

# ANNUAL REPORT AND ACCOUNTS 2020

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GEM DIAMONDS 



# CONTENTS

<b>STRATEGIC REPORT</b>	<b>02</b>
About Gem Diamonds	03
2020 in review	04
Our business model	06
Chairperson's statement	10
Market review	13
Stakeholder engagement	15
Our strategy	21
Principal risks and uncertainties	25
Viability statement	31
<b>PERFORMANCE REVIEW</b>	<b>32</b>
Chief executive's review	33
Chief financial officer's review	36
Operational review	43
Sustainability	48
<b>GOVERNANCE</b>	<b>51</b>
Chairperson's introduction to corporate governance	52
Governance at a glance	54
Directorate and executive management	56
Corporate governance statement	58
Nominations committee	69
Sustainability committee	72
Audit committee	75
Remuneration committee	81
Directors' report	110
<b>FINANCIAL STATEMENTS</b>	<b>113</b>
<b>REPORT ON PAYMENTS TO GOVERNMENTS</b>	<b>176</b>
<b>ADDITIONAL INFORMATION</b>	<b>179</b>



This icon indicates additional information available on the Group's website at [www.gemdiamonds.com](http://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/reports/sd-2021/index.php](http://www.gemdiamonds.com/reports/sd-2021/index.php)



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## WELCOME TO THE GEM DIAMONDS ANNUAL REPORT AND ACCOUNTS 2020

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 which is publicly available at [www.integratedreporting.org](http://www.integratedreporting.org) .
- information related to payments made to governments was compiled as required under the UK's Report on Payments to Governments Regulations 2014 (as amended December 2015) as applicable to companies involved in extractive activities. It is also intended to satisfy the requirements of the Disclosure and Transparency Rules; of the Financial Conduct Authority in the UK;
- International Financial Reporting Standards (IFRS); and
- the UK Corporate Governance Code 2018 which is publicly available at [www.frc.org.uk](http://www.frc.org.uk) .

The report covers Gem Diamonds Limited and its subsidiaries (the Group) for the financial year ended 31 December 2020.

## REPORTING SUITE

In addition to the Annual Report and Accounts 2020 our reporting suite includes:

### Sustainable Development Report 2020 (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 on the [www.gemdiamonds.com/reports/sd-2021/index.php](http://www.gemdiamonds.com/reports/sd-2021/index.php) and in our 2020 Sustainability Report.

## 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, we considered what is most likely to promote the sustainability and success of Gem Diamonds in the long term.

The Board approved the Annual Report and Accounts 2020, which includes the Strategic Report on pages 2 to 50 on 10 March 2021.





# STRATEGIC REPORT



## 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;
- our employees can benefit in the short and long term; and
- we can deliver long-term value to our shareholders.



### CUT

*The way we do things (values)*

**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 that 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.

### COLOUR

*Culture*

At Gem we invest in our workforce to create an environment where every person is proud to be part of our family. Mutual respect and care are not only shared throughout the Group but extend to the wider society. Individuals are valued for their differences and are empowered to thrive, grow and contribute to a common goal, holding themselves and each other accountable for delivering on their promises.

A purpose and vision extending  
beyond financial measures

*Refer to our Chairperson's statement on page 10.*



## 2020 IN REVIEW

Measure	2020	2019	% change
Average price per carat achieved (US\$)	1 908	1 637	17
Revenue (US\$ million)	189.6	182.0	4
Total direct cash cost (excluding waste costs) per tonne treated (LSL)	201.5	181.2	(11)
Total direct cash cost (including waste costs) per tonne treated (LSL)	326.6	321.8	(1)
Total operating cost per tonne treated (LSL)	320.2	245.9	(30)
EBITDA <sup>1</sup> (US\$ million)	53.2	41.0	30
Profit for the year (from continuing operations) (US\$ million)	27.5	15.0	83
Corporate costs (US\$ million)	8.0	9.4	(15)
Basic EPS <sup>2</sup> (from continuing operations) (US cents)	12.1	5.1	137
Cash and short-term deposits (US\$ million)	49.8	11.4	337
Cash generated from operating activities (US\$ million)	96.2	55.5	73
Drawdown bank facilities (US\$ million)	15.2	21.6	30
Net cash/(debt) <sup>3</sup> (US\$ million)	34.6	(10.2)	439
Available bank facilities (US\$ million)	60.8	69.9	(13)
Business Transformation benefits delivered (US\$ million)	79.2	54.9	44

Capital expenditure (US\$ million)	1.6	9.7	84
Ore tonnes treated (millions)	5.4	6.7	(19)
Waste tonnes mined (millions)	15.6	24.0	(35)

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

Fatalities	0	1	(100)
Major or significant stakeholder incidents	0	0	-
Lost time injuries (LTIs)	1	7	(86)
Lost time injury frequency rate (LTIFR) (%)	0.04	0.28	(86)
Corporate social investment (US\$ million)	0.3	0.8	(63)

Average employees (including contractors)	1 702	1 748	(3)
Skills development (training hours)	13 101	30 816	(57)

Carats recovered (thousands)	100.8	114.0	(12)
Carats sold (thousands)	99.2	111.3	(11)
Major or significant environmental incidents	0	0	-

<b>Financial capital</b>	<b>Manufactured capital</b>	<b>Intellectual capital</b>	<b>Social and relational capital</b>	<b>Human capital</b>	<b>Natural capital</b>
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<sup>1</sup> Refer Note 4, Operating profit on page 145, for the definition of non-GAAP (Generally Accepted Accounting Principles) measures.

<sup>2</sup> Refer to Group financial performance for GAAP measures.

<sup>3</sup> Net cash/(debt) is a non-GAAP measure and calculated as cash and short-term deposits less drawdown bank facilities (excluding the asset-based finance facility and insurance premium financing).

## 2020 IN REVIEW CONTINUED

## DIAMOND ANALYSIS AND MANUFACTURING

The Group's **HIGH-TECH ROUGH DIAMOND ANALYSIS** 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 through third-party manufacturers.

*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 Letseng high-quality diamonds is determined and used to achieve the highest rough value **THROUGH MULTIPLE SELLING CHANNELS**. In 2020, flexible tender processes were introduced to ensure strict compliance with COVID-19 health and safety protocols while ensuring the highest obtainable market prices were achieved.

The Group's electronic tender platform provides an enhanced experience for clients and significantly increases internal efficiencies in the sales and marketing function.

*Gem Diamonds Marketing Services (100% ownership)*

## TECHNOLOGY AND INNOVATION

This Cyprus company houses the Group's innovation and technology research and development projects and related intellectual property rights.

*Gem Diamonds Innovation Services (100% ownership)*

## UNITED KINGDOM BASED HEADQUARTERS

The Group's holding company which is listed on the London Stock Exchange 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 is classified as a discontinued operation held for sale.

*Gem Diamonds Botswana (100% ownership)*

## TECHNICAL AND ADMINISTRATIVE SERVICES

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

*Gem Diamond Technical Services (100% owned)*

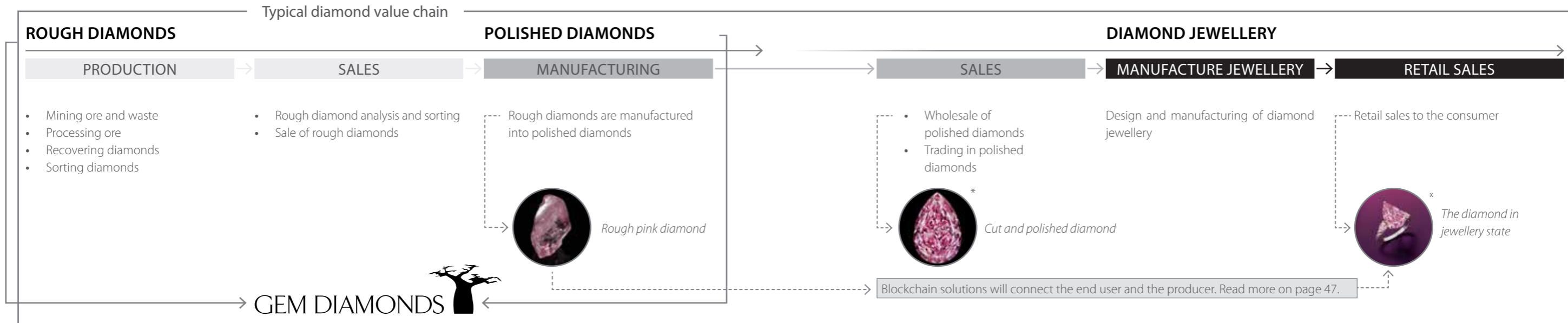
## LETŠENG

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 110 000 carats to 120 000 carats.

*70% owned by Gem Diamonds Limited and 30% owned by the Government of the Kingdom of Lesotho with a lease period until 2039*

# OUR BUSINESS MODEL



## INPUTS REQUIRED

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

- Current mine lease period to **2039**
- Total mineral resource of **5 million carats**
- 1377 867GJ** of energy consumed
- Per tonne treated we use **1.18m<sup>3</sup> water**
- 1702** employees (including contractors) with an absenteeism rate of **1.6 days** per person per annum
- The health, wellness and development of **employees are priorities** throughout the Group
- The Group put in place, and continues to take, all necessary precautions as part of its **COVID-19 response to ensure the welfare** of our employees, contractors and the communities in which we operate
- We have **zero tolerance to harm** of employees, human rights violations, bribery and corruption
- The Group values and safeguards its **social licence** to operate
- Vastly experienced **global management team**
- 412** registered clients

### Top revenue drivers:

- Grade performance and carats recovered
- Diamond market
- Number of large (>10ct) high-quality diamonds recovered
- Exceptional high-value diamond recoveries
- Reduction in diamond damage
- Main versus Satellite pipe ore mix at Letšeng

### Top cost drivers:

- Waste stripping
- Increasing depth of pits
- Cost of remoteness
- Foreign exchange rate fluctuations

- Available debt facilities **US\$60.8 million**
- Annual capex investment of **US\$1.6 million**

## 2020 OUTPUTS

Rough carats sold:  
**99 172**

Rough carats recovered:  
**100 780**

Number of >10ct diamonds:  
**762** contributing 81% of revenue

Diamonds selling for more than US\$1 million:  
**34** contributing **US\$77.6 million** to revenue

# OUR BUSINESS MODEL CONTINUED

## OUTCOMES: 2020 DELIVERY



Total carbon footprint: **140 040 tCO<sub>2</sub>e**  
Major or significant environmental incidents: **Zero**  
**10.2ha** land added to the mining footprint  
Diamond exports complying to the Kimberley Process: **100%**  
Letšeng rehabilitation provision of **US\$12.3 million**



Since inception, Gem Diamonds has worked in partnership with the Government of Lesotho to contribute to the national priorities. We continue to contribute to government's efforts to combat COVID-19 in the country and invest in initiatives in project-affected communities (PACs) that support long-term development.

Sustainable Development Reporting Platform, available on Gem Diamonds' website ([www.gemdiamonds.com/reports/co.za/reports/sd-2021/index.php](http://www.gemdiamonds.com/reports/co.za/reports/sd-2021/index.php)), provides a comprehensive report on social, employee, safety, environmental and governance matters.

Priority UN Sustainable Development Goals (SDGs):



**Zero fatalities**  
**LTIFR of 0.04**  
**AIFR of 0.76**

In 2020 **two** employees unfortunately lost their lives to suspected COVID-19-related complications

**Human rights** training included in employee induction programme  
Major or significant stakeholder incidents: **0**  
A **supply chain** preventing child and forced labour

Invested **US\$0.3 million** in community and country COVID-19 prevention programmes

Resettled PACs: **0**  
Letšeng in-country procurement: **US\$126.2 million**  
Letšeng paid royalties of **US\$18.4 million**



Focus on cost optimisation and cash preservation during the year  
Cash generated per share **0.69 (US cents)**

**Basic earnings per share (BEPS)** from continuing operations **12.1 (US cents)**  
Average price per carat achieved **US\$1 908**  
Return on average capital employed of **12%**  
**EBITDA of US\$53.2 million**  
**Revenue of US\$189.6 million**

Our viability statement on page 31 explains how the outcomes ultimately lead to a sustainable business model that delivers on our vision.


\* Images supplied by Graff Diamonds International.

## OUR BUSINESS MODEL CONTINUED

### BALANCING CAPITAL ALLOCATION IN UNCERTAIN TIMES

In addition to taking immediate steps to ensure the health and safety of our workforce and surrounding communities in response to COVID-19, we assessed the significant uncertainty introduced to the Group, the mining sector and global marketing channels. We proactively implemented cost reduction and deferment measures to preserve cash and improve liquidity to ensure the sustainability of the business. All operational and financial management initiatives and planned capital expenditure were re-evaluated to minimise cash outflow. Cost reduction and deferment measures at Letšeng included negotiating with contractors to manage services and costs during the 30-day shutdown and subsequent ramp-up period to full production. Temporary salary reductions were implemented across the Group, ranging from 20% at executive level to 15% and 10% across various salary bands. The salary cuts were repaid to all affected employees at an effective rate of 96% following the positive sales results and cash flow generation in September.

Waste mining was significantly reduced during the second quarter to preserve cash before resuming in July. We increased the proportion of ore treated from the high-value Satellite pipe and strategically reduced processing throughput to improve plant stability through a more consistent feed rate with the aim of increasing recoveries and overall grade. Dewatering was suspended at the Ghaghoo mine, which is on care and maintenance, realising further savings through the renegotiation of key contracts and reduced fuel consumption on site and other ancillary costs. The ongoing benefits and savings from the Business Transformation (BT) and Continuous Improvement (CI) initiatives supported cash flows and no significant costs were incurred on ad hoc projects.

This focus on cash preservation did not affect our commitment to supporting the welfare of the Group's employees, contractors and the communities in which we operate, which remains a foremost priority. To the end of the year, US\$1.1 million was spent on ongoing COVID-19 protocols to protect our employees and contractors, and a further US\$0.3 million was invested through the CSI programme to support local communities and government initiatives to address the risk, support our surrounding local communities and curb the spread of COVID-19. 

The cash preservation initiatives, cost controls and effective capital expenditure allowed the Group to generate positive cash flows and achieve a net cash position at year end of US\$34.6 million. Cash flow management remains a significant focus area to ensure financial and funding resilience to achieve the Group's strategic objectives in the current uncertain times.

The Group reviews its capital allocation on an ongoing basis, taking into account:

- 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 objective remains to provide a return on investment to shareholders through the payment of a cash dividend; to consider special dividends in the event of significant diamond recoveries; and to consider a share buyback programme should the opportunity arise.

### FUTURE RESILIENCE

Gem Diamonds' ability to operate effectively through the crisis and improve its cash position over the year reflects the resilience of our business model. The Group operates with a small head office complement that works very closely with the leadership and operational teams at Letšeng. This model of trust-based decision-making proved invaluable during the long periods when certain required skills and individuals were unable to travel to the operations and needed to rely on the knowledge and experience of the teams on site. In the process, the operational teams demonstrated the depth of future leadership available in the Group.

The strategic focus on cost management and maintaining consistent operational performance enabled the Group to largely achieve its targets despite the unprecedented challenges the year presented. Maintaining commitment to the principles of the BT programme ensured that cost disciplines were maintained and even improved during 2020, supporting the improved cash position at year end.

The CFO and senior management worked very closely with our funders to ensure the Group's debt structures remain resilient, efficient and appropriate.

## OUR BUSINESS MODEL CONTINUED

### INVESTMENT CASE

While Gem Diamonds' Letšeng mine is renowned for its large, high-value white diamonds, the Group has a number of other attributes that make it a unique and compelling investment proposition:

- **Diamond frequency** – Large high-value diamonds recovered from the Letšeng mine account for 75% to 80% of the Group's revenue annually, making Letšeng the highest average dollar per carat kimberlite diamond mine in the world. Since the Letšeng mine was acquired in 2006, it has produced 116 diamonds of greater than 100 carats and in addition, it has also produced high-quality pink and blue diamonds.
- **Cost efficiency** – Operating costs per tonne at the mine are among the lowest in the world and the Group continues to realise ongoing benefits from the implemented BT initiatives and the ongoing CI programme currently being rolled out.
- **Resource base** – Letšeng is a long-term asset with the possibility of further underground expansion.
- **Innovation** – The Group continues to monitor and advance innovative technology that improves operational performance and unlocks value by reducing diamond damage through early identification and non-mechanical liberation.

- **Strong customer relationships** – The Group has developed excellent relationships with key customers over time that supported continued diamond sales at good prices in 2020.
- **Integrated multi-channel sales and marketing** – Advanced mapping and analysis of diamonds assists strategic selling, partnering or manufacturing decisions to achieve the highest value through multiple selling channels.
- **Leadership** – Experienced global Board and Executive Management with a track record of successful mine plan optimisation and cost reduction. Significant in-country experience and expertise has and continues to be developed at our operations.
- **Good governance** – Commitment to ethical business practices and good corporate governance.
- **Strategy** – Gem Diamonds' strategy has proven to deliver maximum value for all stakeholders.
- **Social and environmental responsibility** – We are committed to promoting a culture of zero harm and responsible care to minimise our impact on the environment and optimise the benefit for our communities.

#### Harry Kenyon-Slaney

Chairperson

10 March 2021



# CHAIRPERSON'S STATEMENT

*"The Group moved swiftly and resolutely during extremely challenging and uncertain circumstances."*

– Harry Kenyon-Slaney –



Dear shareholders,

On behalf of the Board, it gives me great pleasure to present the Gem Diamonds Annual Report and Accounts 2020. The Report and Accounts provide an overview of the progress we have made in delivering on the Group's strategic objectives in a year when the economic, social and personal lives of so many people and organisations have been profoundly affected by the COVID-19 pandemic.

## OUR VISION:

To support, develop and empower our employees so that they can benefit and develop in a company of which they are proud, we can make a meaningful, sustainable contribution to the countries and communities in which we operate and deliver sustainable value to our shareholders.

Since its emergence as a problem of global significance in early 2020, the COVID-19 pandemic has demanded an enormous amount of management time and effort. Our primary objective has been to ensure the safety and health of our employees, their families and the communities surrounding our operations as well as making a material contribution to Lesotho's national effort to contain the spread of the virus. In parallel, however, it was imperative that economic activity continued and we devoted

extensive efforts to ensuring that our Letšeng operation, which is a significant earner of foreign currency in Lesotho, was able to restart operations safely and in line with the strict guidelines implemented by the government. This twin-track approach of contributing meaningfully to local priorities while continuing to operate the Letšeng mine directly aligns with our corporate vision.

Despite the prolonged absence of certain required skills and individuals during the lockdown, our operational teams made important decisions while running a complex and technically demanding process. Their ability to take responsibility and act autonomously is testament to the work we have done to develop and empower our people. As it unfolded, the continued impact of the pandemic required management to take urgent and decisive action and make critical and difficult decisions across the Group to control costs, continue operations in a responsible and safe manner and stabilise the business. We are extremely grateful to the significant proportion of the workforce who agreed to take a material but temporary salary cut, with no decrease in motivation, to support cash preservation in the Group. Following the positive sales results and cash flow generation in September, we were able to repay these salary cuts at an effective rate of 96% to all affected employees.

## DIAMOND SUPPLY/DEMAND FUNDAMENTALS SUPPORT HIGHER PRICES

While there was significant uncertainty regarding the impact of COVID-19 on the diamond market at the start of the pandemic, apart from a relatively short initial period, demand for diamonds returned and prices achieved remained relatively strong. Supply has been affected by the closure of Rio Tinto's Argyle mine, operational and COVID-19-related production interruptions in various major producers during the year, and the closure of some smaller mines. China has emerged from the pandemic well and continues to show signs of a return to strong economic growth. Rising living standards will continue to support China's growth as a significant consumer of diamonds and especially of the large high-value diamonds produced by Letšeng. US stock markets, long seen as closely correlated with diamond demand, performed well; and this supported the progressively more

# CHAIRPERSON'S STATEMENT CONTINUED

positive economic outlook as the year drew to a close. India will emerge as an important polished diamond consumer market in the medium to long term and the manufacturing sector is emerging from its COVID-19-related challenges.

## CONTRIBUTION TO COMMUNITY AND COUNTRY

At Gem Diamonds we regard ourselves as guests in the countries where we operate and we endeavour at all times to maintain strong and constructive relationships, both with the populace and with regional and national governments. We engage with government and local communities on a regular basis to seek mutually beneficial solutions to challenges that arise. We work closely with these communities, providing both financial and practical support on a range of projects they consider important.

## MAIN AREAS OF FOCUS FOR THE BOARD IN 2020:

1. Ensuring sustainable operations, keeping employees and local communities safe and supporting the Lesotho Government during COVID-19.
2. Ensuring delivery of the objectives of the BT programme.
3. Enhancing risk management systems and processes.
4. Maintaining disciplined financial control to increase cash generation and repay debt.
5. Considering an appropriate return to shareholders.

## GOVERNANCE TO SUPPORT SUSTAINABLE VALUE CREATION

The Group's governance systems and processes performed well during the year. While face-to-face contact tends to lead to deeper discussions of issues during and around Board meetings, the remote interaction necessitated by COVID-19 nevertheless proved effective. We have increased the time allocated for the quarterly Board and Committee meetings to allow for longer discussions, which facilitates a deeper understanding of the issues. In addition, the Board added a stand-alone quarterly risk review meeting to ensure time is available for a detailed review and discussion of the Group's key risks and to test management's mitigating actions.

The appointment of an experienced non-Executive Director to take responsibility for engaging with stakeholders in Lesotho has proven beneficial. Mazvi has deep local knowledge of political, social and community issues in Lesotho and the feedback from her engagement with employees provides valuable feedback to the Board to inform our decision-making.

## SAFE AND RESPONSIBLE OPERATIONS

Workplace safety is an absolute priority for the Board and management. We passionately believe it is possible for every employee to come to work and return home safely every day and we are constantly looking at improving our safety systems and processes to ensure this is achieved. We are pleased with the improvement in safety performance this year.

The Board is similarly strongly committed to environmental responsibility and I am pleased to report that there were no major or significant environmental incidents reported at any of our operations during the year. Gem Diamonds' inclusion in the FTSE4Good index recognises the high standards of environmental, social and governance practices in place.

During the year we launched the first rolling three-year cycle to further integrate the UN Sustainable Development Goals (SDGs) into the Group's systems and processes. The project aims to embed the objectives of the goals in our decision-making and thereby further enhance Gem Diamonds' positive impact in line with relevant UN recommendations.

## GENERATING SUSTAINABLE RETURNS FOR OUR SHAREHOLDERS

The focus on cash generation and preservation during the year saw the Group move from a net debt position of US\$10.2 million at the start of the year to a net cash position of US\$34.6 million at year end. While some of the longer-term development capital expenditure was postponed, this represents a prudent approach to expenditure in a time of heightened uncertainty.

In line with our commitment to delivering sustainable shareholder returns, the Board's policy is to pay a dividend to shareholders when the financial strength of the Group permits.

As a result of the Group's strong cash generation during the year and improved financial position, the Board is pleased to recommend that a dividend of 2.5 US cents be declared in respect of the 2020 financial year. The Board is committed to sustaining shareholder value through the implementation of appropriate dividend policies.

## CHAIRPERSON'S STATEMENT CONTINUED

**OUTLOOK**

Although the supply/demand dynamics of the diamond market remain positive, particularly for the unique high-value diamonds produced at Letšeng, our immediate concern remains the ongoing protection of our people from the COVID-19 pandemic, which continues to cast a shadow over southern Africa. Our immediate priorities for 2021 therefore remain the provision of a safe operating environment for all our employees and support to the Lesotho Government in securing vaccines for our workforce and local communities.

The work we did in prior years to reduce costs, lower overheads, streamline systems and improve efficiencies stood us in good stead in 2020 and has provided an excellent foundation for the year ahead. We will build on this momentum and make the most of the opportunities we have created through the BT and CI programmes. In addition, we need to unlock the commercial potential in the pioneering work being done to reduce diamond damage through our technology and innovation projects and to advance the use of blockchain technology in providing a full and transparent record of origin for every diamond produced at Letšeng.

**FINAL REMARKS**

I would like to thank my fellow Board members for their valuable and extensive contributions during the past year. On behalf of the Board, I would also like to thank our long-standing partners at Letšeng, the Lesotho Government, and the leaders of our host communities, all of whom have helped us to navigate what has been a challenging year.

The Group's management and employees deserve a special note of appreciation for their commitment and tenacity during 2020. The Group moved swiftly and resolutely during extremely challenging and uncertain circumstances to contain the spread and impact of a devastating pandemic that could have had an equally devastating impact on our business. I have been tremendously impressed by the resilience and capability of management and employees throughout the organisation to run a technically, commercially and physically complex business, often with remote leadership.

I want to extend my condolences to the families and friends of colleagues who have lost loved ones as a result of the pandemic or related complications. The COVID-19 pandemic is far from over and, at the time of writing, things continue to be extremely difficult in southern Africa. Until vaccinations have been rolled out to a large part of the population, we must remain extremely vigilant.

**Harry Kenyon-Slaney**

*Chairperson*

10 March 2021



## MARKET REVIEW

## Further recovery of the diamond market expected in 2021

**THE DIAMOND MARKET IN SUMMARY**

The unique supply/demand dynamics of the diamond industry drive diamond prices through a balance between rough diamonds recovered and consumer demand for polished diamonds, primarily in the form of jewellery. The middle market sits between these poles of the diamond supply chain, buying rough diamonds from the mines to manufacture for sale to jewellers, who subsequently sell to retailers and finally consumers. Global economic growth and disposable income are key drivers of demand for diamonds, while supply is directly linked to the economics of diamond mining. Prices paid for rough diamonds by the middle market that fall below the production cost per rough diamond for extended periods will lead to mine closures and a resultant decrease in supply. Natural diamond resources are finite and will deplete over time.

**GLOBAL DEMAND TRENDS**

Nearly half of all polished diamonds are sold in the US, with China, India, Japan and the Gulf States making up a further 30% of demand. Demand is supported by the growing 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.

Demand improved in the first two months of the year despite continued concerns around global economic growth, rising geopolitical tensions and the threat of a US/Sino trade war. However, the onset of the COVID-19 pandemic had an immediate and significant negative impact across the diamond industry, from mining to retail, with restrictive lockdown regulations in many countries across the world, travel restrictions, uncertainty around economic recovery and the threat of a second wave.

Key players in the diamond industry opened gradually as lockdown restrictions eased, in particular the manufacturing sector in India, the largest purchaser of rough diamonds for manufacturing, and jewellery stores across the globe. Following the immediate drop in sales in the second quarter, major jewellers reported a remarkable increase in sales in the second half of the year with many retailers adjusting quickly to online sales.

Generational shifts in consumer preferences reveal an emerging trend of demand from younger consumers for diamonds produced by ethical and responsible mining companies committed to meaningful social benefit. Blockchain technology (read more on page 47) enables consumers to track the source of diamonds and understand the corporate citizenship demonstrated by producers before making a purchase. This has also led to an increase in luxury jewellery brands partnering directly with producers to enhance the value of the final polished product, combining sustainable sources and exclusive design.

**GLOBAL SUPPLY TRENDS**

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. However, supply in 2020 is estimated to have already fallen to 111 million carats due to a combination of planned mine closures, the closure of marginal mines due to the impact of COVID-19, suspension and slowdown of certain operations and the cancellation of scheduled sales, particularly by De Beers and Alrosa.

The lower than expected production of rough diamonds in 2020 may provide an opportunity for miners such as De Beers and Alrosa to release some of their stockpile inventory into the market, which would offset any immediate marked reduction in rough diamond supply, especially in the commercial diamond industry.

Depending on consumer preferences and perceptions the popularity of lab-grown diamonds may rise for fashion jewellery while natural diamonds will continue to be in demand for momentous occasions. However, the potential impact on natural diamond demand and price is not yet fully understood. Lab-grown diamonds sell at a significantly lower price than natural diamonds and continue to take market share, especially in the smaller, lower-value, commercial diamond market. Gem Diamonds' offering is focused on delivery of large, high-value diamonds sought after by a different consumer group.

In the medium term, however, global rough diamond demand is still expected to remain steady against supply which is likely to decrease gradually as existing diamond mines age and deplete, and lower prices put additional pressure on marginal mines, with possible further mine closures.



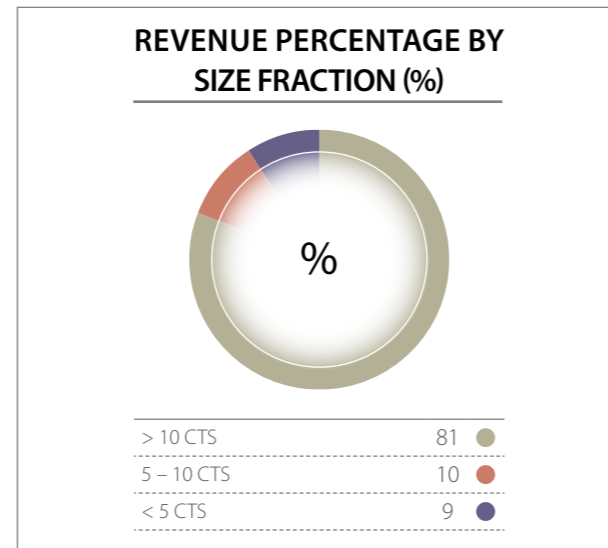
## MARKET REVIEW CONTINUED

### POSITIONING GEM DIAMONDS

Historically the prices for larger high-quality diamonds have proved more resilient to market pressures. Diamonds from Letšeng are at the top end of the market in terms of size, colour and quality. Diamonds greater than 10.8 carats accounted for 81% of revenue in 2020 (2019: 75%) and exceptional recoveries during the year include a 439 carat Type IIa white diamond, a 183 carat Type IIa white diamond and a 166 carat Type IIa white diamond.

While high-net-worth customers for large high-quality polished diamonds tend to be less affected by global economic fluctuations, polished prices came under pressure in the first half of the year as demand decreased following the onset of the pandemic. Prices achieved for the Letšeng goods in the second half of the year recovered strongly to levels higher than those achieved in 2019. Factors supporting this increase include improved market sentiment, increased demand for high-value polished diamonds from China in particular, reduced availability of large high-value diamonds and depleted stock levels at manufacturers.

Letšeng achieved an average price of US\$1 908 per carat during the year (2019: US\$1 637), retaining its standing as the highest average dollar per carat kimberlite diamond producer in the world. A record high of 16 diamonds greater than 100 carats were recovered in 2020 compared to 11 in 2019.



## STAKEHOLDER ENGAGEMENT

Understanding the views of stakeholders and shareholders has proven to be highly beneficial to the Group.

### STAKEHOLDER MANAGEMENT

The strength of the Group's relationships with its stakeholders, particularly employees, regulators, communities and society, secures Gem Diamonds' social licence to operate. This relationship relies on how effectively we manage issues such as ethics, labour practices, environmental and social responsibility, as well as our risk management and engagement activities with stakeholders.

Regular engagements with shareholders and other stakeholders provide relevant input for decision-making, promote the long-term sustainability of the Group and enable our contribution to wider society.

The Gem Diamonds Board is responsible for stakeholder engagement and the Chairperson ensures that relevant stakeholder views and strategic issues are regularly reviewed, clearly understood and underpin the work of the Board. The views of shareholders and other key stakeholders are considered when making decisions regarding strategy, remuneration policy, corporate social investment and other relevant matters.

The effectiveness of stakeholder engagement in the Group was included in the 2020 Board evaluation process. Personal performance objectives that determine short-term incentive bonuses for Executive Directors include a weighting for strengthening of key stakeholder relationships.

A stakeholder engagement strategy and programme is in place and Letšeng regularly engages with stakeholders in accordance with this strategy.

### MONITORING STAKEHOLDER ENGAGEMENT

The Chairperson, Senior Independent Director and Executive Directors engage regularly with shareholders and report back to the Board at the Board meetings.

A non-Executive Director, Mazvi Maharasoa, was appointed in 2019 as the Board's representative to engage with the broader workforce, and provides direct feedback to the Board on the key concerns of these stakeholders. This has proven hugely successful in monitoring workplace culture during an extremely challenging year for our workforce and communities.

At Letšeng, PACs have elected community representatives who communicate with the Corporate Social Responsibility Investment (CSRI) Committee to create a sustainable and culturally effective link between communities and the mine. The community representatives sit on the CSRI subcommittee of the Board, which meets quarterly and ensures that community members have a platform for relevant matters to be heard and addressed. These meetings include discussions on the employment of PAC members and the effectiveness of current CSI projects. A community needs-analysis was scheduled to take place in 2020 to inform Letšeng's approach to current and future community development projects, however, COVID-19-related lockdowns and restrictions have delayed this to 2021.

A community liaison officer (CLO) from Letšeng regularly visits and engages with surrounding communities, government officials and community leaders. The CLO remains involved with our community projects, adjusting the mine's continued level of involvement based on the maturity and sustainability of each project.



## STAKEHOLDER ENGAGEMENT CONTINUED

## RESPONDING TO STAKEHOLDERS

The section that follows provides an overview of the Group's key stakeholders, how we engage with them and how we respond to their concerns.

Shareholders	
<b>Why this relationship is important to us</b>	<ul style="list-style-type: none"> <li>Shareholders are the owners of the Group and the Board is ultimately accountable to them for performance. The goal of our strategy is to maximise shareholder value in a sustainable manner</li> <li>Shareholders and investors can provide funding for expansion opportunities</li> </ul>
<b>What our stakeholders tell us they value</b>	<ul style="list-style-type: none"> <li>Growth opportunities</li> <li>Desired return on investment</li> <li>Balanced capital allocation</li> <li>Good governance and ethics</li> <li>Responsible environmental and social practices</li> <li>Liquidity and cost containment during COVID-19</li> </ul>
<b>Traditional channels of engagement</b>	<ul style="list-style-type: none"> <li>Direct access to the Chairperson and the Senior Independent Director</li> <li>Meetings with the Chief Executive and Chief Financial Officers</li> <li>Regular roadshows to engage with several of the Group's larger investors</li> <li>Investor relations, mandated to the Chief Legal and Commercial Officer</li> <li>Attendance at the AGM by directors</li> <li>Annual and interim results presentations, and quarterly trading updates</li> <li>Conferences</li> <li>The Company website</li> <li>The Annual Report and Accounts, and the Sustainability Report</li> </ul>
<b>COVID-19 impact on engagement</b>	<ul style="list-style-type: none"> <li>The 2020 AGM was run as a closed meeting to comply with COVID-19 restrictions on gatherings</li> <li>Regular discussions were held around the impact of the pandemic on operations and mitigating actions</li> <li>More regular discussions were held on balancing capital allocation (see page 58)</li> </ul>
<b>Material developments in 2020</b>	<ul style="list-style-type: none"> <li>Engagement with a significant shareholder regarding their voting at the AGM (see below)</li> <li>Engagement on proposed 2021 remuneration policy amendments</li> </ul>

## Engagements post the AGM

At the Group AGM in June, the proportion of votes cast against Resolution 14 (Authority to allot shares), Resolution 15 (The disapplication of pre-emption rights) and Resolution 16 (The further disapplication of pre-emption rights) exceeded 20%. Following the AGM, the Company sought to engage with shareholders who voted against these resolutions and established that such votes were primarily due to a standing policy on these matters of a significant shareholder.

The Board believes these Resolutions were appropriate given they followed the provisions of the Pre-emption Group's Statement of Principles for the disapplication of pre-emption rights and reflected UK listed company market practice. Members of the Board and the Executive Management team have engaged with the significant shareholder and will continue to do so regularly.

## Majority interest in shares

On 15 February 2021, 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	% shareholding
Sustainable Capital	30 836 759	22.1
Graff Investments Limited	20 861 931	15.0
Lansdowne Partners	19 231 938	13.8
Aberforth Partners	13 762 340	9.9
Gem Diamonds Holdings	9 325 000	6.7

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. The shareholder base comprises 139.6 million issued ordinary shares of US\$0.01 each. There are institutional shareholders that hold 126.2 million shares (90%) and private shareholders who hold 13.4 million shares (10%).

