IFRS 16, the Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group. The Group did not have any finance leases at the time IFRS 16 was adopted on 1 January 2019.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.1 Basis of preparation (continued)

Leases previously accounted for as operating leases

The Group recognised a new category of assets, namely right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. For all leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities on the date of initial application (ie. 1 January 2019), adjusted by the amount of any prepaid or accrued lease payments relating to that lease. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- applied the short-term leases exemptions to lease contracts with a lease term that ends within 12 months of the date of initial application;
- applied the materiality exemption on transition to the lease contracts for which the underlying asset was of a low value and was not qualitatively material to the Group;
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- used hindsight for historical lease payments made to determine the value of the liability and right-of-use asset at date of initial application where the contract did not refer to an annual fixed escalation rate; and
- used hindsight to determine the lease term if the contract contained options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- right-of-use assets of US\$9.6 million, net of accrued lease payments of \$1.4 million, were recognised and presented separately in the statement of financial position;
- additional lease liabilities of US\$11.0 million were recognised and presented separately in the statement of financial position; and
- deferred tax assets and liabilities of \$2.4 million respectively were presented separately in the statement of financial position.

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease) is as follows:

	1 January 2019 US\$'000
Assets	
Right-of-use assets	9 612
Deferred tax assets	2 375
Total assets	11 987
Liabilities	
Lease liabilities	11 043
Deferred tax liabilities	2 375
Trade and other payables	(1 431)
Total liabilities	11 987

The Ghaghoo mining operation was placed on care and maintenance in 2017 and subsequently classified as a discontinued operation held for sale during the current year. The entity only has short-term leases and leases of low-value assets and the adoption of IFRS 16 at Ghaghoo, did not have an impact at a Group level.

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.1 Basis of preparation (continued)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018 as follows:

	1 January 2019 US\$'000
Operating lease commitments as at 31 December 2018	136 423
Weighted average incremental borrowing rate as at 1 January 2019	10%
Discounted operating lease commitments at 1 January 2019	128 490
Less:	
Commitments relating to short-term leases	(102)
Variable lease payments	(120 899)
Out of scope leases eg mining leases	(1 069)
Add:	
Arrangements not previously separately disclosed as operating leases commitments	4 623
Lease liabilities as at 1 January 2019	11 043

For amounts recognised in the statement of financial position and profit or loss at year end, refer Note 10, Right-of-use assets and Note 19, Lease liabilities.

Management applied judgement when determining whether contracts contained a lease. Refer Note 1.2.28, Critical accounting estimates and judgements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- how an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies judgement in identifying uncertainties over income tax treatments, as referred under Note 1.2.28, Critical accounting estimates and judgements, and concluded that there were no uncertain tax treatments relating to the current year. The interpretation did not have an impact on the consolidated financial statements of the Group.

Several other amendments, interpretations and improvements apply for the first time in 2019, and are listed in the table on the following page. These amendments and interpretations do not have an impact on the consolidated financial statements of the Group.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.1 Basis of preparation (continued)

Standard, amendment, interpretation or improvement

Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Improvements to IFRS 3	Business Combinations – previously held interests in joint operation
Improvements to IFRS 11	Joint Arrangements – previously held interests in joint operation
Improvements to IAS 12	Income Taxes – income tax consequences of payments on financial instruments classified as equity
Improvements to IAS 23	Borrowing Costs – borrowing costs eligible for capitalisation

Standards issued but not yet effective

The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The standards, interpretations and amendments that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are listed in the table below, and are not expected to impact the Group.

Standard, amendment, interpretation or improvement

IFRS 17	Insurance Contracts
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IAS 1 and IAS 8	Definition of Material Costs

Business environment and country risk

The Group's operations are subject to country risk being the economic, political and social risks inherent in doing business in certain areas of Africa and Europe. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange rate fluctuations and the enforceability of contract rights.

The consolidated financial information reflects management's assessment of the impact of these business environments on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

1.2.2 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position have been assessed by management. The financial position of the Company, its cash flows and liquidity position are presented in the Annual Report and Accounts. In addition, Note 27, Financial risk management, includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to market risk, credit risk and liquidity risk.

After making enquiries which include reviews of forecasts and budgets, timing of cash flows, borrowing facilities and sensitivity analyses and considering the uncertainties described in this report either directly or by cross-reference, the Directors have a reasonable expectation that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Annual Report and Accounts of the Company.

These financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities as they fall due for the foreseeable future.

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company as at 31 December 2019.

Subsidiaries

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three of the following criteria must be met: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intragroup balances and transactions, including unrealised profits arising from them, are eliminated in full.

Non-controlling interests

Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to the parent company and is presented separately within equity in the consolidated statement of financial position, separately from equity attributable to owners of the parent. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

1.2.4 Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

- acquisition of rights to explore;
- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- conducting market and finance studies.

Administration costs that are not directly attributable to a specific exploration area are charged to the statement of profit or loss. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised, as a component of property, plant and equipment, and amortised over the term of the permit.

Exploration and evaluation expenditure is capitalised as incurred. Capitalised exploration expenditure is recorded as a component of property, plant and equipment, as an exploration and development asset, at cost less accumulated impairment charges. As the asset is not available for use, it is not depreciated.

All capitalised exploration and evaluation expenditure is monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest in conjunction with the group of operating assets (representing a cash-generating unit (CGU)) to which the exploration is attributed. To the extent that exploration expenditure is not expected to be recovered, it is charged to the statement of profit or loss. Exploration areas where reserves have been discovered, but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is under way as planned.

Management is required to make certain estimates and assumptions when determining whether the commercial viability of an identified resource and when determining whether indicators of impairment exist as referred under Note 1.2.28, Critical accounting estimates and judgements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.5 Development expenditure

When proved reserves are determined and development is sanctioned, capitalised exploration and evaluation expenditure is reclassified from exploration phase to development phase. As the asset is not available for use, during the development phase, it is not depreciated. On completion of the development phase, any capitalised exploration and evaluation expenditure already capitalised to development asset, together with the subsequent development expenditure, is reclassified within property, plant and equipment to mining assets and depreciated on the basis as laid out in Note 1.2.6, Property, plant and equipment.

All development expenditure is monitored for indicators of impairment annually. Management is required to make certain estimates and assumptions when determining whether indicators of impairment exist as referred under Note 1.2.28, Critical accounting estimates and judgements.

1.2.6 Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition and construction of the items, to get the asset in its condition and location for its intended use among others, professional fees, and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policies.

Subsequent costs to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised when the cost of the item can be measured reliably, with the carrying amount of the original component being written off. All repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation commences when an asset is available for use. Depreciation is charged so as to write off the depreciable amount of the asset to its residual value over its estimated useful life, using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group.

Item	Method	Useful life
Mining assets	Straight line	Lesser of life of mine or period of mining lease
Decommissioning assets	Straight line	Lesser of life of mine or period of mining lease
Leasehold improvements	Straight line	Lesser of three years or period of mining lease
Plant and equipment	Straight line	Three to 10 years
Other assets	Straight line	Two to five years

Pre-production and in production stripping costs

Costs associated with removal of waste overburden are classified as stripping costs.

Stripping activities that are undertaken during the production phase of a surface mine may create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where production stripping costs are incurred and where the benefit is the creation of mining flexibility and improved access to ore to be mined in the future, the costs are recognised as a non-current asset if:

- future economic benefits (being improved access to the orebody) are probable;
- the component of the orebody for which access will be improved can be accurately identified; and
- the costs associated with the improved access can be reliably measured.

The non-current asset recognised is referred to as a 'stripping activity asset' and is separately disclosed in Note 9, Property, plant and equipment. If all the criteria are not met, the production stripping costs are charged to the statement of profit or loss as operating costs. The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs.

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.6 Property, plant and equipment (continued)

If incidental operations are occurring at the same time as the production stripping activity, but are not necessary for the production stripping activity to continue as planned, these costs are not included in the cost of the stripping activity asset. If the costs of the stripping activity asset and the inventory produced are not separately identifiable, a relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset.

The stripping activity asset is subsequently amortised over the expected useful life of the identified component of the orebody that became more accessible as a result of the stripping activity. Based on proven and probable reserves, the expected average stripping ratio over the average life of the area being mined is used to amortise the stripping activity. As a result, the stripping activity asset is carried at cost less amortisation and any impairment losses. The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the orebody divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Changes in the stripping ratio are accounted for prospectively as a change in estimate.

Management applies judgement to calculate and allocate the production stripping costs to inventory and/or the stripping activity asset(s) as referred under Note 1.2.28, Critical accounting estimates and judgements.

1.2.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

1.2.8 Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held-for-sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that it will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Additional disclosures are provided Note 16, Assets held for sale. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.9 Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in the business combination.

Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements, are accounted for separately from the business combination in accordance with their nature and applicable IFRS.

Identifiable intangible assets, meeting either the contractual legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition date fair value can be measured reliably.

If the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities, and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in profit and loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs (or groups of CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes, and shall not be larger than an operating segment before aggregation.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

1.2.10 Financial instruments

The Group shall only recognise a financial instrument only when the Group becomes a party to the contractual provisions of the instrument. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date based on the business model for managing these financial assets and the contractual cash flow characteristics. Currently the Group only has financial assets at amortised cost which consist of receivables and other assets, and cash and short-term deposits which is held within a business model to collect contractual cash flows and for which the contractual cash flow characteristics are solely payments of principal interest. When financial assets are recognised initially, they are measured at fair value plus (in the case of financial assets not at fair value through profit or loss) directly attributable costs.

Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities greater than 12 months after the reporting date. These are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method, if the time value of money is significant, less any allowance for impairment. Gains and losses are recognised in the statement of profit or loss when the financial assets at amortised are derecognised or impaired, as well as through the amortisation process.

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.10 Financial instruments (continued)

Derecognition

A financial asset is primarily derecognised when the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset. Gains or losses from derecognition of financial assets are recognised in the statement of profit or loss.

Financial liabilities

Financial liabilities, which consist of interest-bearing borrowings and trade and other payables, are recognised initially at fair value, net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss, unless capitalised in accordance with Note 1.2.7. Borrowing costs, over the contractual period of the financial liability, using the effective interest rate method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Gains or losses from derecognition of financial liabilities are recognised in the statement of profit or loss.