## STAKEHOLDER ENGAGEMENT CONTINUED

## Bankers, insurers and funders

<b>Why this relationship is important to us</b>	<ul style="list-style-type: none"> <li>Providers of working capital facilities and long-term funding enable the Group to invest in capital projects and expansion opportunities</li> <li>Insurance allows the transfer of any potential financial implications of a risk materialising as part of the Group's risk mitigation strategy</li> </ul>
<b>What our stakeholders tell us they value</b>	<ul style="list-style-type: none"> <li>Responsible management of the Group's financial position to ensure commitments are met as they fall due</li> <li>Liquidity and cost containment during COVID-19</li> <li>Responsible environmental practices</li> <li>Transparency in reporting potential issues in a timely manner</li> </ul>
<b>Traditional channels of engagement</b>	<ul style="list-style-type: none"> <li>The finance department engages with bankers and funders on an ongoing basis regarding debt levels, compliance with covenants and debt renegotiations</li> <li>The finance team at each operation engages with insurance brokering consultants around renewal anniversaries with oversight from Group Risk management</li> </ul>
<b>COVID-19 impact on engagement</b>	<ul style="list-style-type: none"> <li>COVID-19 led to a significantly increased risk perception of the mining industry by banks, funders and insurers, resulting in tighter lending criteria, as well as increased exclusions, deductibles and premiums on insurance policies</li> <li>Aggregate limits are being imposed on insurance policies and Director and Officer (D&amp;O) liability cover is becoming more difficult to secure</li> <li>Letšeng has submitted a business interruption claim for the 30-day shutdown period when the mine was required to be placed on care and maintenance</li> </ul>
<b>Material developments in 2020</b>	<ul style="list-style-type: none"> <li>The Group Revolving Credit Facility which expired in December 2020 was renegotiated</li> <li>Review of capital requirements and considering and aligning appropriate debt facilities</li> <li>The Group was able to repay US\$13.5 million of debt during the year and ended the year in a net cash position of US\$34.6 million</li> <li>The Group has embarked on a comprehensive debt refinancing programme and has appointed Nedbank Corporate and Investment Banking to act as the sole mandated lead arranger</li> </ul>

## Employees and contractors

<b>Why this relationship is important to us</b>	<ul style="list-style-type: none"> <li>Our employees and contractors make it possible to run our operations and execute our strategy</li> <li>Gem Diamonds' strength lies in the quality of the people who work at its operations. To attract and retain top talent, we must understand and address their needs</li> </ul>
<b>What our stakeholders tell us they value</b>	<ul style="list-style-type: none"> <li>Fair treatment and remuneration</li> <li>Safe working conditions during COVID-19</li> <li>Opportunities for advancement</li> <li>Health and safety</li> <li>Skills development</li> </ul>
<b>Traditional channels of engagement</b>	<ul style="list-style-type: none"> <li>Informal engagements on a daily basis</li> <li>Visible felt leadership visits</li> <li>Annual culture and engagement surveys</li> <li>Quarterly Letšeng newsletter</li> <li>Company intranet and website</li> <li>Regular 'toolbox talks' with smaller shift teams</li> </ul>
<b>COVID-19 impact on engagement</b>	<ul style="list-style-type: none"> <li>There was increased use of electronic communications and virtual meetings during lockdown</li> <li>Head office leadership was often unable to physically visit the operations due to travel restrictions and had to use virtual engagement channels</li> </ul>
<b>Material developments in 2020</b>	<ul style="list-style-type: none"> <li>The non-Executive Director appointed to oversee engagement with the workforce initiated meetings with an employee representative forum</li> <li>Strengthened the desired culture through the advancement of CI initiatives with a focus on skills development</li> </ul>



## STAKEHOLDER ENGAGEMENT CONTINUED

## Engagements with employees

In July, Ms Maharasoa held a virtual workforce engagement session with a representative group of employees at Letšeng to explain the role of the designated non-Executive Director responsible for employee engagement and to understand the key workforce concerns. The engagement indicated an appetite for increased engagement between the executive and the workforce as well as some operational concerns, which are as a matter of course dealt with during daily toolbox talks. Further clarification is required regarding the distinction between the Group Board and the Letšeng Board, and the function and purpose of the whistleblowing hotline.

As a result the Board directed that a summary of the role of the designated non-Executive Director, together with the matters raised and the actions taken, was to be published in the Letšeng newsletter. The newsletter is published quarterly and will be used to communicate relevant employee engagement information. Feedback will also be provided at the Chief Operating Officer address once COVID-19 protocols related to gatherings are relaxed. A training and awareness campaign will be run regarding the whistleblowing hotline.

We conduct an annual employee culture survey to measure workplace culture, which enables the Board to explore the collective experience within the organisation and the prevalent patterns of behaviour. Metrics are in place to link the outcomes of the survey to our values and determine areas for future focus. The results of the 2020 survey indicated improvements in the areas which were in focus during 2020 and highlighted areas for further improvement. The Board will assess and monitor progress in these areas on a quarterly basis during 2021.

## Customers

<b>Why this relationship is important to us</b>	<ul style="list-style-type: none"> <li>Gem Diamonds' relationship with its customers supports demand for its unique diamonds and helps to ensure the best prices are achieved</li> </ul>
<b>What our stakeholders tell us they value</b>	<ul style="list-style-type: none"> <li>Availability of high quality diamonds</li> <li>Regular and transparent tenders</li> <li>The ability to tender safely during COVID-19</li> <li>Responsible environmental and social practices</li> <li>Sustainability of the business during COVID-19</li> </ul>
<b>Traditional channels of engagement</b>	<ul style="list-style-type: none"> <li>Engagements at tenders</li> <li>Electronic tender platform</li> <li>Regular interactions in the normal course of business</li> <li>Website communication and press releases</li> </ul>
<b>COVID-19 impact on engagement</b>	<ul style="list-style-type: none"> <li>Flexible tenders were introduced to ensure that sales could still take place</li> </ul>
<b>Material developments in 2020</b>	<ul style="list-style-type: none"> <li>Six tenders were held in Antwerp, Belgium with one viewing in Tel Aviv, Israel</li> <li>Additional rough diamond analysis information of selected large high-value diamonds was provided to assist clients to make informed buying decisions even if they were not able to physically view the diamonds on tender due to travel restrictions</li> </ul>

## STAKEHOLDER ENGAGEMENT CONTINUED

## Suppliers and business partners

<b>Why this relationship is important to us</b>	<ul style="list-style-type: none"> <li>Supply chain interruptions can disrupt operations, particularly where these affect critical equipment and spares</li> <li>Products and services represent a significant cost to the Group</li> <li>Local procurement supports the local economy and the broader population of Lesotho</li> </ul>
<b>What our stakeholders tell us they value</b>	<ul style="list-style-type: none"> <li>Fair payment terms</li> <li>Local procurement opportunities</li> <li>Responsible environmental and social practices</li> <li>Sustainability of the business during COVID-19</li> </ul>
<b>Traditional channels of engagement</b>	<ul style="list-style-type: none"> <li>Ongoing interactions in the normal course of business</li> <li>Annual contract negotiations</li> <li>Renewals of service level agreements</li> </ul>
<b>COVID-19 impact on engagement</b>	<ul style="list-style-type: none"> <li>COVID-19-related national lockdowns and travel restrictions affected the availability of critical spares and maintenance for haul trucks and other critical equipment</li> <li>Procurement strategies have been enforced to ensure that orders of necessary spares, equipment, etc. are placed well in advance to minimise delays that might occur because of procurement backlogs</li> </ul>
<b>Material developments in 2020</b>	<ul style="list-style-type: none"> <li>We engaged extensively and transparently with contractors and suppliers regarding the shutdown of operations and required cost savings. Ongoing discussions ensured continued alignment and understanding, and supported the sustainability of all parties</li> <li>Engagements ensured transparency, fairness and consistency with respect to the treatment of the workforce, including that of our contractors</li> </ul>

## Regulators and government

<b>Why this relationship is important to us</b>	<ul style="list-style-type: none"> <li>Mining is a highly regulated industry and a good relationship with government is essential</li> <li>The Government of the Kingdom of Lesotho is a 30% shareholder in Letšeng, the Group's flagship mine</li> </ul>
<b>What our stakeholders tell us they value</b>	<ul style="list-style-type: none"> <li>Health and safety</li> <li>Good governance and ethics</li> <li>Responsible environmental and social practices</li> <li>Community investments</li> <li>Local employment and procurement</li> <li>Contribution to Lesotho GDP through dividends, royalties and tax contributions</li> <li>Support for government COVID-19 priorities</li> </ul>
<b>Traditional channels of engagement</b>	<ul style="list-style-type: none"> <li>Ongoing engagements with regulators as required</li> <li>Regular engagements with government regarding planning and progress on community initiatives</li> </ul>
<b>COVID-19 impact on engagement</b>	<ul style="list-style-type: none"> <li>The Group engaged extensively with the Government of the Kingdom of Lesotho to provide support for COVID-19 relief efforts at a local and national level (see page 50)</li> <li>Regulations to contain the spread of COVID-19 were implemented in all countries of operation and the Group had to ensure that these protocols met the regulatory requirements as they evolved</li> </ul>
<b>Material developments in 2020</b>	<ul style="list-style-type: none"> <li>Engagements to have mining classified as an essential service to be able to reopen the Letšeng mine safely and responsibly</li> <li>Working with government to provide facilities for COVID-19 testing</li> </ul>

## STAKEHOLDER ENGAGEMENT CONTINUED

## Project-Affected Communities

<b>Why this relationship is important to us</b>	<ul style="list-style-type: none"> <li>Letšeng's PACs play a vital role in the success of the operation and we are committed to ensuring that PACs benefit from the operation</li> </ul>
<b>What our stakeholders tell us they value</b>	<ul style="list-style-type: none"> <li>CSI projects that improve access to education and skills development</li> <li>CSI projects to provide infrastructure and support local economic development</li> <li>Regular updates regarding progress on community projects</li> <li>Responsible and safe mining, environmental and social practices</li> <li>Local employment opportunities</li> <li>Support provided during the COVID-19 pandemic</li> </ul>
<b>Traditional channels of engagement</b>	<ul style="list-style-type: none"> <li>Social and environmental impact assessments and community needs analyses identify the most pressing community concerns</li> <li>Elected community representatives sit on the CSRI subcommittee of the Letšeng Board</li> <li>Letšeng's CLO regularly visits stakeholders such as surrounding communities, government officials and community leaders</li> <li>A grievance mechanism exists for PAC members to submit a grievance directly to mine management</li> </ul>
<b>COVID-19 impact on engagement</b>	<ul style="list-style-type: none"> <li>Community visits and mass meetings were cancelled in 2020 as a result of COVID-19 restrictions. The operation relied on other forms of engagement, such as virtual meetings and regular telephonic contact with community leaders</li> </ul>
<b>Material developments in 2020</b>	<ul style="list-style-type: none"> <li>Letšeng partnered with government to raise awareness regarding COVID-19, distribute personal protective equipment (PPE) and sanitiser, and provide food parcels in local communities (see page 50)</li> </ul>



## OUR STRATEGY

Gem Diamonds' strategy aims to maximise stakeholder value in a sustainable manner. The strategy aligns with the Group's purpose, vision and values, which provide a broader context to our business activities that emphasises the Group's commitment to creating social benefit and our duty to be responsible stewards of our natural resources.

The management team, led by the Chief Executive Officer (CEO), develops the business strategy for the Group and presents it to the Board, which reviews and approves it. The strategy is reviewed each year against developments in regulations, governance requirements, current market conditions and the short-, medium- and long-term outlook. Where necessary, the strategy is revised to adjust for these developments.

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.**

## 2020 STRATEGY REVIEW

The review in November 2020 assessed the strategy in the context of the impact of COVID-19 on the diamond market, industry peers and the Group's operations. A range of options to create stakeholder value was considered, including technologies and diversification across assets, commodities, industries, business models and operating structures. We assessed a number of opportunities during the year and will continue to do so, engaging with stakeholders who may present compelling options to unlock value. Fundamentally our business model remains unchanged and is considered effective to support our strategic aspirations. The pandemic demanded a short-term response to changing circumstances but did not affect our medium- to long-term strategic objectives.

The primary revenue and cost drivers set out in our business model (page 6) form the fundamentals of a mining business model and the resultant long-term strategy. The ability to remain as low as possible on the cost curve extracting the highest-quality diamonds to sell as effectively as possible remains the goal. Our agility to adjust tactics in the short to medium term contributes to protecting and preserving long-term fundamentals.

The strategic review concluded that the appropriate short- to medium-term priority remains maximising value from our Letšeng operation through three main focus areas:

**Optimising the current operating model**

We continue to implement and investigate new ways to improve our operating model to ensure we are operating efficiently and appropriately, particularly in the current market conditions.

**Using early identification and anti-breakage technology**

We are advancing technology that shows potential to improve diamond recovery, reduce diamond damage and decrease costs through early identification of diamonds within kimberlite and a non-mechanical method of liberating diamonds from kimberlite.


**Reducing diamond damage**

Reducing damage to diamonds from mining and processing activities remains a key focus to improve the prices we achieve for rough diamonds. This includes redesigning blasting patterns, and reduced processing throughput to improve plant stability through a more consistent feed rate with the aim of improving diamond recoveries.



## 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"> <li>Optimise operating model</li> <li>Reduce diamond damage</li> <li>Practise continuous improvement</li> </ul>	<ul style="list-style-type: none"> <li>Underlying EBITDA</li> <li>Return on average capital employed</li> <li>Basic earnings per share</li> <li>Cash generated from operating activities</li> <li>Ore tonnes treated</li> <li>Carats recovered</li> <li>&gt;20 carat diamond recoveries</li> <li>Average US\$ per carat achieved</li> </ul>

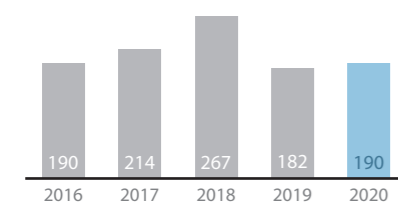
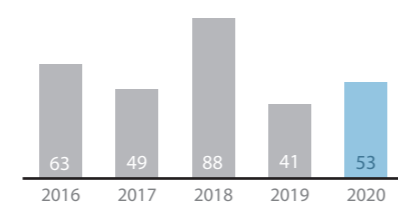
## 2020 performance

Revenue and profit were affected by the lockdown and the impact of COVID-19 on operations and the diamond market. Proactive cash preservation measures led to positive cashflows and the Group ended the year in a net cash-positive position of US\$34.6 million. The CFO report on page 36 discusses the Group's financial performance and position.

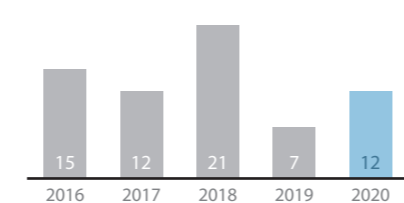
The BT programme remains on track to deliver the targeted US\$100 million in revenue, productivity and cost savings by end 2021. The CI roll-out at Letšeng is progressing well. The BT and CI initiatives are discussed on page 46.

We continue to explore new sales channels, including a trial on four selected large high-value diamonds in a partnership agreement with a strategic manufacturer. Letšeng has earned an additional US\$0.6 million (15% of the rough value) in the polished uplift on the sale of the resultant polished diamonds to date.

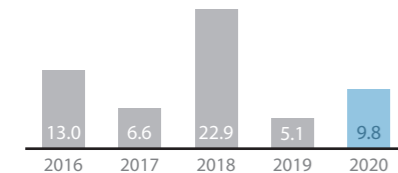
Revenue (US\$ million)

Underlying EBITDA<sup>1</sup> (US\$ million)

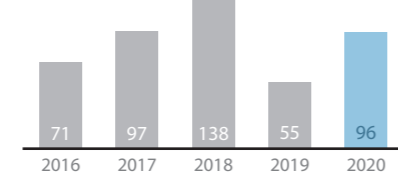
Return on average capital employed (%)



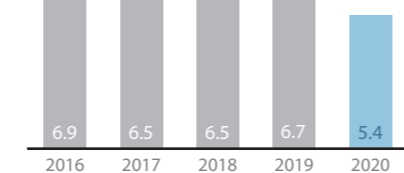
Basic earnings per share (BEPS) (pre-exceptional items) (US cents)



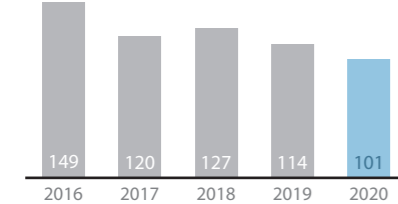
Cash generated from operating activities (US\$ million)



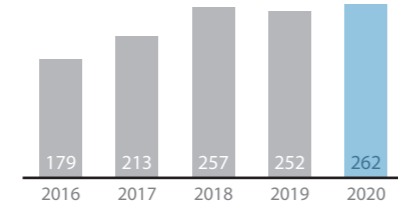
Ore tonnes treated (million)



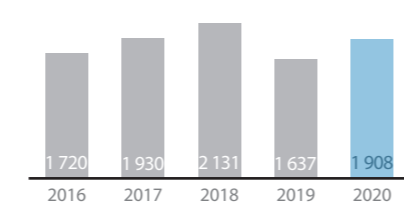
Carats recovered (thousand)



&gt;20 carat recoveries (number of diamonds)



US\$ per carat achieved



<sup>1</sup> Refer Note 4, Operating profit on page 145, for the definition of non-GAAP measures.

## OUR STRATEGY CONTINUED

## Objective

Working responsibly and maintaining our social licence



## Meaning

- Promote a culture of zero harm and responsible care
- Adopt six UN sustainability goals:
  - No poverty
  - Good health and well-being
  - Clean water and sanitation
  - Decent work and economic growth
  - Reduced inequalities
  - Responsible consumption and production
- GIA – Blockchain

## Measuring

- Fatalities
- LTIFR<sup>1</sup>
- AIFR<sup>1</sup>
- Major and significant environmental or community incidents
- Sustainability legal compliance
- Community investment
- ISO certifications

## 2020 performance

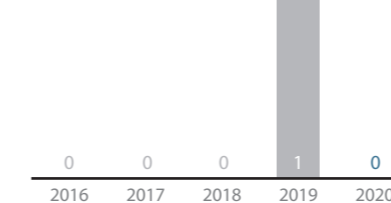
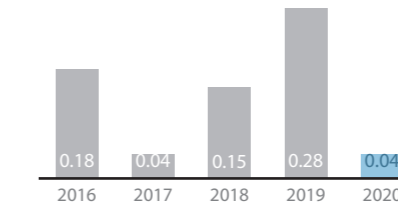
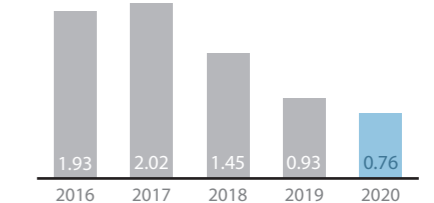
The Group's safety performance improved during the year with no fatalities and one LTI, resulting in a decrease in the LTIFR. The Group reported an AIFR of 0.76, the lowest AIFR for the Group in a decade.

A Group-wide COVID-19 Detection and Management Protocol was put in place to ensure the welfare of employees, contractors and surrounding communities, and to curb the spread of COVID-19.

There were no major environmental or community incidents during the year, nor any incidents of non-compliance. We continue to invest in local communities and strengthen our relationships with our key stakeholders. Refer to pages 48 and 50 for more performance information on our social licence to operate.


It was the fourth consecutive year of receiving ISO 14001 and 45001 certifications and no incidents of structural instability regarding tailings or water storage facilities integrity were recorded during the year.

Fatalities

LTIFR<sup>1</sup>AIFR<sup>1</sup>

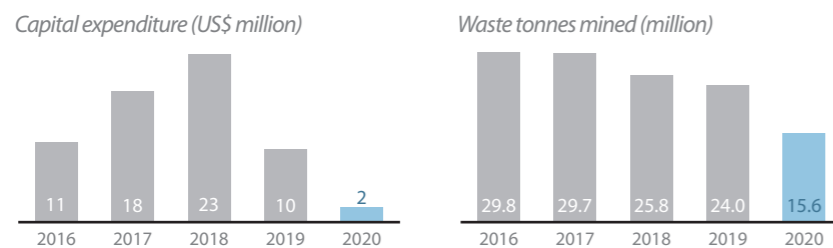
<sup>1</sup> Measures the safety performance of the Group and includes contractors and expressed as a frequency rate per 200 000 man hours.

## OUR STRATEGY CONTINUED

Objective	Meaning	Measuring
Preparing for our future 	<ul style="list-style-type: none"> <li>Advance innovative technologies focusing on reducing diamond damage and reducing costs</li> <li>Assess external growth opportunities</li> <li>Long term mine planning and optimisation</li> </ul>	<ul style="list-style-type: none"> <li>Capital expenditure</li> <li>Waste tonnes mined</li> <li>Extending life of mine</li> <li>Mining in accordance with life of mine plan</li> <li>Mergers and acquisitions</li> </ul>

### 2020 performance

We continue to investigate technologies for reducing diamond damage and reducing costs. These are discussed on page 47. We reviewed opportunities to further optimise the mine plan for implementation in 2021. The Letšeng mining lease was successfully renewed in 2019 and implemented in 2020. We continue to assess external growth opportunities and during the year we evaluated and engaged in an opportunity which arose from a formal sales process.



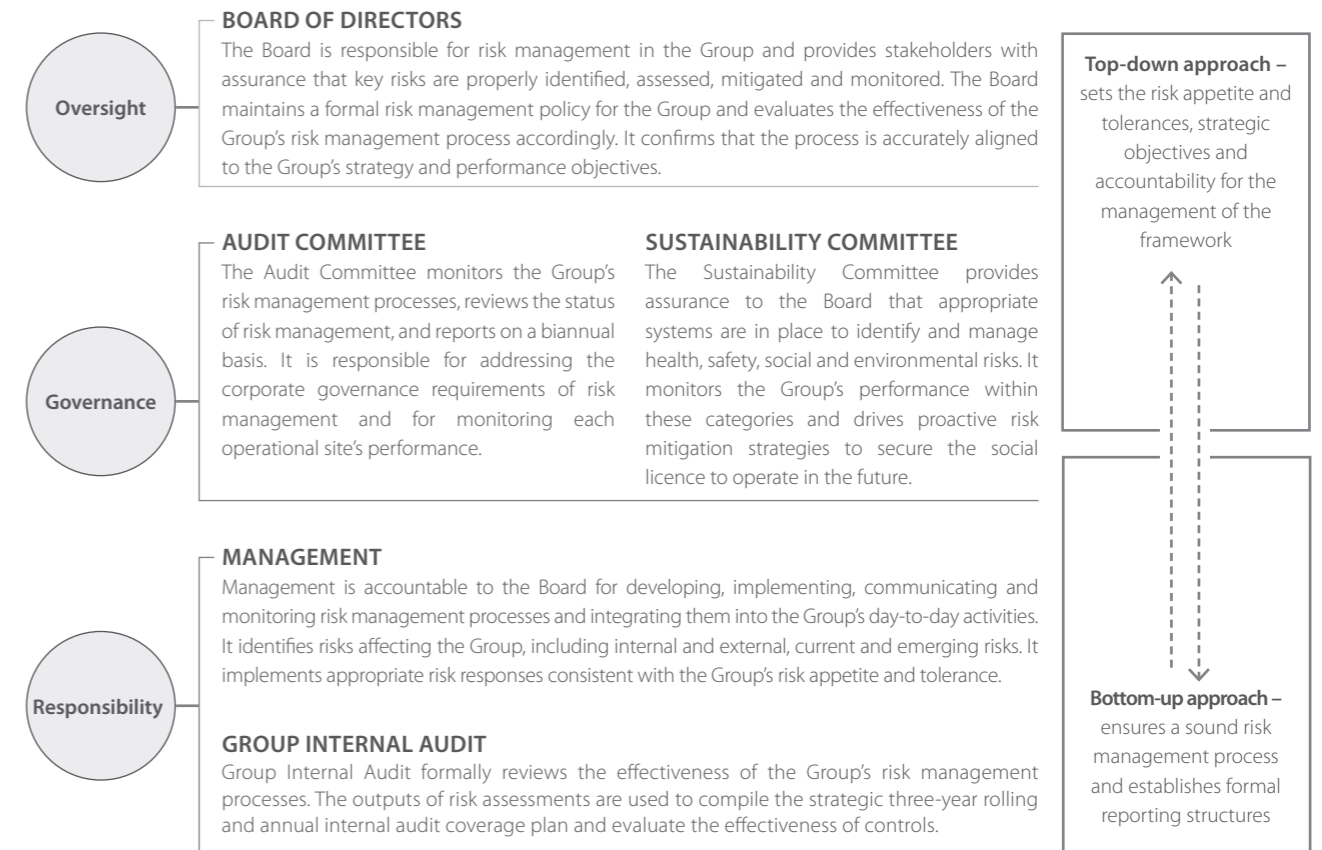
Read more in the CEO review, page 33, CFO review, page 36, and Operational review page 43.

# PRINCIPAL RISKS AND UNCERTAINTIES

## HOW WE APPROACH RISK

The Group's risk management framework aims to identify, manage and mitigate the risks and uncertainties to which the Group is exposed. Effective risk management and mitigation reduce the likelihood that financial, operational and compliance impacts could materially affect 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.



Prior to 2020, risk was an agenda item in Board meetings, but from the start of 2020 a stand-alone risk review meeting was added to the quarterly Board and Committee meetings to allow sufficient time to explore the risks fully and to assess management's scenarios and plans. The Board reviews the risk register and interrogates the most critical risks in detail, debating mitigating plans with management.

### 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 as their impact, individually or collectively, could affect the Group's ability to operate profitably and generate positive cash flows in the medium to long term. The risk disclosures follow guidelines from the IIRC's <IR> Framework to clarify the distinction between inherent and residual risk, indicate risk movements, and link the areas of the business model and strategy to each risk.

While Gem Diamonds' risk management framework focuses on risk identification and mitigation, many factors that give rise to

these risks also offer opportunities. The Group monitors existing and emerging opportunities and incorporates them into the strategy where they support the Group's vision.

### How COVID-19 made us re-evaluate risk

COVID-19 has increased the emphasis on identifying the possible implications of external macro risks and low-probability/high-consequence events to inform appropriate contingency plans. These risks can be mitigated by ensuring we continue to build resilience and flexibility into our leadership and operational processes and our leaders are equipped to quickly quantify the size and scale of the emerging issue and adapt accordingly.









Insurance cover is an important aspect of risk mitigation. It transfers potential financial implications due to any primary risk of the Group materialising. The COVID-19 pandemic led to an increased risk perception in the insurance market as a result of increasing claims and a declining premium pool. Insurers have decreased their exposure to the mining industry. As a result, the renewal of appropriate insurance has become challenging leading to additional exclusions, reduced cover, increasing deductibles/excesses payable and increasing premiums.




## PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Although insurance cover does not eliminate the operational controls needed to manage and mitigate risk, it offsets the potential financial loss should the risk materialise. Reduced cover consequently directly impacts the Group's cash management risk.


The Group is considering various options to minimise risk in the absence of insurance cover, including a self-insurance structure and enhanced business continuity procedures.

Risk type	Operational	Operational	Strategic and operational	Operational	Operational and external	Operational and external	External	Operational and external
<b>Description</b>	<b>Cash management</b>	<b>Diamond damage</b>	<b>Knowledge of the resource</b>	<b>Security of product</b>	<b>Information Technology (IT) and Operational Technology (OT) systems, and cybersecurity</b>	<b>Detrimental effect of COVID-19 on all spheres of the business</b>	<b>Rough diamond demand and prices</b>	<b>Production interruption</b>
<b>Impact</b>	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, security of product and the detrimental effect of COVID-19 on all spheres of the business.	Letšeng's valuable Type II diamonds are highly susceptible to damage during the mining and recovery process. This affects the demand for the Group's large high-value diamonds and the prices achieved resulting in reduced cashflow and profitability.	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 make the operation sensitive to resource variability. Mineral resource underperformance could affect the Group's ability to operate profitably.	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 would negatively affect revenue and cash flows.	The Group's operations rely on secure IT and OT systems to process and record financial and operating data in its information management systems. If these systems are compromised, there could be a material adverse impact on the Group.	COVID-19 not only caused infections and deaths worldwide but also wreaked havoc on the mining sector, leading to the closure of mines and marketing channels during the global lockdowns.  Gem Diamonds' main priority is the welfare of its employees, contractors and all those around its operations and corporate offices. The Company is taking all necessary precautions to protect its people and to ensure the sustainability of the business.	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 13 and directly affect Gem Diamonds' cash flows and EBITDA and its ability to fund operations, projects and growth plans.	Material mine and/or plant shutdowns or periods of decreased production could arise due to 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 financial 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.
<b>Opportunity if managed</b>	Cash constraints drive more efficient capital expenditure and cost disciplines.	Improvements to blasting techniques and the introduction of 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.	Advanced security control measures increase employee and product safety and improve revenue.	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 47).	Successfully navigating the crisis improves the Group's competitive position. Closure of marginal mines reduces supply of rough diamonds and could support diamond prices.  Ensuring we protect the wellbeing of our employees and contractors and playing an active role in community and government initiatives, we strengthen our relationships with these key stakeholders.	Additional viewings in new areas could introduce new clients and improve prices realised. New channels to market could increase the price the Group achieves on certain diamonds.	Operating at or near steady-state levels improves efficiencies due to stability of production.  Focused contract management impacts positively on cash generation through improved procurement and contract renegotiation practices.
<b>Key priorities</b>								
<b>Area of business model affected</b>	<ul style="list-style-type: none"> <li>Funding the business model</li> </ul>	<ul style="list-style-type: none"> <li>Increased diamond pricing</li> <li>Outputs of carats recovered</li> <li>Reduced financial inputs</li> <li>Increased financial outputs</li> </ul>	<ul style="list-style-type: none"> <li>Natural capital inputs and outputs of carats recovered</li> <li>LoM affects the long-term viability of the business model</li> </ul>	<ul style="list-style-type: none"> <li>Outputs of carats recovered</li> <li>Increased financial outputs</li> <li>Human capital and safety outcomes</li> </ul>	<ul style="list-style-type: none"> <li>Entire business model</li> </ul>	<ul style="list-style-type: none"> <li>Entire business model</li> </ul>	<ul style="list-style-type: none"> <li>Funding the business model</li> <li>Sales and marketing activities</li> <li>Chosen distribution channels</li> </ul>	<ul style="list-style-type: none"> <li>Reduced operational activity could lead to a decline in financial capital and outputs</li> <li>Negative outcomes decline natural and human capital</li> </ul>
<b>Mitigation</b>	<ul style="list-style-type: none"> <li>Reassessment of capital expenditure and operational strategies</li> <li>Treasury management practices in place</li> <li>Weekly cashflow reviews</li> <li>Foreign exchange management</li> <li>Access to available facilities</li> <li>Delivering of BT targets</li> <li>Regular review of the mine plan to optimise cash flow and to identify rescheduling opportunities</li> <li>Early engagement with lenders to renew facility agreements</li> <li>The ability to reduce operating costs in times of uncertainty</li> </ul>	<ul style="list-style-type: none"> <li>Continuous diamond damage monitoring and analysis to identify opportunities to reduce diamond damage</li> <li>Breakage and value loss studies at the mine and in Antwerp</li> <li>Optimisation of blast design and fragmentation results</li> <li>Online system in place to monitor plant parameters and evaluate trends within the treatment process</li> <li>Evaluation of new technology to detect diamonds within kimberlite</li> <li>Review and update of current diamond breakage initiative plan and implementation of diamond damage project plan</li> <li>On-mine Diamond Value Management Committee to oversee and drive the focus of overall value recovery</li> </ul>	<ul style="list-style-type: none"> <li>Furthering orebody knowledge through various bulk sampling programmes, combined with geological mapping and modelling methods</li> <li>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</li> <li>Improving understanding of diamond populations, size frequency distribution and value profiles per kimberlite type through rigorous daily and monthly data plotting and trend analysis</li> </ul>	<ul style="list-style-type: none"> <li>Advanced security access control and surveillance system in place, complemented by off-site surveillance</li> <li>Zero tolerance on nonconformance to policy and regulations</li> <li>Monitoring of security process effectiveness by the Diamond Recovery Protection Committee (a subcommittee of the Letšeng Board)</li> <li>Appropriate diamond specie insurance cover in place</li> <li>Regular vulnerability assessments complemented with internal and independent third-party assurance audits undertaken</li> </ul>	<ul style="list-style-type: none"> <li>Application of technical and process IT controls in line with industry-accepted standards</li> <li>Appropriate back-up procedures in place</li> <li>Firewalls and other appropriate security applications in place</li> <li>Regular testing of back-up restorations</li> <li>Consultations with professional external advisers when needed to better understand evolving risks and any mitigating factors to be implemented</li> <li>IT management policies</li> </ul>	<ul style="list-style-type: none"> <li>Detection and prevention strategies developed and implemented at all mines and offices</li> <li>Various flexible strategies available for a successful tender process</li> <li>Cash preservation, cost management and cash flow planning initiatives in place</li> <li>Ongoing negotiations with bankers to ensure access to facilities on a needs basis</li> <li>COVID-19 protocols to minimise disruptions as a result of infection and procurement strategies to ensure availability of spares, equipment, etc.</li> <li>Community initiatives including provision of PPE and food parcels, awareness programmes and ongoing training and support</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring of market conditions and trends</li> <li>Flexibility in sales processes and utilisation of multiple sales and marketing channels, and increased viewing opportunities</li> <li>Virtual viewing opportunities</li> <li>Ability to enter into partnership agreements with manufacturers to share in the upside of the polished diamonds</li> <li>Maintaining the integrity of the tender process</li> <li>Reduction in supply in the market with greater demand for Letšeng goods caused by current offtake agreement between a diamond trader and a mine</li> <li>Reduced sales opportunities in 2020 resulting in decreased supply of high-value diamonds</li> </ul>	<ul style="list-style-type: none"> <li>Continuous review of business continuity plans</li> <li>Bespoke contract management role fulfilled to ensure proper contract management and minimise potential for disputes and disruptions</li> <li>Appropriate insurance maintained</li> <li>Appropriate levels of resources maintained (fuel, stockpiles, etc.) to mitigate certain production interruptions</li> <li>Improvements implemented in the management of contractors' procurement practices.</li> </ul>
<b>Heatmap key</b>	1	2	3	4	5	6	7	8
<b>Risk exposure</b>	Increased	Unchanged	Unchanged	Increased	Increased	New risk	Decreased	Increased


## PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED



Extracting maximum value from our operations



Working responsibly and maintaining our social licence



Preparing for our future

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Risk type	Strategic	Strategic and operational	External and operational	Strategic and operational	Strategic and operational	Strategic and operational	External
<b>Description</b>	<b>Limited opportunities for growth</b>	<b>Workforce</b>	<b>Environmental</b>	<b>Social licence to operate</b>	<b>Health and safety</b>	<b>Sustainability of Business Transformation</b>	<b>Currency volatility</b>
<b>Impact</b>	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 the ability to attract and retain key suitably qualified and experienced personnel. Gem Diamonds operates in an environment and industry where shortages in experience and skills are prevalent, and in jurisdictions with localisation policies.	Climate and environmental issues, such as the recent dam failures reported by other companies, are recognised as top global risks by the World Economic Forum and investors are increasingly focused on environmental performance. Failure to manage climate and environmental issues will impact on compliance to mining lease and debt facility agreements.  Environmental regulations, pressure from surrounding communities and failure to manage vital natural resources can affect the Group's ability to operate sustainably.	Gem Diamonds' social licence to operate arises from the approval of its stakeholders, particularly employees, regulators, project-affected 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.	The risk that a major health or safety incident, such as a dam failure, may occur within the Group is inherent in mining operations. These risks could impact the wellbeing of employees, project-affected communities, our licence to operate, the Company's reputation and compliance with its mining lease agreement.	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.	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.
<b>Opportunity if managed</b>	Focusing on existing operations could unlock further value through rationalisation and efficiency improvements.	Skills retention and continuous improvement initiatives build the Group's human capital and can create a competitive advantage.	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.	Realising the Group's vision to make a meaningful and sustainable contribution to the countries in which we operate builds Gem Diamonds' reputation with employees, government, regulators, communities and investors.	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.	Delivery of the BT target improves cash flow and credibility and positions the Group ahead of the industry.	Earning capability in currencies stronger than currencies in which operational costs are incurred results in maximum financial benefit to Letšeng.
<b>Key priorities</b>							
<b>Area of business model affected</b>	<ul style="list-style-type: none"> <li>Entire business model</li> </ul>	<ul style="list-style-type: none"> <li>Human, intellectual and financial capital inputs into the business model</li> </ul>	<ul style="list-style-type: none"> <li>Natural capital inputs into the business model and negative outcomes in the case of environmental incidents</li> </ul>	<ul style="list-style-type: none"> <li>Social capital and viability of business model</li> </ul>	<ul style="list-style-type: none"> <li>Social, relational and human capital and viability of business model if outcomes are negative</li> </ul>	<ul style="list-style-type: none"> <li>Entire business model</li> </ul>	<ul style="list-style-type: none"> <li>Financial capital inputs and outcomes</li> </ul>
<b>Mitigation</b>	<p>Group strategy review performed with objective of improving the share price through:</p> <ul style="list-style-type: none"> <li>Delivering the BT target</li> <li>Advancing early identification and anti-breakage technology</li> <li>Assessing M&amp;A and diversification opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Human resources practices are designed to identify skills shortages and implement development programmes and succession planning for employees</li> <li>Incentives are in place to retain key individuals through performance-based bonuses and long-term share awards</li> <li>Remuneration Committees are set up at a GDL and Letšeng level. They review current remuneration policies, skills and succession planning</li> </ul>	<ul style="list-style-type: none"> <li>Appropriate sustainability and environmental policies, subject to continuous improvement review, implemented</li> <li>Behaviour-based care programme, which instils environmental stewardship, implemented</li> <li>Climate change adaptation plan implemented</li> <li>Dam safety management framework implemented</li> <li>Annual social and environmental management plan (SEMP) audit programme implemented</li> <li>ISO 14001 accreditation obtained</li> <li>UN SDG framework adopted</li> <li>Rehabilitation and closure management strategy adopted and updated annually</li> <li>Water management framework completed</li> <li>Concurrent rehabilitation strategy implemented</li> <li>Group shared natural resources management strategy implemented</li> </ul>	<ul style="list-style-type: none"> <li>Appropriate health, safety and sustainability policies in place which are subject to continuous improvement reviews</li> <li>Appropriate CSI spend catered for within the new mining lease agreement</li> <li>UN SDG framework adopted</li> <li>Regular engagement with relevant Government Department Ministries</li> <li>Dam safety management framework implemented</li> </ul>	<ul style="list-style-type: none"> <li>Appropriate health and safety policies and practices, subject to continuous improvement reviews, implemented</li> <li>Corrective actions identified from incident investigations and internal and external audits implemented timeously</li> <li>Dam safety management framework implemented</li> <li>ISO 45001 accreditation obtained</li> <li>Verification module developed for the Electronic Business Management System that will improve management and implementation of recommended corrective actions</li> <li>Safety management and leadership programme (focusing on behaviour-based safety culture) implemented</li> </ul>	<ul style="list-style-type: none"> <li>Dedicated BT task team</li> <li>Ongoing monitoring through regular review meetings</li> <li>Delivered US\$79 million to date, with medium/low risk of delivering remaining balance</li> <li>CI roll out commenced at Letšeng with pilot in the Mining department completed</li> </ul>	<ul style="list-style-type: none"> <li>A framework to enter into short-term hedging instruments is in place</li> <li>Appropriate treasury management procedures are in place</li> </ul>
<b>Heatmap key</b>	9	10	11	12	13	14	15
<b>Risk exposure</b>	New risk	Decreased	Decreased	Decreased	Unchanged	Decreased	Decreased

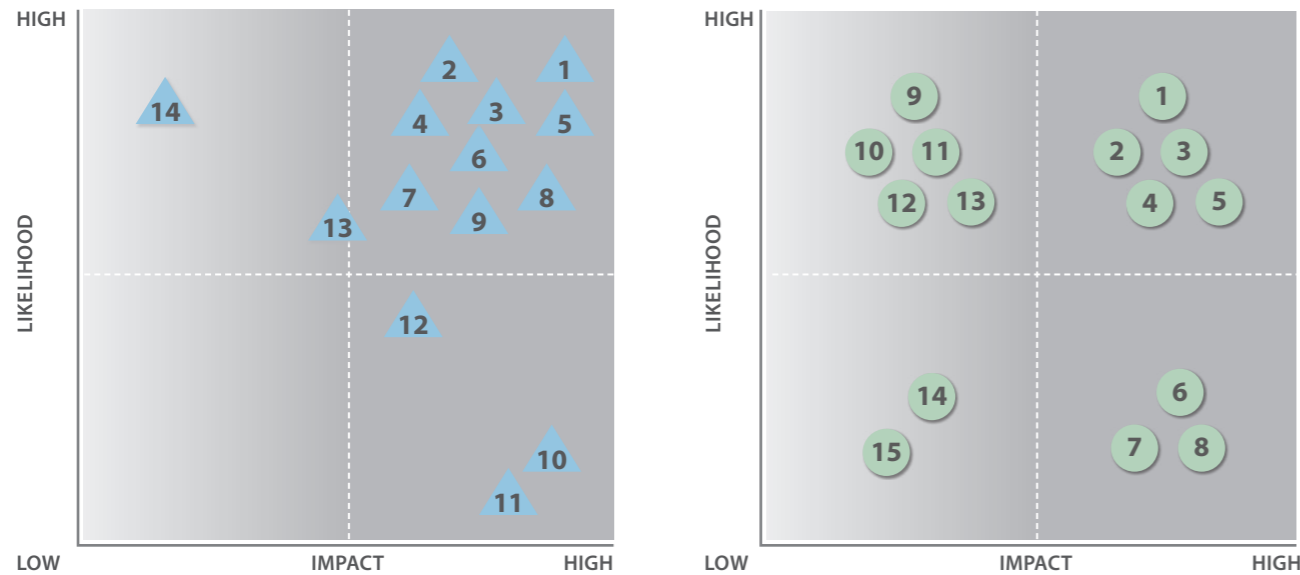
	Extracting maximum value from our operations		Working responsibly and maintaining our social licence		Preparing for our future
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PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED



## PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

The graphics below show the change in likelihood and impact scenarios 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 the Group. 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.

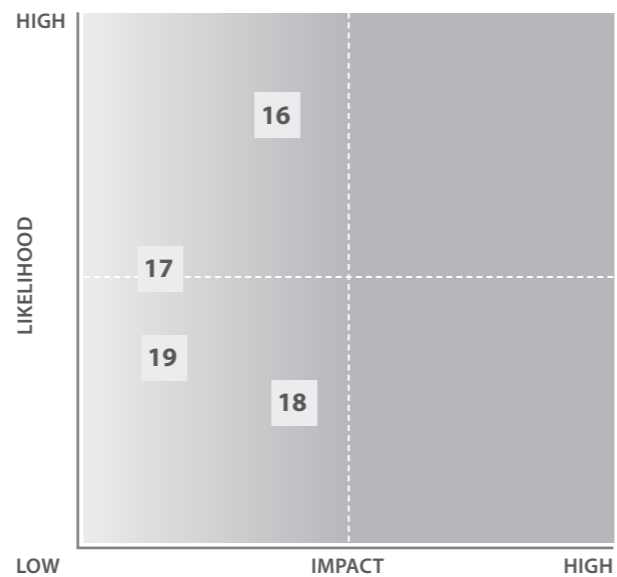
Emerging risks are risks that:

- are likely to materialise or impact over a longer time frame than existing risks;
- do not have much reference from 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 (16);
- generational shifts in consumer preferences – social influencers (17);
- the rate of advancement of digital technologies such as blockchain (18); and
- future workforce (automation, skills for the future, etc.) (19).

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



## 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 25 to 30 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 the 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 risk types, together with the effectiveness of the potential mitigations that management reasonably believes would be available to the Company over this period.

The Group's credit facilities (excluding project term loans) total US\$70.8 million when fully unutilised, with US\$34.0 million expiring on 18 July 2021, US\$30.0 million expiring on 31 December 2021 and the balance of US\$6.8 million being a general banking facility with no set expiry date (refer Note 18, Interest-bearing loans and borrowings). The Group's viability assessment assumes that these facilities will be successfully restructured, and their expiry dates extended, based on advanced discussions with lenders and previous successful renewals.

### COVID-19

Uncertainty exists around the ongoing impact of the pandemic on the Group. The Group is in a good position to mitigate the impact of any operational disruption that may be caused by potential further COVID-19-related lockdowns. International travel restrictions could have an impact on the frequency of diamond tenders and the ability to generate revenue on its regular tender cycles.

### STRESS TESTS

The scenarios tested considered the Group's revenue, EBITDA<sup>1</sup>, cash flows and other key financial ratios over the three-year period. The scenarios tested included the compounding effect of the factors below and were applied independently of each other.

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	32%	<ul style="list-style-type: none"> <li>• Rough diamond demand and prices</li> <li>• Production interruption</li> <li>• Knowledge of the resource</li> <li>• Detrimental effect of COVID-19 on all spheres of the business</li> </ul>	<ul style="list-style-type: none"> <li>• Entire business model i.e. inputs, activities, outputs and outcomes</li> </ul>
A strengthening of local currencies to the US dollar from expected market forecasts	32%	<ul style="list-style-type: none"> <li>• Currency volatility</li> <li>• Detrimental effect of COVID-19 on all spheres of the business</li> </ul>	<ul style="list-style-type: none"> <li>• Financial capital inputs and outcomes</li> </ul>

The Group's current net cash<sup>2</sup> position of US\$34.6 million as at 31 December 2020 and available facilities of US\$60.8 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 2024.

<sup>1</sup> Refer Note 4, Operating profit on page 145, for the definition of non-GAAP measures.

<sup>2</sup> Net cash is calculated as cash and short-term deposits less drawdown bank facilities (excluding asset-based finance facility and insurance premium financing).



# PERFORMANCE REVIEW

## CHIEF EXECUTIVE'S REVIEW

*"In the face of the significant disruption caused by COVID-19, the fundamentals of Gem Diamonds' business remain sound and our strategy intact."*

– Clifford Elphick –



In the face of the significant disruption caused by COVID-19, the fundamentals of Gem Diamonds' business remain sound and our strategy intact. Despite the extreme uncertainty at the start of the pandemic the fast and decisive action we took, combined with the organisational improvements of the last few years and strong stakeholder relationships, supported a good operational performance, strong cash flows and an improved financial cash position at the end of the year.

Our first priority was to make sure our people were safe. We took the potential threat to their health extremely seriously and acted quickly to do what we could to protect them, which included immediately establishing a testing laboratory on site at Letšeng.

Following the Lesotho Government's lockdown order, as soon as it was safe to restart operations and we had the necessary authorisations, we worked hard to get back to full production as fast as we could. We managed to ramp up well ahead of many operations in similar positions, greatly reducing the loss of production. This success was in no small part due to the in-country skills and expertise we have developed at Letšeng, since certain required skills and individuals were unable to physically be at the mine.

The quick return to production, Letšeng's top-quality diamonds and our excellent relationships with our customers allowed us to sell diamonds and generate revenue when many other producers could not. Despite the pressure on the diamond market, these factors helped us to achieve a 17% higher overall average price per carat than in 2019.

Most of the BT cost-efficiency initiatives are now fully embedded in day-to-day operations and the CI initiative is being rolled out. The changed working conditions during COVID-19 and extensive engagements with our contractors and suppliers identified additional efficiencies and new ways of working that helped to further reduce costs, which contributed to strong operating cashflows. It is pleasing to announce that the Board has recommended a dividend of 2.5 US cents.

While we are pleased with the Group's performance for the year in the face of these challenges, we are deeply saddened and offer our condolences to the families of the seven employees who passed away to date from suspected COVID-19-related complications.

### **STRATEGIC FOCUS: WORKING RESPONSIBLY AND MAINTAINING OUR SOCIAL LICENCE**

The Group's COVID-19 response included a significant contribution to ensuring the health of members of surrounding communities and supporting the Lesotho Government's programmes, as described on page 50.

We aim to create and sustain a workplace safety culture that is underpinned by a deep sense of mutual care and collaboration across the workforce. We are pleased with the improvement in our safety statistics this year but remain diligent in implementing our safety protocols in line with our commitment to promoting a culture of zero harm and responsible care. There were no fatalities and one LTI during the year, compared to one fatality and seven LTIs in 2019. The Group-wide LTIFR decreased to 0.04 (2019: 0.28) and the lowest AIFR in a decade was recorded.



## CHIEF EXECUTIVE'S REVIEW CONTINUED

Our strategic focus on working responsibly includes our commitment to environmental responsibility, which is discussed in detail on pages 48 to 50. A rigorous ongoing monitoring and management programme is in place to ensure any risks regarding Letšeng's freshwater dam and two tailings storage facilities (TSFs), which are designed and managed to international best practice, are timeously identified and mitigated. We are currently assessing our TSF management process against the Global Industry Standard on Tailings Management launched in August 2020 and developing an action plan to ensure conformance. A technical visit to the mine was undertaken in November 2020 by an independent expert and the compilation of a draft Independent Tailings Review Board (ITRB) structure and Terms of Reference is underway.

### Supporting local communities and contributing to national priorities

Gem Diamonds invests in surrounding communities to improve educational outcomes, develop infrastructure and stimulate local enterprises to create self-sustaining employment independent of the mine. Some of these projects were delayed due to disruptions caused by COVID-19 and we continue to engage with stakeholders regarding project status, any further COVID-19 impact on progress and alternative projects to address immediate needs in current circumstances.

In addition to community support, the Letšeng mine makes a substantial contribution to the Lesotho economy, providing jobs for more than 1 702<sup>1</sup> people and supporting the local economy and the broader population of Lesotho through local procurement initiatives. In 2020, due to the reduced production and the 30-day shutdown period, in-country procurement decreased 23% to US\$126.9 million (2019: US\$164.6 million), of which US\$2.2 million was procured directly from PACs (2019: US\$2.4 million) and US\$27.4 million (2019: US\$30.5 million) from regional communities around Letšeng. The Company's investment in training also improves individual skills in the area.

No major or significant stakeholder incidents were reported at any of Gem Diamonds' operations during the year (2019: none) and there were also no incidents involving any violation of the rights of the indigenous people on whose land the Group operates (2019: none).

### STRATEGIC FOCUS: EXTRACTING MAXIMUM VALUE FROM OUR OPERATIONS

Despite the challenging operating environment, Gem Diamonds produced solid results that included the recovery of 16 diamonds greater than 100 carats (2019: 11). Exceptional recoveries during the year include a 439 carat white Type IIa diamond, a 183 carat white Type IIa diamond and a 166 carat white Type IIa diamond reaffirming the quality of the mine's production.

While the overall diamond market was under extreme pressure, our proactive steps to ensure the safety of customers and provide additional analysis of the diamonds on tender resulted in the average price achieved increasing 17% to US\$1 908 per carat (2019: US\$1 637 per carat) from the sale of 99 172 carats (2019: 111 292).

Tonnes treated for the year decreased 19% year on year impacted by the 30-day shutdown at Letšeng and subsequent phased ramp-up of the two plants and we continue to focus on enhancing value over volume in our treatment of ore through the plants. Carats recovered decreased 12% to 100 780 (2019: 113 974), which was in line with the reduced tonnes treated due to the COVID-19-related shutdown in Q2. Letšeng's operational performance is discussed in detail on page 43.

Revenue increased 4% to US\$189.6 million (2019: US\$182.0 million), which translates to underlying EBITDA<sup>2</sup> of US\$53.2 million and earnings per share of 9.8 US cents. Cash flow was a key focus given the crisis conditions prevalent for most of the year and cash flow from operations increased 73% to US\$96.2 million for the year, allowing the Group to move from a net debt position of US\$10.2 million at the start of the year to a net cash<sup>3</sup> position of US\$34.6 million at the end of 2020. More information regarding the Group's financial results is available in the Chief Financial Officer's report on page 36.

The process to sell the Ghaghoo mine, which remains on care and maintenance, continues, but was significantly delayed during the year due to the impact of COVID-19. Management remains committed to the sale and will conclude the process in 2021.

## CHIEF EXECUTIVE'S REVIEW CONTINUED

### STRATEGIC FOCUS: PREPARING FOR THE FUTURE

The Group's improved balance sheet at year end provides a sound platform from which to navigate the current uncertain environment. The reduced costs and improved efficiencies realised through the BT initiatives were critical in maximising operational cash flows during the year and the operational benefits from the CI initiative currently being rolled out are already evident. These initiatives are discussed on page 46.

Non-essential capital expenditure was deferred wherever possible to preserve cash, but not at the expense of projects necessary to sustain operations.

We continue to advance two key technologies to identify locked diamonds within kimberlite and to liberate diamonds using a non-mechanical process. While the pilot project was hindered largely by the COVID-19-related lockdown and travel restrictions and did not make the progress during the year we would have liked, we have identified new technical partners to advance the pilot and believe that the benefits in reduced diamond damage and lower operating costs will be realised in time.

Gem Diamonds is cognisant of the risks presented by climate change and conscious of the need to minimise emissions and our environmental impact more broadly. The immediate climate-related challenge at Letšeng remains water management. Effective water management is crucial for the viability of our business. This refers not only to the preservation of natural resources for the benefit of host communities but also to the cost implications of water consumption on our business.

### OUTLOOK

In the year ahead, our immediate focus will be on ensuring the health of our employees and contractors during the COVID-19 second and possible future waves. We will also continue to support surrounding communities and assist the Lesotho Government in its efforts to manage the impact of the pandemic, including doing what we can to facilitate access to effective vaccination programmes.

At an operational level, we will continue to realise the benefits of the BT programme and roll out the CI project, drive efficiencies and cost-reduction initiatives to maximise cash flows and maintain our status as a responsible, safe and low-cost operation.

### APPRECIATION

I would like to thank the Board and our Chairperson for their support and guidance during the year. A special thanks goes to the management teams for their energy and tenacity in implementing the strategy in extremely challenging conditions.

My appreciation also extends to the Lesotho Government for its help in allowing us to restart our operation. Our customers bought our product at good prices during uncertain times and we thank them for their support and trust. In closing, thank you to our shareholders for their confidence and belief in our vision.

#### Clifford Elphick

Chief Executive Officer  
10 March 2021

<sup>1</sup> Includes contractors.

<sup>2</sup> Refer Note 4, Operating profit on page 145, for the definition of non-GAAP (Generally Accepted Accounting Principles) measures.

<sup>3</sup> 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 and insurance premium financing).

# CHIEF FINANCIAL OFFICER'S REVIEW

*"Management was able to normalise operations and maintain cash reserves through effective sales processes and cash preservation initiatives."*

– Michael Michael –

## FINANCIAL OVERVIEW 2020

The Group's immediate focus in the first half of the year was to manage the severe operational challenges brought on by the swift onset of the COVID-19 pandemic. Management was able to normalise operations and maintain cash reserves through effective sales processes and cash-preservation initiatives. In the short to medium term, the focus moved to optimising cash generation through further operational efficiencies to ensure the continued sustainability of the business in a challenging environment.

Significant operating and capital cost reduction and deferment measures were implemented in the second quarter which, together with the ability to successfully hold tenders and generate revenue, contributed to positive cash generation. Following the forced shutdown of operations at Letšeng due to the Lesotho Government's lockdown order during March and April, planned waste mining activities was successfully deferred to resume in July; and in the second half of the year the primary focus was on continued and safe operations, curbing the spread of COVID-19 on site and cash generation.

Although tender revenues initially tracked the weaker market for rough diamonds following the onset of COVID-19, there was a marked improvement in sentiment in the second half of the year. With the focus on the higher-value satellite ore, Letšeng produced good high-quality large diamonds, which included 16 diamonds greater than 100 carats during the year, compared to 11 in 2019.

Underlying EBITDA<sup>2</sup> from continuing operations increased to US\$53.2 million (after COVID-19 standing costs of US\$3.9 million incurred during the lockdown period), from US\$41.0 million in 2019. Profit attributable to shareholders from continuing operations for the year was US\$16.9 million, equating to earnings per share from continuing operations of 12.1 US cents on a weighted average number of shares in issue of 139.3 million. After including the loss of US\$3.3 million from the Ghaghoo discontinued operation, the Group's attributable profit was US\$13.6 million with earnings per share after discontinued operations of 9.8 US cents.

The Group ended the year with a cash balance of US\$49.8 million and drawdown facilities of US\$15.2 million, resulting in a net cash position of US\$34.6 million (2019: net

debt of US\$10.2 million) and unutilised available facilities of US\$60.8 million.

## Summary of financial performance

Please refer to the full annual financial statements starting on page 113.

US\$ million	2020	2019
Revenue	189.6	182.0
Royalty and selling costs	(19.8)	(16.9)
Cost of sales <sup>1</sup>	(104.7)	(114.7)
COVID-19 Standing costs	(3.9)	–
Corporate expenses	(8.0)	(9.4)
<b>Underlying EBITDA<sup>2</sup> from continuing operations</b>	<b>53.2</b>	41.0
Depreciation and mining asset amortisation	(9.1)	(14.7)
Share-based payments	(0.6)	(0.8)
Other income	–	1.1
Other expenses	–	(0.3)
Foreign exchange (loss)/gain	(0.9)	3.6
Net finance costs	(4.4)	(5.8)
<b>Profit before tax from continuing operations</b>	<b>38.2</b>	24.1
Income tax expense	(10.7)	(9.0)
<b>Profit for the year from continuing operations</b>	<b>27.5</b>	15.1
Non-controlling interests	(10.6)	(8.0)
<b>Attributable profit from continuing operations</b>	<b>16.9</b>	7.1
<b>Loss from discontinued operations</b>	<b>(3.3)</b>	(4.5)
<b>Attributable net profit</b>	<b>13.6</b>	2.6
Earnings per share from continuing operations (US cents)	12.1	5.1
Loss per share from discontinued operations (US cents)	(2.3)	(3.2)
Dividends per share (US cents)	2.5	–

<sup>1</sup> Including waste stripping costs amortisation but excluding depreciation and mining asset amortisation.

<sup>2</sup> Underlying EBITDA as defined in Note 4, Operating profit of the notes to the consolidated financial statements.

## CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED



US\$ million	2020	2019
<b>Group revenue summary</b>		
Letšeng sales – rough	189.2	182.1
Sales – polished margin	0.6	–
Impact of movement in inventory	(0.2)	(0.1)
<b>Group revenue</b>	<b>189.6</b>	182.0

Extracted diamond inventory on hand at the end of the year decreased to US\$0.6 million (2019: US\$0.9 million).

## Expenditure

### Operating expenditure and COVID-19 standing costs

Group cost of sales decreased by 9% to US\$104.7 million from US\$114.7 million in 2019 as a result of the cash preservation measures and the continued focus to reduce costs in line with the BT initiatives. Total waste-stripping costs amortised were US\$43.4 million compared to US\$43.1 million in 2019.

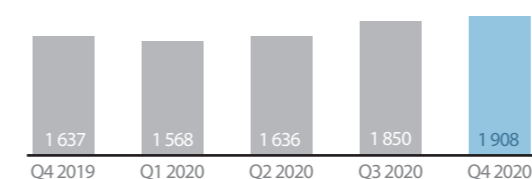
Certain standing charges that were incurred during the shutdown and ramp-up periods where normal waste stripping and carat production levels were disrupted, were recognised as abnormal costs, and in terms of IAS 2 Inventories have been expensed immediately and disclosed separately from cost of sales. These costs amount to Lesotho loti LSL48.5 million (US\$2.9 million). In addition, US\$1.0 million was incurred to implement protocols to address the risk and contain the spread of COVID-19 at the operations and Letšeng's surrounding communities.

## Revenue

Revenue of US\$189.6 million was generated at Letšeng, achieving an average price of US\$1 908 per carat<sup>1</sup> (2019: US\$1 637 per carat). The Group sold 34 diamonds for more than US\$1.0 million each, contributing US\$77.6 million to revenue.

The Group's increased revenue was mainly driven by achievement of a higher average price per carat and increased large diamond recoveries.

Letšeng 12-month rolling average (US\$ per carat)



<sup>1</sup> Includes carats extracted at rough valuation and carry-over inventory.



## CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Total operating costs in local currency increased by 6% to LSL1 740.8 million compared to LSL1 649.6 million in 2019 and includes the impact of non-cash accounting charges. The unit cost per tonne increased 30% to LSL320.20 per tonne from LSL245.92 per tonne treated in 2019. This increase was driven by the reduced tonnes treated and the proportionate mix of ore mined during the year. Although the total waste-stripping costs amortised during the year was similar to 2019, the increased contribution from Satellite pipe material (which carries a higher stripping ratio and associated amortisation charge) impacted the unit cost. During the year, 2.8 million tonnes of this material were treated (2019: 1.6 million) which increased the total amortisation charge to LSL131.56 per tonne treated compared to LSL92.88 in 2019. The increase in the non-cash accounting charges per tonne treated, impacted by waste-stripping amortisation, was offset by the timing differences of the inventory and stockpile movements during the year.

## Letšeng Unit Cost Analysis

Unit cost per tonne treated	Direct cash costs <sup>2</sup>	Plant 3 operator costs	Subtotal	BT & CI associated costs	Total direct cash costs	Non-cash accounting charges <sup>1</sup>	Total operating cost	Waste cash costs per waste tonne mined
2020 (LSL)	183.94	15.73	199.67	1.79	201.46	118.74	320.20	43.70
2019 (LSL)	150.61	20.40	171.01	10.15	181.16	64.76	245.92	38.62
% change			17		11		30	13
2020 (US\$)	11.17	0.95	12.12	0.11	12.23	7.21	19.44	2.65
2019 (US\$)	10.42	1.41	11.83	0.71	12.54	4.48	17.02	2.67
% change			2		(2)		(2)	0

Direct cash cost per tonne treated is LSL201.46, representing an 11% increase from 2019. Waste cash cost per waste tonne mined increased by 13% to LSL43.70 (2019: LSL38.62). These cash cost increases are a direct result of the lower volumes treated (5.4 million tonnes compared to 6.7 million tonnes in 2019) and waste tonnes mined (15.6 million tonnes compared to 24.0 million tonnes in 2019) during the year respectively. Total direct cash costs, including waste cash costs, decreased by 18% to LSL1 775.7 million from LSL2 158.8 million in 2019 as a result of the lower volume of mining activities and cash preservation and deferral measures implemented during the year.

Letšeng pays the third plant operator contractor according to the revenue generated by the sales from diamonds recovered through the contractor plant. In 2020, the cash costs in local currency decreased by 23% in line with the reduction in carats recovered and sold.

BT and CI associated costs of US\$0.6 million were incurred relating to initiatives implemented during the year, resulting a unit cost impact of LSL1.79 per tonne treated.

## Exchange rate influences

Revenue is generated in US dollars, while the majority of operational expenses are incurred in the relevant local currency

in the operational jurisdictions. Local currency rates for the Lesotho loti (LSL) (pegged to the South African rand) and Botswana pula (BWP) were weaker against the US dollar during the year (compared to 2019), which reduced the Group's US dollar-reported costs.

Exchange rates	2020	2019	% change
<b>LSL per US\$1.00</b>			
Average exchange rate	16.47	14.45	14
Year end exchange rate	14.69	13.98	5
<b>BWP per US\$1.00</b>			
Average exchange rate	11.45	10.76	6
Year end exchange rate	10.80	10.58	2
<b>GBP per US\$1.00</b>			
Average exchange rate	0.78	0.78	-
Year end exchange rate	0.73	0.75	(3)

## 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

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

<sup>2</sup> Direct mine cash costs represent all operating costs, excluding royalty and selling costs.

## CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

operation's mining lease. The Group's sales and marketing operation in Belgium incurs costs relating to diamond selling and marketing. During the year, royalties and selling costs increased by 17% to US\$19.8 million (2019: US\$16.9 million) in line with the increase in revenue and the increase in royalties from October 2019 from 8% to 10%.

## Rough diamond extractions and partnership sales

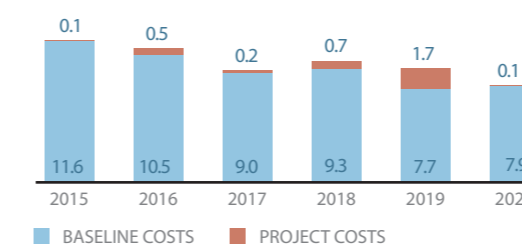
Letšeng entered into partnership arrangements during the year for the sale of four rough diamonds totalling 240 carats. The partnership arrangements allow for Letšeng to share in the margin uplift on the sale of the resultant polished diamonds, which added revenue to the Group of US\$0.6 million in 2020.

## Corporate expenses

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

Baseline corporate costs for the year were US\$7.9 million, a 4% increase compared to 2019 of US\$7.7 million. The benefits from the corporate cost initiatives implemented through BT continue to be realised. During the year, US\$0.1 million in costs were incurred on ad hoc projects (2019: US\$1.7 million), resulting in an overall saving of US\$1.4 million compared to 2019. The saving is largely due to the suspension of all ad hoc projects during the COVID-19 pandemic.

## Historical corporate costs data (US\$ million)

Underlying EBITDA<sup>1</sup> and attributable profit

Group underlying EBITDA<sup>1</sup> from continuing operations increased by 30% to US\$53.2 million (2019: US\$41.0 million)

as a result of the increase in revenue and the reduction in costs through cash preservation initiatives. Profit attributable to shareholders was US\$13.6 million, which translates to 9.8 US cents per share based on a weighted average number of shares in issue of 139.3 million.

## Statement of financial position – selected indicators

US\$ million	2020	2019
Property, plant and equipment	304 003	323 853
Receivables and other assets	5 839	6 337
Inventory	26 740	32 517
Cash and short-term deposits	49 821	11 303
Assets held for sale	3 528	3 943
Non-current: interest-bearing loans and borrowings	(1 701)	(6 009)
Current: interest-bearing loans and borrowings	(14 385)	(16 332)
Liabilities associated with assets held for sale	(4 224)	(4 221)
Deferred tax	(78 209)	(83 124)
Provisions	(12 331)	(15 588)
Income tax (payable)/receivable	(11 834)	8 176

## Capital expenditure

The Group's focus on cash preservation during COVID-19 resulted in limited capital spend and the deferral of a number of capital projects. Letšeng's capital spend was incurred mainly on continued core drilling; micro diamond analysis and mineral resource studies to firm up the existing mineral resource base (US\$0.7 million) (2019: US\$0.5 million); and the studies and engineering designs for the construction of the replacement Primary Crusher Area of US\$0.3 million (2019: US\$0.7 million). In addition, US\$0.1 million was spent on COVID-19 screening equipment and hardware.

Total capital expenditure (excluding waste stripping) decreased to US\$1.6 million during the year (2019: US\$9.7 million).

<sup>1</sup> Refer Note 4, Operating profit on page 145, for the definition of non-GAAP measures.

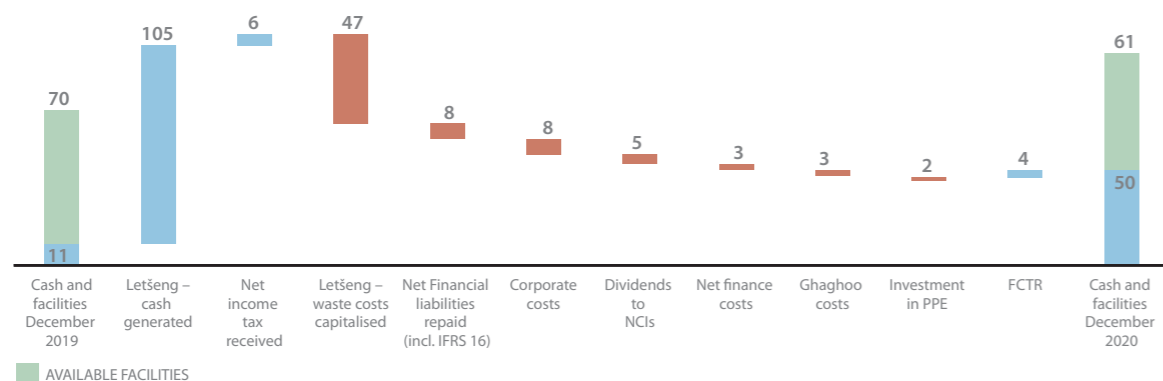
## CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

## Cash at hand

The Group generated cash from operating activities (before capital and waste investment of US\$48.7 million) of US\$96.2 million. The Group ended the year with cash on hand of US\$49.8 million (2019: US\$11.4 million), of which US\$36.2 million is attributable to Gem Diamonds. All scheduled capital debt repayments during the year were made, totalling US\$13.5 million. The overall result is a net increase in cash of US\$44.8 million year on year.

Letšeng declared a dividend of LSL400.0 million (US\$27.0 million) in 2020 of which LSL250.0 million (US\$16.8 million) was paid during 2020, with a further LSL150.0 million (US\$10.2 million) payable in March 2021.

## Cash movement (US\$ million)



## Loans and borrowings

At year end, the Group had utilised facilities of US\$15.2 million, resulting in a net cash position of US\$34.6 million and available facilities of US\$60.8 million, comprising a net debt position of US\$5.7 million (after US\$10.0 million drawdown) at Gem Diamonds and a net cash position of US\$40.3 million at Letšeng.

The Group optimised the capital structure to ensure Letšeng's debts were fully repaid at the end of the year, even under COVID-19 circumstances, to ensure lower overall gearing in the medium term should the pandemic have extended implications. The Group has renegotiated the Gem Diamonds' three-year revolving credit facility that expired in December 2020 for a further 12 months up to 31 December 2021. The Group engages regularly with lenders and credit providers to ensure continued access to funding and to manage the Group's cash flow requirements during these current turbulent times.

Repayment of the remaining US\$10.0 million balance on the Gem Diamonds Limited facility, relating to the Ghaghoo US\$25.0 million debt, was repaid in quarterly instalments during the year, with the final repayment made in December 2020. During 2020, Gem Diamonds accessed US\$14.0 million of its three-year RCF. A capital repayment of US\$6.0 million was made on the RCF facility in December 2020, ending the year with a US\$10.0 million outstanding balance.

Letšeng made repayments of LSL57.3 million (US\$3.9 million) on its project debt facility for the construction of the mining workshop complex. The outstanding balance of LSL76.3 million (US\$5.2 million) will be repaid by September 2022.

Funding discussions for the replacement PCA continues while the appropriate timing for the commencement of the project is being considered.

The Group has commenced a consolidated debt refinancing of its key credit facilities and has appointed Nedbank Corporate and Investment Banking as the sole mandated lead arranger to drive this process on its behalf.

## CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

## Summary of loan facilities as at 31 December 2020

Company	Term/description	Lender	Expiry	Interest rate <sup>1</sup>	Amount US\$ million	Drawn down US\$ million	Available US\$ million
<b>Existing facilities</b>							
Gem Diamonds Limited <sup>2</sup>	12-Month RCF	Nedbank	December 2021	London US\$ three-month London Interbank Offered Rate (LIBOR) + 5.0%	30.0	10.0	20.0
Letšeng Diamonds	Three-year RCF	Standard Lesotho Bank and Nedbank Lesotho	July 2021	Lesotho prime rate minus 1.5%	34.0	–	34.0
Letšeng Diamonds	Five-and-a-half-year project facility	Nedbank/Export Credit Insurance Corporation	March 2022	Tranche 1 (R180 million) South African Johannesburg Interbank Average Rate (JIBAR) + 3.15%	12.3	4.1	–
			September 2022	Tranche 2 (LSL35 million) South African JIBAR + 6.75%	2.3	1.1	–
Letšeng Diamonds	Overdraft facility	Nedbank	Annual review in March	South African prime rate minus 0.7%	6.8	–	6.8
<b>Total</b>					<b>85.4</b>	<b>15.2</b>	<b>60.8</b>

## Discontinued operation

In line with the strategic objective to dispose of non-core assets, the Board and management remain committed to the sale of Ghaghoo. The binding agreement that Gem Diamonds entered into in June 2019 for the sale of 100% of the share capital of Gem Diamonds Botswana Proprietary Limited lapsed due to certain suspensive conditions not being met, however process was again opened to other prospective buyers during the year and has entered into an exclusivity arrangement with an interested party with whom potential sale discussions are continuing.

The sales process faced considerable delays in 2020 largely due to the impact of COVID-19 and in particular the related travel restrictions that prohibited site visits for due diligence purposes. This process is expected to be concluded in 2021.