1.2.11 Fair value measurement

The Group measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1.2.12 Impairments

Non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment if it is determined that there is an indication of impairment in accordance with IAS 36. Goodwill is assessed for impairment on an annual basis. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.12 Impairments (continued)

Non-financial assets that were previously impaired are reviewed for possible reversal of the impairment at each reporting date. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the statement of profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets

Assets carried at amortised cost

The Group recognises an allowance for expected credit losses (ECLs) for all financial assets at amortised costs in the statement of profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

1.2.13 Inventories

Inventories, which include rough diamonds, ore stockpiles and consumables, are measured at the lower of cost and net realisable value. The amount of any write-down of inventories to net realisable value and all losses, is recognised in the period the write-down or loss occurs. Cost is determined as the average cost of production, using the weighted average method. Cost includes directly attributable mining overheads, but excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs to be incurred in marketing, selling and distribution.

1.2.14 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost. Cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term, highly liquid investments with original maturities of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1.2.15 Issued share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

1.2.16 Foreign currency translations

Presentation currency

The results and financial position of the Group's subsidiaries which have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- statement of financial position items are translated at the closing rate at the reporting date;
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- resulting exchange differences are recognised as a separate component of equity.

Details of the rates applied at the respective reporting dates and for the statement of profit or loss transactions are detailed in Note 17, Issued capital and reserves.

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.16 Foreign currency translations (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss. Non-monetary items that are measured in terms of cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary items for each statement of financial position presented are translated at the closing rate at the reporting date.

1.2.17 Share-based payments

Employees (including Senior Executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). In situations where some or all of the goods or services received by the entity as consideration for equity instruments cannot be specifically identified, they are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous reporting date is recognised in the statement of profit or loss, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified, or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative, due to the fact that it would not be beneficial to the employees.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the statement of profit or loss for the award is expensed immediately. Where an equity-settled award is forfeited, it is treated as if vesting conditions had not been met and all costs previously recognised are reversed and recognised in income immediately for the current year and through retained earnings for costs, recognised in previous years.

Management applies judgement when determining whether share options relating to employees who resigned before the end of the service condition period are cancelled or forfeited as referred under Note 1.2.28, Critical accounting estimates and judgements.

The Group periodically releases the share-based equity reserve to retained earnings in relation to lapsed, forfeited and exercised options.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.18 Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of a past event; and
- a reliable estimate can be made of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

1.2.19 Restoration and rehabilitation

The mining, extraction and processing activities of the Group normally give rise to obligations for site restoration and rehabilitation. Rehabilitation works can include facility decommissioning and dismantling, removal and treatment of waste materials, land rehabilitation, and site restoration. The extent of the work required and the estimated cost of final rehabilitation, comprising liabilities for decommissioning and restoration, are based on current legal requirements, existing technology and the Group's environmental policies, and is reassessed annually. Cost estimates are not reduced by the potential proceeds from the sale of property, plant and equipment.

Provisions for the cost of each restoration and rehabilitation program are recognised at the time the environmental disturbance occurs. When the extent of the disturbance increases over the life of the operation, the provision and associated asset is increased accordingly. Costs included in the provision encompass all restoration and rehabilitation activity expected to occur. The restoration and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value. Discount rates used are specific to the country in which the operation is located. The value of the provision is progressively increased over time as the effect of the discounting unwinds, which is recognised in finance charges. Restoration and rehabilitation provisions are also adjusted for changes in estimates.

When provisions for restoration and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset where it gives rise to a future benefit and depreciated over future production from the operation to which it relates.

Management is required to make significant estimates and assumptions when determining the amount of the restoration and rehabilitation provisions as referred under Note 1.2.28, Critical accounting estimates and judgements.

1.2.20 Taxation

Income tax for the period comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax is provided except where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised. Withholding tax is recognised in the statement of profit or loss when dividends or other services which give rise to that withholding tax are declared or accrued respectively. Withholding tax is disclosed as part of current tax.

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.20 Taxation (continued)

Royalties

Royalties incurred by the Group comprise mineral extraction costs based on a percentage of sales paid to the local revenue authorities. These obligations arising from royalty arrangements are recognised as current payables and disclosed as part of royalty and selling costs in the statement of profit or loss.

Royalties and revenue-based taxes are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is based on taxable income – rather than based on quantity produced or as a percentage of revenue. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. The royalties incurred by the Group are considered not to meet the criteria to be treated as part of income tax.

1.2.21 Employee benefits

Provision is made in the financial statements for all short-term employee benefits. Liabilities for wages and salaries, including non-monetary benefits, benefits required by legislation, annual leave, retirement benefits and accumulating sick leave obliged to be settled within 12 months of the reporting date, are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled. Benefits falling due more than 12 months after the reporting date are discounted to present value. The Group recognises an expense for contributions to the defined contribution pension fund in the period in which the employees render the related service.

Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation. These liabilities are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled.

1.2.22 Leases

At inception, the Group assesses whether a contract is or contains a lease. This assessment involves the exercise of judgement whether it depends on a specified asset, whether the Group obtains substantially all the economic benefits from the use of that asset, and whether the Group has the right to direct the use of the asset. For leases that contain one lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (ie, the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, costs to dismantle, restore and remove the right-of-use asset, and lease payments made at or before the commencement date less any lease incentives received. After the commencement date, the right-of-use assets are measured using a cost model. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period on which the event or condition that triggers the payment occurs.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.22 Leases (continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification to the terms and conditions of the lease or if there a lease reassessment.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (ie, those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

1.2.23 Revenue from contracts with customers

Revenue comprises net invoiced diamond sales to customers excluding VAT. Diamond sales are made through a competitive tender process and recognised when the Group's performance obligations have been satisfied at the time the buyer obtains control of the diamond(s), at an amount that the Group expects to be entitled in exchange for the diamond(s). Where the Group makes rough diamond sales to customers and retains a right to an interest in their future sale as polished diamonds, the Group records the sale of the rough diamonds but such contingent revenue on the onward sale is only recognised at the date when the polished diamonds are sold.

The following revenue streams are recognised:

- rough diamonds which are sold through a competitive tender process, partnership agreements and joint operation arrangements;
- polished diamonds and other products which are sold through direct sales channels;
- additional uplift (on the value from rough to polished) on partnership arrangements; and
- additional uplift (on the value from rough to polished) on joint operation arrangements.

The sale of rough diamonds is the core business of the Group, with other revenue streams contributing marginally to total revenue.

Revenue through joint operation arrangements is recognised for the sale of the rough diamond according to each party's percentage entitlement as per the joint operation arrangement. Contractual agreements are entered into between the Group and the joint operation partner whereby both parties control jointly the cutting and polishing activities relating to the diamond. All decisions pertaining to the cutting and polishing of the diamonds require unanimous consent from both parties. Once these activities are complete, the polished diamond is sold, after which the revenue on the remaining percentage of the rough diamond is recognised, together with additional uplift on the joint operation arrangement. The Group portion of inventories related to these transactions is included in the total inventories balance.

Revenue through partnership arrangements is recognised for the sale of the rough diamond, with an additional uplift based on the polished margin achieved. Management recognises the revenue on the sale of the rough diamond when it is sold to a third party, as there is no continuing involvement by management in the cutting and polishing process and control has passed to the third party. Revenue from additional uplift is considered to be a variable consideration. This variable consideration will generally be significantly constrained. This is on the basis that the ultimate additional uplift received will depend on a range of factors that are highly susceptible to factors outside the Group's influence. Management recognises revenue on the additional uplift when the polished diamond is sold by the third party and the additional uplift is guaranteed.

Rendering of service

Revenue from services relating to third-party diamond manufacturing is recognised in the accounting period in which the services are rendered, when the Group's performance obligations have been satisfied, at an amount that the Group expects to be entitled to in exchange for the services.

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.23 Revenue from contracts with customers (continued)

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group transfers goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. The Group does not have any contract assets as performance and a right to consideration occurs within a short period of time and all rights to consideration are unconditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract. The Group does not have any contract liabilities as the transfer of goods or services performance occurs within a short period of time of receiving the consideration.

1.2.24 Interest income

Interest income is recognised on a time proportion basis using the effective interest rate method.

1.2.25 Dividends

Dividends are recognised when the amount of the dividend can be reliably measured and the Group's right to receive payment is established.

1.2.26 Finance costs

Finance costs are recognised on a time proportion basis using the effective interest rate method.

1.2.27 Dividend distribution

Dividend distributions to the Group's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

1.2.28 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and judgements and form assumptions that affect the reported amounts of the assets and liabilities, the reported revenue and costs during the periods presented therein, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the financial results or the financial position reported in future periods are discussed below.

Estimates

Ore reserves and associated life of mine (LoM)

There are numerous uncertainties inherent in estimating ore reserves and the associated LoM. Therefore, the Group must make a number of assumptions in making those estimations, including assumptions as to the prices of diamonds, exchange rates, production costs and recovery rates. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of diamonds, exchange rates, production costs or recovery rates may change the economic status of ore reserves and may, ultimately, result in the ore reserves being restated. Where assumptions change the LoM estimates, the associated depreciation rates, residual values, waste stripping and amortisation ratios, and environmental provisions are reassessed to take into account the revised LoM estimate. Refer Note 9, Property, plant and equipment.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.28 Critical accounting estimates and judgements (continued)

Exploration and evaluation expenditure

This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether economically viable extraction operations are viable where reserves have been discovered and whether indications of impairment exist. Any such estimates and assumptions may change as new information becomes available. Refer Note 9, Property, plant and equipment.

Provision for restoration and rehabilitation

Significant estimates and assumptions are made in determining the amount of the restoration and rehabilitation provisions. These deal with uncertainties such as changes to the legal and regulatory framework, magnitude of possible contamination, and the timing, extent and costs of required restoration and rehabilitation activity. Refer Note 22, Provisions, for further detail.

Judgement

Impairment reviews

The Group determines if goodwill is impaired at least on an annual basis, while all other significant operations are tested for impairment when there are potential indicators which may require impairment review. This requires an estimation of the recoverable amount of the relevant CGU under review. Recoverable amount is the higher of fair value less costs to sell and value in use. While conducting an impairment review of its assets using value-in-use impairment models, the Group exercises judgement in making assumptions about future rough diamond prices, exchange rates, volumes of production, ore reserves and resources included in the current LoM plans, production costs and macro-economic factors such as inflation and discount rates. Changes in estimates used can result in significant changes to the consolidated statement of profit or loss and consolidated statement of financial position. The results of the impairment testing performed did not indicate any impairments in the current year.

The key assumptions used in the recoverable amount calculations, determined on a value-in-use basis, are listed below:

Valuation basis

Discounted present value of future cash flows.

LoM and recoverable value of reserves and resources

Economically recoverable reserves and resources, carats recoverable and grades achievable are based on management's expectations of the availability of reserves and resources at mine sites and technical studies undertaken by in-house and third-party specialists. Reserves remaining after the current LoM plan have not been included in determining the value in use of the operations.

Cost and inflation rate

Operating costs for Letšeng are determined based on management's experience and the use of contractors over a period of time whose costs are fairly reasonably determinable. Mining and processing costs in the short to medium term have been based on the agreements with the relevant contractors. In the longer term, management has applied local inflation rates of 4% to 6% for operating costs in addition to a depth escalation factor for mining costs as a result of mining in deeper areas within both pits.

Capital costs in the short-term has been based on management's capital program after which a fixed percentage of operating costs have been applied to determine the capital costs necessary to maintain current levels of operations.

Exchange rates

Exchange rates are estimated based on an assessment at current market fundamentals and long-term expectations. The US dollar/Lesotho loti (LSL) exchange rate used was determined with reference to the closing rate at 31 December 2019 of LSL13.98.

Diamond prices

The diamond prices used in the impairment test have been set with reference to recent prices achieved, recent market trends and the Group's medium-term forecast. Long-term diamond price escalation reflects the Group's assessment of market supply/demand fundamentals.

Discount rate

The discount rate of 11.2% for revenue (2018: 12.2%) and 14.7% for costs (2018: 15.8%) used for Letšeng represents the before-tax risk-free rate adjusted for market risk, volatility and risks specific to the asset and its operating jurisdiction.

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.28 Critical accounting estimates and judgements (continued)

Market capitalisation

In the instance where the Group's asset carrying values exceed market capitalisation, this results in an indicator of impairment. The Group believes that this position does not represent an impairment as all significant operations were assessed for impairment during the year and no impairments were recognised.

Sensitivity

The value in use for Letšeng indicated sufficient headroom, and no reasonable change in the key assumptions will result in an impairment. Refer Note 12, Impairment testing, for further detail.

Capitalised stripping costs (deferred waste)

Waste removal costs (stripping costs) are incurred during the development and production phases at surface mining operations. Furthermore, during the production phase, stripping costs are incurred in the production of inventory as well as in the creation of future benefits by improving access and mining flexibility in respect of the ore to be mined, the latter being referred to as a 'stripping activity asset'. Judgement is required to distinguish between these two activities at Letšeng. The orebody needs to be identified in its various separately identifiable components. An identifiable component is a specific volume of the orebody that is made more accessible by the stripping activity. Judgement is required to identify and define these components (referred to as 'cuts'), and also to determine the expected volumes (tonnes) of waste to be stripped and ore to be mined in each of these components. These assessments are based on a combination of information available in the mine plans, specific characteristics of the orebody and the milestones relating to major capital investment decisions.

Judgement is also required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and the stripping activity asset. The ratio of expected volume (tonnes) of waste to be stripped for an expected volume (tonnes) of ore to be mined for a specific component of the orebody, compared to the current period ratio of actual volume (tonnes) of waste to the volume (tonnes) of ore is considered to determine the most suitable production measure.

These judgements and estimates are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity asset(s). Furthermore, judgements and estimates are also used to apply the stripping ratio calculation in determining the amortisation of the stripping activity asset. Refer Note 9, Property, plant and equipment, for further detail.

Share-based payments

Judgement is applied by management in determining whether the share options relating to employees who resigned before the end of the service condition period have been cancelled or forfeited in light of their leaving status. Where employees do not meet the requirements of a good leaver as per the rules of the long-term incentive plan (LTIP), no award will vest and this will be treated as cancellation by forfeiture. The expenses relating to these charges previously recognised are then reversed. Where employees do meet the requirements of a good leaver as per the rules of the LTIP, some or all of an award will vest and this will be treated as a modification to the original award. The future expenses relating to these awards are accelerated and recognised as an expense immediately. Refer Note 28, Share-based payments, for further detail.

Identifying uncertainties over tax treatments

In December 2019, an amended tax assessment was issued to Letšeng by the Lesotho Revenue Authority (LRA), contradicting the application of certain tax treatments in the current Income Tax Act.

Management do not believe an uncertain tax position exists as:

- there is no ambiguity in the application of the Lesotho Income Tax Act;
- there has been no change in the application of the Income Tax Act and resulting tax; and
- senior counsel advice, which is legally privileged, has been obtained and reflects good prospects of success in setting aside the amended tax assessment.

Management has lodged a formal Objection to the amended tax assessment, which Objection is supported by the opinion of senior counsel. The LRA applies a "pay now argue later" principle, the application of which is subject to the discretion of the Commissioner General. An application for the suspension of any payment has been made to the Commissioner General together with the Objection. No provision or contingent liability, relating to the amended tax assessment in question, is therefore required to be raised in the 2019 Annual Financial Statements.

Equipment and service lease

The major components of Letšeng's ore-extraction mining activities are outsourced to a mining contractor. The mining contractor performs these functions using their own equipment. Management applied judgement when evaluating whether the contract between Letšeng and the mining contractor contained a lease. While it was concluded there was a lease, lease payments are variable in nature as the lease payment vary based on the tonnes of ore and waste mined and hence no right of use asset or liability could be measured. The lease payment is therefore expensed in the statement of profit or loss. Refer Note 25, Commitments and contingencies.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

	2019 US\$'000	2018* US\$'000
2. REVENUE FROM CONTRACTS WITH CUSTOMERS		
Sale of goods	182 046	266 822
Rendering of services	1	468
	182 047	267 290
<p>The revenue from the sale of goods represents the sale of rough diamonds, for which revenue is recognised at the point in time at which control transfers. The revenue from the rendering of services mainly represents the services rendered on third-party diamond analysis and manufacturing, for which the revenue is recognised over time as the services are rendered.</p> <p>No revenue was generated from joint operation or partnership arrangements during the current year (2018: Nil).</p>		
3. OTHER OPERATING INCOME		
Sundry income	90	300
Sundry expenses	(7)	(521)
Profit on disposal and scrapping of property, plant and equipment	762	695
	845	474
4. OPERATING PROFIT		
Operating profit includes the following:		
Depreciation and amortisation		
Depreciation and amortisation excluding waste stripping costs	(12 400)	(8 605)
Depreciation of right-of-use assets	(2 526)	–
Waste stripping costs amortised	(43 129)	(68 205)
	(58 055)	(76 810)
(Less): Depreciation and mining asset amortisation capitalised to inventory	(151)	(51)
	(58 206)	(76 861)
Inventories		
Cost of inventories recognised as an expense	(114 678)	(146 397)
Foreign exchange gain		
Foreign exchange gain	3 550	2 200
Lease expenses not included in lease liability		
Mine site property	(146)	(131)
Equipment and service lease	(61 658)	(68 174)
Contingent rental – Alluvial Ventures	(9 472)	(11 924)
Leased premises	(152)	(1 807)
	(71 428)	(82 036)

* Prior period figures have been restated for the reclassification impact of accounting for the discontinued operation (refer Note 16, Assets held for sale).

	2019 US\$'000	2018* US\$'000
4. OPERATING PROFIT (continued)		
Auditor's remuneration – EY		
Group financial statements	(296)	(279)
Statutory	(172)	(153)
Other audit-related services ¹	–	(106)
	(468)	(538)
Auditor's remuneration – other audit firms		
Statutory	(17)	(20)
Other non-audit fees – EY		
Tax compliance	(34)	(8)
Tax services advisory and consultancy	(9)	(12)
Other services ²	(15)	(3)
	(58)	(23)
Other non-audit fees – other audit firms		
Internal audit	(2)	(1)
Employee benefits expense		
Salaries and wages ³	(22 088)	(20 123)
Underlying earnings before interest, tax, depreciation and mining asset amortisation (underlying EBITDA) before discontinued operation		
Underlying EBITDA is shown, as the Directors consider this measure to be a relevant guide to the operational performance of the Group and excludes such non-operating costs as listed below. The reconciliation from operating profit to underlying EBITDA is as follows:		
Operating profit	29 858	80 365
Other operating income	(845)	(474)
Foreign exchange gain	(3 550)	(2 200)
Share-based payments	784	1 422
Depreciation and amortisation (excluding waste stripping cost amortised)	14 752	8 567
Underlying EBITDA before discontinued operation	40 999	87 680

* Prior period figures have been restated for the reclassification impact of accounting for the discontinued operation (refer Note 16, Assets held for sale).

¹ Other audit-related services by EY relate to the interim review on the half year results for the six months ended 30 June 2018. No interim review was performed on the 2019 half year results.

² Includes services related to the sale of assets.

³ Includes contributions to defined contribution plan of US\$0.5 million (31 December 2018: US\$0.5 million). An average of 425 employees excluding contractors were employed during the period (2018: 401).

5. RECLASSIFICATION OF FOREIGN CURRENCY TRANSLATION RESERVE

During the year the Group abandoned Gem Diamonds Marketing Botswana (Proprietary) Limited, the sales and marketing office for Ghaghoo's diamonds and Gem Diamonds Technology DMCC, which owned an investment property in Dubai that was sold at the end of the prior year. As the operations are being closed and not sold the closure has been classified as an abandonment, which has resulted in the recycling of the foreign currency translation reserve. There was no profit or loss on the abandonment.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

	2019 US\$'000	2018* US\$'000
6. NET FINANCE COSTS		
Finance income		
Bank deposits	668	2 031
Other	–	1
Total finance income	668	2 032
Finance costs		
Bank overdraft	(459)	(1 887)
Finance costs on borrowings	(3 981)	(916)
Finance costs on lease liabilities	(1 087)	–
Finance costs on unwinding of rehabilitation and decommissioning provision	(949)	(887)
Total finance costs	(6 476)	(3 690)
	(5 808)	(1 658)
7. INCOME TAX		
Income tax expense		
Current		
– Overseas	(1 805)	(16 147)
Withholding tax		
– Overseas	(143)	(4 984)
Deferred		
– Overseas	(7 072)	(5 217)
	(9 020)	(26 348)
Profit before taxation from continuing operations	24 050	78 707
	%	%
Reconciliation of tax rate		
Applicable income tax rate	25.0	25.0
Permanent differences	0.8	1.1
Unrecognised deferred tax assets	7.9	1.9
Effect of overseas tax at different rates	3.2	1.3
Withholding tax	0.6	6.8
Effective income tax rate	37.5	36.1

The tax rate reconciles to the statutory Lesotho corporation tax rate of 25.0% rather than the statutory UK corporation tax rate of 19.0% as this is the jurisdiction in which the majority of the Group's taxes are incurred.

* Prior period figures have been restated for the reclassification impact of accounting for the discontinued operation (refer Note 16, Assets held for sale).