The operation remains on care and maintenance and is classified as a discontinued operation in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Care and maintenance costs were significantly reduced to US\$3.3 million (2019: US\$4.5 million) and have been recognised and disclosed separately in the Consolidated Statement of Profit or Loss. The reduction in costs was mainly due to the renegotiation of key contracts following the suspension of the de-watering programme. The suspension realised savings relating to reduced fuel consumption on site and ancillary costs associated with de-watering. Further cost reductions were driven by insurance premium decreases, termination of a transport contract, reducing the workforce in line with reduced care and maintenance operations and renegotiation of a generator rental contract.

<sup>1</sup> At 31 December 2020 LIBOR was 0.24% and JIBAR was 3.65%.

<sup>2</sup> Refer Note 18 of the Annual Financial Statements for the reconciliation of the US\$30 million facility.



## CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

### Share-based payment

The share-based payment charge for the year was US\$0.6 million (2019: US\$0.8 million). On 9 June, 1 249 000 nil-cost options were granted to certain key employees and Executive Directors under the long-term incentive plan of the Group with similar conditions as previous awards granted under this scheme.

### DIVIDEND

As a result of the Group's disciplined capital and cash management, and its strong cash generation during the year in a challenging environment, the Board is pleased to recommend the payment of an ordinary cash dividend of 2.5 US cents in respect of the 2020 financial year. The dividend is subject to shareholder approval at the scheduled AGM to be held on 2 June 2021.

### TAXATION

The Group has applied all relevant principles in accordance with prevailing legislation in assessing its tax obligations.

The Group's effective tax rate was 28%. Most of the Group's taxes are incurred in Lesotho, which has a corporate tax rate of 25%. The effective tax rate is above the Lesotho corporate tax rate as a result of deferred tax assets not recognised on losses incurred in operations during the year, partially offset by a reduction in the deferred tax liability on unremitted earnings. Governments in various countries introduced certain tax payment deferral measures to reduce the impact of COVID-19 on companies during the lockdown period, and where applicable all taxes were paid before year-end, in line with the deferrals offered.

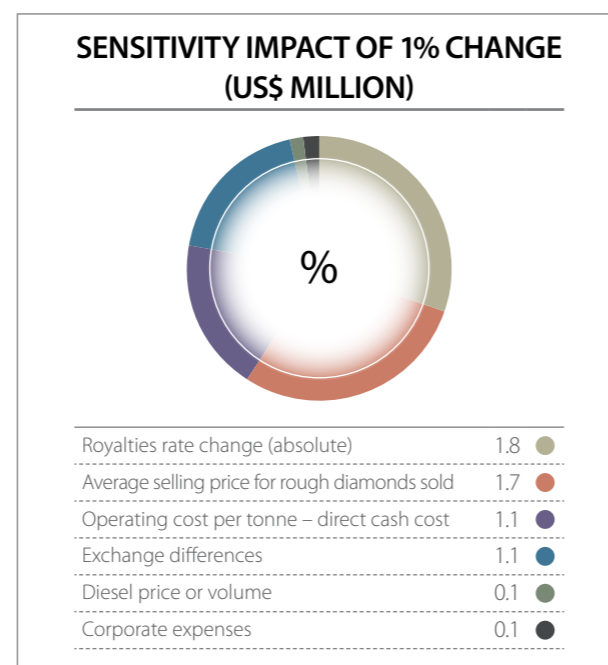
During the year the Group received a net tax refund of US\$5.9 million in taxes. The US\$7.6 million of overpaid taxes relating to the 2019 tax year at Letšeng was refunded during the year. Following the solid financial results at Letšeng, a further tax obligation of US\$11.3 million relating to the 2020 tax year is due for payment by March 2021.

As disclosed in the 2019 Annual Report and Accounts, an amended tax assessment was issued to Letšeng by the Lesotho Revenue Authority (LRA) in December 2019, contradicting the application of certain tax treatments in the current Income Tax Act. An objection was lodged by Letšeng in March, which was supported by the opinion of senior counsel, together with an application for the suspension of any payment deemed due. The application for suspension of payment was accepted. The LRA has subsequently lodged an application to the Lesotho High Court pertaining to this matter, which Letšeng is opposing and a court date has been set for 3 August 2021. There has therefore been no change in the judgement applied and the accounting treatment for this matter (refer Note 1.2.28, Critical accounting estimates and judgments for further detail.)

### SENSITIVITIES

The Group is exposed to a range of external factors that are outside of its control in the conduct of its business. 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 2020's EBITDA to various factors that have the most significant impact on our ability to create value.



### OUTLOOK

While the full impact of COVID-19 on the diamond industry and the Group's operations is still unfolding, the Group expects that in the medium to long term, rough diamond prices will be supported by favourable demand and supply fundamentals. These include continued growth in demand from markets such as China and India, supported by a projected fall-off in rough diamond supply. This dynamic is expected to benefit high-quality diamonds in particular, where shortages of certain categories of these rough diamonds were already evident during the year.

The Group's business priorities were quickly adapted to the new reality created by COVID-19 and numerous operational projects were deferred to focus on normalising the business. The Group continues to monitor developments and considers the potential primary risks to be disruptions in production resulting in lower throughput and the risk of reduced revenue due to downward pressure on diamond prices and/or decreased demand.

The Group's focus remains on areas of optimisation and cash preservation through re-evaluation of all operational and financial management initiatives, while keeping employees and surrounding communities safe. Effective capital allocation and cost reductions aim to ensure the financial and funding resilience needed to operate in extremely challenging times and to achieve the Group's strategic objectives.

**Michael Michael**  
Chief Financial Officer  
10 March 2021

## OPERATIONAL REVIEW

### HIGHLIGHTS

- Zero fatalities and one LTI
- Group AIFR at 0.76, the lowest in a decade
- Recovered 16 diamonds greater than 100 carats, including a 439 carat, a 183 carat and a 166 carat Type IIa white diamond
- Sold 34 diamonds for more than US\$1.0 million each
- Average price of US\$1 908 per carat achieved despite the impact of COVID-19 (2019: US\$1 637)
- The Group effectively handled an unprecedented crisis
- Continued benefits and savings realised from BT initiatives and CI programme successfully rolled out in mining operations
- Excellent collaboration with contractors and suppliers ensured safe and responsible continued operations and the sustainability of the business
- Fourth consecutive year of ISO 14001 and 45001 certifications

### KEY PROJECTS 2020

- Implemented a Safety Turnaround Strategy, adopted at the end of 2019
- Ensured the safety and wellbeing of our workforce and PACs during COVID-19 while adapting operations and strategic priorities for the changed operating environment
- Enhanced customer engagement to realise maximum sales opportunities
- Ensured transitioning of BT into CI (see page 46)
- Completed feasibility study to replace and upgrade the PCA facility
- Investigated further options to reduce waste mining
- Reduced diamond damage through changing blasting patterns successfully rolled out at Letšeng
- Reduced processing throughput to improve plant stability through more consistent feed rate
- Progressed studies and core drilling relating to the updating of the Resource and Reserve Statement

### CHALLENGES

- COVID-19 and the 30-day shutdown at Letšeng mine
- COVID-19 disruptions affected haul truck and other critical equipment, and spares availability
- Processing at Letšeng plants below budget due to (i) an increase in planned maintenance to improve equipment reliability and plant stability; and (ii) intermittent power interruptions

### PERFORMANCE

Line managers at Letšeng report to the COO on a weekly basis. This was increased to daily meetings at Letšeng and weekly meetings at Ghaghoo following the onset of the pandemic and the resultant operational impacts.

Weekly meetings were held with contractors, line management and the COO to ensure alignment and understand challenges in addressing COVID-19 impacts.

Over and above quarterly reports to the Board, the COO and CFO meet with a non-Executive Director about operational governance on a weekly basis.

Weekly cash flow meetings with Letšeng are held and line managers submit a monthly operational report to both the COO and CFO, which provides performance feedback on metrics involving:

- health and safety;
- COVID-19 testing and management;
- production and operational performance;
- TSF management and monitoring; and
- current projects' progress discussions.

### Safety

Letšeng's approach to safety is built on the culture of behaviour-based care at work and a commitment to zero harm. The Group's intensified focus on safety and the benefits of visible leadership and training is evident in the positive operational safety trends seen in 2020. One LTI was recorded at Letšeng during 2020 (2019: seven); and the LTIFR decreased to 0.04 (2019: 0.28). The Group reported the lowest AIFR in a decade after the AIFR improved to 0.76 (2019: 0.97). Although the focus on the Safety Turnaround Strategy implemented in 2020 saw a decrease in LTIs during 2020, management has also implemented proactive actions to prevent the recurrence of certain near-miss incidents that could potentially have severe outcomes. Letšeng is putting into effect a strategy to reduce LTIs, and to ensure behaviour-based care is integrated at the operation to continue to reduce all safety incidents. There were no LTIs during 2020 at Ghaghoo or anywhere else in the Group.

## OPERATIONAL REVIEW CONTINUED

KPI	Unit	2020	2019	% change
Fatalities	Number	0	1	(100)
LTIFR	200 000 man hours	0.04	0.28	(86)
AIFR	200 000 man hours	0.76	0.93	(19)

## Operations

KPI	Unit	2020	2019	% change
Ore mined	tonnes	5 594 639	6 297 805	(11)
Ore treated	tonnes	5 436 396	6 707 791	(19)
Carats recovered <sup>1</sup>	carats	100 780	113 974	(12)
Carats sold	carats	99 172	111 292	(11)
Average price per carat	US\$/carat	1 908	1 637	17

Letšeng suspended operations and placed the mine on care and maintenance from 28 March to 26 April in compliance with the Government of Lesotho's lockdown order. Mining and ore treatment restarted in a phased approach in April and ramp-up to full production at both treatment plants was achieved in May, with waste mining recommencing in July, in accordance with a revised 2020 mine plan.

Waste tonnes mined decreased 35% to 15.6 million tonnes from 24.0 million tonnes in 2019, impacted by the shutdown of operations in Q2, the focus on cash preservation and based on a revised 2020 mining plan. Availability of primary waste diggers and waste hauling trucks was lower than call due to reduced availability of critical spares and maintenance services, largely as a result of the imposed COVID-19-related lockdowns and travel restrictions.

Ore tonnes treated during 2020 of 5.4 million tonnes comprised 4.5 million tonnes treated by Letšeng's plants (2019: 5.6 million) and 0.9 million tonnes treated by the third-party processing contractor Alluvial Ventures (AV) (2019: 1.1 million). Of the total ore treated, 2.6 million was sourced from the Main pipe, 2.8 million from the Satellite pipe with only a negligible number of tonnes from the Main pipe stockpiles. Ore tonnes treated was impacted by the shutdown and phased ramp-up, the planned reduction in processing feed rates to improve plant stability with the aim of

increasing diamond recoveries, electricity supply interruptions, and an increase in planned maintenance to ensure equipment reliability. Due mainly to the lost processing time during the shutdown period and phased ramp-up in Q2, a higher proportion of Satellite pipe ore was treated in 2020 to maximise revenue and cash generation, particularly in the second half of the year. The coarser and harder Satellite pipe material, however, negatively impacts throughput capacity in the plants.

Total carats recovered in 2020 decreased 12% to 100 780 (2019: 113 974), largely as a result of no tonnes being treated during the 30-day shutdown period and reduced tonnes during the ramp-up phase.

The BT initiative to re-treat historic and current recovery tailings through the mobile XRT sorting machine yielded 1 341 carats in 2020 (2019: 5 420 carats). The decrease compared to 2019 is largely due to improved recoveries within the coarse recovery system and the depletion of historic coarse recovery tailings material.

Overall grade for 2020 was 1.85cpht, an increase of 9% on the 1.70cpht realised in 2019 due to the higher contribution of Satellite pipe ore in 2020, which has a higher grade relative to Main pipe ore. The grade for the ore processed during the year was in line with its expected reserve grade.

## Large diamond recoveries

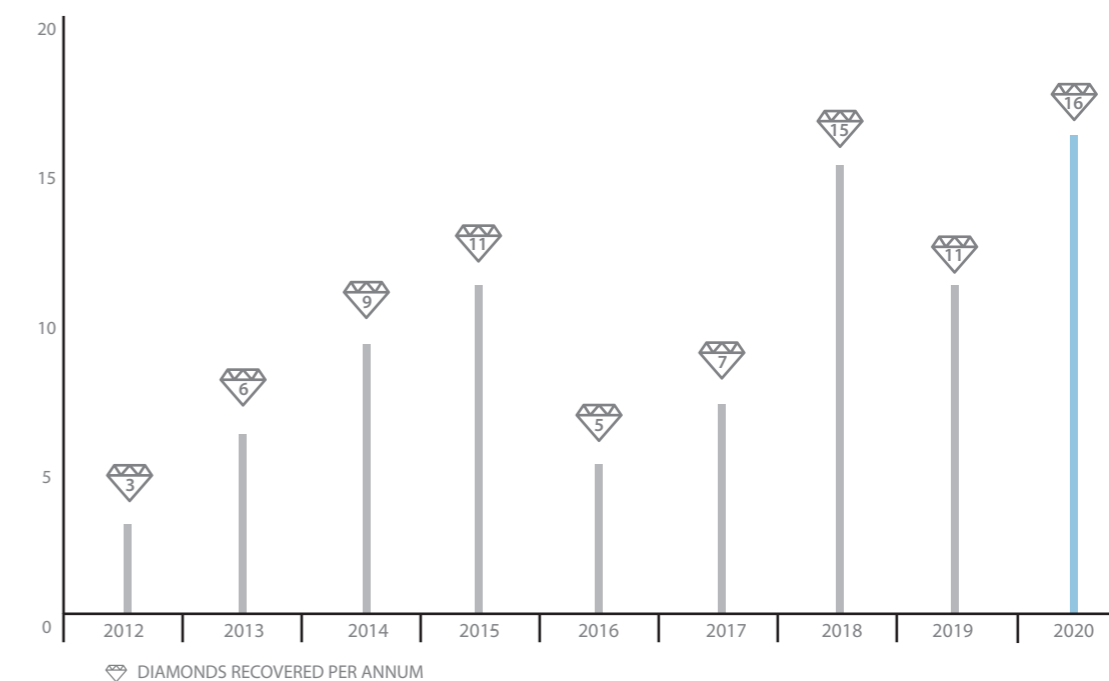
In 2020 Letšeng recovered 16 diamonds greater than 100 carats each (2019:11); and total diamonds recovered greater than 10 carats increased by 5% year on year.

Number of large diamond recoveries	2020	2019	FY average 2009 – 2019
> 100 carats	16	11	8
60 – 100 carats	29	20	18
30 – 60 carats	102	82	72
20 – 30 carats	115	139	114
10 – 20 carats	500	472	426
Total diamonds > 10 carats	762	724	639

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

## OPERATIONAL REVIEW CONTINUED

Letšeng +100 carat diamonds



## Mineral resources and reserves

While studies related to the updating of Letšeng's Resource and Reserve Statement continued throughout 2020, there were considerable delays due to the lockdowns in Lesotho, South Africa and Canada. Analysis and interpretation of results progressed, including 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.

Bulk sampling of the various volumetrically significant subdomains is ongoing within the mining and treatment production schedules. The low grades of all kimberlites at Letšeng mean that substantial bulk samples are required to collect sufficient diamond data to confidently estimate grade and diamond value.

The timeline for updating the Resource and Reserve Statement was further impacted by the relatively internal geology recognised during the detailed petrographic studies on historical and new core obtained during the 2017-2018 drilling programme. As a result, additional core drilling is required to confirm the classification of certain portions of the Resource as Indicated.

The necessary additional core drilling commenced with a new drill rig purchased in November 2020. This drilling programme was designed to increase drillhole density in certain areas and confirm internal contacts. Logging and sampling of the core will be carried out at Letšeng in parallel with external petrographic analysis to complete the work required for the Resource and Reserve Statement and the supporting technical report.

## Diamond sales

Travel and other COVID-19-related restrictions implemented in many countries worldwide, and particularly in Belgium, Israel and India, impacted on the Group's sales process. Flexible tender processes were successfully introduced in strict compliance with COVID-19 health and safety protocols, including appropriate social distancing guidelines and sanitation measures. This allowed for sales to be conducted by limited tender and/or allowing clients to view diamonds virtually before tendering. Additional rough diamond analysis information of selected large high-value diamonds was provided to assist clients who could not physically attend the tenders to virtually view the diamonds prior to bidding on the tender platform.

Six rough diamond tender viewings were held in Antwerp and one in Tel Aviv during the year. A total of 99 172 carats were sold by Gem Diamonds Marketing Services (2019: 111 292). Letšeng generated rough diamond revenue of US\$189.2 million (2019: US\$182.0 million), at an average price of US\$1 908 per carat (2019: US\$1 637).

## Capital projects

Capital requirements for 2020 were reviewed as a result of COVID-19 with savings realised and a portion of planned capital expenditure deferred to future years. During the year, the limited capital spend related to the progress of the resource and reserve statement, the expansion of the Patiseng Tailings Storage Facility and the initial design work to replace the ageing primary crushing area (PCA). Details of overall costs and capital expenditure incurred at Letšeng during the period are included in the CFO's report on pages 36 to 42.



## OPERATIONAL REVIEW CONTINUED

### Business Transformation (BT) and Continuous Improvement (CI)

The Group's Business Transformation (BT) programme started in 2018, with the goal of delivering US\$100 million in revenue, productivity and cost savings (against the 2017 base) by the end of 2021. 325 initiatives were identified to create a step change in efficiency, productivity and cost management, and to position Gem Diamonds favourably in its peer group. The BT programme included four primary workstreams – mining, processing, working capital and overheads, and corporate activities.

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

The successful implementation of the underlying initiatives over the past three years created a solid operational, financial and cultural platform for the Group to navigate the challenging operating environment over the past few years and more recently to absorb the external shock of the COVID-19 pandemic. The process underpinning the material initiatives that contribute to the US\$100 million target are embedded and sustainable and, notwithstanding the 30-day shutdown and reduced operations in Q2 2020 which negatively impacted certain of the initiatives, the full delivery of the target by end 2021 remains on track. By the end of the year, the BT programme delivered US\$79.2 million of the target.

**14**  
EMPLOYEES  
from across the levels part  
of CI Steering Committee

**15**  
CHAMPIONS  
trained

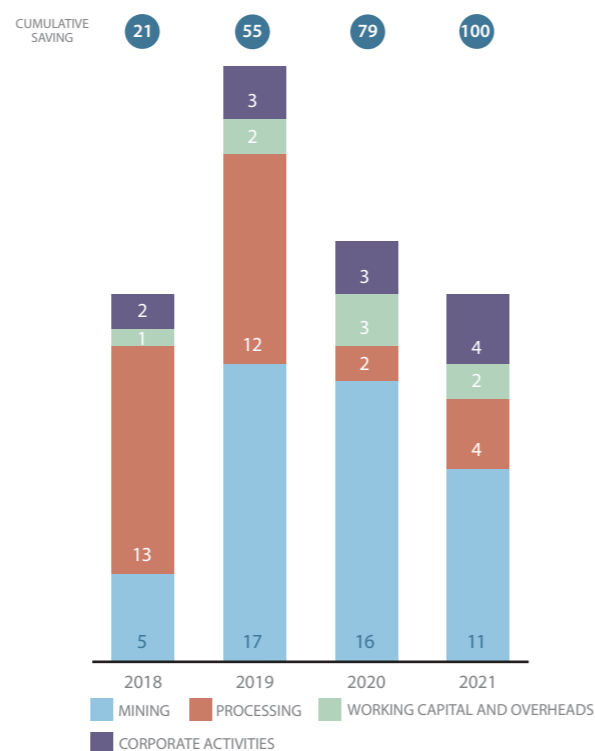
**25**  
EMPLOYEES  
making up taskforces

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

**4 300**  
HOURS  
of CI, leadership, visual management  
and problem solving

**700**  
EMPLOYEES  
introduced to CI

BT programme annual cash saving (US\$ million)



Many of the BT processes focused on improved efficiencies in the use of our natural resources, which also mitigate the operational impact on the natural environment. This supports the Group's strategy of maximising benefit for our communities and minimising our impact on the environment.

The transition from BT to CI at Letšeng is progressing well. CI focuses on behavioural strategies and the implementation of meaningful key performance indicators for effective visual management and problem solving (using the 5-WHY methodology) at all levels. CI, supported by software training, enables the Group to continuously improve efficiencies by unlocking the inherent capabilities of employees at all levels to implement CI best practices, build effective teams, drive incremental improvements and create a high-performance culture. The successful implementation of CI in the Mining area at Letšeng has resulted in marked operational efficiencies, such as improved adherence to drilling parameters and blasting quality, during 2020. Roll-out to the Treatment and Services areas has commenced. Taskforce members in Treatment have been identified and they have undergone the introductory training.

## OPERATIONAL REVIEW CONTINUED

### Dam safety and integrity

Tailings dam integrity is an ongoing area of focus for mining companies and investors, in recognition of the possible adverse impact that a failure at one of these facilities may have on human lives and the natural environment. Letšeng has three dams on site – (i) the Patiseng tailings storage facility (TSF), which is currently in use for the deposition of coarse and fine slimes tailings, (ii) the old TSF, which is a semi-dormant facility currently used only for emergency deposition of fines tailings, and (iii) the Mothusi Dam, which is the mine's freshwater supply resource. These dams were constructed using the 'centre line and downstream tipping' method<sup>1</sup>. Most recent dam failures reported in the mining industry were related to dams built using 'upstream' construction methods.

The relevant details of these facilities are available in Gem Diamonds' voluntary disclosure as part of the Investor Mining & Tailings Safety initiative set up by the Church of England, which can be found under the Company's name at <http://tailings.grida.no/>. Read more about progress in 2020 on page 50.

### Reducing diamond damage

The unique diamond distribution in Letšeng's orebody comprises a high proportion of larger high-value Type II diamonds that are more susceptible to damage in mining and processing. Reducing diamond damage therefore provides an important opportunity for Gem Diamonds to 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.

Over the last five years, Gem Diamonds has made significant progress in identifying, validating and testing technologies from various industries that show potential for early detection and non-mechanical liberation of diamonds.

Following the successful proof of concept, the Group's wholly owned subsidiary, Gem Diamonds Innovation Solutions, constructed and commissioned a pilot plant at Letšeng in 2019 to test the technology under operating conditions. The pilot plant combines scanning technology that uses proprietary

imaging and sorting algorithms to detect diamonds within kimberlite with high-voltage pulse power for non-mechanical fragmentation of composite materials to liberate the encapsulated diamonds.

A steering committee is in place to oversee the project, chaired by the CEO. Advancing of the pilot during the year was negatively impacted by COVID-19, the revised capital expenditure plan, inconstant electricity and water supply, and challenges with the reliability of certain key components. The work done to date demonstrates the potential of the technology to reduce diamond damage and the Group remains committed to the project. New partners were identified to advance the pilot processing plant to detect diamonds within kimberlite and further enhancement and testing will continue in 2021.

### Providing clarity for customers

Increasing consumer interest in social and environmental factors when making buying decisions, particularly among younger consumers, provides an opportunity for ethical and responsible producers like Gem Diamonds. Blockchain technology is a way to securely link the source of rough diamonds with the final polished diamonds, proving their authenticity, provenance and traceability, and supporting ethical sourcing and processing in the diamond value chain. Solutions currently available offer consumers information about the country of origin of their diamonds, as well as the positive impact the mine and the broader industry have on the communities and countries in which they operate. We have been participating in the GIA's Diamond Origin programme since the start of 2020 and have been sending large, high-value diamonds for rough analysis as time and lockdown regulations allow.

### FUTURE FOCUS AREAS 2021

Our focus to further reduce waste stripping will continue. An analysis was completed in 2020 to further steepen pit slope angles. A trial to further steepen the west side of the Satellite pipe is scheduled to commence in H1 2021.

Following the completion of the design work of the replacement PCA, the application for funding continues while the appropriate timing for the commencement of the project is being considered.

<sup>1</sup> 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](http://www.icmm.com/en-gb/environment/tailings).

# SUSTAINABILITY

## HIGHLIGHTS

- Lowest AIFR in a decade at 0.76
- US\$1.1 million spent implementing the COVID-19 response plan at Letšeng
- The Group implemented a risk mitigation-based Safety Turnaround Strategy at Letšeng
- ISO 14001 and 45001 certification retained

## UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

The United Nations Sustainable Development Goals (UN SDGs) are a call for action by all countries to promote prosperity while protecting the planet. They recognise that ending poverty must go hand in hand with strategies that build economic growth and address a range of social needs, including education, health, social protection and job opportunities while tackling climate change and protecting the environment. Focused support of the UN SDGs reflects a growing trend among companies to align their existing business practices with broader societal goals. The world's top risks, as described in the World Economic Forum's (WEF's) Global Risks Perception Survey, are incorporated in the UN SDGs. If businesses are to protect their future supply chains and markets, these risks must be addressed.

Through our sustainability principles, a direct link exists between the three key priorities underpinning Gem Diamonds' strategy, the delivery of maximum value for stakeholders, and the UN SDGs. Gem Diamonds has, for several years, aligned its sustainability and business practices with the UN SDGs. The exercise has been valuable in its emphasis on the mutual support between global and local priorities, between business and sustainability outcomes, and between the Company and its stakeholders.

Following extensive engagement, we have determined that the next step in this alignment is the institution of a rolling three-year cycle of commitment to specific UN SDGs to ensure a targeted impact. The first three-year cycle commenced in 2020 and focuses on the following UN SDGs:

- UN SDG 1: No poverty
- UN SDG 3: Good health and well-being
- UN SDG 6: Sustainable management of water and sanitation
- UN SDG 8: Decent work and economic growth
- UN SDG 10: Reduced inequalities
- UN SDG 12: Responsible consumption and production

More information on the strategy the Group has adopted can be found on the sustainability reporting platform <http://www.gemdiamonds-reports.co.za/reports/sd-2020/working-towards-global-goals.php>

## CLIMATE CHANGE

The Group undertook extensive work during 2019 to assess climate change-related risks. The work was primarily focused on our flagship operation, Letšeng, and the approach taken was aimed at identifying both current and future climate change-related risks. Following this work, a climate change adaptation plan (CCAP) was developed and adopted by Letšeng at the start of 2020.

The CCAP focuses on two main areas:

- business continuity by adapting to climate change effects and minimising Greenhouse Gas (GHG) production; and
- ensuring safe and sustainable post-closure end land use that can withstand the impact of extreme weather events and meet closure objectives.

To reinforce this climate change-related work, the Group also aligned the UN SDG framework goals with the climate change management and mitigation goals.

## Task force on Climate related Financial Disclosures (TCFD)

Climate change is one of the most significant risks faced by organisations today, and its short- and long-term impacts are often misunderstood and therefore not adequately disclosed. The TCFD is a voluntary disclosure platform to assist with guidance regarding consistent climate-related finance disclosure.

During 2020 the Group was faced with challenges relating to climate change, such as a regional drought in Lesotho. The importance of making adequate climate change-related financial disclosure is evident and well understood by Gem Diamonds. The Group aims to include this information in its 2021 financial year reporting.

## Carbon footprint

In 2020, the total carbon footprint for the Group was 140 040 tCO<sub>2</sub>e (compared to 172 968 tCO<sub>2</sub>e in 2019), primarily driven by electricity consumption and mobile and stationary fuel combustion. This figure includes the direct GHG emissions (Scope 1), energy-indirect GHG (Scope 2) emissions, and material Scope 3 emissions. It 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 117 443 tCO<sub>2</sub>e, compared to 143 229 tCO<sub>2</sub>e in 2019. Less than one percent of the Group's total CO<sub>2</sub> emissions resulted from its UK-based operations.

The total Group footprint signifies a 19% decrease from 2019, and an 18% decrease for Scope 1 and 2, on which the intensity reporting is based. The observed decrease is the result of a decrease in the use of diesel in both mobile and stationary activities at Letšeng mine, attributable to the impact of the COVID-19 pandemic and associated lockdowns.

Intensity reporting is required to demonstrate the Group's carbon efficiency performance. Therefore, the Group tracks tonnes of CO<sub>2</sub>e emitted per employee and per carat recovered. The tonnes of CO<sub>2</sub>e per employee decreased from 87.1 tonnes of CO<sub>2</sub>e per employee in 2019 to 71.3 tonnes of CO<sub>2</sub>e per employee in 2020. This was mainly due to an increase in the number of employees and reduced activity throughout the year due to the COVID-19 pandemic and associated restrictions. The ratio for tonnes of CO<sub>2</sub>e per carat decreased to 1.34 in 2020, compared to 1.52 in 2019. This represents a 12% decrease, attributable to fewer carats mined and lower scope 1 emissions and 2 emissions at Letšeng mine.

# SUSTAINABILITY CONTINUED

## 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 Group's water uses, the risks associated with water use and the impacts within the catchments where the Group operates. As such, caring for water sources and monitoring water usage are crucial practices both commercially and morally and help the Group maintain its social licence to operate.

In 2020 the total water withdrawal for the Group was 5 213 064m<sup>3</sup>, an 8% decrease in the volume used in 2019 of 5 635 805m<sup>3</sup>. The key factor in the decreased water consumption for the Group was reduced activities at Letšeng due to COVID-19-related restrictions. In 2020, the total water footprint for the Group was 45m<sup>3</sup>/carat (2019: 40m<sup>3</sup>/carat) and 1.18m<sup>3</sup> per ore tonne treated (2019: 1.19m<sup>3</sup> per ore tonne treated). The changes were directly related to the decrease in tonnes treated and carats recovered in 2020.

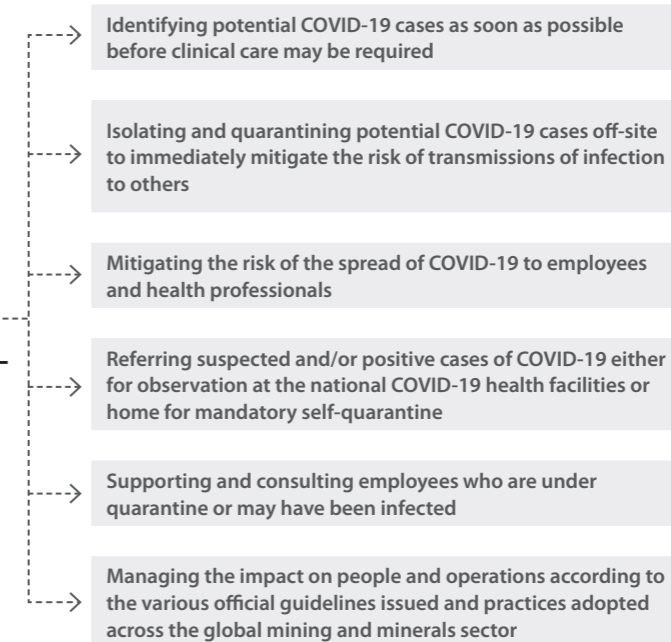
## Energy consumption

The Group-wide energy consumption (for Scope 1 and 2 activities) in 2020 was 336 814 167kWh, compared to 382 740 833kWh in 2019. This represents a decrease in energy consumption of 12% from 2019 to 2020, owing to decreased use of diesel at the Letšeng mine. Scope 1 energy consumption in 2020 was 274 175 556kWh. This represents a decrease of 12% from the 2019 figures, attributable to the decreased mobile and stationary combustion at the Letšeng mine. Scope 2 energy consumption was 62 638 611kWh in 2020, a 10.5% decrease from 2019. 98% of the Scope 1 and 2 energy consumption in 2020 is attributed to the Letšeng mine, and less than one percent of Scope 1 and 2 energy consumption originated from our UK-based operations.

Energy conservation initiatives implemented in 2019 continued at the Letšeng Mine, however most energy consumption reductions in 2020 can be attributed to reduced operational activities as a result of COVID-19-related restrictions.

## CREATING A SAFE AND HEALTHY WORKING ENVIRONMENT

### COVID-19 DETECTION AND MANAGEMENT PROTOCOL



The Group implemented a Group-wide COVID-19 Detection and Management Protocol at the start of the pandemic to ensure the welfare of employees, contractors and surrounding communities, and to curb the spread of COVID-19. The policies and procedures were guided by medical experts, various host country regulations and WHO recommendations. Processes and procedures were adapted as expert recommendations and government regulations evolved.

A wide range of precautions were implemented, including regular sanitising, thermal screening, X-ray screening, polymerase chain reaction (PCR) screening, COVID-19 serology tests (rapid tests), promotion of sanitation measures, appropriate social distancing, compulsory wearing of face masks, training and counselling and the provision of personal protective equipment (PPE).

During 2020, Letšeng conducted over 13 000 screening tests. Employees with suspected cases of COVID-19 were safely transferred to their respective residences or national healthcare

facilities for self-quarantine. Sadly, during the year, two employees passed away while in quarantine, off site. To date, seven employees from Letšeng and its contractors have passed away from suspected COVID-19-related complications.

COVID-19 protocols and health and safety measures remain in place and the Group continues to take all necessary precautions to protect its people as part of its COVID-19 response. The Group is working with the Government of Lesotho to secure vaccinations for the workforce and local communities.



## SUSTAINABILITY CONTINUED

### Dam safety and integrity

Tailings and water storage facilities, while an integral part of mining, also present one of the most significant potential hazards associated with the industry. Recent tragedies involving the failure of tailings storage facilities have placed the mining industry under intense scrutiny, highlighting the importance of risk management at every stage of the lifecycle of a tailings and water storage facility. Letšeng proactively manages and mitigates the risk posed by both its TSF and raw water dam. The construction methods, operating procedures and inspections of the old and recently constructed tailings and water dams have been reviewed internally and with independent expert consultants. The dams are built and maintained according to sound structural and environmental standards that align with international best practice guidelines.

Letšeng has implemented a stringent dam safety management system encompassing daily, weekly and monthly safety checks and inspections by internal experts as well as quarterly and annual audits by independent professional engineers. Any risks identified through the safety management system are mitigated and any required remedial steps are implemented immediately. Dam safety is a standing agenda item at operational HSE subcommittee meetings, operational Board meetings, Group Sustainability subcommittee meetings, and Group Board meetings, where findings from the stringent safety monitoring processes are discussed and regularly reviewed.

A comprehensive emergency management and early-warning system has been implemented by Letšeng to ensure any PACs located downstream of the facilities receive early warnings in case of an emergency. The communication and alarm systems are frequently tested and, to ensure the emergency readiness of response teams and communities, drills involving the mine site and downstream communities are held regularly. Training and awareness programmes have been implemented on site and at surrounding communities.

The International Council on Mining and Metals (ICMM), the United Nations Environment Programme (UNEP) and the Principles for Responsible Investment (PRI) co-convened the Global Tailings Review to establish an international standard for the safe management of tailings storage facilities. The resulting Global Industry Standard on Tailings Management was launched in August 2020. A Senior Independent Technical Reviewer (SITR) was appointed in the third quarter of the year and introduction/awareness sessions were held with the Gem Diamonds Executive Committee as well as the Letšeng Management Committee. A technical visit to the mine was undertaken in November 2020; and the compilation of a draft Independent Tailings Review Board (ITRB) structure and Terms of Reference is underway. The Group has implemented processes to proactively assess conformance to the new standard and to develop an action plan to close any identified gaps.

### OPTIMISING SOCIO-ECONOMIC BENEFIT

Lesotho is classified by the World Bank as a lower-middle-income country with high levels of unemployment, inequality and poverty. The Group therefore has a significant responsibility to contribute positively and sustainably to PACs through excellent social practice and stakeholder engagement. To fulfil this responsibility, the Group set out to implement an ambitious CSI programme in 2020. However, the global COVID-19

pandemic and associated restrictions had a significant impact on the programme and a number of planned projects were delayed to 2021.

The Group invested US\$0.3 million in social initiatives during 2020. The Group supports initiatives that benefit its PACs in the areas of health, education, infrastructure development, development of small to medium enterprises and environmental protection. It also makes donations to relevant causes. COVID-19-related aid and education were the two categories that received the majority of the investment in 2020, followed by infrastructure.

### COVID-19 Community investment

Gem Diamonds engaged extensively with stakeholders such as government, medical experts and surrounding communities in designing its response to and protocols for the COVID-19 pandemic, to protect employees and contractors, and to support Lesotho at a local and national level.