8. EARNINGS PER SHARE

The following reflects the income and share data used in the basic and diluted earnings per share computations:

Profit for the year:

	2019 US\$'000	2018 US\$'000
Profit for the year:	10 576	46 641
Continuing operations	15 030	52 880
Discontinued operation	(4 454)	(6 239)
Less: Non-controlling interests	(7 959)	(20 624)

Net profit attributable to ordinary equity holders of the parent for basic and diluted earnings

	2019 US\$'000	2018 US\$'000
Net profit attributable to ordinary equity holders of the parent for basic and diluted earnings	2 617	26 017
Weighted average number of ordinary shares outstanding during the year ('000)	138 964	138 731

Earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year after taking into account future potential conversion and issue rights associated with the ordinary shares.

	2019 Number of shares	2018 Number of shares
Weighted average number of ordinary shares outstanding during the year	138 964	138 731
Effect of dilution:		
– Future share awards under the Employee Share Option Plan	2 640	3 265
Weighted average number of ordinary shares outstanding during the year adjusted for the effect of dilution	141 604	141 996

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

9. PROPERTY, PLANT AND EQUIPMENT

	Stripping activity asset US\$'000	Mining asset US\$'000	Exploration and develop- ment assets US\$'000	De- commis- sioning assets US\$'000	Lease- hold improve- ment US\$'000	Plant and equipment US\$'000	Other assets ¹ US\$'000	Total US\$'000
As at 31 December 2019								
Cost								
Balance at 1 January 2019	473 395	117 913	148 890	5 494	55 197	95 365	19 899	916 153
Additions	73 175	434	–	–	19	8 727	506	82 861
Net movement in rehabilitation provision	–	–	–	157	–	–	–	157
Disposals	–	–	–	–	–	(292)	(343)	(635)
Reclassifications	–	2 634	–	–	8 085	(11 328)	609	–
Assets held for sale (Note 16)	–	–	(141 531)	–	(6 821)	(10 195)	(14 683)	(173 230)
Foreign exchange differences	16 013	1 080	2 021	171	1 739	2 480	1 011	24 515
Balance at 31 December 2019	562 583	122 061	9 380	5 822	58 219	84 757	6 999	849 821
Accumulated depreciation/amortisation/impairment								
Balance at 1 January 2019	316 412	51 652	147 441	3 669	24 639	64 233	18 467	626 513
Charge for the year	43 129	1 963	–	310	5 279	4 223	625	55 529
Disposals	–	–	–	–	–	–	(320)	(320)
Assets held for sale (Note 16)	–	–	(139 962)	–	(6 821)	(10 195)	(14 683)	(171 661)
Foreign exchange differences	9 847	321	2 000	123	768	1 867	981	15 907
Balance at 31 December 2019	369 388	53 936	9 380	4 102	23 901	60 128	5 133	525 968
Net book value at 31 December 2019								
	193 195	68 125	–	1 720	34 318	24 629	1 866	323 853

¹ Other assets comprise motor vehicles, computer equipment, furniture and fittings, and office equipment.

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	Stripping activity asset US\$'000	Mining asset US\$'000	Exploration and develop- ment assets US\$'000	De- commis- sioning assets US\$'000	Lease- hold improve- ment US\$'000	Plant and equipment US\$'000	Other assets ² US\$'000	Total US\$'000
As at 31 December 2018								
Cost								
Balance at 1 January 2018	465 206	124 013	161 733	4 347	42 307	108 165	24 373	930 144
Additions	79 294	220	–	–	23	22 530	171	102 238
Net movement in rehabilitation provision	–	–	–	1 944	–	–	–	1 944
Disposals	–	–	(44)	–	(3)	–	(411)	(458)
Reclassifications	–	–	–	–	19 846	(20 282)	436	–
Assets held for sale (Note 16)	–	–	–	–	–	–	(2 124)	(2 124)
Foreign exchange differences	(71 105)	(6 320)	(12 799)	(797)	(6 976)	(15 048)	(2 546)	(115 591)
Balance at 31 December 2018	473 395	117 913	148 890	5 494	55 197	95 365	19 899	916 153
Accumulated depreciation/amortisation/impairment								
Balance at 1 January 2018	291 536	51 084	160 107	4 302	24 928	71 293	21 352	624 602
Charge for the year	68 205	2 056	–	4	2 937	2 674	977	76 853
Disposals	–	–	–	–	(1)	–	(370)	(371)
Assets held for sale (Note 16)	–	–	–	–	–	–	(1 267)	(1 267)
Foreign exchange differences	(43 329)	(1 488)	(12 666)	(637)	(3 225)	(9 734)	(2 225)	(73 304)
Balance at 31 December 2018	316 412	51 652	147 441	3 669	24 639	64 233	18 467	626 513
Net book value at 31 December 2018								
	156 983	66 261	1 449	1 825	30 558	31 132	1 432	289 640

¹ Borrowing costs of US\$1.6 million incurred in respect of the LSL215.0 million facility at Letseng (refer Note 18, Interest-bearing loans and borrowings) were capitalised to the leasehold improvements. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 10.49%

² Other assets comprise motor vehicles, computer equipment, furniture and fittings, and office equipment.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

	Right-of-use assets			
	Plant and equipment US\$'000	Motor vehicles US\$'000	Buildings US\$'000	Total US\$'000
10. RIGHT-OF-USE ASSETS				
As at 1 January 2019	1 350	1 620	6 642	9 612
Additions	616	–	540	1 156
Depreciation charge for the year	(977)	(360)	(1 189)	(2 526)
Foreign exchange differences	43	35	134	212
As at 31 December 2019	1 032	1 295	6 127	8 454

Right-of-use assets is a new category of assets that was recognised on adoption of IFRS 16 *Leases*. Refer Note 1.2.1, Changes in accounting policy.

Plant and equipment mainly comprise back-up power generating equipment utilised at Letšeng. Motor vehicles mainly comprise vehicles utilised by contractors at Letšeng. Buildings comprise office buildings in Maseru, Antwerp, London and Johannesburg.

During the year the Group recognised income from sub-leasing of office buildings in Maseru of US\$0.6 million.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

	Intangibles US\$'000	Goodwill* US\$'000	Total US\$'000
11. INTANGIBLE ASSETS			
As at 31 December 2019			
Cost			
Balance at 1 January 2019	791	13 272	14 063
Foreign exchange difference	–	381	381
Balance at 31 December 2019	791	13 653	14 444
Accumulated amortisation			
Balance at 1 January 2019	791	–	791
Amortisation	–	–	–
Balance at 31 December 2019	791	–	791
Net book value at 31 December 2019	–	13 653	13 653
As at 31 December 2018			
Cost			
Balance at 1 January 2018	791	15 422	16 213
Foreign exchange difference	–	(2 150)	(2 150)
Balance at 31 December 2018	791	13 272	14 063
Accumulated amortisation			
Balance at 1 January 2018	791	–	791
Amortisation	–	–	–
Balance at 31 December 2018	791	–	791
Net book value at 31 December 2018	–	13 272	13 272

* Goodwill allocated to Letšeng Diamonds. Refer Note 12, Impairment for impairment testing.

12. IMPAIRMENT TESTING

Impairment testing

Goodwill impairment testing is undertaken on Letšeng Diamonds annually and when there are indications of impairment. The most recent test was undertaken at 31 December 2019. In assessing whether goodwill has been impaired, the carrying amount of Letšeng Diamonds is compared with its recoverable amount. For the purpose of goodwill impairment testing in 2019, the recoverable amount for Letšeng Diamonds has been determined based on a value-in-use model, similar to that adopted in the past.

Goodwill

	2019 US\$'000	2018 US\$'000
Letšeng Diamonds	13 653	13 272
Balance at end of year	13 653	13 272

Movement in goodwill relates to foreign exchange translation from functional to presentation currency.

The discount rate is outlined below and represents the nominal pre-tax rate. This rate is based on the weighted average cost of capital (WACC) of the Group and adjusted accordingly at a risk premium for Letšeng Diamonds, taking into account risks associated therein.

	2019 %	2018 %
Discount rate – Letšeng Diamonds		
Applied to revenue	11.2	12.2
Applied to costs	14.7	15.8

Value in use

Cash flows are projected for a period up to the date that the open pit mining is expected to cease in 2036. This is based on the latest available mine plan and is shorter than the mining lease period. During the year, the Letšeng mining lease was extended for 10 years, expiring on 2 October 2029, with an exclusive option to renew for a further 10 years to 2039. This mine plan takes into account the available reserves and other relevant inputs such as diamond pricing, costs and geotechnical parameters.

Sensitivity to changes in assumptions

It was assessed that no reasonable possible change in any of the key assumptions would cause Letšeng's carrying amount to exceed its recoverable amount.

The Group will continue to test its assets for impairment where indications are identified.

Refer Note 1.2.28, Critical accounting estimates and judgements, for further details on impairment testing policies.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

	2019 US\$'000	2018 US\$'000
13. RECEIVABLES AND OTHER ASSETS		
Non-current		
Prepayments ¹	–	347
Current		
Trade receivables	89	184
Prepayments ¹	1 087	1 038
Deposits	94	97
Other receivables	797	329
VAT receivable	4 270	3 785
	6 337	5 433
The carrying amounts above approximate their fair value.		
Terms and conditions of the receivables:		
Analysis of trade receivables		
Neither past due nor impaired	39	135
Past due but not impaired:		
Less than 30 days	50	49
30 to 60 days	–	–
60 to 90 days	–	–
90 to 120 days	–	–
	89	184

¹ Included in current prepayments are facility restructuring costs of US\$0.4 million (2018: non-current US\$0.3, current US\$0.4).

Based on the nature of the Group's client base, the expected credit loss has no impact on the Group.

	2019 US\$'000	2018 US\$'000
14. INVENTORIES		
Diamonds on hand	21 743	18 531
Ore stockpiles	1 816	2 585
Consumable stores	8 958	11 968
	32 517	33 084

Inventory is carried at the lower of cost or net realisable value. During the year a write-down to net realisable value adjustment of US\$1.1 million was recorded.

	2019 US\$'000	2018 US\$'000
15. CASH AND SHORT-TERM DEPOSITS		
Cash on hand	1	1
Bank balances	10 971	16 093
Short-term bank deposit	331	34 718
	11 303	50 812

The amounts reflected in the financial statements approximate fair value.

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are generally call deposit accounts and earn interest at the respective short-term deposit rates.

At 31 December 2019, the Group had restricted cash of US\$0.1 million (31 December 2018: US\$0.2 million). The Group's cash surpluses are deposited with major financial institutions of high-quality credit standing predominantly within Lesotho and the United Kingdom.

At 31 December 2019, the Group had US\$69.9 million (31 December 2018: US\$57.8 million) of undrawn facilities, representing the LSL500.0 million (US\$35.8 million) three-year unsecured revolving working capital facility at Letšeng, the Letšeng ZAR100.0 million (US\$7.2 million) working capital facility and US\$27.0 million from Tranche 2 of the Company's US\$45.0 million three-and-a-half-year unsecured revolving credit facility.

For further details on these facilities, refer Note 18, Interest-bearing loans and borrowings

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

	2019 US\$'000	2018 US\$'000
16. ASSETS HELD FOR SALE		
Property, plant and equipment	–	859 ¹
Discontinued operation assets	3 943	–
	3 943	859

¹ On 30 January 2019, the aircraft which serviced the Letšeng mine was sold for US\$2.1 million. This was disclosed as an asset held for sale at 31 December 2018.

The non-recurring fair value measurement is included in level 3 of the fair value hierarchy. The fair value is based on the purchase price of the transaction.

Discontinued operation held for sale

The Ghaghoo mine was placed on care and maintenance on 31 March 2017. In June 2019 the Company entered into a binding agreement for the sale of 100% of the share capital of Gem Diamonds Botswana Proprietary Limited, which owns the Ghaghoo Diamond Mine, for US\$5.4 million. The sale, subject to regulatory approvals in Botswana and other conditions precedent, is expected to be concluded in 2020. The assets held for sale are carried at carrying value which is lower than fair value less costs to sell. The trading results of the operation have been classified as a discontinued operation held for sale and are presented as follows:

	2019 US\$'000	2018 US\$'000
Gross profit	–	–
Other operating costs	(4 389)	(5 519)
Share-based payments	(10)	(15)
Foreign exchange gain	125	6
Operating loss	(4 274)	(5 528)
Net finance costs	(180)	(190)
Loss before tax from discontinued operation	(4 454)	(5 718)
Income tax expense	–	–
Loss after tax from discontinued operation	(4 454)	(5 718)
Loss per share from discontinued operation (cents)		
Basic	(3.20)	(4.1)
Diluted	(3.14)	(4.1)

	2019 US\$'000
16. ASSETS HELD FOR SALE (continued)	
The assets and liabilities attributable to the discontinued operation held for sale are as follows:	
ASSETS	
Non-current assets	
Property, plant and equipment	1 568
Current assets	
Inventories	2 136
Receivables and other assets	99
Cash and short-term deposits	140
	2 375
Total assets	3 943
LIABILITIES	
Non-current liabilities	
Provisions	3 613
Current liabilities	
Trade and other payables	608
Total liabilities	4 221

	2019 US\$'000	2018 US\$'000
The net cash flows attributable to the discontinued operation held for sale are as follows:		
Operating	(4 323)	(6 251)
Investing	–	313
Financing	4 384	5 845
Foreign exchange gain/(loss) on translation of cash balance	2	(11)
Cash inflow/(outflow)	63	(104)

17. ISSUED SHARE CAPITAL AND RESERVES

	31 December 2019		31 December 2018	
	Number of shares '000	US\$'000	Number of shares '000	US\$'000
Share capital				
Authorised – ordinary shares of US\$0.01 each				
As at year end	200 000	2 000	200 000	2 000
Issued and fully paid balance at beginning of year	138 896	1 390	138 620	1 387
Allotments during the year	88	1	276	3
Balance at end of year	138 984	1 391	138 896	1 390

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

17. ISSUED SHARE CAPITAL AND RESERVES (continued)

Share premium

Share premium comprises the excess value recognised from the issue of ordinary shares at par value.

Other reserves

	Foreign currency translation reserve US\$'000	Share-based equity reserve US\$'000	Total US\$'000
Balance at 1 January 2019	(207 639)	55 610	(152 029)
Other comprehensive income	(854)	–	(854)
Total comprehensive income	(854)	–	(854)
Share-based payments	–	794	794
Transfer between reserves ¹	–	(50 768)	(50 768)
Balance at 31 December 2019	(202 493)	5 636	(202 857)
Balance at 1 January 2018	(177 984)	54 713	(123 811)
Other comprehensive expense	(29 655)	–	(29 655)
Total comprehensive expense	(29 655)	–	(29 655)
Share-based payments	–	1 437	1 437
Balance at 31 December 2018	(207 639)	55 610	(152 029)

¹ The Company elected to release share-based equity reserve relating to lapsed and exercised options to accumulated (losses)/retained earnings.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of foreign entities. The South African, Lesotho, Botswana and United Arab Emirates (abandoned during the year) subsidiaries' functional currencies are different to the Group's functional currency of US dollar. The rates used to convert the operating functional currency into US dollar are as follows:

	Currency	2019	2018
Average rate	ZAR/LSL to US\$1	14.45	13.25
Year end	ZAR/LSL to US\$1	13.98	14.39
Average rate	Pula to US\$1	10.76	10.20
Year end	Pula to US\$1	10.58	10.73
Average rate	Dirham to US\$1	3.67	3.67
Year end	Dirham to US\$1	3.67	3.67

Share-based equity reserves

For details on the share-based equity reserve, refer Note 28, Share-based payments.

Capital management

For details on capital management, refer Note 27, Financial risk management.

18. INTEREST-BEARING LOANS AND BORROWINGS

	Effective interest rate	Maturity	2019 US\$'000	2018 US\$'000
Non-current				
LSL215.0 million bank loan facility				
Tranche 1	South African JIBAR + 3.15%	31 March 2022	4 291	7 508
Tranche 2	South African JIBAR + 6.75%	30 September 2022	1 168	1 784
US\$45.0 million bank loan facility				
Tranche 1	London US\$ three-month LIBOR + 4.5%	31 December 2020	–	10 000
ZAR12.8 million asset-based finance facility				
	South African Prime Lending Rate	1 January 2024	550	662
			6 009	19 954
Current				
LSL215.0 million bank loan facility				
Tranche 1	South African JIBAR + 3.15%	31 March 2022	3 433	3 337
Tranche 2	South African JIBAR + 6.75%	30 September 2022	667	649
US\$45.0 million bank loan facility				
Tranche 1	London US\$ three-month LIBOR + 4.5%	31 December 2020	10 000	10 000
Tranche 2	London US\$ three-month LIBOR + 4.5%	31 December 2020	2 000	–
ZAR12.8 million asset-based finance facility				
	South African Prime Lending Rate	1 January 2024	232	226
			16 332	14 212

LSL215.0 million (US\$15.4 million) bank loan facility at Letšeng Diamonds

This loan comprises two tranches of debt as follows:

- Tranche 1: South African rand denominated ZAR180.0 million (US\$12.9 million) debt facility supported by the Export Credit Insurance Corporation (ECIC) (five years tenure); and
- Tranche 2: Lesotho loti denominated LSL35.0 million (US\$2.5 million) term loan facility without ECIC support (five years and six months tenure).

The loan is an unsecured project debt facility which was signed jointly with Nedbank and the ECIC on 22 March 2017 for the total funding of the construction of the Letšeng mining support services complex. The loan is repayable in equal quarterly payments which commenced in September 2018. At year end LSL133.7 million (US\$9.6 million) (31 December 2018: LSL191.0 million (US\$13.3 million)) remains outstanding. The South African rand-based interest rates for the facility at 31 December 2019 are:

- Tranche 1: 9.95% (2018: 10.30%); and
- Tranche 2: 13.55% (2018: 13.90%).

Total interest for the year on this interest-bearing loan was US\$2.2 million (2018: US\$1.6 million).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

18. INTEREST-BEARING LOANS AND BORROWINGS (continued)

US\$45.0 million bank loan facility at Gem Diamonds Limited

This facility is a three-and-a-half-year revolving credit facility (RCF) with Nedbank Capital and consists of two tranches:

- Tranche 1: relates to the Ghaghoo US\$25.0 million debt whereby capital repayments commenced in September 2018 with a final repayment due on 31 December 2020; and
- Tranche 2: this tranche of US\$20.0 million relates to an RCF and includes an upsize mechanism whereby this tranche will increase by a ratio of 0.6:1 for every repayment made under Tranche 1. This will result in the available facility increasing to US\$35.0 million once Tranche 1 is fully repaid.

At year end US\$10.0 million (31 December 2018: US\$20.0 million) had been drawn down relating to Tranche 1 and US\$2.0 million (31 December 2018: US\$nil) relating to Tranche 2. This resulted in US\$27.0 million remaining undrawn under Tranche 2. The US dollar-based interest rate for this facility at 31 December 2019 is 6.44% (2018: 7.30%).

Total interest for the year on this interest-bearing RCF was US\$1.7 million (2018: US\$1.6 million).

ZAR12.8 million Asset-Based Finance facility

The Group, through its subsidiary, Gem Diamond Technical Services, entered into a ZAR12.8 million (US\$0.9 million) Asset Based Finance (ABF) facility with Nedbank Limited for the purchase of a mobile X-Ray transmission machine (the asset). The asset serves as security for the facility. At year end ZAR10.9 million (US\$0.8 million) remains outstanding. The facility is repayable over five years and bears interest at the South African Prime Lending rate, which was 10.00% at 31 December 2019 (2018: 10.25%).

Total interest for the year on this interest-bearing ABF was US\$0.1 million (2018: US\$0.1 million).

Other facilities

In addition, at 31 December 2019, the Group through its subsidiary Letšeng Diamonds, has a LSL500.0 million (US\$35.8 million) three-year unsecured revolving working capital facility jointly with Standard Lesotho Bank and Nedbank Capital, which was renewed in July 2018. There was no draw down of this facility at year end.

The Group, through its subsidiary, Letšeng Diamonds, entered into a ZAR100.0 million (US\$7.2 million) 12-month working capital facility during the year with Nedbank Limited (acting through its Nedbank Corporate and Investment Banking division). There was no draw down of this facility at year end and it expires in December 2020.

19. LEASE LIABILITIES

	2019 US\$'000	2018 US\$'000
Non-current	8 539	–
Current	1 940	–
Total lease liabilities	10 479	–

Lease liabilities is a new category of liabilities that was recognised on adoption of IFRS 16 *Leases*. Refer Note 1.2.1, Changes in accounting policies and disclosures.

	31 December 2019 US\$'000
Reconciliation of movement in lease liabilities	
As at 1 January 2019	11 043
Additions	1 156
Interest expense	1 087
Lease payments	(2 988)
Foreign exchange differences	181
As at 31 December 2019	10 479

The Group recognised rent expense from short-term leases of US\$1.7 million and variable lease payments of US\$61.7 million for the year ended 31 December 2019.