Letšeng partnered with the Government of the Kingdom of Lesotho and the Ministry of Health to raise awareness regarding COVID-19 and distribute PPE and sanitiser in 10 villages in the neighbouring Mokhotlong District. Training and support programmes were rolled out to educate the workforce and surrounding communities on COVID-19, the correct use of PPE, and the importance of social distancing and proper hygiene. Forty-eight community health workers were trained to lead the programmes in the surrounding communities.

Letšeng also provided necessary food parcels for those adversely affected by the pandemic in surrounding communities.

At a national level, Letšeng supplied appropriate PPE and donated a four-room mobile structure to the Ministry of Health to use as a COVID-19 testing lab in Maseru.

### PRIORITISING ENVIRONMENTAL PROTECTION

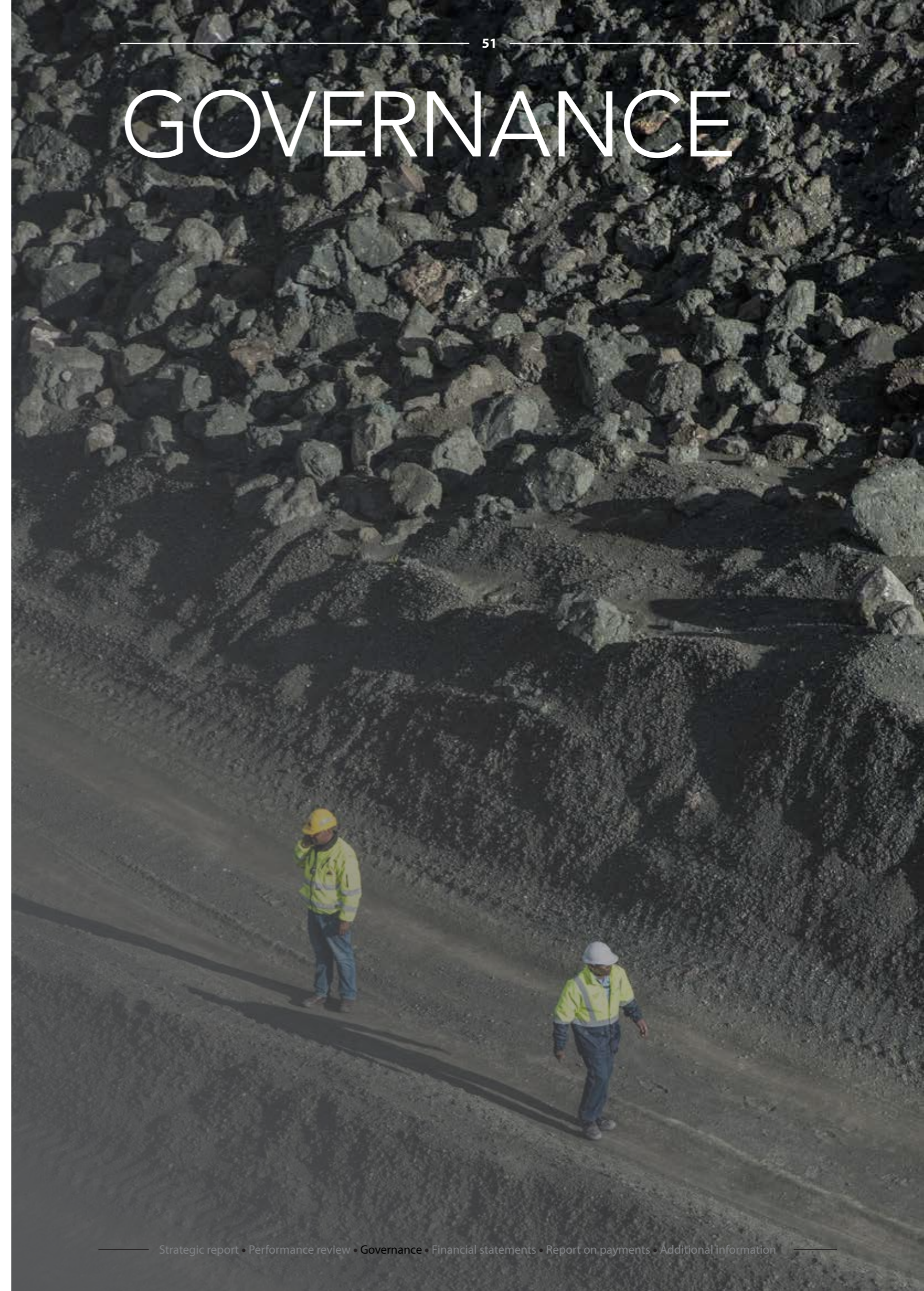
The Group has a duty of care for the natural environment where it operates. It takes this duty seriously and implements operational environmental management plans that aim to minimise, manage and mitigate potential environmental impacts.

The environmental management system at Letšeng is aligned with the ISO 14001 standards and was audited and recertified in 2020. No major or significant environmental incidents occurred at Letšeng for the twelfth consecutive year.

Effective water management is key to the Group's success and the integrated water management plan continues to be implemented at Letšeng to safeguard ground and surface water resources. During 2020 work was done to manage both quantity and quality impacts of operational processes on water.

Because mining has a finite lifespan, the Group has engaged with independent experts at both Letšeng and Ghaghoo to understand the quantum of work to be done to ensure safe and responsible mine closure at end of life of mine. The Group's rehabilitation plans and resultant liability are externally reviewed on an annual basis. In 2020 the Group rehabilitation provision amounted to US\$16.1 million. During 2020 Letšeng embarked on rehabilitation work on the Old Tailings Storage Facility (TSF) as well as the decommissioning of certain unused infrastructure on site.

# GOVERNANCE





# CHAIRPERSON'S INTRODUCTION TO CORPORATE GOVERNANCE

"Good governance is never a difficult decision and extends far beyond oversight over financial performance."

– Harry Kenyon-Slaney –



## FOCUS AREAS 2020

For many Boards the pandemic presented a challenge to the efficacy of governance processes and policies and required scrutiny of the appropriateness of company culture, values and decision-making ability. At Gem Diamonds it was our company vision and the way we do things (refer page 3) that proved to be the foundation to successfully negotiate the COVID-19 pandemic.

Many decisions had to be made in uncertain circumstances in response to safety, operational and financial challenges. These decisions were not difficult to make as our values of care, trust, respect and flexibility set the direction for ethical and agile responses. The Board's and Committees' primary focus areas included:

- ensuring sustainable operations, keeping employees and local communities safe and supporting the Lesotho Government during COVID-19;
- ensuring delivery of the objectives of the BT programme;
- enhancing the risk management systems and processes;
- maintaining disciplined financial control to increase cash realisation and repay debt; and
- considering an appropriate capital return strategy to shareholders.

## FACTORING OTHERS INTO DECISION-MAKING

### Fair shareholder engagement

- Engagement p 16
- Conflict of interest p 62

### Ethical business conduct

- Culture, values and purpose p 3
- Anti-bribery and corruption p 60
- Human rights p 60
- Tax policy p 42

### Impact of the community and environment

- TCFD p 48
- SDGs p 48

UNEARTHING  
UNIQUE  
POSSIBILITIES  
S172

### Long-term consequences

- Capital allocation p 8
- Business model p 6
- Risk appetite and risk p 25

### Employee interests

- Engagement p 17
- Diversity p 65
- Remuneration p 93

### Other stakeholder interests

- Other engagement p 18
- Supply chain p 19
- Payments to governments p 176

# CHAIRPERSON'S INTRODUCTION TO CORPORATE GOVERNANCE CONTINUED

## PRINCIPAL DECISIONS 2020

Please refer to our Committee reports on pages 69 to 109, which document principal decisions taken by Board Committees as part of their mandate of support to the Board.

## FUTURE FOCUS AREAS 2021

The primary focus for 2021 will remain the safety of our employees and PACs as we manage a second wave and anticipate further waves of the pandemic in southern Africa. With guidance from the Sustainability Committee we aim to understand how the needs and perceptions of our stakeholders are changing as the pandemic impacts on them.

Our Audit Committee will continue its more frequent and in-depth investigation into risk practices and financial control.

This black swan event has highlighted the need for Boards to consist of appropriate expertise and aptitude. I am pleased to say that the skills and experience represented by Gem Diamonds' Board and Executive Committee have proven invaluable. The Board will continue to review the composition, skills, experience and diversity of the Board and Executive Management, as well as evolve the process for executive succession planning.

The Board conducts a formal annual evaluation of its own performance, the performance of the Board Committees and individual Directors. Details of the 2020 evaluation process and outcomes are available on page 66. Outcomes will be actioned in the coming year.

## GOVERNANCE

I am pleased to report that for the year under review, we have consistently applied the principles of good governance contained in the UK Corporate Governance Code 2018 and voluntary disclosures in relation to the Miscellaneous Reporting Regulation (MRR). Further information on our compliance with the Provisions of the Code, is available within our 2020 Compliance Statement.

## HOW WE PERFORM OUR DUTIES

The main methods used by the Directors to perform their duties include:

- the annual strategy review, which considers the concerns of key stakeholders and developments in regulations, governance requirements, current market conditions and the short-, medium- and long-term outlook (see pages 21 to 24);
- engagement monitoring with stakeholders to ensure the Group is cognisant of their main concerns and interests (see pages 15 to 20);

- oversight of and responsibility for the Group's risk management processes to ensure key risks are properly identified, assessed, mitigated and monitored;
- alignment of the organisational culture with our purpose and values and establishment of the ethical tone for the Group;
- external assurance from audits and certification in terms of international management systems;
- assurance provided by the Sustainability Committee to the Board that appropriate systems are in place to identify and manage health, safety and environmental risks; and
- formal training or industry-specific insight sessions for Directors and senior managers to help them fulfil their roles.

## TRANSPARENT REPORTING

The Board and reporting team have applied their minds to ensure the Annual Report and Accounts 2020 is transparent and provides meaningful disclosures on our activities and values.

## FURTHER ENGAGEMENT

The 2021 AGM will be held on Wednesday, 2 June 2021. Details on arrangements for the meeting will be available in the Notice of AGM.

If you have any questions on this report, any of the Committee's activities or wish to discuss any aspect of our governance arrangements, please contact me or my fellow Board members via our Company Secretary at [ir@gemdiamonds.com](mailto:ir@gemdiamonds.com).

## SECTION 172(1) STATEMENT

The Board of Directors confirms that during the year under review, it has acted to promote the long-term success of the Company for the benefit of shareholders, while having due regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006, being:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between members of the Company.

**Harry Kenyon-Slaney**

Chairperson  
10 March 2021



# GOVERNANCE AT A GLANCE

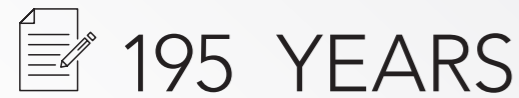
Good governance is not dependent on laws but on the principles and qualities of those who govern them

## HIGHLIGHTS AS AT 31 DECEMBER 2020

Board and committee meeting attendance



Board members' aggregate years of experience



Board gender diversity



## MAJOR BOARD DECISIONS

- Review of the appropriateness of incentive calculations
- No political donations during 2020
- Oversight of the Group's response to COVID-19
- Financial investment to COVID-19 responses

## UK CORPORATE GOVERNANCE CODE- COMPLIANCE STATEMENT

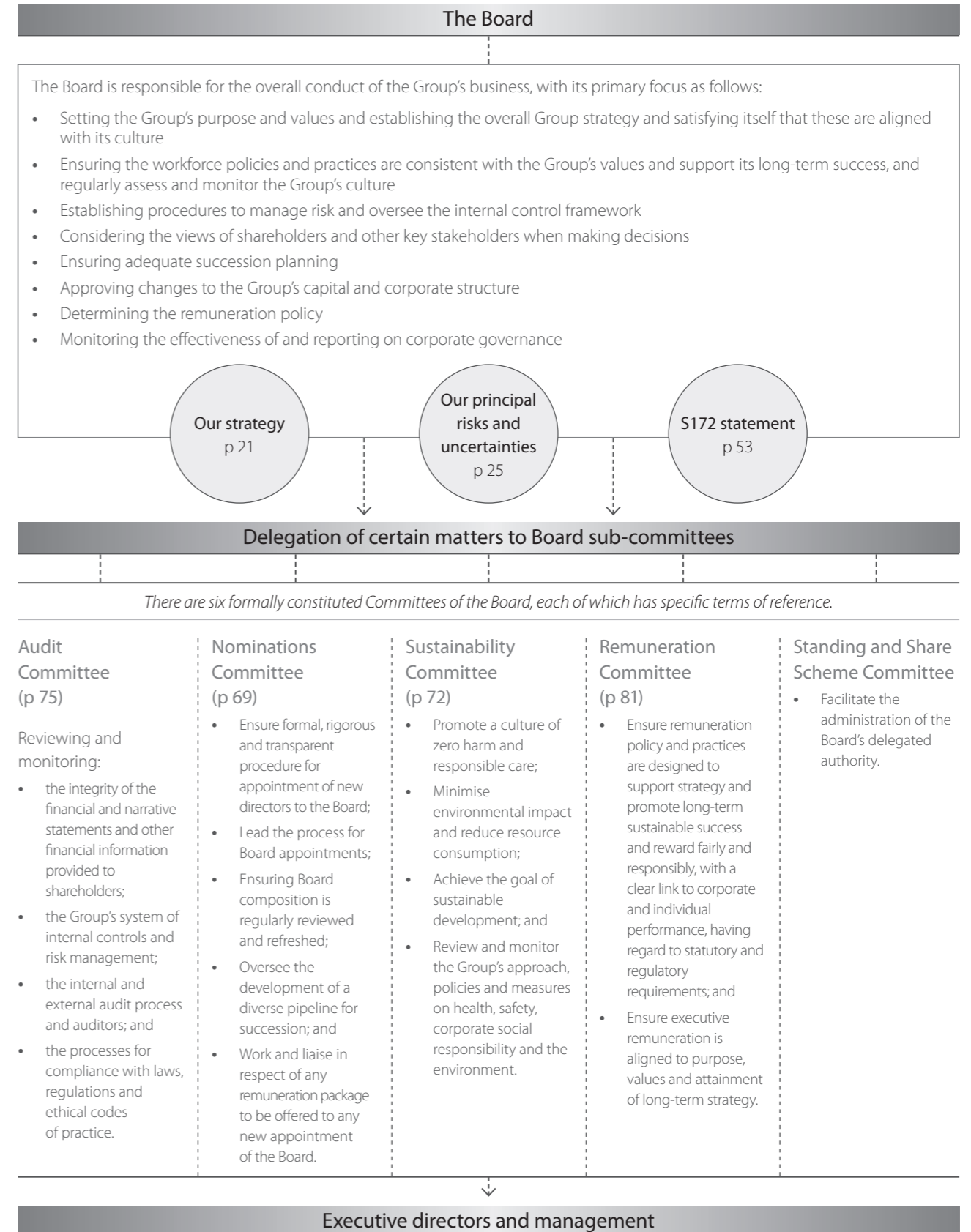
The Board confirms that for the year ended 31 December 2020, the Principles of good corporate governance contained in the 2018 UK Corporate Governance Code (the Code) have been consistently applied. The Company fully complied with all the provisions of the Code, except for Provision 11 and we have provided a full explanation on pages 62, 64 and 70 of the current approach and future considerations. Page 55 illustrates how the Governance section has been structured around the Principles contained in the Code.

## KEY GOVERNANCE ACTIVITIES

- Supporting and overseeing management's response to COVID-19
- Monitoring the Group's cash-preservation and cash-generation initiatives
- Overseeing, interrogating and approving the annual strategy review
- Reviewing and debating key risks and mitigating actions with management
- Overseeing progress achieved in the BT and CI programmes
- Assessing significant estimates and judgements applied in the valuation of the carrying value of mining assets and impairment testing in the context of the impact of COVID-19 on pricing, production capabilities and exchange rate fluctuations
- Overseeing and supporting management's engagements with funders to restructure Group debt

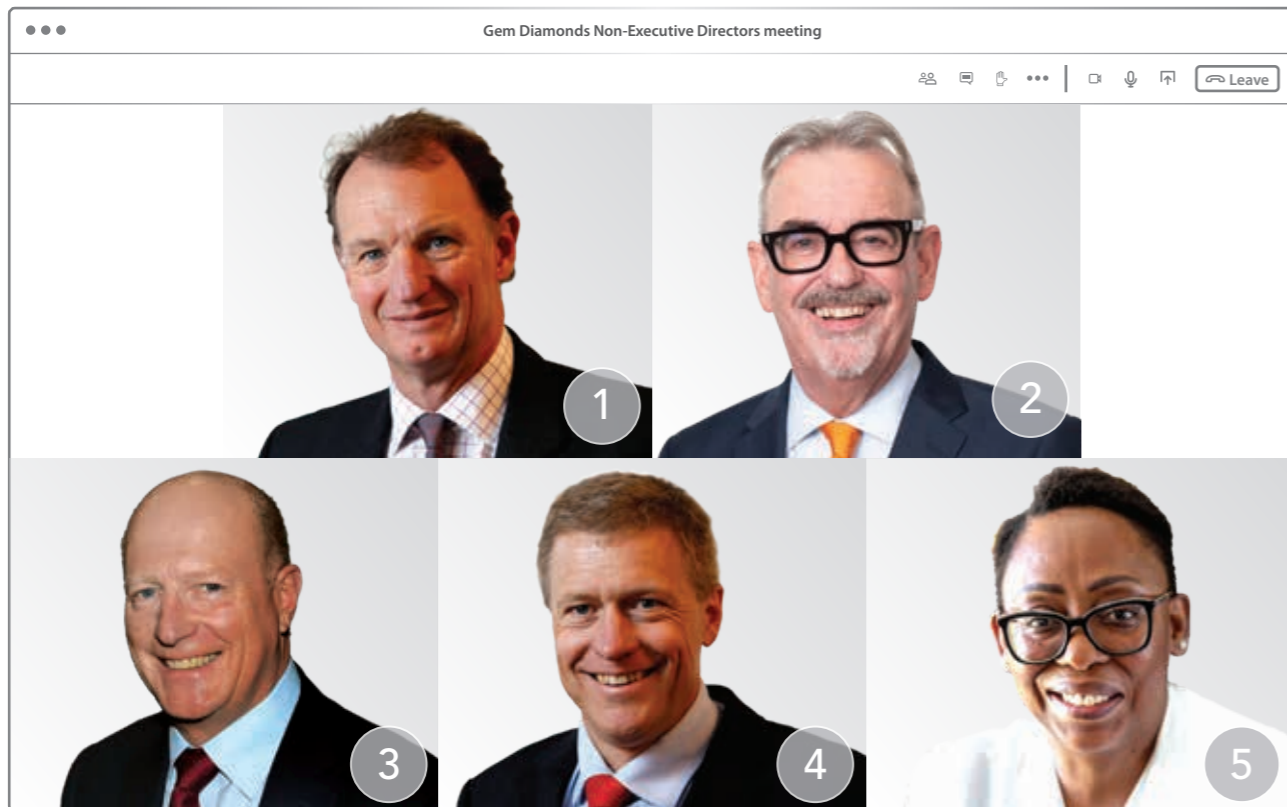
# GOVERNANCE AT A GLANCE CONTINUED

## GOVERNANCE FRAMEWORK



The Board delegates the execution of strategy and the day-to-day management of the business to the Executive directors and management

# DIRECTORATE AND EXECUTIVE MANAGEMENT



**1. HARRY KENYON-SLANEY (60)**  
 Independent non-Executive Chairperson  
 BSc Geology (Southampton University), International Executive Programme (INSEAD France)  
 Chairperson  
 Member

**3. MIKE BROWN (60)**  
 Independent non-Executive Director  
 BSc Engineering; Mining PR Eng (ECSA) Engineering (University of Witwatersrand); Strategic Executive Programme (London Business School)  
 Chairperson  
 Member

**5. MAZVI MAHARASOA (51)**  
 Non-Executive Director  
 LLM International and Commercial Law (University of Buckingham)  
 Member

**Committee icons**

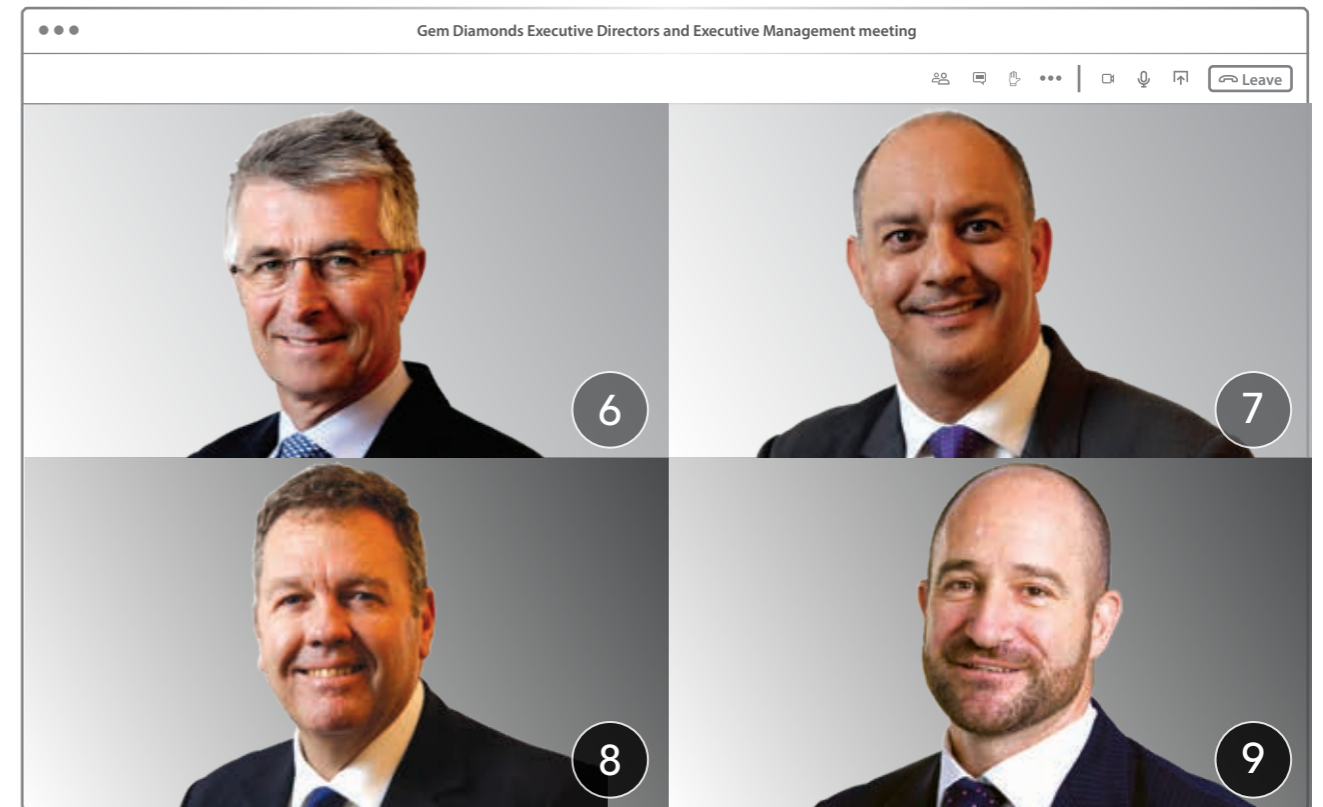
- Audit
- Remuneration
- Nominations
- Sustainability

**2. MICHAEL LYNCH-BELL (67)**  
 Independent non-Executive Director  
 BA Hons Economics and Accountancy (University of Sheffield); FCA of the Institute of Chartered Accountants in England and Wales  
 Chairperson  
 Member

**4. JOHNNY VELLOZA (50)**  
 Non-Executive Director  
 BSc Mining and Mineral Engineering (University of Johannesburg), BSc Business/Commerce General (University of South Africa)  
 Member

Summarised CVs available on page 182

# DIRECTORATE AND EXECUTIVE MANAGEMENT CONTINUED



**6. CLIFFORD ELPHICK (60)**  
 Chief Executive Officer  
 BCom (University of Cape Town); BCompt Hons (University of South Africa)

**7. MICHAEL MICHAEL (50)**  
 Chief Financial Officer  
 BCom Hons (Rand Afrikaans University); CA(SA)

**8. GLENN TURNER (60)**  
 Chief Legal and Commercial Officer and Company Secretary  
 BA; LLB (University of Cape Town); LLM (Cambridge)

**9. BRANDON DE BRUIN (49)**  
 Operations and Business Transformation Executive  
 BCom; LLB (University of the Witwatersrand); Attorney (South Africa) and Solicitor (England and Wales)

- Non-Executive Directors
- Executive Directors
- Executive Management



# CORPORATE GOVERNANCE STATEMENT

<b>1.</b>	<b>Board leadership and Group purpose</b>	<b>Pages 58 to 60</b>
A	Effective Board	
B	Purposes, values and culture	
C	Governance framework and Board resources	
D	Stakeholder engagement	
E	Workforce policies and practices	
<b>2.</b>	<b>Division of responsibilities</b>	<b>Pages 60 to 64</b>
F	Board roles	
G	Independence	
H	External commitments and conflicts of interest	
I	Key activities of the Board in 2020	
<b>3.</b>	<b>Composition, succession and evaluation</b>	<b>Pages 64 to 66</b>
J	Appointments to the Board	
K	Board skills, experience and knowledge	
L	Annual Board evaluation	
<b>4.</b>	<b>Audit, risk and internal control</b>	<b>Pages 66 to 68</b>
M	Financial reporting External auditor Internal audit	
N	Review of the Annual Report 2020	
O	Internal financial controls Risk management	
<b>5.</b>	<b>Remuneration</b>	<b>Pages 82 to 109</b>
P	Linking remuneration with purpose and strategy	
Q	Remuneration Policy review Changes to policy and summary of process	
R	Performance outcomes in 2020 Strategic targets	

## STRUCTURE OF THIS SECTION

The Governance section aligns with the structure and Principles (A to R) of the 2018 UK Corporate Governance Code (the 'Code') and illustrates how we have applied the Code Principles and complied with the Provisions.

## BOARD LEADERSHIP AND GROUP PURPOSE

### Effective Board

The Directors bring together a range of skills, knowledge and perspective, with extensive experience in the mining industry (see page 182). The Board's focus areas (page 52) support the guidance of the Code by promoting the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society.

The Board oversees, interrogates and approves the annual strategy review prepared by Executive Management. This year's review took place in November 2020 and included an assessment of the continuing relevance of the strategy in the current local and global context. The review is conducted with an appreciation of the current and emerging risks that could impact the Group (see page 25) and the degree to which the current business model (see page 6) remains appropriate for long-term value creation.

Key areas discussed by the Board during the strategy review included:

- alignment of the strategic priorities with the Group's purpose, vision, values and culture;
- the strategy's contribution to the achievement of the Group's vision in 2020, including its meaningful, sustainable contributions to the countries in which we operate;
- performance against peers in the EMEA mining market;
- review of the updated mining plan at Letšeng;
- updates on the diamond market and the impact of recent developments;
- opportunities to unlock value across operations and commodities, operational structure, capital restructuring, use of technology, cost efficiencies and strategic partnerships;
- review of corporate activities; and
- assessment of capital allocation policy.

The Board Committees support the Board by focusing on specific areas of the business (see page 55) and reporting back to the Board through their chairs to ensure that Board meetings use time effectively.

## CORPORATE GOVERNANCE STATEMENT CONTINUED

### Purposes, values and culture

Workplace culture is measured against metrics such as turnover and absenteeism rates; training data; recruitment; reward and promotion decisions; whistleblowing, grievance and 'speak-up' data, board interaction with senior management and workforce; promptness of payments to suppliers; health and safety data and an annual employee culture survey.

### Governance framework and Board resources

The Group's corporate governance framework and processes provide effective oversight of the business to ensure long-term value creation and benefit for all stakeholders. Strategy development and execution is supported by:

- establishing clear lines of accountability and responsibility;
- linking the strategic priorities to key performance indicators that can be tracked to monitor delivery on the strategy;
- ensuring regular feedback and sharing of information to inform timeous decisions;
- engaging with key stakeholders to ensure their concerns and interests are included where relevant (see page 15);
- maintaining an effective risk management framework (see page 25) aligned with the Group's strategy and performance objectives, and supported by comprehensive internal controls and regular assurance; and
- including independent insight and knowledge from the non-Executive Directors.

The information supplied to the Board aims to strike a balance that provides the depth necessary for effective debate without being excessive. Where relevant, the person responsible for the report attends the Board meeting to provide further information and give Directors the opportunity to develop a deeper understanding of the issue. External subject matter experts are also invited to present in relevant areas to expose Directors and Executive Management to a broader range of views.

### Independent advice

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 compliance with all governance matters and assists with professional development as required.

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 Chairperson.

### Company Secretary

The Company Secretary has access to an independent firm of Chartered Secretaries in Public Practice, Bruce Wallace Associates is engaged to ensure all company secretarial and governance issues are attended to and the Board is apprised of all compliance and best practice matters throughout the year.

### Protection

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 employee has acted fraudulently or dishonestly.

### Stakeholder engagement

The Board recognises the enhanced responsibilities of the Code for the Board to engage with its workforce and the wider community of stakeholders. Pages 15 to 20 contains a detailed analysis of stakeholder engagement during 2020.

### Annual General Meeting (AGM)

Due to restrictions on travel and public gatherings at the time, the 2020 AGM took place as a closed meeting. The meeting addressed the formal resolutions in the notice of meeting and shareholders were invited to submit questions in advance. Voting on all resolutions was conducted by poll vote. The results of the resolutions were 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. As discussed on page 16, at the 2020 AGM three resolutions received more than 20% votes against and members of the Board and the Executive Management team engaged in consultation with several of the Company's larger shareholders on the concerns raised. The Company released an updated statement in December 2020 on actions taken in response to the votes received, which can be viewed on the Company's website [www.gemdiamonds.com](http://www.gemdiamonds.com).

The 2021 AGM will be held on Wednesday, 2 June. 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 and sent to shareholders who requested to continue to receive paper copies a minimum of 20 business days before the meeting. Shareholders who receive electronic communications can access the Annual Report and Accounts 2020 and the AGM documentation through the Company's website.

## CORPORATE GOVERNANCE STATEMENT CONTINUED

**Workforce policies and practices****Employee policies and involvement**

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 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 designed to attract and retain top-calibre management and employees by creating a work environment that incentivises enhanced performance. Guidelines and frameworks covering remuneration benefits, performance management, career development, succession planning, recruitment, expatriate employment and the alignment of human resources management and policies 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 frameworks.

The Modern Slavery Statement, in accordance with the Slavery Act, is updated and published via the Group website annually.

**Bribery Act**

The Group has a zero-tolerance approach to acts of bribery and corruption involving any of its employees, 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. The Group anti-bribery and corruption policy was updated and approved by the Board in November 2020. The updates comprised refinements and clarifications.

Refer to the Audit Committee Report page 75.

**Whistleblowing programme**

Employees can report any breach of the Group's business principles including, but not limited to, bribery, breaches of ethics, and fraud through independently operated and confidential toll-free phone hotlines in each country where the Group operates or through a confidential webpage.

All whistleblowing incidents reported are referred by the Group Internal Auditor or Company Secretary for investigation by the relevant operations. Incidents 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 Group whistleblowing facility was successfully migrated to a new service provider during the year and the Group Fraud and Whistleblowing Policy was revised to reflect the new information and to provide clarity on reporting lines in the event of suspected improprieties.

The Board is satisfied that the whistleblowing programme is being used correctly. During the year, 19 reports were received and five test calls were made to test and verify the system efficiency. Out of the 19 reports, 17 were closed before the end of the year and two remain under investigation. The engagement with an employee forum at Letšeng (see page 17) indicated that further training and awareness was needed on the whistleblowing facility and this will be prioritised in 2021.

**Data protection**

The Group's Privacy Policy can be found on its website at [www.gemdiamonds.com/privacy.php](http://www.gemdiamonds.com/privacy.php). A dedicated email address is available for any correspondence relating to data protection and privacy queries [dataprotection@gemdiamonds.com](mailto:dataprotection@gemdiamonds.com) which is reviewed by the Chief Legal and Commercial Officer. No correspondence was received during the year.

**DIVISION OF RESPONSIBILITIES****Board roles**

The governance framework on page 59 sets out the primary role of the Board.

The Board meets on a regular basis focusing on strategic issues, such as operational and 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 sufficient time and appropriate resource allocation surrounding these matters.

While all Directors have equal responsibility in terms of the law for managing the Group's affairs, Executive Management is responsible for managing the business within the parameters established by the Board and for producing clear, accurate and timely information and reports to enable the Board to monitor and assess the Group's performance. The Board reviews financial and operational performance at each meeting and receives regular updates on the Group's performance across a range of metrics. Regular reports presented to the Board include health

## CORPORATE GOVERNANCE STATEMENT CONTINUED

and safety reports, tailings facility integrity reports, operations reviews, sales, marketing and manufacturing reports, half-year and full-year financial results, employee surveys, BT and CI status and investor relations updates. Executive management draws on the expertise and experience of the non-Executive Directors.

Directors are encouraged to express their views freely and, where they have concerns about the running of the Group or a proposed course of action, they may ask that these be recorded in the minutes where appropriate. No such concerns were raised during 2020.

**Chairperson and Chief Executive Officer**

The respective responsibilities of the Chairperson and the Chief Executive Officer are clearly defined and separate. The Board has operated on this basis for 14 years, thereby ensuring a clear division of responsibilities between the leadership of the Board and the executive leadership of the Company's business. The Chairperson 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, align with the requirements of the Code and are detailed on the following pages.

**Roles of the Chairperson and Chief Executive Officer****Chairperson, Harry Kenyon-Slaney**

- Ensuring effective operation and providing leadership to 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 the Board comprises individuals with appropriate skill sets, experience, knowledge and diversity and there are succession plans in place for the Board and senior management team
- Ensuring the Company maintains effective communication with shareholders and the Board understands their views and concerns
- Working with the CEO to ensure the Board receives accurate and timely information on the performance of the Group
- Leading the annual 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 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 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 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



## CORPORATE GOVERNANCE STATEMENT CONTINUED

## Roles of the Senior Independent Director and non-Executive Directors

Senior Independent Director, Michael Lynch-Bell	Non-Executive Directors
Acting as a sounding board for the Chairperson	Scrutinising the performance of Executive Management in meeting agreed goals and objectives and monitoring the reporting of performance
Serving as an intermediary for other Directors if necessary	Reviewing the integrity of financial information and determining whether internal controls and systems of risk management are robust
Acting as a sounding board for the Chairperson	<ul style="list-style-type: none"> <li>Determining the Company's policy for executive remuneration, as well as the remuneration packages for the Chairperson and Executive Directors through the Remuneration Committee</li> <li>Ensuring a satisfactory dialogue with shareholders on strategy, remuneration policy and other relevant matters as well as engagement with key stakeholders</li> <li>Strengthening links between the Board and the workforce by designating a non-Executive Director who, in conjunction with management, will develop and implement workforce engagement initiatives and report to the Board on relevant matters, or issues of concern, highlighted by the workforce</li> <li>Providing a wide range of skills and independence, including independent judgement on issues of strategy, performance and risk management</li> </ul>

For more information on the roles of Board Committees please refer [www.gemdiamonds.com/investors-corporate-governance.php](http://www.gemdiamonds.com/investors-corporate-governance.php) 

## Independence

Non-Executive Directors are required to 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, ie Harry Kenyon-Slaney, Michael Lynch-Bell and Mike Brown, to be independent in accordance with the Code. Both Johnny Velloza and Mazvi Maharasoa bring a wealth of skills and experience to the Board. However, under the criteria of the Code, they cannot be considered independent due to their previous roles within the Group. Both Johnny and Mazvi are members only of the Sustainability Committee (previously called the HSSE Committee). Our Nominations Committee report on page 69 discusses the matter in more detail.

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.

## External commitments and conflicts of interest

## External commitments

External commitments are detailed in the Directors' CVs on page 182.

## 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, 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 2021). The Company voluntarily complies with this requirement. The Board considered all external Directors' 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.