Residual value guarantees of US\$0.1 million exist on leases for backup power generating equipment at Letšeng, which represents the cost to decommission and return the power generating equipment to the supplier at the end of the lease term.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

	2019 US\$'000	2018 US\$'000
20. TRADE AND OTHER PAYABLES		
Non-current		
Severance pay benefits ¹	1 936	1 555
Current		
Trade payables ²	13 368	12 672
Accrued expenses ²	8 817	11 019
Leave benefits	615	499
Royalties and withholding taxes ²	3 573	2 572
Operating lease ³	–	1 538
Other	17	254
	26 390	28 554
¹ The severance pay benefits arise due to legislation within the Lesotho jurisdiction, requiring that two weeks of severance pay be provided for every completed year of service, payable on retirement.		
² These amounts are mainly non-interest bearing and are settled in accordance with terms agreed between the parties.		
³ In line with the adoption requirements of IFRS 16 Leases, accrued lease agreements relating to operating leases were allocated against the right-of-use assets recognised. Refer Note 1.2.1, Changes in accounting policies and Note 10, Right-of-use assets.		
Included in accrued expenses is US\$0.5 million relating to employee taxes on fringe benefits not withheld on mileage reimbursements. This was disclosed as a contingent liability in the prior year. Refer Note 25, Commitments and contingencies.		
Royalties consist of a levy paid to the Government of the Kingdom of Lesotho on the value of diamonds sold by Letšeng. This levy increased from 8% to 10% in October 2019 in line with the terms of the renewed Letšeng mining lease.		
The carrying amounts above approximate fair value.		
21. INCOME TAX (RECEIVABLE)/PAYABLE		
Reconciliation of movement in income tax payable		
Balance at 1 January	8 964	1 276
Payments made during the year	(18 787)	(12 623)
Tax charge per statement of profit or loss	1 948	21 131
Foreign exchange differences	(301)	(820)
	(8 176)	8 964
Split as follows		
Income tax receivable	(8 189)	–
Income tax payable	13	8 964
22. PROVISIONS		
Rehabilitation provisions	15 588	17 876
Reconciliation of movement in rehabilitation provisions		
Balance at 1 January	17 876	17 306
(Decrease)/increase during the year	(295)	1 944
Unwinding of discount rate	1 130	1 078
Discontinued operation (Note 16)	(3 613)	–
Foreign exchange differences	490	(2 452)
	15 588	17 876

22. PROVISIONS (continued)

Rehabilitation provisions

The provisions have been recognised as the Group has an obligation for rehabilitation of the mining areas. The provisions have been calculated based on total estimated rehabilitation costs, discounted back to their present values over the LoM at the mining operations. The pre-tax discount rates are adjusted annually and reflect current market assessments.

In determining the amounts attributable to the rehabilitation provision at the Lesotho mining area, management used a discount rate of 6.7% (31 December 2018: 6.6%), estimated rehabilitation timing of 17 years (31 December 2018: seven years) and an inflation rate of 5.0% (31 December 2018: 5.3%). At the Botswana mining area, management used the available estimated costs to rehabilitate, considering its care and maintenance state. In addition to the changes in the discount rates, inflation and rehabilitation timing, the increase in the provision (including Ghaghoo) is attributable to the annual reassessment of the estimated closure costs performed at the operations together with the ongoing rehabilitation spend during the year at Letšeng.

	2019 US\$'000	2018 US\$'000
23. DEFERRED TAXATION		
Deferred tax assets		
Lease liabilities	2 705	–
Accrued leave	52	56
Operating lease liability	–	2
Provisions	5 114	5 688
	7 871	5 746
Deferred tax liabilities		
Property, plant and equipment	(84 532)	(75 470)
Right-of-use assets	(2 174)	–
Prepayments	(251)	(292)
Unremitted earnings	(4 038)	(4 038)
	(90 995)	(79 800)
Net deferred tax liability	(83 124)	(74 054)
Reconciliation of deferred tax liability		
Balance at beginning of year	(74 054)	(78 579)
Movement in current period:		
– Accelerated depreciation for tax purposes	(6 914)	(6 667)
– Accrued leave	(4)	(1)
– Operating lease liability	(351)	26
– Prepayments	41	44
– Provisions	(351)	1 381
– Lease liabilities	2 626	–
– Right-of-use assets	(2 112)	–
– Foreign exchange differences	(2 005)	9 742
	(83 124)	(74 054)

The Group has not recognised a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries because it is able to control the timing of dividends and only part of the temporary difference is expected to reverse in the foreseeable future. The gross temporary difference in respect of the undistributable reserves of the Group's subsidiaries for which a deferred tax liability has not been recognised is US\$92.8 million (31 December 2018: US\$70.5 million).

The Group has estimated tax losses of US\$211.2 million (31 December 2018: US\$194.5 million). All tax losses are generated in jurisdictions where tax losses do not expire. No deferred tax assets were recognised on these losses.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

	Notes	2019 US\$'000	2018 US\$'000
24. CASH FLOW NOTES			
24.1 Cash generated by operations			
Profit before tax for the year – continuing operations		24 050	78 708
Loss for the year – discontinued operation		(4 454)	(5 719)
<i>Adjustments for:</i>			
Depreciation and amortisation excluding waste stripping	4	12 551	8 699
Depreciation on right-of-use assets	10	2 526	–
Waste stripping cost amortised	4	43 129	68 205
Finance income	6	(668)	(2 033)
Finance costs	6, 16	6 656	3 880
Unrealised foreign exchange differences		(4 184)	(8 201)
Profit on disposal and scrapping of property, plant and equipment		(762)	(695)
Reclassification of foreign currency translation reserve		(4)	–
Movement in prepayment		(647)	426
Other non-cash movements		2 657	5 048
Share-based equity transaction		794	1 437
		81 644	149 755
24.2 Working capital adjustment			
Increase in inventory		(851)	(3 660)
Decrease/(increase) in receivables		1 596	(261)
(Decrease)/increase in payables		(3 599)	5 837
		(2 854)	1 916
24.3 Cash flows from financing activities excluding lease liabilities			
Balance at beginning of year		34 166	46 343
Net cash used in financing activities		(12 175)	(10 024)
– Financial liabilities repaid		(47 056)	(12 937)
– Financial liabilities raised		34 881	2 913
Non-cash movement – FCTR		350	(2 212)
Interest accrued		–	59
Balance at year end	18	22 341	34 166

25. COMMITMENTS AND CONTINGENCIES

Commitments

Mining leases

Mining lease commitments represent the Group's future obligation arising from agreements entered into with local authorities in the mining areas that the Group operates.

During the year, the Letšeng mining lease was extended for 10 years, expiring on 2 October 2029, with an exclusive option to renew for a further 10 years to 2039.

The period of these commitments is determined as the lesser of the term of the agreement, including renewable periods, or the LoM. The estimated lease obligation regarding the future lease period, accepting stable inflation and exchange rates, is as follows:

	2019 US\$'000	2018 US\$'000
– Within one year	149	139
– After one year but not more than five years	862	652
– More than five years	1 821	825
	2 832	1 616

Equipment and service lease

The Group has entered into lease arrangements for the provision of loading, hauling and other transportation services payable at a fixed rate per tonne of ore and waste mined; power generator equipment payable based on a consumption basis; and rental agreements for various mining equipment based on the fleet utilised. All lease payments relating to this lease are variable in nature and have therefore been recognised in the statement of profit or loss. Refer Note 1.2.28, Critical accounting estimates. The terms of this lease are negotiated during the extension option periods catered for in the agreements or at any time sooner if agreed by both parties.

During the year the mining contractor lease was extended for four years, expiring on 31 October 2024.

	2019 US\$'000	2018 US\$'000
– Within one year	59 267	45 234
– After one year but not more than five years	254 218	80 813
– More than five years	–	–
	313 485	126 047

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

	2019 US\$'000	2018 US\$'000
25. COMMITMENTS AND CONTINGENCIES (continued)		
Letšeng Diamonds Educational Fund		
In terms of the mining agreement entered into between the Group and the Government of the Kingdom of Lesotho, the Group has an obligation to provide funding for education and training scholarships. The quantum of such funding is at the discretion of the Letšeng Diamonds Education Fund Committee.		
– Within one year	39	47
– After one year but not more than five years	69	–
– More than five years	–	–
	108	47
Capital expenditure		
Approved but not contracted for	3 299	3 618
Approved and contracted for	1 490	6 228
	4 789	9 846

The main capital expenditure approved but not contracted for relates to the construction of a new accommodation block of US\$0.7 million, continued tailings storage extension investment of US\$0.6 million, information technology (IT) and security equipment upgrades of US\$0.6 million and further mineral resource and reserve studies of US\$0.5 million. The expenditure will be incurred over the next two years.

Contingent rentals – Alluvial Ventures

The contingent rentals represent the Group's obligation to a third party (Alluvial Ventures) for operating a third plant on the Group's mining property at Letšeng Diamonds. The rental is determined when the actual diamonds mined by Alluvial Ventures are sold. The rental agreement is based on 40% to 60% of the value (after costs) of the diamonds recovered by Alluvial Ventures and is limited to US\$1.5 million per individual diamond. As at the reporting date, such future sales cannot be determined.

Contingencies

The Group has conducted its operations in the ordinary course of business in accordance with its understanding and interpretation of commercial arrangements and applicable legislation in the countries where the Group has operations. In certain specific transactions, however, the relevant third party or authorities could have a different interpretation of those laws and regulations that could lead to contingencies or additional liabilities for the Group. Having consulted professional advisers, the Group has identified possible disputes approximating US\$0.2 million (December 2018: US\$0.1 million).

The Group monitors possible tax claims within the various jurisdictions in which the Group operates. Possible tax claims of US\$1.3 million were disclosed in the prior year, of which, US\$0.8 million were resolved during the current year without requiring the recognition of a liability. The remaining balance of US\$0.5 million related to employee taxes on fringe benefits which has been recognised in accrued expenses. Refer Note 20, Trade and other payables. Management applies judgement in identifying uncertainties over tax treatments and concluded that there were no uncertain tax treatments relating to the current year. Refer Note 1.2.28, Critical accounting estimates and judgements. There remains a risk that further tax liabilities may potentially arise. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's results, financial position or liquidity.

26. RELATED PARTIES

Related party	Relationship
Jemax Management (Proprietary) Limited	Common director
Gem Diamond Holdings Limited	Common director
Government of the Kingdom of Lesotho	Non-controlling interest

Refer Note 1.1.2, Operational information, for information regarding shareholding in subsidiaries.