## Related-party transactions

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

## CORPORATE GOVERNANCE STATEMENT CONTINUED

## Key activities of the Board in 2020

## Key activities of the Board in relation to various focus areas:

<b>Operational</b>	<ul style="list-style-type: none"> <li>Oversight of the Group's response to COVID-19</li> <li>Oversight of Safety Turnaround Strategy implemented at Letšeng</li> <li>Review of quarterly management reports on operational performance</li> <li>Review and approval of the 2021 business plan</li> <li>Oversight of progress achieved in the BT and CI programmes</li> <li>Review of progress on technology initiatives</li> <li>Updates on Mineral Resource Management and the mapping of resources</li> </ul>	
<b>Strategy and financing</b>	<ul style="list-style-type: none"> <li>Annual strategy review in November 2020</li> <li>Ongoing review of KPIs to assess delivery of strategy during the year</li> <li>Monitoring of the Group's cash-preservation and cash-generation initiatives</li> <li>Oversight of the process of ensuring access to funding facilities and rolling over of debt falling due or expiring</li> <li>Review and approval of planned capital expenditure</li> </ul>	
<b>Risk management and internal control</b>	<ul style="list-style-type: none"> <li>Review of risk management processes and updated risk register (including emerging risks)</li> <li>Review of updates from the Audit Committee on internal control and assurance functions</li> <li>Review of regular updates from the Sustainability Committee on health and safety, environmental and CSI initiatives</li> <li>Review of the impact of the increased risk perception of insurance markets on risk management</li> </ul>	
<b>Corporate and performance reporting</b>	<ul style="list-style-type: none"> <li>Regular review of financial performance and position</li> <li>Monitoring of cash flow forecasts</li> <li>Review of updates from the Remuneration Committee on key focus areas</li> <li>Review and approval of quarterly updates, interim results and final results and the relevant announcements</li> <li>Review and approval of the 2019 Annual Report and Accounts, and the Sustainability Report</li> </ul>	
<b>Governance</b>	<ul style="list-style-type: none"> <li>Monitoring and maintenance of the separation of roles between Chairperson and CEO</li> <li>Annual review and update of Committee terms of reference and evaluation of Committee composition</li> <li>Approval of appointments to the Board Committees</li> <li>Review and approval of updates to key policies</li> <li>Participation in annual evaluation of the Board, Committees and Directors</li> <li>Review of regular governance updates from the Company Secretary</li> <li>Review of matters reserved for the Board</li> <li>Review of Directors' independence and conflicts of interest</li> <li>Engagement with significant shareholders and the Remuneration Committee regarding the votes against resolutions 14, 15 and 16 at the 2020 AGM</li> </ul>	
<b>Stakeholder engagement</b>	<ul style="list-style-type: none"> <li>Refer pages 15 to 20</li> <li>Measuring the Group's culture through an annual employee culture survey and other approved metrics</li> </ul>	

## CORPORATE GOVERNANCE STATEMENT CONTINUED

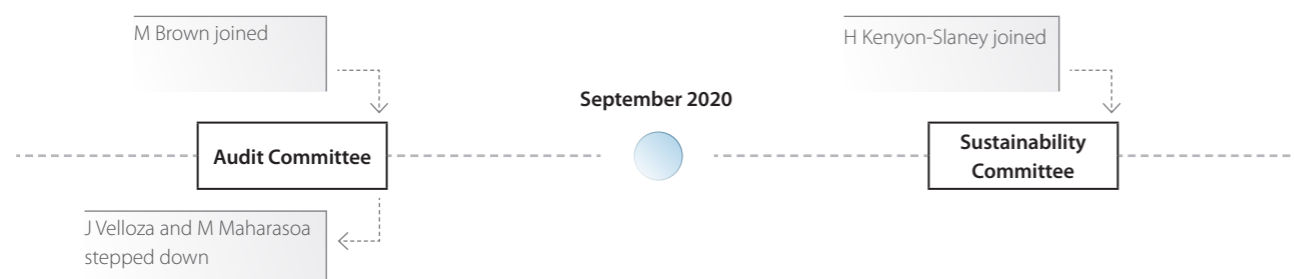
### Meeting attendance

Four scheduled Board meetings and two special meetings of the Board were held during 2020. The terms of reference for the Audit, Nominations, Sustainability and Remuneration Committees can be viewed on the Group's website together with the matters reserved for the Board. [www.gemdiamonds.com/investorscorporate-governance.php](http://www.gemdiamonds.com/investorscorporate-governance.php)

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, recorded and ratified as necessary, at the following Board meeting.

100% attendance of all members at the Board and subcommittee meetings during 2020.

Director	Board: 6 held	Audit: 4 held	Remuneration: 4 held	Nominations: 4 held	Sustainability: 4 held
<b>Executive Board members</b>					
C Elphick	6/6	N/A	N/A	N/A	N/A
M Michael	6/6	N/A	N/A	N/A	N/A
<b>Non-Executive Board members</b>					
H Kenyon-Slaney	6/6	N/A	4/4	4/4	2/2
M Lynch-Bell	6/6	4/4	4/4	4/4	N/A
M Brown	6/6	2/2	4/4	4/4	4/4
J Velloza	6/6	2/2	N/A	N/A	4/4
M Maharasoa	6/6	2/2	N/A	N/A	4/4



### Non-Executive Directors' meetings

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

## COMPOSITION, SUCCESSION AND EVALUATION

### Appointments to the Board

The Code requires that the procedure for appointing new Directors is formal, rigorous and transparent, and appointments are made on merit, against objective criteria and with due regard for the benefits of diversity on the Board. Recruitment to the Board has, since 2007, been based on recommendation. In line with the Nominations Committee's objective to review the composition of the Board, Jack Hammer Executive Search has been appointed as an independent, external search consultant to assist with this process. Neither Jack Hammer, nor any of the other companies in the same group, provides other services to the Group or is in any other way connected to the Group, and therefore Jack Hammer is considered to be independent.

The Board comprises a broad and 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 required by the business. Further details are included in the Nominations Committee Report.

### Re-election

The Nominations Committee's section of this report is set out on pages 69 to 71. The Articles of Association (81) provide 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 90 and 92. 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 enable the Board and its Committees to conduct their respective duties and responsibilities effectively.

## CORPORATE GOVERNANCE STATEMENT CONTINUED

### Board skills, experience and knowledge

The Board annually reviews the composition and chairmanship of its primary Committees, namely the Audit, Nominations, Sustainability 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.

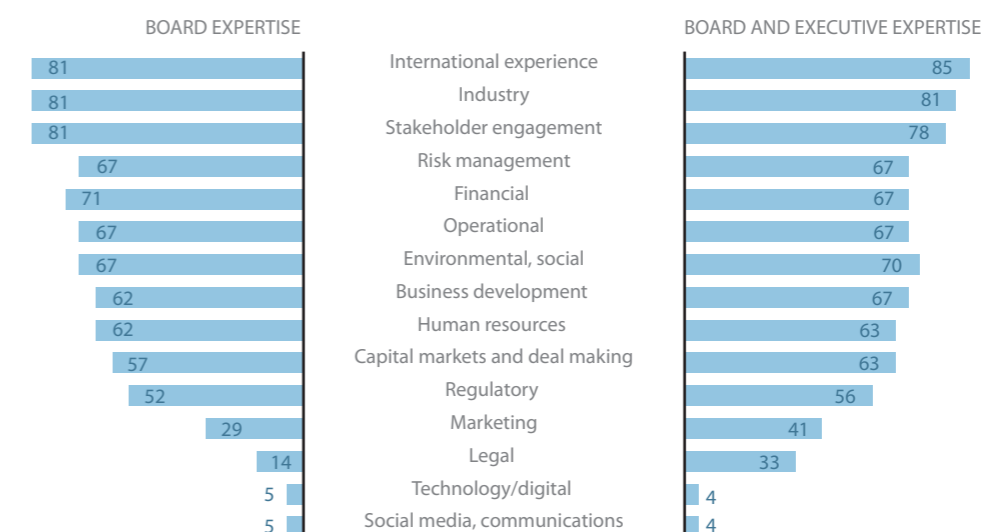
As a mining company, the efficiency of the day-to-day operations, in both the medium and long term, is essential to the Group's progress in producing shareholder value. Knowledge of the diamond industry is crucial to fostering new business

opportunities and enhancing the Group's operations in sales and marketing strategies.

Knowledge of financial markets is also necessary to ensure fulfilment of the Group's strategy. The CVs, which can be found on pages 182 to 185, provide more information on each Director's competencies. All Directors allocate sufficient time to the Group to fulfil their responsibilities effectively.

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 is vital to the success of the Group.

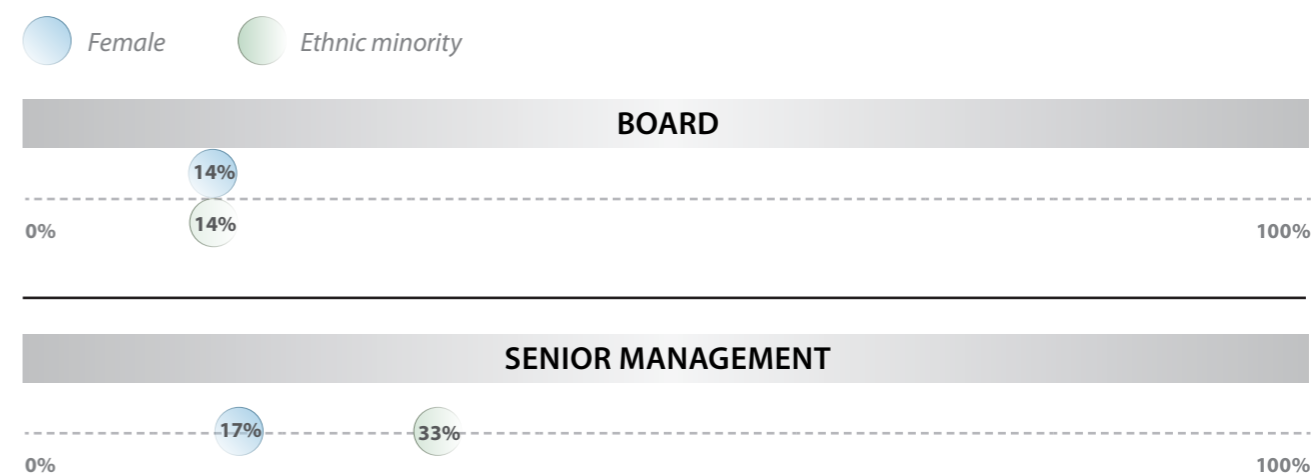
Board skills and experience (%)



### Board diversity

The Board recognises the importance of the Hampton-Alexander reviews as well as the Parker reviews and their objective to improve gender and ethnic diversity in executive leadership and senior management. Similarly, the Board is conscious of the trends evidenced in the Code to increase diversity in boardrooms. There is a focus from the Board on gender

and ethnic diversity at Board level and in the succession pipeline. The Group recognises the importance of diversity at all levels and the diversity and inclusion policy covers both Board diversity and the Company's approach across the organisation. The current succession pipeline for direct reports into senior management reflects 33% gender and 70% ethnic diversity.





## CORPORATE GOVERNANCE STATEMENT CONTINUED

Succession planning is a key priority across the Group with a focus on the development of women and ethnic minorities into leading roles, which drives a diverse pipeline of talent.

Further detail on the Group framework to succession planning can be found in the Nominations Committee report on page 69.

More information on gender-based employment is contained in the Sustainable Development Review on the Company's website [www.gemdiamonds.com](http://www.gemdiamonds.com).

#### Training and induction

A formal and tailored induction is provided to new Directors on joining the Board. This includes meetings with management and access to external auditors and covers the Board Committees they join. In addition, ongoing support and resources are provided to Directors 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. Travel restrictions in response to COVID-19 limited the opportunity for site visits during 2020. Executive Directors and management visited the operations on a regular basis as part of their day-to-day business in the period before lockdown and again once travel restrictions were eased. Mike Brown and Johnny Velloza visited Letšeng in January and November.

#### Annual 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. As the Board had previously undertaken an external evaluation, it was agreed that an internal evaluation was appropriate for this year. In September 2020, the Board undertook an evaluation facilitated by Bruce Wallace Associates. The review was initiated by the Board and arranged by the Nominations Committee and covered both overall and

individual performance as well as effectiveness of the Board and its Committees. The review took the form of a questionnaire based on a number of themes including the Board and Company's response to events of the preceding months, strategy formulation, stakeholder engagement and risk management. The findings were consolidated into a report which, along with a number of recommendations, was circulated to all Directors and discussed at the November 2020 Board meeting. One-on-one meetings were held between the Chairman and the non-Executive Directors to discuss the outcomes of the Board evaluation and separate meetings between the Chairman and the CEO will be held in early 2021. The overall findings from the evaluation were positive and demonstrated significant progress on some of the key findings from the previous year's evaluation. Tactical areas for improvement were identified, including:

- composition of the Board as it relates to independence requirements;
- the need to develop a thorough and transparent appointment process in the event of Board appointments; and
- the need to improve the effectiveness of stakeholder engagement.

The Board and Committees are in the process of implementing the recommendations from the evaluation.

### AUDIT, RISK AND INTERNAL CONTROL

#### Financial reporting

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 2 to 50 meets this obligation. The Responsibility Statement of the Directors in respect of the Annual Report and Accounts 2020 is set out on page 114.

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, which is prepared in co-operation with all Group functions based on specified economic assumptions. Performance is monitored and 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. 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.

## CORPORATE GOVERNANCE STATEMENT CONTINUED

#### External auditor

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 auditor, EY. These responsibilities are delegated to and discharged by the Audit Committee.

The lead audit partner is based in Johannesburg, South Africa. Further information regarding the appointment of EY SA is detailed in the Audit Committee Report on pages 75 to 79.

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 their knowledge and belief, there is no information relevant to the preparation of the Auditor's Report of which the Company's auditor is unaware and the Directors have taken all reasonable steps to make themselves aware of any relevant audit information and establish that the Company's auditor is aware of that information.

A resolution to reappoint EY SA as the Company's auditor and to authorise the Board to determine the auditor's remuneration will be proposed at the 2021 AGM.

#### 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 required assurance that risks are being effectively managed and controlled and the Group's control environment is adequate and effective.

The Group Internal Audit function is provided through an in-house Internal Audit team supplemented by external industry experts when required. The Group Internal Audit team reports directly to the Audit Committee and is responsible for co-ordinating the Group's risk-based audit approach and evaluating its effectiveness. The team contributes 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.

#### Review of the Annual Report and Accounts 2020

The Board, supported by the Audit Committee, is responsible for ensuring the integrity and completeness of the Group's Annual Report and Accounts and Half-Year Report. The Board reviews the reports and applies its collective mind to their preparation

and presentation to ensure they provide a fair, balanced, understandable and appropriate representation of the Group's performance, strategy and material risks.

#### Internal controls

The Board has responsibility for the Group's overall approach to risk management and internal control, which is 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. 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 enhancing 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 system of internal control includes the controls over compliance with regulatory and legal requirements.

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 75 to 79.

#### 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 how these would be funded and 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 complete and, for material projects, steering committees are established to monitor the progress against the approved plan. Details regarding the Group's capital expenditure decisions during 2020 are available in the CFO's review on page 36.

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

## CORPORATE GOVERNANCE STATEMENT CONTINUED

**Risk management**

Risks are monitored continually and formally reviewed on a quarterly basis. 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 25 to 30 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 risk profile. This enables the relevant management and all non-Executive Directors to holistically review the risk, mitigate it and implement controls as necessary.

In prior years, risk was an agenda item in Board meetings. From the start of 2020 a stand-alone risk review meeting was added to the quarterly Board and Committee meetings to allow more time to explore the risks fully and to test management's scenarios and plans. During these meetings, the Board reviews the risk register and interrogates the most critical risks in detail, debating mitigation plans with management.

**REMUNERATION****Linking remuneration with purpose and strategy**

The remuneration policy links executive remuneration to the underlying health and performance of the Group through relevant social and environmental indicators of performance. The financial and non-financial KPIs used to measure performance align with our strategy, which in turn supports the Group's purpose to Unearth Unique Possibilities.

**Remuneration Policy review****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 Chairperson. The Directors' remuneration policy was updated in 2020 and approved by shareholders at the 2020 AGM. During 2020 the Committee reviewed the current policy in the context of matters raised by

shareholders and institutions. The Company will be submitting a proposed amended 2021 remuneration policy to the shareholders at the AGM. The details of the Directors' remuneration policy and all Directors' remuneration are detailed in this report on remuneration on pages 81 to 109.

**Changes to policy and summary of process**

The proposed 2021 remuneration policy that will be submitted to shareholders at the AGM for approval includes amendments to reflect evolving practice. These include replacing the current STIBs and ESOP with a single integrated incentive, reducing the pay-out for threshold and target achievement for the new incentive, implementing a plan to align Executive Directors' pensions with that of the workforce, and introducing a one-year post-termination shareholding requirement for Executive Directors. The changes to the new policy are discussed in more detail on page 83.

**Performance outcomes in 2020**

No adjustments were made to performance conditions set at the beginning of the year to account for the impact of COVID-19 on the operations and the formulaic STIB outcome for the business scorecard was 62.9% of maximum. The Remuneration Committee applied its mind to whether the intended incentive pay accurately reflects the current and likely future circumstance of the business and considered the wider context of the workforce as a whole to arrive at its decision to award 62.9% as an outcome for the business scorecard.

Based on the performance to 31 December 2020, 65.9% of the long-term incentive share awards made under the 2018 ESOP will vest in March 2021, subject to continued employment at that time.

The STIB business scorecard is shown on page 99 and the ESOP award calculation on page 103.

**Strategic targets**

The proposed 2021 Gem Diamonds Incentive Plan (GDIP) will reward performance 15% on personal factors and 85% on business performance. This 85% business weighting is aligned with the strategic focus areas Preparing for our Future (10% weighting), Extracting Maximum Value (55%) and Working Responsibly and Maintaining our Social Licence (20%). More information on the proposed GDIP scorecard is available on page 107.

## NOMINATIONS COMMITTEE



**Harry Kenyon-Slaney**  
Non-Executive Chairperson

The role of the Committee is to:

- ensure 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 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 as well as the Executive Committee;
- 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.

**Membership as at 31 December 2020:**

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

**Other attendees:**

- C Elphick
- Secretary (Bruce Wallace Associates)

**Nominations Committee skills and experience (%)**



## NOMINATIONS COMMITTEE CONTINUED

### 2020 value-adding activities

#### Board composition

The composition, skills and independence of the Board remained key topics for the Committee during the year. The objective of the Committee is to ensure that the Board retains a balanced composition and that all members have the necessary skills and experience to contribute actively to the ongoing success of the business.

In line with the UK Corporate Governance Code, the Committee assessed the independence of all non-Executive Directors. This involved a review of both the external appointments held by each Director and of any potential or actual conflicts of interests recorded. The Committee noted the external appointments held by Board members which were considered to be in accordance with the parameters of the Code and to not affect their current duties to the Board. Two non-Executive Directors, Johnny Velloza and Mazvi Maharasoia, are not deemed 'independent' in accordance with the Code. However, as with other non-Executive Directors, their extensive experience of the mining industry, and particularly the regional context within which the Group operates, is regarded as being hugely valuable. All non-Executive Directors provide constructive challenge and robust scrutiny of matters that come before the Board and, after careful consideration, the Committee and the Board were satisfied that both Johnny Velloza and Mazvi Maharasoia demonstrate the qualities of independence in carrying out their duties. All Board members were recommended for re-election and election at the 2020 AGM.

The Committee acknowledges that for the Board to be considered independent under the terms of the Code, further adjustments need to be made to its composition. Work is underway to address the issue and as reported on page 64, Jack Hammer Executive Search has been appointed as an independent search consultant to assist with this. The Committee will be making recommendations to the Board during the course of 2021.

#### Succession planning

The Committee regularly reviewed succession planning across the organisation and developed a succession framework that ensures that candidates have been identified to fill key roles in both planned and emergency situations and that appropriate development plans are in place. The competencies and experience required in the boardroom were regularly assessed as part of the succession planning process and the Committee will continue to review the need to secure any particular or specific skills.

The Committee maintained regular oversight of executive succession planning and it reviewed the senior management succession pipeline, considering emerging talent and key roles with a particular focus on maintaining momentum on diversity. Development plans for potential successors will be progressed during the year.

#### Diversity

There remains a commitment to diversity in the boardroom just as the Company is committed to equal opportunities at all levels within the organisation. The Committee continues to be supportive of this objective during the year and focused succession planning on ensuring gender and ethnic diversity as well as ensuring that a wide range of experience, backgrounds, perspectives and skills were available to facilitate effective decision-making.

The Diversity and Inclusion Policy, approved by the Board in 2019, was rolled out across the organisation during 2020 as the Board and management continued to encourage a diverse and inclusive culture throughout the business.



Extracting maximum value from our operations



Working responsibly and maintaining our social licence



Preparing for our future

## NOMINATIONS COMMITTEE CONTINUED

### 2020 value-adding activities

#### Board effectiveness

The Committee considered the recommendations made during the externally facilitated 2018/19 Board evaluation process and developed a plan for their full implementation. In addition, it oversaw the 2020 internal Board evaluation, which covered Board, Committee and individual director performance. The details are discussed on page 66.

The findings from the internal evaluation were discussed in November and reported to the Board. The Committee will monitor progress on the implementation of the recommendations during the coming year.

#### Committee membership

The Committee and the Board acknowledged the valuable feedback received from investors in regular meetings during the year and remain committed to complying with the provisions of the Code. Membership of the Audit Committee was revised in September 2020 to ensure it now aligns with the recommended composition. All Board Committees are now compliant with the provisions of the Code.

#### Future focus areas

The Committee will maintain its focus on ensuring the Board's composition is strong and diverse, providing support and advice to enable management to steer the Group in an increasingly volatile and fast-paced environment, while always promoting exemplary governance practices in the boardroom.

The Committee will continue to monitor alignment of talent and succession planning throughout the organisation to the needs of the business and to the Group's long-term strategy. Development plans for potential successors will continue to be progressed during the coming year.



# SUSTAINABILITY COMMITTEE



**Mike Brown**  
Non-Executive Director

The role of the Committee is to assist the Board in fulfilling its oversight responsibilities 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 sustainability, health, safety, corporate social responsibility and the environment.

#### Membership as at 31 December 2020:

- M Brown
- J Vellozo
- M Maharasoa
- H Kenyon-Slaney

#### Other attendees:

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

#### Sustainability Committee skills and experience (%)



# SUSTAINABILITY COMMITTEE CONTINUED

## 2020 value-adding activities

### Prioritising health and safety

The Committee continued to monitor critical health and safety matters during 2020, including:

- The Group's COVID-19 response plan;
- Tailings and water storage management;
- Safety Turnaround Strategy implemented at Letšeng; and
- Management of heavy vehicle and machinery related risks.

The Committee received regular reports on safety performance throughout the Group with particular focus on the potential improvement opportunities stemming from near-miss incidents.

Emerging health and safety risks were identified throughout the year, in particular those related to COVID-19, and the Committee monitored associated risks and the implementation of the mitigation measures.

A communication strategy focusing on behavioural safety, short-term contractor safety and mental health management was reviewed by the Committee as part of its focus on overall safety. A risk-based approach to incident classification and investigation was considered. The Committee also considered reports on the integration of new global best practice standards into operational practices and will continue to monitor the implementation of these where appropriate.

The Committee received feedback on independent audits conducted to provide assurance of safe and responsible operational practices, supporting the identification of opportunities for improvement. These audits included:

- Legal compliance;
- ISO 45001 occupational health and safety management;
- Integrity of tailings storage and fresh water facilities; and
- Health and safety systems management.

Mike Brown and Johnny Vellozo visited Letšeng on two occasions during the year, specifically focusing on safety, tailings management and risk management with regards to heavy machinery and equipment.

### Progressing our corporate social responsibility

There were no major or significant stakeholder incidents recorded during the year. The Committee monitored the impact of the COVID-19 pandemic on its PACs and oversaw the amendment of the corporate social investment and engagement strategy. The implementation of the amended investment strategy included donations of COVID-19 aid to surrounding communities. Further details are included in the case study below as well as the sustainable development reporting platform <http://www.gemdiamonds-reports.co.za/reports/sd-2021/index.php>.

The Committee reviewed the sustainability of community projects impacted by the national lockdown and other COVID-19-related restrictions and monitored the implementation of projects that were able to continue as planned.

The Committee oversaw the voluntary submissions regarding the Group's tailings management processes and guided stakeholder engagement to ensure fair and transparent relations.



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## SUSTAINABILITY COMMITTEE CONTINUED

### 2020 value-adding activities

#### Minimising environmental impact

There were no major or significant environmental incidents recorded during 2020. The Committee continues to monitor the environmental impact of the Group's operations and oversees the various strategies aimed at mitigating this impact.

The Committee received reports pertaining to the continuing regional drought in Lesotho and oversaw efforts focused on water quality management and conservation. The Committee also oversaw rehabilitation work on the old TSF at Letšeng.

The Committee received external non-financial audit reports on the management of environmental parameters and resultant impact on the environment to benchmark the Group's performance and identify improvement opportunities. These reports included:

- The Group Carbon and Water Footprints;
- ISO 14001 Environmental systems audit; and
- The social and environmental management plan compliance audit report.

#### Future focus areas

- Oversight and monitoring of continued COVID-19 impact and response
- Oversight and monitoring of the new corporate sustainability KPIs
- Monitoring the UN SDG framework adoption
- Monitoring the climate change adaptation plan
- Oversight and monitoring of safety focused initiatives and implementation of corrective actions
- Monitoring the continued implementation of appropriate global best practice standards
- Oversight and monitoring of the Group's alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)



## 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.

#### Membership as at 31 December 2020:

- M Lynch-Bell
- M Brown

#### Other attendees:

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

#### Audit Committee skills and experience (%)



## AUDIT COMMITTEE CONTINUED

## 2020 value-adding activities

## External auditor and audit effectiveness



During the year, the Committee fully considered the effectiveness, objectivity, skills, capacity and independence of EY SA, considering all current ethical guidelines, and was satisfied that all criteria were met. The auditor's fee was approved as part of this process.

In advance of the 2020 audit, the Committee reviewed and assessed the appropriateness of the external auditor's plan, audit strategy, scoping, materiality and audit risks. 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, the continued treatment of Ghaghoo as a discontinued operation and the application of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, COVID-19-related matters, deferred waste stripping calculation, taxation, rehabilitation provisions, bank facilities and share-based payments. The key audit matter during the year was the uncertainty caused by COVID-19 on the assumptions used to forecast the prospective financial information applied in the impairment and going concern models as mentioned in the Independent Auditor's Report on page 115. 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.

Following the audit, EY SA presented its findings to the Committee and met separately with the Committee Chairperson to discuss key audit findings, judgements and estimates. This provided an opportunity to assess the audit work performed, understand how management's assessments had been challenged and assess the quality of conclusions drawn. The Committee also made enquiries of senior management to obtain its feedback on the audit process and considered this feedback in its assessment.

In line with the Code and the duty of the Committee to assess the effectiveness of the audit process, a detailed audit assessment by way of a survey was carried out during the year. This survey enabled the Committee to assess the extent to which the audit strategy was appropriate for the Group's activities and addressed the risks the business faced, including factors such as: independence, materiality, the auditor's risk assessment versus the Committee's own risk assessment and the extent of the Group auditor's participation in the subsidiary component audits. The responses formed the Committee's assessment of the effectiveness of the audit, citing only some minor areas of improvement around the requirement for enhanced communication between the Group audit team and senior management which could improve the efficiency of the audit process.

## Auditor appointment and independence



The transition from EY UK to EY South Africa (EY SA) was completed in early 2019. The Committee remains satisfied with the performance of EY SA and recommended its reappointment to the Board. The lead engagement partner has served two of his five consecutive years. Other senior primary 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.

The provision of any non-audit service requires Committee pre-approval and is subject to careful consideration, focused on the extent to which provision of such non-audit services may impact the independence or perceived independence of the auditor. EY was engaged to assist with a limited number of non-audit matters, particularly with regards to tax services during the first quarter of 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\$17 944. This was against the external audit fee of US\$471 749, representing 3.8% of external audit fees. In September 2020 the Committee approved a revised policy on non-audit services, of which the most material change was the prohibition of non-audit tax services by EY. The Company has appointed PricewaterhouseCoopers (PwC) to perform tax-related services in jurisdictions where EY was previously engaged.



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## AUDIT COMMITTEE CONTINUED

## 2020 value-adding activities

## Anti-bribery and corruption policy review and approval



The Committee approved an updated policy during the year. The Committee is satisfied that the policy remains robust regarding compliance and diligence procedures. There were no incidents of bribery or fraud and irregularities during the year.

## Acting on whistleblowing



The Committee regularly received whistleblowing reports and monitored the actions and progress on the matters that arose. During the year, 19 reports were received on the whistleblowing line of which 17 were closed before the end of the year and two remain under investigation. The Committee found the actions taken in response to these reports to be appropriate.

## Monitoring internal audit



The principal matters to be reviewed by the Group Internal Audit team were reviewed by the Committee and it continued to monitor management's responsiveness to the findings and recommendations from the Internal Auditor. Based on the disappointing safety performance in 2019, risk management effectiveness, vehicle safety and dam safety were focus areas for Group Internal Audit during the year. In addition, various ad hoc reviews and special investigations brought about by the COVID-19 pandemic were assigned to Group Internal Audit during the year. The proposed 2021 Internal Audit plan was approved by the Committee and is linked to the current risk profile of the organisation.

The Internal Audit Charter was reviewed and approved by the Committee in June.

The Committee assessed the effectiveness of Group Internal Audit during the year by conducting a survey which included:

- a self-assessment of the Committee on its responsibility for the effectiveness of the Group Internal Audit function in the context of the Group's overall risk management system;
- an assessment by the Committee of the Internal Audit function focusing on Group Internal Audit's understanding of the Group, integrity and objectivity, independence, structure, resources, planning, governance, reporting and relationships within the Group; and
- an assessment by the Group management structure of the internal audit function focusing on Group Internal Audit's planning, execution of work, reporting, integrity, objectivity, independence, competence and due professional care.

The responses formed the Committee's assessment of the effectiveness of the Group Internal Audit which was found to be effective. The Committee also considered if additional resources were required to extend the internal audit function but concluded that the current structure was appropriate for the size and requirements of the Group.

## Risk management and internal controls



Although the Committee maintained its oversight on the principal and emerging risks during the year, in line with the Code's requirements for all Board members to focus on Risk Management, a separate quarterly Risk Meeting was held as an extension of the main Board meeting with all Board members attending. The main risk area that the Board concentrated on and considered was the impact of COVID-19 throughout the business model. These are listed on pages 25 to 30.

The Committee reviewed the outcome of the annual insurance renewal process in light of the changes in the insurance environment which drove increased premiums, lower insurance cover and increased deductibles. These changes were largely brought about by the impact of COVID-19 on the insurance market, the increased mining industry risk profile and an increase in the volume of global insurance claims. The Committee assessed the appropriateness of the cover and the ability to transfer any potential financial implications of the risks materialising.



## AUDIT COMMITTEE CONTINUED

## 2020 value-adding activities

## 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 a review of the Audit Committee's performance within its remit.



## Financial disclosure

The Committee continued to ensure that the Group's Annual Report and Accounts 2020 and the Half-Year Report 2020 were fair, balanced and understandable by challenging and debating the judgements made and ensuring the information necessary for shareholders to assess the Group's performance, business model and strategy is provided. EY SA audited the Financial Statements from pages 113 to 173 for the year ended 31 December 2020 and issued an unmodified audit opinion in this regard.



The significant issues reviewed and challenged by the Committee relating to the 2020 results were:

- (1) The assumptions in the Group's financial forecasts incorporating the successful roll over of the Group's debt facilities and the status of forecast future covenant compliance, mitigating actions available to the Group, and the appropriateness of the going concern and viability assumptions and related disclosures. The Committee assessed the disclosures in the Annual Report and Financial Statements in respect of going concern and covenant compliance and concluded that they were appropriate. Refer to Note 1.2.2, Going concern on page 129 for further details.
- (2) The significant estimates and judgements applied in the valuation of the carrying value of mining assets and impairment testing, considering the impact of COVID-19 on pricing, production capabilities and exchange rate fluctuations. The Committee critically reviewed the key assumptions and parameters (diamond price forecasts and the impact of COVID-19 on the market outlook and foreign exchange rates against current and forward rates) in the LoM plan for Letšeng that supported the impairment tests performed by management, together with the sensitivity analysis performed under various scenarios. The Committee noted the diamond price recovery in the LoM plan given the recovery of the diamond market experienced in the second half of the year. Changes to the underlying operational plan, costs and capital expenditure assumptions did not materially change the LoM valuation. There was no impairment charge necessary and Letšeng's carrying value remained above its recoverable value. The Committee further reviewed the relevant disclosure in the Financial Statements to ensure compliance with reporting standards.
- (3) The judgements applied by management in the continued assessment of Ghaghoo as a discontinued operation, 18 months since its initial assessment, and the application of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations to its results. The Committee assessed the delays caused in the conclusion of the sales process, further exacerbated by COVID-19, and supported management assumptions on the basis that the Company remains fully committed to the sale.
- (4) The assumptions relating to the classification of tax uncertainties and the treatment and disclosure thereof in relation to the amended tax assessment issued to Letšeng by the Lesotho Revenue Authority (LRA) in December 2019, contradicting the application of certain tax treatments in the current Income Tax Act.
- (5) The judgements applied by management in assessing the treatment and disclosure of costs incurred during the shutdown period due to Government of Lesotho lockdown order as a result of COVID-19.
- (6) The assumptions and judgements applied by management in assessing the residual values and useful lives of assets at Letšeng to align these with the extended mining lease period and the resultant impact on the current year depreciation charge.

## AUDIT COMMITTEE CONTINUED

## 2020 value-adding activities

## Future focus areas

Priorities for the forthcoming year will be to:

- monitor the appropriateness of the transfer of any potential financial implications of any risks materialising through insurance markets;
- continue to assess principal and emerging risks and consider the impact of COVID-19 on any of these risks;
- continue to assess the quality and effectiveness of the external audit and the procedures and controls to ensure auditor independence; and
- ensure appropriate reporting against relevant sustainability standards such as the TCFD and UN SDGs.



# REMUNERATION COMMITTEE

“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 shareholders.”



**M Lynch-Bell**  
Non-Executive Director  
Chairperson of the Remuneration Committee

## FOCUS AREAS 2020

- Executive pay considerations in light of the global impact of the COVID-19 pandemic
- Effectiveness of short- and long-term incentive structures and alignment with shareholder expectations
- Executive pension alignment to the greater workforce
- Executive in-post and post-cessation shareholding requirements
- Workforce remuneration and related policies and the alignment of incentives and rewards with culture

## FUTURE FOCUS AREAS 2021

- Determining whether the appropriate environmental, social and governance (ESG) measures link to executive pay
- Deciding on the appropriate performance conditions and setting targets for incentive plans given the impact of COVID-19 and the focus on stabilisation and business recovery
- Reflecting on the composition of the total reward package for the Group and consider if there are constituent parts which may discourage the promotion of individuals from minority groups
- Considering the effectiveness of enforcement methods for post-termination shareholding requirements

## STRUCTURE

<i>Annual statement, which includes an 'at a glance' of remuneration decisions</i>	<i>Page 82</i>
<i>2021 Remuneration Policy</i>	<i>Page 86</i>
<i>Annual report on remuneration</i>	<i>Page 93</i>



## ANNUAL STATEMENT ON DIRECTORS' REMUNERATION

### ANNUAL STATEMENT

Dear shareholders

On behalf of the Board, I am pleased to present the Remuneration Committee's Directors' Remuneration Report for 2020. The report is presented in three sections: this Annual Statement, the Directors' Remuneration Policy (page 86) and the Annual Report on Remuneration (page 93).

#### Linking Executive Directors' remuneration with our purpose and strategy

Executive remuneration is focused on the underlying health and performance of the Group, and considers key drivers including relevant social and environment factors. Performance metrics consist of both financial and non-financial KPIs linked to our strategy, which in turn support the Group's purpose to unearth unique possibilities. These unique possibilities are relevant for our employees, the communities in which we operate and shareholders alike. Each strategic pillar is linked to an element of remuneration as set out on pages 86 to 92 of the Directors' Remuneration Policy.

#### Remuneration decisions taken during 2020

The initiatives generated as a result of the Business Transformation process continued to be implemented at Letšeng and across the Group. Despite the in-country lockdown, subsequent operational shutdown and other COVID-19-related challenges, significant progress has been made in 2020 with US\$79.2 million of the US\$100 million four-year cost savings BT target achieved. Flexible tender sales processes were instituted in order to continue to generate vital revenue when travel and other COVID-19 related restrictions were implemented in countries worldwide. Despite the challenges of 2020, the Group has managed a net increase in cash during 2020 of US\$44.8 million which has increased the Group's cash position from US\$10.2 million net debt at 2019 year-end to US\$34.6 million net cash at 2020 year-end. The operational diligence and progress on the Group's strategic goals as well as the 17% increase in the average price per carat of rough diamonds sold during the year contributed to a 30% increase in underlying EBITDA<sup>1</sup>. Earnings per share increased 92% and, even though the share price closed the year 21% lower than at the start, the share price trend was considerably better than that of our peer group over this period. In light of these positive financial results, the Board is recommending a dividend of 2.5 US cents per share.

Temporary tiered salary cuts affecting directors and management were implemented from the onset of the four-week government imposed shutdown in April 2020. Following the achievement of steady state operations and the cash flow achieved through positive sales results, a decision was made in September 2020 to repay affected employees 96% of the total salary cut, which excluded the shutdown and ramp-up period proportionally. Other employees incurred no salary cuts on their basic pay, although Letšeng employees' operational on-site allowances were suspended for the period they were not on site due to the government imposed shutdown.

Across the Group there were no enduring salary cuts as a result of the impact of COVID-19. In this context, the Committee's key decisions during the year related to the following areas:

#### Short-term incentive bonus (STIB)

For 2020, 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.

The Committee agreed that it was not appropriate to make any adjustments to the financial performance conditions set at the beginning of the year to account for the impact of COVID-19 on the operation, notwithstanding that the Lesotho Government's lockdown order resulted in Letšeng suspending operations for effectively a six-week period. This impacted the achievement of two operational KPIs within the STIBS scorecard.

The resulting formulaic STIB outcome for the business scorecard was 62.9% of maximum. The Committee considered whether the intended incentive pay accurately reflects the current and likely future circumstance of the business and whether it reflects the wider employee experience. It further considered the wider context of the workforce as a whole and in particular that no employees were furloughed and no direct COVID-19 government support taken up. The Ghaghoo operation was the recipient of a government subsidy of c.US\$18k, as it was prevented from undergoing standard non-COVID-19-related operational restructuring. The subsidy had no material impact on the Group's financial performance or directors' remuneration outcomes. Continuing operations across the Group achieved its respective 2020 STIB performance metrics which in turn resulted in payments to employees. The Committee exercised no discretion in determining the outcome of the STIB.

#### ESOP

Based on the performance to 31 December 2020, 65.9% of the share awards made under the 2018 ESOP will vest in March 2021, subject to continued employment at that time. The 2018 ESOP rewards performance against relative total shareholder return (TSR) against a tailored diamond mining peer comparator group (25%), delivery of BT (25%), and profit and production (50%), measured over three years.

The Company's three-year TSR over the period was at the top of the peer comparator group, which resulted in 100% of the element vesting. 21.9% (out of a maximum of 25%) and 19.0% (out of a maximum of 50%) of the BT and profit and production elements will vest, respectively, based on performance over the three-year period. The overall vesting level is 65.9% of the maximum award.

The specific targets and outturns underlying these elements are discussed in detail on page 103 of the Annual Report on Remuneration. The Committee believes the formulaic vesting outcome is a fair reflection of the Company's underlying performance over the three-year period to 31 December 2020 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.

## ANNUAL STATEMENT ON DIRECTORS' REMUNERATION CONTINUED

### Remuneration Policy review

The current remuneration policy was adopted at the Annual General Meeting (AGM) in June 2020. During 2020 the Committee reviewed the current policy in the context of matters raised by shareholders and in relation to our ability to robustly measure TSR performance against comparable companies, given the recent reduction in the number of listed diamond mining peers from eight to four, which was largely due to reasons ranging from consolidation to delisting. The Committee considered how best to ensure the ESOP continues to be a robust and relevant incentive that reinforces performance and how it can be structured to avoid sensitivity to uncontrollable factors and challenges of long-term forecasting for a single asset company. We believe the time is opportune for a reset of the incentive reward structure. The Company therefore proposes to replace the current STIB and ESOP with a single integrated incentive, the Gem Diamonds Incentive Plan or 'GDIP', and will be submitting a proposed 2021 remuneration policy to shareholders at the upcoming AGM.

The GDIP has been developed to simplify the incentive arrangements by measuring performance over a single one-year performance period, which then delivers a combination of cash and deferred shares. The overall time horizon of the GDIP, including its deferral periods and post-vesting holding periods, and its mix of cash and shares have been designed to replicate the overall STIB and ESOP structure it replaces.

The Committee also proposes several other changes to the current remuneration policy to ensure the remuneration structure reflects evolving governance developments (see below). The Committee consulted major shareholders on these proposals prior to finalising the details, and no concerns were raised in respect to the proposals.

### Summary of proposed changes

The proposed 2021 remuneration policy introduces the following amendments to the 2020 policy:

Element	Remuneration policy 2020	Remuneration policy 2021
Long- and short-term incentives	STIB opportunity up to 100% and ESOP up to 125% of annual salary, totalling a combined opportunity of up to 225% STIB pay-out of 50% at threshold and 68% at target	Replacing the STIB and ESOP with a single integrated incentive (the Gem Diamonds Incentive Plan or 'GDIP') with an opportunity of up to 180% of salary Pay-out of 20% at threshold and 50% at target The detailed structure of the GDIP is set out on page 106 of the Annual Report on Remuneration
Pension	Pension for new Executive Directors aligned with the workforce Current CEO and CFO pension respectively 14% and 13.5% of salary	No change for new hires; incumbent director pensions to reduce to 7.5% of salary over 5 years starting 1 April 2021 in order to align with the wider workforce
Post-termination shareholding	No requirement	The in-post shareholding requirement is maintained for a period of 1 year following cessation of employment

### Implementation of the remuneration policy in 2021

The Executive Directors' salaries were reviewed in February 2021, considering relevant benchmarks and in-country inflation. The review is in line with the general practice of considering the wider workforce when applying inflation as a base for salary increases across the Group. Based on all considerations including current market conditions, the Remuneration Committee determined that base salaries will remain unchanged.

For 2021, subject to the approval of the proposed 2021 remuneration policy, the annual bonus opportunity and the ESOP award will be replaced with the GDIP which will have a maximum annual award opportunity of 180% of salary (compared to the previous STIB/ESOP combined opportunity of 225%). Group performance will continue to be measured with reference to a business scorecard linked to the Group's three strategic focus areas: Extracting Maximum Value from Our Operations; Working Responsibly and Maintaining Our Social Licence; and Preparing for Our Future. Group performance will be weighted 85% of maximum, with the remaining 15% linked to personal performance.

The earned incentive will be paid 55% in cash and 45% in deferred shares vesting in one-third annual tranches after one,

two and three years, subject to continued employment and good/bad leaver provisions over this period. Vested awards will also be subject to a two-year post-vesting holding period, during which time Executive Directors may not sell shares except to cover tax. Malus and clawback provisions will apply during the performance period and for a period of two years following payment.

Please refer to pages 105 to 107 for further details on the implementation of the proposed 2021 remuneration policy.

### Engagement

I look forward to receiving your support at our 2021 AGM. The Board considers it important that shareholders have the opportunity to raise questions with the Board. As such, shareholders are invited to send any questions that they may have on this report, our proposed remuneration policy or in relation to any of the Committee activities. Please feel free to contact me through Minelle Zech, the Group Human Resources Manager on mazor@gemdiamonds.com.

### Michael Lynch-Bell

Chairperson of the Remuneration Committee  
10 March 2021

<sup>1</sup> Refer Note 4, Operating profit on page 145, for the definition of non-GAAP (Generally Accepted Accounting Principles) measures.

<sup>2</sup> 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 and insurance premium financing).

ANNUAL STATEMENT ON DIRECTORS' REMUNERATION CONTINUED

Fostering a culture of transparent and fair remuneration which supports our purpose and strategy and is aligned with wider workforce considerations

Remuneration at a glance

Basis of preparation

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.

Proposed 2021 remuneration components in summary

Component	Key feature
Basic salary	<ul style="list-style-type: none"> <li>Market-competitive base salary to recruit and retain individuals</li> <li>No prescribed maximum annual increase</li> <li>No performance conditions</li> </ul>
Benefits	<ul style="list-style-type: none"> <li>Cash allowance in lieu of non-cash benefits</li> </ul>
Pension	<ul style="list-style-type: none"> <li>Retirement benefits that are appropriately competitive</li> <li>Alignment with wider workforce over 5 years</li> <li>No performance conditions</li> </ul>
GDIP	<ul style="list-style-type: none"> <li>Participants can receive a maximum of up to 180% of their base salary</li> <li>For threshold-level and target-level performance, the bonus earned is up to 20% and 50% of maximum opportunity, respectively</li> <li>Group scorecard targets may include one or more of the three key strategic priority areas</li> <li>Awards to be delivered 55% in cash and 45% in deferred shares vesting in one-third annual tranches after 1, 2 and 3 years, and subject to a 2-year post-vest holding period</li> </ul>

**100%**  
**REMUNERATION COMMITTEE ATTENDANCE**

**NO MALUS OR CLAWBACK PROVISIONS TRIGGERED IN 2020**

Wider considerations for employees in 2020

**+5%**  
 Approved inflationary based increase to comparative employees' basic salaries effective from 1 January 2020 (excluding Directors)

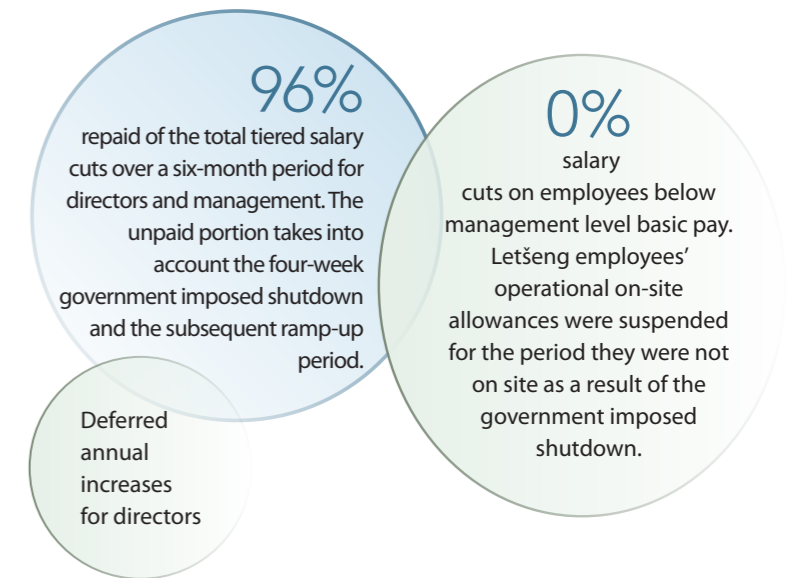
**14% -----> 7.5%**  
 Executive Director pension alignment over 5 years from April 2021

Similar performance scorecards for management incentive schemes across the Group

ANNUAL STATEMENT ON DIRECTORS' REMUNERATION CONTINUED

**TOTAL NON-EXECUTIVE FEE**  
**£387 100**  
**< £750 000**  
**MAXIMUM AGGREGATE PER THE ARTICLES**

**COVID-19 IMPACT ON REMUNERATION**



2020

	Basic and shareholding	STIB	ESOP
<b>SHAREHOLDING</b>	Target <b>100%</b>		
CEO	As a % of salary <b>784%</b>		
CFO	As a % of salary <b>26%</b>		
Pension and benefits	<b>No change</b>		
<b>PROFILE OF SCORECARD</b>		<b>%</b>	
Individual	20		
Group	80		
Extracting Maximum Value from Our Operations	60		
Working Responsibly and Maintaining Our Social Licence	20		
Preparing for Our Future	20		
<b>Total</b>	<b>100%</b>		
<b>PERFORMANCE CRITERIA</b>			<b>%</b>
TSR			25
Group performance			75
Underlying EBITDA		18.75	
Earnings per share		18.75	
US\$ p/ct		18.75	
Carats recovered		18.75	
<b>Total</b>			<b>100%</b>



## DIRECTORS' REMUNERATION POLICY

### REMUNERATION POLICY 2021

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 2021 AGM and, subject to shareholder approval, will become effective from the date of the 2021 AGM.

The proposed policy is broadly consistent with the approved 2020 policy, with the exception of the changes highlighted in the Remuneration Committee Chairperson's Statement and some non-significant changes as follows:

- references to financial years have been updated where appropriate;
- references to performance measures have been updated for the latest business strategy, as appropriate.

The Company's remuneration policy is designed to provide a level of remuneration which attracts, retains and motivates executives of a suitably high calibre to manage the business, implement the Company's 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, will be aligned with shareholder interests and will promote effective management of business risk.

The Committee's policy is to weight remuneration towards variable pay in order 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 the incentives are appropriately capped.

### How good governance informs policy design

The table below sets out the application of the Principles of the Code as it relates to the design of remuneration policies and practices:

<b>Clarity</b>	Targets for annual cash and share awards are aligned to the Group's strategic priorities. This provides clarity to shareholders and other stakeholders on the relationship between the successful delivery of the Group's strategy and remuneration paid.
<b>Simplicity</b>	The remuneration policy is designed to be simple and clear while complying with all relevant regulatory requirements and meeting shareholder expectations. The proposed 2021 policy simplifies remuneration elements further by combining the STIB and LTI into a single GDIP.
<b>Risk</b>	The Committee is aware of the risks that can result from excessive rewards and believe that the robust target setting and long history of applying discretion to formulaic outcomes reflects this. Malus and clawback provisions in the remuneration policy further mitigate this risk.
<b>Proportionality</b>	The Committee's overriding discretion ensures that remuneration outcomes are aligned with Group performance. This year we have been particularly mindful of alignment with our workforce when considering the right and proportional approach to salary cuts and incentive outcomes.
<b>Predictability</b>	The proposed GDIP ensures a simpler but more predictable range of performance outcomes that align with the business model, ensuring predictable pay outcomes that do not reward poor performance.
<b>Culture</b>	As reflected in the Chairperson's statement on page 82, the Committee considers overall pay and conditions for employees across the Group as a whole when determining Executive Director outcomes.  Personal and Group performance measures include non-financial metrics linked to the Group's purpose and culture.

## DIRECTORS' REMUNERATION POLICY CONTINUED

### Policy table for Executive Directors

#### Salary

<b>Purpose and link to strategy</b>	To offer a market-competitive base salary to recruit and retain individuals of the necessary high calibre to execute the Company's business strategy.
<b>Operation</b>	Base salaries are reviewed annually with changes effective from 1 April.  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.  In setting salaries for Executive Directors, the Committee takes note of the overall approach to salary reviews for the wider workforce.
<b>Opportunity</b>	There is no prescribed maximum annual increase.  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.  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 higher increases to ensure salary levels remain competitive.
<b>Performance measures</b>	N/A

#### Benefits

<b>Purpose and link to strategy</b>	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.
<b>Operation</b>	Executive Directors receive a cash allowance in lieu of non-cash benefits.
<b>Opportunity</b>	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).
<b>Performance measures</b>	N/A

#### Pension

<b>Purpose and link to strategy</b>	To provide retirement benefits that are appropriately competitive.
<b>Operation</b>	Executive Directors receive a cash allowance in lieu of pension.
<b>Opportunity</b>	The CEO and the CFO receive pension benefits which will be aligned with that of the workforce over five years starting from 1 April 2021 through annual reductions of 1.2% and 0.9% of salary for the CEO and CFO respectively. On this basis, pensions for 2021 will be 13.3% and 12.1% of salary for the CEO and CFO respectively.  Any new Executive Director will receive pension benefits aligned to those of the wider workforce (currently 7.5%) at the time of appointment.
<b>Performance measures</b>	N/A

## DIRECTORS' REMUNERATION POLICY CONTINUED

## GDIP

<b>Purpose and link to strategy</b>	To drive and reward performance against financial and non-financial KPIs, as well as personal objectives, all of which are directly linked to business strategy.
<b>Operation</b>	<p>The GDIP 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>Performance is measured over one year, and earned awards are delivered 55% in cash and 45% in deferred shares, with shares vesting in one-third annual tranches after one, two and three years, subject to continued employment and good/bad leaver provisions over this period. Vested awards are also subject to a two-year post-vesting holding period.</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>
<b>Opportunity</b>	<p>Participants can receive a maximum of up to 180% of their base salary.</p> <p>For threshold-level and target-level performance, the award earned is up to 20% and 50% of maximum opportunity, respectively.</p>
<b>Performance measures</b>	<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 account for 85% of performance bonus 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>

## 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 2021 remuneration policy, or prior to the individual becoming a Director, if 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 (GDIP)

Performance measures used in the Company's executive incentive scheme – the GDIP – 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 non-financial measures used in the GDIP 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.

Performance targets are set to be stretching but 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 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 reviewed by the Remuneration Committee. Senior management and management level employees participate in an annual bonus scheme on a similar basis as the Executive Directors, although the weighting on Group performance measures increases with seniority and deferred shares vary appropriately according to organisational level.

Other employees participate in an annual bonus linked to operational metrics.

## DIRECTORS' REMUNERATION POLICY CONTINUED

## Shareholding guidelines

The in-post 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 GDIP or any other share-based incentive.

The post-termination shareholding for Executive Directors requires that the in-post shareholding requirement is maintained for a period of a year following cessation of employment, to be achieved through the continued holding of vested share awards granted after the introduction of the 2021 Remuneration Policy.

## Pay for performance: scenario analysis for 2021

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 2021 remuneration policy applied to the salaries effective 1 April 2021.

The maximum GDIP is 180% of the salary.

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

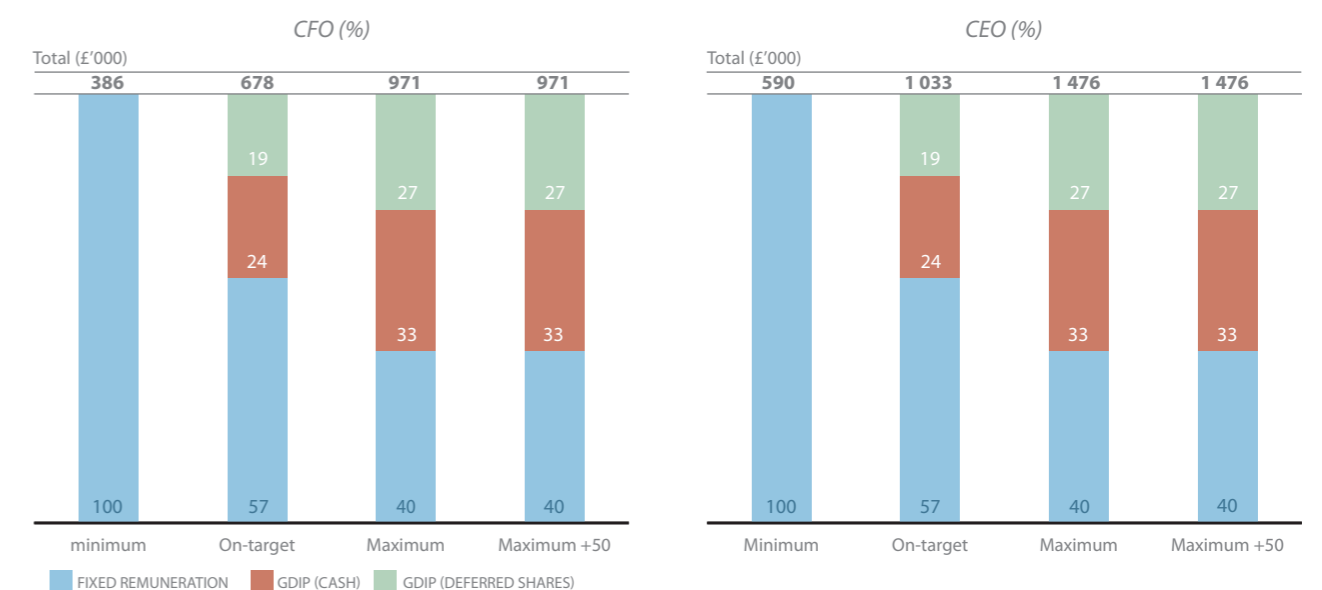
The at-target scenario includes fixed remuneration as above, plus target pay-out of the GDIP.

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

The maximum +50% scenario is the same as the maximum scenario as the deferred share element of the GDIP is not subject to performance conditions over the deferral period.

The assumptions are summarised in the table below:

Component	Fixed	At target	Maximum	Maximum + 50% share price appreciation
Salary	Base salary for 2021			
Benefits	5.5% and 6% of salary for the CEO and the CFO respectively			
Pension	13.3% and 12.1% of salary for the CEO and the CFO respectively in 2021			
GDIP (Cash)	0% of maximum	50% of maximum	100% of maximum	100% of maximum
GDIP (Deferred shares)	0% of maximum	50% of maximum	100% of maximum	100% of maximum





## 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 <sup>1</sup>
CT Elphick	13 February 2007	Rolling contract	12 months	Pay basic salary on summary termination. Benefits are payable only at the Committee's discretion.
M Michael	22 April 2013			

<sup>1</sup> 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 seeks 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 it is in the best interests of the Company and its shareholders to do so.

## DIRECTORS' REMUNERATION POLICY CONTINUED

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

Incentive	Scenario	Time of payment/vesting	Calculation of payment/vesting
GDIP awards, prior to end of performance period	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 award 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 award is normally pro-rated for time
	All other reasons	Not applicable	No award is paid
GDIP (unvested deferred shares)	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
	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
	All other reasons	Not applicable	Awards lapse
GDIP (deferred shares in holding period)	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 release date, although the Committee has discretion to accelerate	Not applicable
	Change of control (whether or not employment is terminated as a result)	Immediately, on change of control	Not applicable
	All other reasons	Normal release date, although the Committee has discretion to accelerate	Not applicable

## 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

<b>Purpose and link to strategy</b>	To attract and retain a high-calibre Chairperson and non-Executive Directors with experience relevant to the Company.
<b>Operation</b>	<p>Fees are reviewed annually, with any changes effective from 1 April.</p> <p>Fees are typically set after considering current market levels, time commitment and responsibilities involved.</p> <p>All non-Executive Directors, including the Chairperson, are each paid an all-inclusive fee. No additional fees are paid for chairing 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>
<b>Opportunity</b>	<p>There is no prescribed maximum annual increase.</p> <p>It is expected that fee increases 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 Chairperson, allowed by the Company's Articles of Association, is £750 000.</p>

Director	Contract date	Unexpired	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 2019 Annual Report on Remuneration and 2020 Remuneration Policy (at the 2020 AGM) are provided in the Annual Report on Remuneration.

### External directorships

Executive Directors are permitted to accept external directorships with prior approval of the Chairperson. 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 97 for further details.

## ANNUAL REPORT ON REMUNERATION

### ANNUAL REPORT ON REMUNERATION

This report provides information regarding the implementation of the Company's approved 2020 Remuneration Policy during the financial year ended 31 December 2020 and how the 2021 Remuneration Policy will be implemented in 2021. This Annual Report on Remuneration will be subject to an advisory vote at our 2021 AGM on 2 June 2021.

### Role, composition and experience of the Committee

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



**M Lynch-Bell**

Chairperson

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 2020:

- 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 (%)





## ANNUAL REPORT ON REMUNERATION CONTINUED

## 2020 activities

Reviewed the remuneration policy to ensure it is appropriate to motivate and reward senior executives and align their interests with the Company's purpose and values, as well as with the interests of shareholders	
Reviewed and assessed shareholder positions to ensure Gem Diamonds' proposed 2021 Remuneration Policy and practices align appropriately with these requirements	
Set out a credible plan to align Directors' pension contributions to those of the wider workforce	
Reviewed the implementation of post-cessation shareholding policies	
Reviewed the range of non-financial performance metrics in variable remuneration	
Ensured incentives include an appropriate balance of financial and non-financial elements for the long-term sustainability of the organisation	
Applied its collective mind to the determination of discretionary elements in the STIB scorecard and the appropriateness of the formulaic output from the incentive calculations, to ensure these accurately reflect performance during the year amidst considerations of the wider employee context in light of the COVID-19 pandemic	
Reviewed and approved the Terms of Reference of the Committee	
Reviewed and approved the Directors' Remuneration Report for 2019	
Reviewed and approved base salaries and total remuneration for the Executive Directors and fees for the Chairman and reviewed senior management remuneration in line with consideration of recent developments in remuneration market trends and best practice	

## Consideration of independence

Mercer Kepler was appointed by the Committee in February 2010 and provided independent remuneration advice to the Committee and attended Committee meetings during 2020. Mercer Kepler provides remuneration advice to a large portfolio of clients, including many in the FTSE 350 and FTSE Small Cap, reassuring the Committee 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](http://www.remunerationconsultantsgroup.com).

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 2020 were US\$84 553 excluding VAT.

Following the lead advisor moving to Ellason LLP, the Committee reviewed proposals from remuneration advisors and decided to appoint Ellason LLP as the independent remuneration advisor to the Committee effective 1 January 2021. Ellason is a signatory to, and abides by, the Remuneration Consultants Group Code of Conduct.



Extracting maximum value from our operations



Working responsibly and maintaining our social licence



Preparing for our future

## ANNUAL REPORT ON REMUNERATION CONTINUED

## Summary of shareholder voting

The table below shows the results of the advisory vote on the 2019 Annual Report on Remuneration at the 2020 AGM, and the binding vote on the 2020 Remuneration Policy at the 2020 AGM.

	For	Against	Total votes cast	Withheld
<b>2019 Annual Report on Remuneration</b>				
Total number of votes	95 146 367	13 324 138	108 470 505	1 669 120
Percentage of votes cast	87.72%	12.28%	–	–
<b>2020 Remuneration Policy</b>				
Total number of votes	66 857 401	12 497 053	79 354 454	30 775 171
Percentage of votes cast	84.25%	15.75%	–	–

## Wider workforce considerations

The Committee considers Executive Director remuneration in the context of pay policies and practices across the wider workforce. We value and appreciate the contribution made by our employees and aim to provide them with market-competitive remuneration and benefit packages. Our approach to remuneration for our wider workforce is similar to that of Executive Directors and includes both fixed and performance-based components.

Base salaries are reviewed annually and any increases become effective from either 1 January or 1 March, dependent on operation-specific remuneration policies. The Committee reviews salary increases for the wider workforce and significant changes in practice or policy.

All employees participate in an annual discretionary bonus scheme that rewards both an employee's contribution to the performance of the Group and their individual performance.

The majority of our workforce receives an employer pension contribution equal to 7.5% of salary per annum and may opt to join a medical aid scheme to which the company contributes 50% up to a capped amount.

We have an open, collaborative and inclusive management structure and engage regularly with our employees on a range of issues. The Non-Executive Director, Mazvi Maharasoa, further conduct formal engagement sessions with employees across the Group. Company culture is monitored and assessed by the Board on a quarterly basis against pre-determined metrics and a formal employee culture survey conducted annually.

## Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (ie dividends, share buy-backs and return of capital) from the financial year ended 31 December 2019 to the financial year ended 31 December 2020.

	2020 US\$	2019 US\$	% increase
Distribution to shareholders	3 497 228	–	100
Employee remuneration <sup>1</sup>	19 735 981	22 808 815	(13)
Return of capital	–	–	–

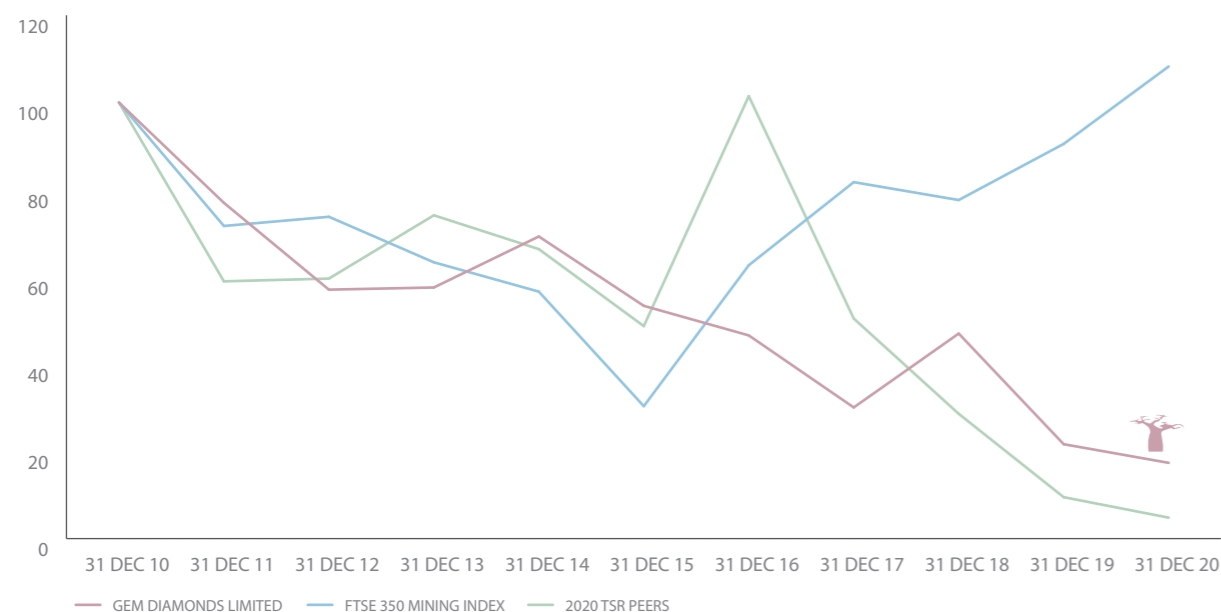
<sup>1</sup> Includes salary, pension and benefits, bonus, accounting charge for the ESOP, and employer national insurance contribution.

## Pay for performance

The graph shows the Company's TSR performance compared with the performance of the TSR Peer Group and the FTSE 350 Mining Index over the 10-year period to 31 December 2020. The TSR Peer Group has been selected to provide a diamond miner comparator group and the FTSE 350 Mining Index has been selected as 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.

## ANNUAL REPORT ON REMUNERATION CONTINUED

Value of £100 invested on 1 January (Gem Diamonds vs. FTSE350 Mining Index and 2020 TSR Peers (£))



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CEO single figure of remuneration (£)	797 755	564 419	776 406	892 935	879 719	611 314	681 191	995 161	891 643	<b>954 860</b>
Annual bonus outcome (% of maximum)	75	13	61	83	74	0	20	83	63	<b>66</b>
ESOP vesting outcome (% of maximum)	Nil	Nil	Nil	Nil	Nil	28.3	14.5	21.4	25.9	<b>65.9</b>

## The percentage change in Director remuneration compared to other employee pay

The table below shows a comparison of the annual change of each individual Director's pay to the annual change in average employee pay for the year ended 31 December 2020. Average employee pay is calculated using a mean average. The parent company consists of only one employee who is not a Director and the Company therefore chose voluntarily to disclose the change in Directors' remuneration compared to a wider employee comparator group, as this will provide a more representative comparison. Where there is a year-on-year decrease in base salary or fees paid to the Directors, this is due to reductions made in response to COVID-19 and additional fees paid to Non-Executive Directors for projects during 2019, which have since ceased.

## ANNUAL REPORT ON REMUNERATION CONTINUED

## Change in pay from 2019 to 2020

	Salary/Fees (% change) <sup>1</sup>	Benefits (% change) <sup>2</sup>	Annual bonuses (% change) <sup>3</sup>
<b>Executive Directors as at 31 December 2020</b>			
C Elphick	(1.3%)	0%	3.7%
M Michael	(1.3%)	0%	4.7%
<b>Non-Executive Directors as at 31 December 2020</b>			
H Kenyon-Slaney	(14.5%)		
M Lynch-Bell	(16.0%)		
M Brown	(16.0%)		
J Velloza <sup>4</sup>	12.0%		
M Maharasoa <sup>5</sup>	96.0%		
<b>Average pay of comparator group employees<sup>6</sup></b>			
	(2.0%)	0.7%	4.9%

<sup>1</sup> The annual percentage change in salary is calculated by reference to actual salary paid for the financial year ended 31 December 2020, compared to the financial year ended 31 December 2019.

<sup>2</sup> The annual percentage change in benefits is calculated by reference to the value of benefits received in respect of the financial year ended 31 December 2020, compared to the financial year ended 31 December 2019.

<sup>3</sup> The annual percentage change in bonus is calculated by reference to the bonus payable in respect of the financial year ended 31 December 2020, compared to the financial year ended 31 December 2019 for Executive Directors, and by reference to all bonus payments received during the financial year ended 31 December 2020 in comparison to the financial year ended 31 December 2019 for comparator employees. Non-Executive Directors are not eligible to receive a bonus.

<sup>4</sup> The increase in fees from 2019 to 2020 reflects the pro-rated period of additional fees for 2019 to the full period of additional fees related to special projects for 2020.

<sup>5</sup> Appointed to the Board in July 2019. The increase in fees from 2019 to 2020 reflects the pro-rated period of employment in 2019.

<sup>6</sup> Average employee pay is calculated by reference to the mean average pay of employee comparator group. The base salary average pay includes site-specific operational allowances, which in 2020 were suspended for the period the individual was not on site due to COVID-19 restrictions.

## Executive directors' external appointments

Apart from interests in private entities no Executive Director holds any significant executive directorship or appointments outside the Group except for Clifford Elphick. He was appointed non-Executive Chairperson 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.

## Salary increases

The Committee approved the following salary increases in 2020:

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

Historically, annual increases are effective from 1 April. Following the approval of increases in February 2020, the Committee considered the impact of the COVID-19 pandemic on the wider workforce and subsequently deferred executive increases to be effective from 1 October 2020.

## 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 2020, 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 2020.



## ANNUAL REPORT ON REMUNERATION CONTINUED

## Implementation of remuneration policy for 2020

## Total single figure of remuneration for directors

The table below sets out the total single figure remuneration received by each Director for 2020 and the prior year. Although the Group's reporting currency is US dollars, these figures are stated in sterling as the Directors' emoluments are based in sterling.

	Salary and fees <sup>1</sup>		Cash payments in lieu of other non-cash benefits <sup>2</sup>		Cash payments in lieu of pension <sup>2</sup>		Total fixed remuneration		STIB <sup>3</sup>		ESOP <sup>4</sup>		Total variable remuneration		Total	
	2020 £	2019 £	2020 £	2019 £	2020 £	2019 £	2020 £	2019 £	2020 £	2019 £	2020 £	2019 £	2020 £	2019 £	2020 £	2019 £
<b>Executive Directors as at 31 December 2020</b>																
C Elphick	472 611	478 745	25 994	26 332	68 529	69 419	567 134	574 496	326 379	302 060	61 347	15 087	387 726	317 147	954 860	891 643
M Michael	311 904	315 952	18 714	18 957	40 547	41 073	371 165	375 982	218 643	199 347	45 343	11 151	263 986	210 498	635 151	586 480
<b>Non-Executive Directors as at 31 December 2020</b>																
H Kenyon-Slaney	117 600	137 500	–	–	–	–	117 600	137 500	–	–	–	–	–	–	117 600	137 500
M Lynch-Bell	53 900	64 166	–	–	–	–	53 900	64 166	–	–	–	–	–	–	53 900	64 166
M Brown	53 900	64 166	–	–	–	–	53 900	64 166	–	–	–	–	–	–	53 900	64 166
J Velloza <sup>5</sup>	107 800	96 250	–	–	–	–	107 800	96 250	–	–	7 412	4 461	7 412	4 461	115 212	100 711
M Maharasoa <sup>6</sup>	53 900	27 500	–	–	–	–	53 900	27 500	–	–	–	–	–	–	53 900	27 500

Audited

<sup>1</sup> Salary and fees.

<sup>2</sup> Benefits and pension: cash payments in lieu.

<sup>3</sup> Annual bonus/STIB: payments in relation to performance for the year, paid in cash.

<sup>4</sup> ESOP: The 2020 figures relate to the values at vesting of awards vesting on performance over the three-year period ended 31 December 2020. 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 2020 of 40.47 pence. The 2019 figures have been adjusted to reflect the share price on the vesting date of 25.3 pence. The 2020 values at vesting reflect the impact of a 73.6% reduction in share price over the period.