	2019 US\$'000	2018 US\$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	440	872
Short-term employee benefits	3 063	2 652
	3 503	3 524
Fees paid to related parties		
Jemax Management (Proprietary) Limited	(83)	(111)
Royalties paid to related parties		
Government of the Kingdom of Lesotho	(15 459)	(20 850)
Lease and licence payments to related parties		
Government of the Kingdom of Lesotho	(146)	(131)
Sales to/(purchases from) related parties		
Jemax Management (Proprietary) Limited	(5)	–
Amount included in trade payables owing to related parties		
Jemax Management (Proprietary) Limited	(9)	(8)
Amounts owing to related party		
Government of the Kingdom of Lesotho	(3 537)	(2 568)
Dividends paid		
Government of the Kingdom of Lesotho	–	(20 742)

Jemax Management (Proprietary) Limited provided administrative services with regard to the mining activities undertaken by the Group. A controlling interest is held by an Executive Director of the Company.

The above transactions were made on terms agreed between the parties and were made on terms that prevail in arm's length transactions.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

27. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks:

- market risk (including commodity price risk, foreign exchange risk and interest rate risk);
- credit risk; and
- liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

There have been no changes to the financial risk management policy since the prior year.

Capital management

For the purpose of the Group's capital management, capital includes the issued share capital, share premium and liabilities on the Group's statement of financial position. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares or restructure its debt facilities. The management of the Group's capital is performed by the Board.

The Group's capital management, among other things, aims to ensure that it meets financial covenants attached to its interest-bearing loans and borrowings. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants in the current year.

At 31 December 2019, the Group had US\$69.9 million (31 December 2018: US\$57.8 million) of undrawn debt facilities and continues to have the flexibility to manage the capital structure more efficiently by the use of these debt facilities, thus ensuring that an appropriate gearing ratio is achieved.

The debt facilities in the Group are as follows:

Unsecured – Standard Lesotho Bank and Nedbank Capital (a division of Nedbank Limited) – three-year unsecured revolving credit facility – LSL500.0 million (US\$35.8 million)

The Group, through its subsidiary, Letšeng Diamonds, has an LSL500.0 million (US\$35.8 million), three-year unsecured revolving working capital facility which was renewed in July 2018. The facility bears interest at the Lesotho prime rate minus 1.5%.

At year end, there was no drawdown on this facility.

Unsecured – Nedbank Limited (acting through its Nedbank Corporate and Investment Banking division) – 12-month unsecured working capital facility – LSL100.0 million (US\$7.2 million)

The Group, through its subsidiary, Letšeng Diamonds, has an LSL100.0 million (US\$7.2 million), 12-month unsecured working capital facility which was entered into in December 2019. The facility bears interest at the South African prime rate minus 0.7%.

At year end, there was no drawdown on this facility.

27. FINANCIAL RISK MANAGEMENT (continued)

Financial risk factors (continued)

Unsecured – Nedbank Limited and Export Credit Insurance Corporation (ECIC) – five years and six months project debt facility – LSL215.0 million (US\$15.4 million)

The Group, through its subsidiary, Letšeng Diamonds, has an unsecured project debt loan facility consisting of two tranches as follows:

- Tranche 1: South African rand denominated ZAR180.0 million (US\$12.9 million) debt facility supported ECIC (five years' tenure); and
- Tranche 2: Lesotho loti denominated LSL35.0 million (US\$2.5 million) term loan facility without ECIC support (five years and six months' tenure).

The facility is repayable in equal quarterly payments, which commenced in September 2018 and bears interest as follows:

- Tranche 1: Johannesburg ZAR interbank three-month JIBAR + 3.15%; and
- Tranche 2: Johannesburg ZAR interbank three-month JIBAR + 6.75%.

At year end LSL133.7 million (US\$9.6 million) remains outstanding, with no available balance to be drawn down under this facility.

Unsecured – Nedbank Capital (a division of Nedbank Limited) – three-and-a-half-year unsecured debt facility – US\$45.0 million

This facility is a three-and-a-half-year revolving credit facility (RCF) with Nedbank Capital and consists of two tranches:

- Tranche 1: relates to the Ghaghoo US\$25.0 million debt whereby capital repayments commenced in September 2018 with a final repayment due on 31 December 2020; and
- Tranche 2: this tranche of US\$20.0 million is a RCF and includes an upsize mechanism whereby it will increase by a ratio of 0.6:1 for every repayment made under Tranche 1. This will result in the available facility increasing to US\$35.0 million once Tranche 1 is fully repaid.

This RCF bears interest at London USD Interbank three-month LIBOR + 4.5%.

At year end US\$10.0 million was drawn down relating to Tranche 1 and US\$2.0 million relating to Tranche 2. This resulted in US\$27.0 million available to be drawn under Tranche 2.

ZAR12.8 million Asset Based Finance facility

The Group, through its subsidiary, Gem Diamond Technical Services, entered into an ABF facility with Nedbank Limited for the purchase of an X-Ray transmission machine. The facility is repayable over five years and bears interest at the South African Prime Lending rate, which was 10.00% at 31 December 2019. The facility is repayable in equal monthly payments which commenced in February 2019.

At year end US\$0.8 million had been drawn down on this facility.

(a) Market risk

(i) Commodity price risk

The Group is subject to diamond price risk. Diamonds are not homogeneous products and the price of rough diamonds is not monitored on a public index system. The fluctuation of prices is related to certain features of diamonds such as quality and size. Diamond prices are marketed in US dollar and long-term US dollar per carat prices are based on external market consensus forecasts and contracted sales arrangements adjusted for the Group's specific operations. The Group does not have any financial instruments that may fluctuate as a result of commodity price movements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

27. FINANCIAL RISK MANAGEMENT (continued)

Financial risk factors (continued)

Asset Based Finance Facility (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Lesotho loti, South African rand and Botswana pula. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's sales are denominated in US dollar which is the functional currency of the Company, but not the functional currency of the operations.

The currency sensitivity analysis below is based on the following assumptions:

Differences resulting from the translation of the financial statements of the subsidiaries into the Group's presentation currency of US dollar, are not taken into consideration.

The major currency exposures for the Group relate to the US dollar and local currencies of subsidiaries. Foreign currency exposures between two currencies where one is not the US dollar are deemed insignificant to the Group and have therefore been excluded from the sensitivity analysis.

The analysis of the currency risk arises because of financial instruments denominated in a currency that is not the functional currency of the relevant Group entity. The sensitivity has been based on financial assets and liabilities at 31 December 2019. There has been no change in the assumptions or method applied from the prior year.

Sensitivity analysis

There were no material financial assets or financial liabilities denominated in a currency that is not the functional currency of the relevant Group entity, and therefore if the US dollar had appreciated/(depreciated) by 10% against currencies significant to the Group at 31 December 2019, income before taxation would not have been materially impacted. There would be no effect on equity reserves other than those directly related to statement of profit or loss and foreign currency translation reserve movements.

(iii) Forward exchange contracts

The Group enters into forward exchange contracts to hedge the exposure to changes in foreign currency of future sales of diamonds at Letšeng Diamonds. The Group performs no hedge accounting. At 31 December 2019, the Group had no forward exchange contracts outstanding (31 December 2018: US\$nil).

(iv) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's cash flow interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. At the time of taking new loans or borrowings, management uses its judgement to decide whether it believes that a fixed or variable rate borrowing would be more favourable to the Group over the expected period until maturity.

Sensitivity analysis

If the interest rates on the interest-bearing loans and borrowings (increased)/decreased by 60 basis points during the year, profit before tax would have been US\$0.2 million (lower)/higher (31 December 2018: US\$0.2 million). The assumed movement in basis points is based on the currently observable market environment, which remained consistent with the prior year.

27. FINANCIAL RISK MANAGEMENT (continued)

Financial risk factors (continued)

Asset Based Finance Facility (continued)

(b) Credit risk

The Group's potential concentration of credit risk consists mainly of cash deposits with banks, trade receivables and other receivables. The Group's short-term cash surpluses are placed with banks that have investment grade ratings. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the reporting dates.

The Group considers the credit standing of counterparties when making deposits to manage the credit risk.

Considering the nature of the Group's ultimate customers and the relevant terms and conditions entered into with such customers, the Group believes that credit risk is limited as customers pay on receipt of goods.

No other financial assets are impaired or past due and accordingly, no additional analysis has been provided.

No collateral is held in respect of any impaired receivables or receivables that are past due but not impaired.

(c) Liquidity risk

Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments including the inability to sell a financial asset quickly at a price close to its fair value. Management manages the risk by maintaining sufficient cash, marketable securities and ensuring access to financial institutions and shareholding funding. This ensures flexibility in maintaining business operations and maximises opportunities. The Group has available debt facilities of US\$69.9 million at year end (2018: US\$57.8 million)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments, excluding discontinued operation:

	2019 US\$'000	2018 US\$'000
Floating interest rates		
Interest-bearing loans and borrowings		
– Within one year	17 734	16 626
– After one year but not more than five years	6 636	22 008
Total	24 370	38 634
Lease liabilities		
– Within one year	2 895	–
– After one year but not more than five years	10 416	–
Total	13 311	–
Trade and other payables		
– Within one year	26 390	28 554
– After one year but not more than five years	1 936	1 555
Total	28 326	30 109

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

	2019 US\$'000	2018 US\$'000
28. SHARE-BASED PAYMENTS		
The expense recognised for employee services received during the year is shown in the following table:		
Equity-settled share-based payment transactions charged to the statement of profit or loss – continuing operation	784	1 422
Equity-settled share-based payment transactions charged to the statement of profit or loss – discontinued operation	10	15
	794	1 437

The long-term incentive plans are described below:

Long-term incentive plan (LTIP)

Certain key employees are entitled to a grant of options, under the LTIP of the Company. The vesting of the options is dependent on employees remaining in service for a prescribed period (normally three years) from the date of grant. The fair value of share options granted is estimated at the date of the grant using an appropriate simulation model, taking into account the terms and conditions upon which the options were granted. It takes into account projected dividends and share price fluctuation co-variances of the Company.

There is a nil or nominal exercise price for the options granted. The contractual life of the options is 10 years and there are no cash settlement alternatives. The Company has no past practice of cash settlement.

The Company's LTIP policy is reviewed every 10 years.

LTIP 2007 Award

Under the 2007 LTIP rules, there are five awards where options are still outstanding.

All five awards were awarded on the following basis:

To key employees (excluding Executive Directors):

- the awards vest over a three-year period in tranches of a third of the award each year;
- the vesting of the award is dependent on service conditions and certain performance targets being met for the same three-year period financial years (classified as non-market conditions);
- if the performance or service conditions are not met, the options lapse;
- the performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date;
- once the awards vest, they are exercisable for seven years (ie. contractual term is 10 years); and
- equity settled.

To Executive Directors:

- the awards vest over a three-year period;
- the vesting of the award is dependent on service conditions and both market and non-market performance conditions;
- 75% of the awards granted are subject to non-market conditions and 25% to market conditions by reference to the Company's total shareholder return (TSR) as compared to a group of principal competitors;
- if the performance or service conditions are not met, the options lapse;
- the performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date;
- once the awards vest, they are exercisable for seven years (ie. contractual term is 10 years); and
- equity settled.

28. SHARE-BASED PAYMENTS (continued)

The following table reflects details of all the awards within the 2007 LTIP that remain outstanding:

	LTIP March 2016	LTIP April 2015	LTIP June 2014	LTIP March 2014	LTIP September 2012
Number of options granted – Nil value	1 215 000	1 215 000	456 750	625 000	312 000
Number of options granted – Market value	185 000	185 000	152 250	–	624 000
Date exercisable	15 March 2019	1 April 2018	10 June 2017	19 March 2017	1 January 2016
Options outstanding	326 439	102 508	89 857	15 000	18 544
Dividend yield (%)	2.00	2.00	–	–	–
Expected volatility ¹ (%)	39.71	37.18	37.25	–	42.10
Risk-free interest rate (%)	0.97	1.16	1.94	–	0.33
Expected life of option (years)	3.00	3.00	3.00	3.00	3.00
Exercise price (US\$)	nil	nil	nil	nil	2.85
Exercise price (GBP)	nil	nil	nil	nil	1.78
Weighted average share price (US\$)	1.56	2.10	2.70	2.87	2.85
Fair value of nil value options (US\$)	1.40	1.97	2.70	2.87	2.85
Fair value of nil value options (GBP)	0.99	1.33	1.61	1.74	1.78
Fair value of market value options (US\$)	0.69	1.18	1.83	–	1.66
Fair value of market value options (GBP)	0.49	0.80	1.09	–	1.04
Model used	Monte Carlo	Monte Carlo	Monte Carlo	–	Monte Carlo

¹ Expected volatility was based on the average annual historic volatility over the previous three years.

LTIP 2017 Award

Under the 2017 LTIP rules, there are three awards where options are still outstanding.

All the awards were issued on the same basis as the 2007 LTIP.

During the current year, one new award was made as follows:

LTIP 2017 Award – March 2019

On 20 March, 1 303 000 nil-cost options were granted to certain key employees and Executive Directors. 142 500 of the options granted relate to market conditions. The options vest after a three-year period and are exercisable between 20 March 2022 and 19 March 2029. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £0.90 (US\$1.20) and the option grants are settled by issuing shares. Of the 1 303 000 options originally granted, 1 258 359 are still outstanding following the resignation of a number of employees and the lapsing of awards due to certain performance conditions not having been met.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

28. SHARE-BASED PAYMENTS (continued)

The following table reflects details of all the awards within the 2017 LTIP that remain outstanding:

	LTIP March 2019	LTIP March 2018	LTIP July 2017
Number of options granted – nil value	1 160 500	1 265 000	1 150 000
Number of options granted – market value	142 500	185 000	185 000
Date exercisable	20 March 2022	20 March 2021	4 July 2020
Options outstanding	1 258 359	1 198 018	993 679
Dividend yield (%)	–	–	2.00
Expected volatility ¹ (%)	43.00	40.00	40.21
Risk-free interest rate (%)	1.2	1.2	0.67
Expected life of option (years)	3.00	3.00	3.00
Exercise price (US\$)	nil	nil	nil
Exercise price (GBP)	nil	nil	nil
Weighted average share price (US\$)	1.20	1.35	1.24
Fair value of nil value options (US\$)	1.20	1.35	1.11
Fair value of nil value options (GBP)	0.90	0.96	0.86
Fair value of market value options (US\$)	0.58	0.74	0.72
Fair value of market value options (GBP)	0.44	0.53	0.56
Model used	Monte Carlo	Monte Carlo	Monte Carlo

The following table illustrates the number ('000) and movement in the outstanding share options during the year:

	2019 '000	2018 '000
Outstanding at beginning of year	3 538	3 612
Granted during the year	1 303	1 450
Exercised during the year ²	(81)	(241)
Forfeited	(758)	(1 283)
Balance at end of year	4 002	3 538
Exercisable at end of year	613	266

¹ Expected volatility was based on the average annual historic volatility over the previous three years.

² Options were exercised regularly throughout the year. The weighted average share price during the year was £0.80 (US\$1.02).

The weighted average remaining contractual life for the share options outstanding as at 31 December 2019 was 8.0 years (2018: 8.2 years).

The range of exercise prices for options outstanding at the end of the year was US\$0.00 to \$2.85 (2018: US\$0.00 to \$2.85).

ESOP

In September 2017, 47 200 shares which were previously held in the Company Employee Share Trust were granted to certain key employees involved in the Business Transformation of the Group. The fair value of the award was valued at the share price of the Company at the date of the award of £0.71 (US\$0.96). These shares vested on 18 March 2019 and became immediately exercisable. All shares remain outstanding at the end of the year as follows:

	2019 '000	2018 '000
Outstanding at beginning of year	47	47
Granted during the year	–	–
Exercised during the year	–	–
Balance at end of year	47	47
Exercisable at end of year	47	–

29. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than the non-current and current portions of the prepayment disclosed in Note 13, Receivables and other assets, which do not meet the criteria of a financial asset. These prepayments are carried at amortised cost.

	Notes	2019 US\$'000	2018 US\$'000
Financial assets at amortised cost			
Cash (net of overdraft) – continuing operations	15	11 303	50 812
Cash – discontinued operation	16	140	–
Receivables and other assets – continuing operations	13	4 735	4 395
Receivables and other assets – discontinued operation	16	99	–
Total		16 277	55 207
Total non-current		–	–
Total current		16 277	55 207
Financial liabilities at amortised cost			
Interest-bearing loans and borrowings	18	22 341	34 166
Finance lease liabilities	19	10 479	–
Trade and other payables – continuing operations	20	28 325	30 109
Trade and other payables – discontinued operation	16	608	–
Total		61 753	64 275
Total non-current		16 484	21 509
Total current		45 269	42 766

The carrying amounts of the Group's financial instruments held approximate their fair value.

There were no open hedges at year end (2018: nil).

30. DIVIDENDS PAID AND PROPOSED

There were no dividends proposed for the 2019 or 2018 financial years.

31. EVENTS AFTER THE REPORTING PERIOD

No fact or circumstance has taken place between the end of the reporting period and the approval of the financial statements which, in our opinion, is of significance in assessing the state of the Group's affairs or require adjustments or disclosures.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

continued

32. MATERIAL PARTLY OWNED SUBSIDIARY

Financial information of Letšeng Diamonds, a 70% held subsidiary which has a material non-controlling interest, with the remaining 30% being held by the Government of the Kingdom of Lesotho, is provided below.

Name	Country of incorporation and operation	2019 US\$'000	2018 US\$'000
Letšeng Diamonds (Proprietary) Limited	Lesotho		
Accumulated balances of material non-controlling interest		76 427	67 692
Profit allocated to material non-controlling interest		8 319	20 985
The summarised financial information of this subsidiary is provided below. This information is based on amounts before intercompany eliminations.			
Summarised statement of profit or loss for the year ended 31 December			
Revenue		179 785	262 636
Cost of sales		(127 244)	(152 360)
Gross profit		52 541	110 276
Royalties and selling costs		(15 715)	(21 159)
Other income		3 333	1 262
Operating profit		40 159	90 379
Net finance (costs)/income		(3 792)	743
Profit before tax		36 367	91 122
Income tax expense		(8 637)	(21 172)
Profit for the year		27 730	69 950
Total comprehensive income		27 730	69 950
Attributable to non-controlling interest		8 319	20 985
Dividends paid to non-controlling interest		–	20 742
Summarised statement of financial position as at 31 December			
Assets			
Non-current assets			
Property, plant and equipment and intangible assets		340 646	298 565
Current assets			
Inventories, receivables and other assets, and cash and short-term deposits		53 476	60 092
Total assets		394 122	358 657
Non-current liabilities			
Interest-bearing loans and borrowings, trade and other payables, provisions and deferred tax liabilities		109 385	95 371
Current liabilities			
Interest-bearing loans and borrowings and trade and other payables		29 981	37 649
Total liabilities		139 366	133 020
Total equity		254 756	225 638
Attributable to:			
Equity holders of parent		178 329	157 946
Non-controlling interest		76 427	67 692
Summarised cash flow information for the year ended 31 December			
Operating		70 093	82 718
Investing		(81 314)	(99 931)
Financing		(6 701)	195
Net decrease in cash and cash equivalents		(17 922)	(17 018)

ABBREVIATIONS AND DEFINITIONS

ABF	Asset Based Finance Facility	LIBOR	London Interbank Offered Rate
AGM	Annual General Meeting	LoM	Life of mine
AIFR	All injury frequency rate	LCRA	Lesotho Revenue Authority
AV	Alluvial Ventures (a third-party contractor)	LSL	Lesotho loti
Basotho	Lesotho nationals	LTI	Lost time injury
BT	Business Transformation	LTIFR	Lost time injury frequency rate
BVI	British Virgin Islands	LTIP	Long-term incentive plan
BWP	Botswana pula	Net cash/(debt)	The sum of cash and cash equivalents less drawn down bank facilities (excluding asset-based finance facility)
CAGR	Compound annual growth rate	PAC	Project affected community
CEO	Chief Executive Officer	RCF	Revolving credit facility
CGU	Cash-generating unit	SEIAs	Social and environmental impact assessments
CO ₂ e	Carbon dioxide equivalent	SDGs	Sustainable Development Goals
cpht	Carats per hundred tonnes	STIB	Short-term incentive bonus
CSI	Corporate social investment	The Board	The Gem Diamonds Board of Directors
CSR	Corporate social responsibility	The Group	The Gem Diamonds Company and its subsidiaries
DTR	Disclosure Guidance and Transparency Rules	TSR	Total shareholder return
EBITDA	Earnings before interest, tax, depreciation and amortisation	UK	United Kingdom
ECL	Expected credit loss	UN	United Nations
EPS	Earnings per share	US\$	United States dollar
ESOP	Employee Share Option Plan	USA/US	United States of America
EU	European Union	VAT	Value added tax
EY	Ernst & Young	WACC	Weighted average cost of capital
FCA	Financial Conduct Authority		
FRC	Financial Reporting Council		
FTSE	Financial Times Stock Exchange		
GHG	Greenhouse gas		
GRI	Global Reporting Initiative		
ha	Hectare		
HSSE	Health, safety, social and environment		
IAS	International Accounting Standards		
IFRS	International Financial Reporting Standards		
ISO	International Organization for Standardization		
IT	Information technology		
JIBAR	Johannesburg Interbank Agreed Rate		
KPI	Key performance indicator		

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