<sup>5</sup> Fees are 50% standard fees and 50% additional fees related to special projects. The increase in fees relates to additional fees for the full 2020 period compared to a pro-rated period for 2019. ESOP vesting relates to awards granted prior to the appointment as non-Executive Director.

<sup>6</sup> M Maharasoa was appointed to the Board in July 2019. The 2019 fees relate to the period 1 July 2019 to 31 December 2019.

## STIB in respect of 2020 performance

Executive Directors participate in a discretionary annual bonus arrangement focused on the strategic areas 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 2020, 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 for 2020 are disclosed in full in the table to the right.

## ANNUAL REPORT ON REMUNERATION CONTINUED

## Performance measure

Preparing for Our Future  
Extracting Maximum Value from Our Operations

BT target (US\$) (millions)	15	61.0	91.5	79.2	11.1
Organisational health	5	Judged by Committee on a discretionary basis			3
Underlying EBITDA <sup>1</sup> (US\$) (millions)	8	46.5	69.8	53.2	4.9
Earnings per share (US\$ cents)	8	8.66	12.98	9.8	4.5
Cash flows from operating activities (US\$) (millions)	8	78.2	117.3	96.2	5.3
Waste tonnes mined (millions)	8	22.9	24.1	15.6	0
Carats recovered (carats)	8	114 890	134 039	100 780	0

Working Responsibly and Maintaining Our Social Licence

Fatalities	5	0	0	0	5
All Injury Frequency Rate (AIFR)	5	2.20	1.25	0.76	5
Lost Time Injury Frequency Rate (LTIFR)	5	0.11	0	0.04	4.1
Major environmental or community incidents	5	0	0	0	5

## Total score achieved

100

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					
BT target (US\$) (millions)	15	61.0	91.5	79.2	11.1
Organisational health	5	Judged by Committee on a discretionary basis			3
Underlying EBITDA <sup>1</sup> (US\$) (millions)	8	46.5	69.8	53.2	4.9
Earnings per share (US\$ cents)	8	8.66	12.98	9.8	4.5
Cash flows from operating activities (US\$) (millions)	8	78.2	117.3	96.2	5.3
Waste tonnes mined (millions)	8	22.9	24.1	15.6	0
Carats recovered (carats)	8	114 890	134 039	100 780	0
Working Responsibly and Maintaining Our Social Licence					
Fatalities	5	0	0	0	5
All Injury Frequency Rate (AIFR)	5	2.20	1.25	0.76	5
Lost Time Injury Frequency Rate (LTIFR)	5	0.11	0	0.04	4.1
Major environmental or community incidents	5	0	0	0	5
<b>Total score achieved</b>	<b>100</b>				<b>62.9</b>

<sup>1</sup> Refer Note 4, Operating profit on page 145, for definition of non-GAAP measures.

## ANNUAL REPORT ON REMUNERATION CONTINUED

*Preparing for Our Future*

In compliance with the Government of Lesotho's lockdown order, Letšeng temporarily suspended operations from 28 March to 26 April, placing the mine on care and maintenance. After successfully engaging with the Government of Lesotho to designate mining as an essential service, a restart and ramp-up plan was implemented to commence operations in a responsible and phased manner as soon as it was safe and permissible to do so. After a successful restart of mining and ore treatment, ramp-up to normal production at both treatment plants was achieved in May, with the commencement of normal waste mining in July. The success of the ramp-up plan and the return to normal production levels following the shutdown period was possible due to a phased approach, localised in-house skills and collaborative contractor engagement.

In response to the COVID-19 pandemic, the Group rapidly established a mobile COVID-19 testing laboratory, the only such independent unit in Lesotho which facilitated the effective detection and control of the virus in and around the Letšeng operation. Supported by expert advice, a wide range of precautions were implemented to protect employees, contractors and the surrounding communities.

National lockdowns resulted in the diamond market deteriorating sharply and, in addition, travel restrictions placed strain on traditional tender methods. To counter these challenges a flexible sales process was designed and adopted to continue to generate vital revenue.

The impact of COVID-19 placed notable stress on the Group's cash flows. Substantial time and effort were devoted to managing cash to ensure the Group was sufficiently funded during this period. The Group managed a net increase in cash of US\$44.8 million during 2020 which has increased the Group's cash position from US\$10.2 million net debt at 2019 year-end to US\$34.6 million net cash at 2020 year-end.

The Company's share price fell in 2020 in line with the general market sentiment in the sector but was still the best performing share over three years compared to its peer group and has doubled since the low of the pandemic crisis in 2020.

The Ghaghoo mine remains on care and maintenance and the process to sell the asset continues, but the sale was significantly delayed during the year due to the impact of COVID-19. Management remains committed to the sale and will conclude the process in 2021.

The Committee reviewed performance in this area during 2020 on a holistic basis and determined that a score of 15 out of 20 was appropriate.

*Organisational Health*

During 2020 the Group retained its FTSE4Good rating due to its continued excellence in ESG issues. Organisational Health was measured against metrics such as turnover and absenteeism rates; training data; recruitment; reward and promotion decisions; whistleblowing, grievance and 'speak-up' data, board interaction with senior management and workforce; promptness of payments to suppliers; health and safety data and an annual employee culture survey. Scores increased in all areas save for training and in the annual employee culture survey. Training spend and number of employees trained decreased in 2020, as most institutions were closed due to implemented COVID-19 restrictions. In-house training was limited due to on-site COVID-19 protocols restricting the number of personal interactions. Where possible, on-line training was conducted specifically related to leadership, Continuous Improvement (CI) practices and safety. The culture survey highlighted specific issues within some of the Company's major contractor groups. Improvements were seen in certain departments, attesting to the efforts amongst others related to CI, although there was a slight decline in the overall score. This shows again that in isolation surveys only offer insight at a point in time.




The Committee reviewed performance in this area and determined that a score of 3 out of 5 was appropriate.

*Personal performance*

20% of the STIB is linked to personal performance, with 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 operational performance, strengthening of key stakeholder relationships, bank financing, and treasury management, HSSE objectives and strategy development and implementation.

## ANNUAL REPORT ON REMUNERATION CONTINUED




## Clifford Elphick

Strategic focus area	Performance
	<ul style="list-style-type: none"> <li>The technology to detect diamonds with kimberlite, prior to non-mechanical means of liberation was successfully advanced as expected.</li> <li>The sale of the Ghaghoo asset was hindered as a result of COVID-19 challenges during 2020.</li> </ul>
	<ul style="list-style-type: none"> <li>The optimisation of the operating model was delivered through further steepening of slopes and improved drilling.</li> <li>The Continuous Improvement (CI) project was rolled out to pilot departments within the Group and delivered noticeable results.</li> </ul>
	<ul style="list-style-type: none"> <li>The adoption of six UN Sustainability goals paved the way for increased focus on ESG matters that are material to the Group.</li> <li>COVID-19 specific responses included a wide range of precautions implemented to protect employees, contractors and the surrounding communities. These measures included thermal screening, X-ray screening, Polymerase Chain Reaction (PCR), Rapid Anti-body and Anti-gen Diagnostic screening. Over 750 food parcels have been distributed to the most vulnerable members of the communities in which we operate.</li> </ul>


Clifford Elphick's leadership during this challenging year ensured all executives remained focused and worked toward a common goal – to ensure the sustainability of the Group. His specialised skills in the diamond industry equipped him to design a flexible sales process in order to continue to generate vital revenue when national lock-downs rendered normal tender processes impossible.

In consideration of these factors and overall performance of the business, the Committee determined that a score of 16% of the maximum 20% for this element was appropriate.

## Michael Michael

Strategic focus area	Performance
	<ul style="list-style-type: none"> <li>Robust cost and cashflow management reduced cash outflow during the year which contributed to the sustainability of the business during 2020 and resulted in a net cash increase of US\$44.8 million improving the Group's cash position from US\$10.2 million net debt at 2019 year-end to US\$34.6 million net cash at 2020 year-end, positioning it appropriately for 2021 and ahead.</li> <li>The finance talent population was developed further in support of the Company's strategic objectives.</li> </ul>
	<ul style="list-style-type: none"> <li>Despite the in-country lockdown, subsequent operational shutdown and other COVID-19-related challenges, significant progress has been made in 2020 with US\$79.2 million of the US\$100m BT four-year target achieved, with the Group being on target to deliver the full value by the end of 2021.</li> </ul>
	<ul style="list-style-type: none"> <li>Successfully monitored appropriate risk and governance processes and responses consistent with the Group's risk appetite.</li> <li>The Group rapidly established a mobile COVID-19 testing laboratory, the only independent testing laboratory in Lesotho which facilitated the response to the detection and control of the virus</li> </ul>

In consideration of these factors and overall performance of the business, the Committee determined that a score of 17% of the maximum 20% for this element was appropriate.

 Extracting maximum value from our operations	 Working responsibly and maintaining our social licence	 Preparing for our future
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## ANNUAL REPORT ON REMUNERATION CONTINUED

The formulaic outcome from the business scorecard for Group performance was 62.9% (i.e. 50.3% out of the maximum 80%) which, combined with the personal element, resulted in formulaic STIB outcomes of 66.4% and 67.4% of maximum for the CEO and the CFO, respectively.

Based on business and personal performance, actual bonuses for 2020 were as follows:

Performance measure	% of salary	Bonus £
C Elphick	66.4	326 379
M Michael	67.4	218 643

## ESOP: 2018 awards vesting in 2021

The Executive Directors were granted awards of performance shares in March 2018, which are set out in the table below.

Executive Director	Date of grant	Number options granted	Share price on date of award £	Face value on date of award £	Face value as % of salary	Vesting date
Directors as at 31 December 2020						
C Elphick	20 March 2018	230 000	0.964	221 720	47	20 March 2021
M Michael	20 March 2018	170 000	0.964	163 880	53	20 March 2021

Vesting of the awards was dependent on relative TSR against companies in the diamond mining sector (25% of the award) and Business Transformation (25%) measured over the period 1 January 2018 to 31 December 2020. Profit and production (50%) 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 to the right.

## ANNUAL REPORT ON REMUNERATION CONTINUED

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 diamond mining peer group	25	3 yr	Median	75th percentile	85th percentile	Top of group	25
BT	25	3 yr	68.6	76.3	83.9	79.2	21.9
Underlying EBITDA (US\$ million)	10	2018	43.5	65.2	71.8	82.3	10
		2019	55.2	82.8	81	40.9	0
		2020	46.5	69.8	76.7	53.2	3.8
		Average					4.6
EPS (US cents)	10	2018	5.44	8.16	8.98	18.8	10
		2019	10.3	15.44	16.99	5.1	0
		2020	8.66	12.98	14.28	9.8	3.1
		Average					4.4
US\$ p/ct	10	2018	1 722	2 330	2 563	2 131	6.0
		2019	1 624	2 198	2 417	1 637	2.1
		2020	1 490	2 015	2 217	1 908	6.8
		Average					5.0
Ore tonnes treated	10	2018	6.4	7.1	7.8	6.5	2.6
		2019	6.6	6.9	7.2	6.7	3.8
		2020	6.6	6.9	7.3	5.4	0.0
		Average					2.1
Carats recovered	10	2018	106 104	143 552	157 907	126 875	5.3
		2019	109 800	128 100	140 300	113 974	3.4
		2020	114 890	134 039	146 804	100 780	0.0
		Average					2.9
	100						65.9

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 2020, 65.9% of the maximum award will vest for Clifford Elphick and Michael Michael in March 2021, subject to their continued employment at the time.

## ANNUAL REPORT ON REMUNERATION CONTINUED

## ESOP awards granted in 2020

In June 2020, the CEO and the CFO received performance shares with face values of 15% and 17% of their then salaries respectively, as summarised in the table below. The Committee considered guidance during the year provided by major investors around the need to protect against windfall gains for equity-based awards granted in 2020, following reductions in share prices for many listed companies impacted by COVID-19. The Committee is satisfied that the approach used to grant ESOP awards in recent cycles, i.e. the same number of shares in each cycle (to minimise the impact on dilution), inherently protects against windfall gains as it avoids granting more shares when the share price falls.

Executive Director	Date of grant	Number options granted	Share price on date of award £ <sup>1</sup>	Face value on date of award	Face value as % of salary
C Elphick	9 June 2020	230 000	0.3175	73 025	15%
M Michael	9 June 2020	170 000	0.3175	53 975	17%

<sup>1</sup> The prior year figures reported have been adjusted to reflect the share price on the award date of 31.75 pence.

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 <sup>2</sup>	25%	Median	75th percentile	85th percentile
Operating performance (measured annually)				
Underlying EBITDA <sup>1</sup>	18.75%	80%	120%	132%
Earnings per share	18.75%	80%	120%	132%
US\$ per carat	18.75%	85%	115%	126.5%
Carats recovered	18.75%	90%	105%	115%

<sup>1</sup> Refer Note 4, Operating profit on page 145, for definition of non-GAAP measures.

<sup>2</sup> Firestone Diamonds, Lucapa Diamond, Lucara Diamond, Mountain Province Diamonds and Petra Diamonds.

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 2020 for each measure.

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.

## Details of outstanding awards of performance options to Director

Director	Performance options as at 1 January 2020 <sup>1</sup>	Granted in the year	Vested in the year	Lapsed in the year	Exercise price £	Date of grant	Earliest normal exercise date	Expiry date	Performance options outstanding as at 31 December 2020
M Michael	37 088 <sup>2</sup>	–	–	–	177.6	11 September 2012	1 January 2016	31 December 2023	37 088

Audited

<sup>1</sup> 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 2020 was 40.47 pence. The highest and lowest closing prices in the year were 70.52 pence and 23 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.

<sup>2</sup> These awards were granted to M Michael before he became a Director.

## ANNUAL REPORT ON REMUNERATION CONTINUED

## Directors' shareholding and interests in shares

Details of interests in the share capital of the Company of those Directors in office as at 31 December 2020 are given below. It is confirmed that there were no changes to the Directors' holdings between 31 December 2020 and up to the date of this report. During the period 3 February 2021 to 4 February 2021, the CEO sold Option Shares in order to realise the value allocated to him under his remuneration package. The exercise of the Nil Cost options and subsequent sale of the Option Shares had no net effect on the number of ordinary shares in the Company held by him prior to exercise of the Nil Cost options. No Director held an interest in the shares of any subsidiary company.

Executive Director	Shares owned outright as at 31 December 2020	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		
<b>Executive Directors</b>							
C Elphick <sup>1</sup>	9 325 000	460 000	151 586	–	–	784%	✓
M Michael	171 849	340 000	112 042	–	–	37 088	26%
<b>Non-Executive Directors</b>							
H Kenyon Slaney	50 000	–	–	–	–	17%	n/a
J Velloza <sup>3</sup>	45 450	–	18 315	–	–	33%	n/a
M Brown	67 124	–	–	–	–	48%	n/a

Audited

<sup>1</sup> 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.

<sup>2</sup> 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 4% as a result of the decrease in share price.

<sup>3</sup> These awards were granted to J Velloza prior to his appointment as a non-Executive Director.

## Implementation of remuneration policy for 2021

The Committee determined that base salaries will remain unchanged for 2021:

Executive Director	2021 salary £	2020 salary £	% increase
C Elphick	491 902	491 902	0
M Michael	324 635	324 635	0

## Pension and benefits

The Executive Directors will continue to receive cash supplements in lieu of pension and benefits in 2021. Subject to the approval of the proposed 2021 remuneration policy at the June 2021 AGM, Executive Directors' pensions will be reduced per annum over five years starting from 1 April 2021, to align with that of the workforce (currently 7.5% of salary) as indicated in the table below:

	1 April 2021	1 April 2022	1 April 2023	1 April 2024	1 April 2025	1 April 2026
C Elphick	13.3%	12.2%	11.0%	9.8%	8.7%	7.5%
M Michael	12.1%	11.2%	10.3%	9.3%	8.4%	7.5%

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

The current allowance in lieu of non-cash benefits will remain unchanged from 2020.



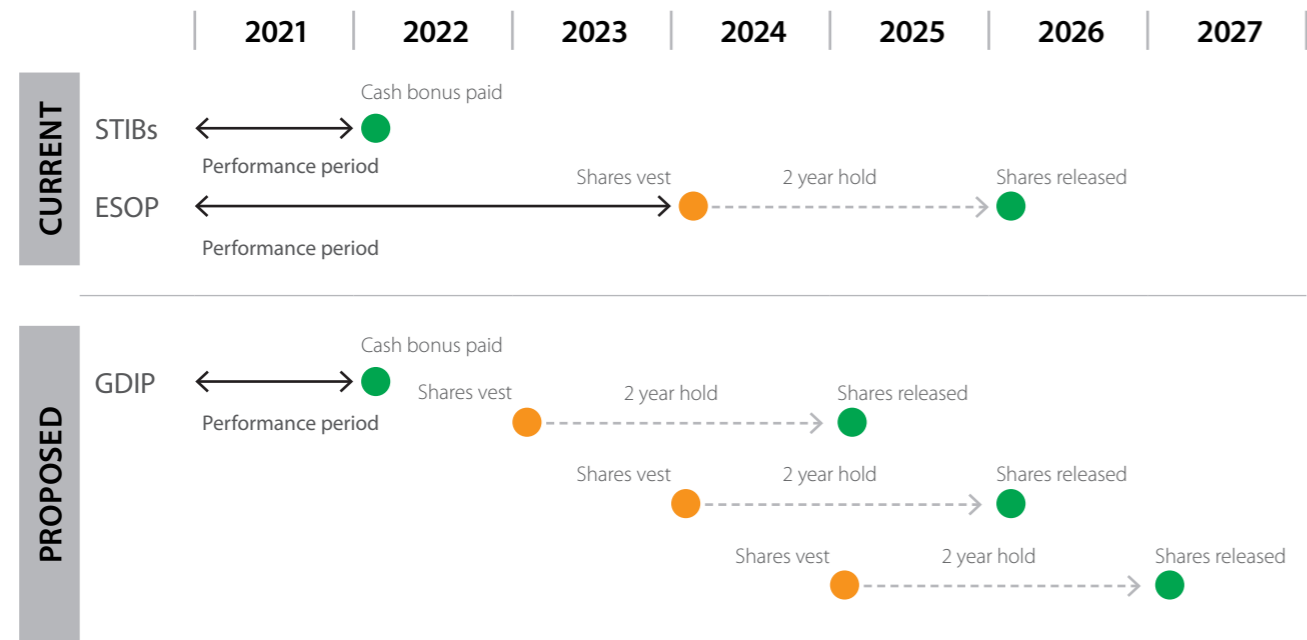
## ANNUAL REPORT ON REMUNERATION CONTINUED

### GDIP

The 2021 remuneration policy replaces the STIB and ESOP with a single integrated incentive, the Gem Diamonds Incentive Plan or 'GDIP'.

The GDIP will be structured as follows:

- Executive Directors will have a maximum annual award opportunity of 180% of salary. This is derived from a combination of the 100% of salary currently available under STIB and an additional 80% of salary based on the 125% currently available under the ESOP. It is subject to a c.35% discount to reflect the shorter performance period of the GDIP.
- Earned incentive will be delivered 55% in cash and 45% in deferred shares vesting in one-third annual tranches after one, two and three years, subject to continued employment and good/bad leaver provisions over this period. Vested awards will also be subject to a two-year post-vesting holding period. This provides the same cash/deferred equity mix as the current STIB/ESOP combination, and ensures the deferred shares are released over the same time horizon as the current ESOP, with the average release date of GDIP shares at five years from the start of the cycle – see illustration below:



- Pay-out is based on a scorecard of financial, operational and personal objectives measured over the financial year, with a reduction in the number of measures compared to prior years and an increased weighting on EBITDA. This is consistent with the current approach for STIB and for 75% of the current ESOP awards, with increased focus on financial measures important to our shareholders. There is a reduction in the pay-out under the GDIP to 20% of maximum at threshold and 50% at target (currently 50% and 68% respectively under the STIB).

## ANNUAL REPORT ON REMUNERATION CONTINUED

The performance measures will continue to support the delivery of the Group's key strategic priorities as set out on page 21 of this Annual Report and Accounts 2020, with 85% linked to business performance and 15% to personal performance. For the business performance element, performance may 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. The weightings that apply to the elements of the scorecard for 2021 are summarised in the table below.

<b>Personal performance</b>	<b>15%</b>
<b>Group performance</b>	<b>85%</b>
<b>Preparing for Our Future</b>	<b>10%</b>
As set out in strategic focus areas	10%
<b>Extracting Maximum Value</b>	<b>55%</b>
Underlying EBITDA (US\$)	30%
Costs (US\$)	15%
Carats recovered (carats)	10%
<b>Working Responsibly, Maintaining Social Licence</b>	<b>20%</b>
Any fatality will result in 100% forfeiture of this element	5%
All Injury Frequency Rate (AIFR)	5%
Lost Time Injury Frequency Rate (LTIFR)	5%
Any major environmental/community incident will result in 100% forfeiture of this element	5%

Targets are considered sensitive and will be disclosed in full on a retrospective basis in next year's report. In approving these targets, the Committee considered a range of perspectives on performance outcomes, including internal and external reference points.

### ESOP

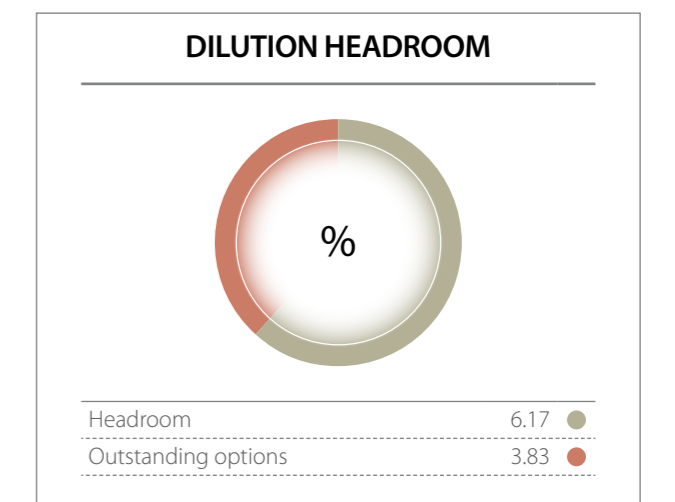
Subject to the approval of the proposed 2021 remuneration policy at the June 2020 AGM, the ESOP will no longer exist in its current form. Therefore no awards will be issued during 2021.

### Dilution

Employee share 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 2020, a total of 13 961 223 shares (10% of issued share capital) may be issued pursuant to all current awards outstanding over the last 10 years.

The Committee has the discretion to partly cash purchase the deferred shares to keep within the dilution limits and to determine whether the deferred shares should be purchased over a period.

As at 31 December 2020, the Company's headroom position, which remains within the current IA Guidelines, was as shown in the chart below:



## ANNUAL REPORT ON REMUNERATION CONTINUED

	Date of grant	Performance shares <sup>1</sup> as at 1 January 2020	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 2020
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	49 300	–	–	–	–	0.01	322 000	15-Mar-19	15-Mar-26	49 300
	04-Jul-17	230 000	–	59 633	170 367	–	0.01	253 000	04-Jul-20	04-Jul-27	59 633
	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	230 000
	09-Jun-20			230 000	–	–	–	0.01	92 742	09-Jun-23	09-Jun-30
Total	–	830 934	230 000	59 633	170 367	–	–	–	–	–	890 567
M Michael (CFO)	11-Sep-12	18 544	–	–	–	18 544	0.01	68 400	01-Jan-16	31-Dec-23	–
	10-Jun-14	31 648	–	–	–	31 648	0.01	302 400	10-Jun-17	10-Jun-24	–
	01-Apr-15	24 706	–	–	–	24 706	0.01	334 900	01-Apr-18	01-Apr-25	–
	15-Mar-16	36 439	–	–	–	36 439	0.01	238 000	15-Mar-19	15-Mar-26	–
	04-Jul-17	170 000	–	44 076	125 924	44 076	0.01	187 000	04-Jul-20	04-Jul-27	–
	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
09-Jun-20			170 000	–	–	–	0.01	68 548	09-Jun-23	09-Jun-30	170 000
Total	–	621 337	170 000	44 076	125 924	155 413	–	–	–	–	510 000

Audited

<sup>1</sup> Conditional right to acquire shares.

## Chairperson and non-Executive Director fees

Chairperson and non-Executive Director fees were reviewed in February 2021 and found to be appropriate. Fees will therefore remain unchanged for 2021.

## ANNUAL REPORT ON REMUNERATION CONTINUED



# DIRECTORS' REPORT

The Directors are pleased to submit the financial statements of the Group for the year ended 31 December 2020.

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 2020 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 Companies Act, 2006.

For the purposes of compliance with DTR 4.1.5R(3) and DTR 4.1.8R, the required content of the Management Report can be found in the Strategic Report and the Directors' Report, the Governance section including the sections of the Annual Report and Accounts which are incorporated by reference.

The Strategic Report can be found on pages 2 to 50 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.

## 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 2 to 50.

## DIRECTORS

The Directors, as at the date of this report, are listed on pages 182 to 185 together with their biographical details. Details of the Directors' interests in shares and share options of the Company can be found on page 105.

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

	Appointment	Resignation
<b>Executive Directors</b>		
C Elphick	20 January 2006	n/a
M Michael	22 April 2013	n/a
<b>Non-executive Directors</b>		
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 Maharasoja	1 July 2019	n/a

## 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 employees.

Please refer to the Corporate Governance statement on page 59 for further details.

# DIRECTORS' REPORT CONTINUED

## 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 105.

## SUPPLIERS AND CUSTOMERS

Faced with the COVID-19 pandemic in 2020, we engaged extensively and transparently with contractors and suppliers to ensure alignment, mutual understanding and the sustainability of all parties during an unprecedented crisis.

Similarly, we adapted our sales processes and together with ongoing communication with our customers, we were able to sell our diamonds at market-related prices throughout the year.

For more details on our engagement with suppliers, contractors and customers, please see the Stakeholder Engagement section on pages 15 to 20.

## RESULTS AND DIVIDENDS

The Group's attributable profit after taxation amounted to US\$13.6 million (2019: US\$2.6 million).

The Group's detailed financial results are set out in the financial statements section on pages 113 to 173.

Based on positive earnings generated and disciplined cash management, the Board recommends that a dividend be declared for the 2020 financial year. 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 also adopted a policy to consider special dividends in the event of significant diamond recoveries and to consider a share buyback programme should the opportunity arise.

## 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 2 to 50. The financial position of the Company, its cash flows and liquidity position are described in the Strategic Report on pages 36 to 42. 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 period longer than 12 months as required by the 'going concern' provision. The viability statement can be found in the Strategic Report on page 31.

## SUBSEQUENT EVENTS

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

## 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 10 March 2021, there were 139.9 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.




## DIRECTORS' REPORT CONTINUED

At the AGM held in 2020, shareholders authorised the Company to make on-market purchases of up to 13 908 796 of its ordinary shares, representing approximately 10% of the Company issued share capital at that time. During 2020, 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 2021 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 2021 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 Strategic Report on page 43.

### RESOURCE DEVELOPMENT

Resource development activities were concentrated on improving the understanding of existing resources at Letšeng. Further details can be found in the Operational Review on page 43. For more information on the current Resources and Reserves statement refer to the Company's website [www.gemdiamonds.com](http://www.gemdiamonds.com). 

### 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](http://www.gemdiamonds.com). 

### CORPORATE SOCIAL INVESTMENT (CSI) EXPENDITURE

Details of the Group's CSI investment during 2020 can be found in the Sustainability section on pages 48 to 50.

### POLITICAL DONATIONS

The Group made no political donations during 2020.

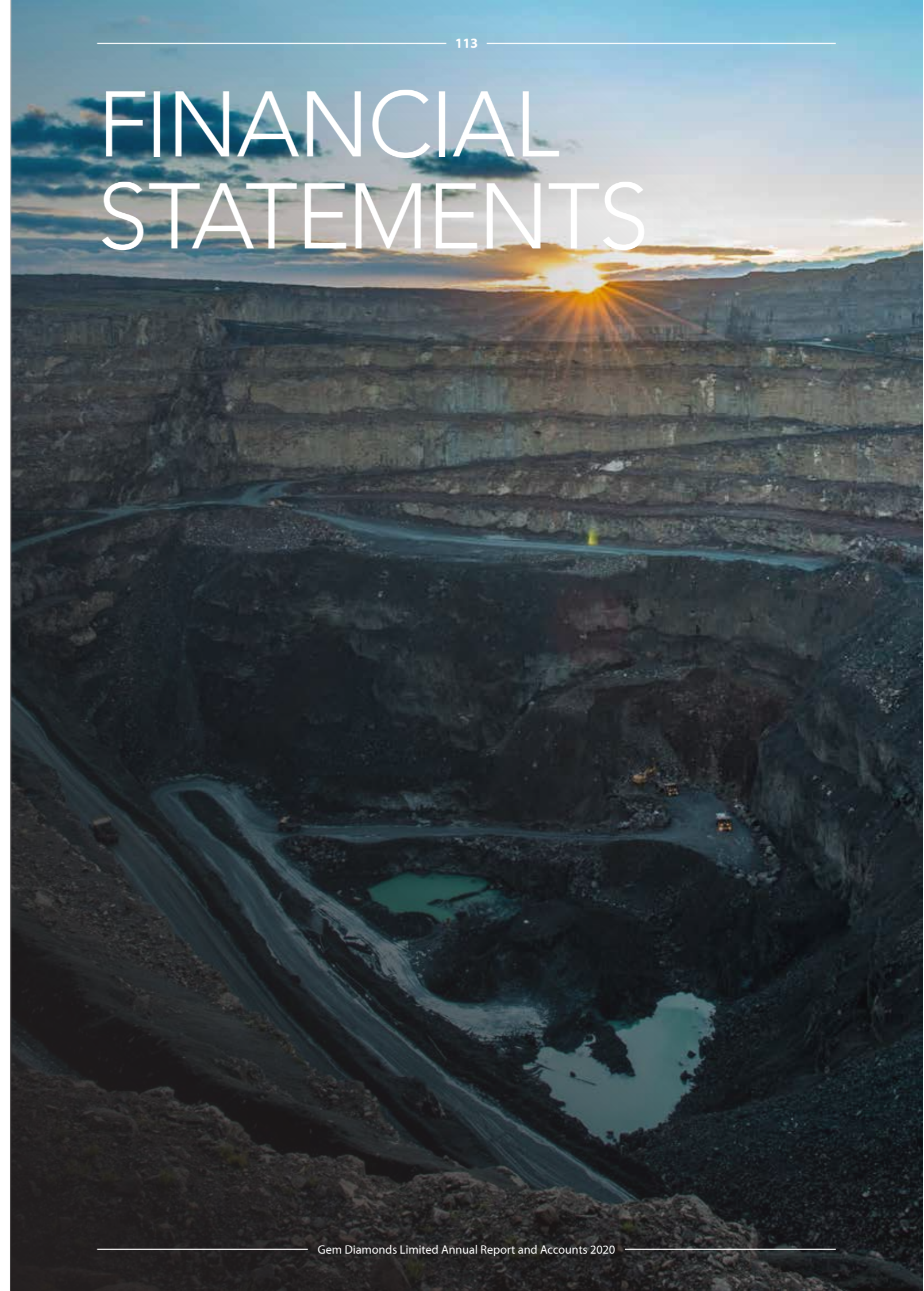
### GREENHOUSE GAS (GHG) EMISSIONS AND ENERGY CONSUMPTION SUMMARY

Details on the Group's carbon footprint and energy consumption in 2020 can be found in the Sustainability section on pages 48 to 50.

By order of the Board

**Harry Kenyon-Slaney**  
Non-Executive Chairman  
10 March 2021

# FINANCIAL STATEMENTS





# 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 2021

# 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 118 to 173, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and of 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 Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) 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 in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits of the Group and in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). 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 the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's 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	How the matter was addressed in the audit
<p><b>COVID-19 IMPACT: UNCERTAINTY WITH ASSUMPTIONS USED TO FORECAST THE PROSPECTIVE FINANCIAL INFORMATION APPLIED IN THE IMPAIRMENT AND GOING CONCERN MODELS.</b></p> <p>Management performs an annual impairment test on goodwill as required by IAS 36 <i>Impairment of Assets</i> and an annual going concern assessment using discounted and undiscounted cash flows. Goodwill relates to the Group's investment in the Letšeng Diamond mine.</p> <p>During the year, the COVID-19 pandemic and the resulting lockdown restrictions halted production at the Group's Letšeng mine for a period. It further impacted trading and reduced the number of tenders due to the availability of goods and lockdown restrictions.</p> <p>There is an inherent uncertainty in forecasting and discounting future cash flows, which forms the basis of the Group's value in use calculations used in the impairment model and the going concern assessment. This was amplified due to the economic and other effects of the COVID-19 pandemic including uncertainty around the duration of the pandemic and timing of the recovery of the various world economies. The recent volatility in diamond prices, exchange rates and discount rates resulted in additional audit work in assessing the Group's impairment model and ability to continue as a going concern.</p> <p>As disclosed in Note 12 <i>Impairment testing</i> and Note 1.2.2 <i>Going Concern</i>, the Group uses discounted and undiscounted cash flows to determine the value in use for each cash generating unit and also Group's ability to continue as a going concern, on the basis of the following key assumptions:</p> <ul style="list-style-type: none"> <li>• Diamond prices;</li> <li>• Inflation rates;</li> <li>• Production costs and volumes;</li> <li>• Capital expenditure;</li> <li>• Renewal of borrowing facilities;</li> <li>• Discount rates; and</li> <li>• Exchange rates</li> </ul> <p>Given the above factors, the goodwill impairment and the assessment of cash flows in the going concern model, particularly in the diamond mining industry, required significant audit attention in the current year through extended sensitivity and stress testings with different scenarios including the use of our valuation experts.</p>	<p>Our audit procedures included amongst others the following:</p> <ul style="list-style-type: none"> <li>• We involved the EY internal valuation specialists as part of our team to assist in evaluating management's impairment methodology and key assumptions used in the impairment calculations;</li> <li>• Our valuation specialists calculated an independent weighted average cost of capital (WACC) to compare to management's WACC's. Our independent WACC recalculation was based on publicly available market data for comparable companies for the Letšeng Cash Generating Unit (CGU);</li> <li>• Our valuation specialists calculated an independent net present value (NPV) to compare to management's NPV;</li> <li>• Our valuation specialists assessed the reasonability of the significant inputs and assumptions used in the impairment and going concern models, such as diamond prices, exchange rates, inflation rates, by comparing them to independent sources;</li> <li>• We have performed sensitivity analyses around the key assumptions used in the impairment and going concern models. We did this by increasing and decreasing the following assumptions in the model to determine the impact on the headroom between the value of the recorded assets of the CGU and the value in use as calculated and the ability to continue as a going concern. These included: <ul style="list-style-type: none"> <li>o Exchange rates</li> <li>o Diamond prices</li> <li>o Carats sold</li> </ul> </li> <li>• We have compared FY2020 budgeted results utilised, against latest actual results available to understand management's ability to accurately estimate future cash flows;</li> <li>• We evaluated the progress on the renewal of the borrowing facilities through inquiry and inspection of communications with lenders;</li> <li>• We assessed the adequacy of the Group's disclosures in terms of IAS 36 and IAS 1 in terms of the Going Concern, in the notes to the consolidated financial statements.</li> </ul>

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the 185-page document titled "Gem Diamonds Limited Annual report and accounts 2020". The other information does not include the consolidated financial statements and our auditor's reports thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 Management for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines 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, management is 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 management either intends to liquidate the Group or to cease operations, or has 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 judgment and maintain professional skepticism 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 management.
- Conclude on the appropriateness of management's 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 those charged with governance 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 those charged with governance 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, 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 2021

102 Rivonia Road, Sandton, Private Bag X14, Sandton, 2146



CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 US\$'000	2019 US\$'000
<b>CONTINUING OPERATIONS</b>			
Revenue from contracts with customers	2	189 647	182 047
Cost of sales		(113 802)	(129 482)
<b>Gross profit</b>		<b>75 845</b>	52 565
Other operating (expense)/income	3	(3 911)	845
Royalties and selling costs		(19 843)	(16 904)
Corporate expenses		(7 992)	(9 418)
Share-based payments	28	(555)	(784)
Foreign exchange (loss)/gain	4	(880)	3 550
Reclassification of foreign currency translation reserve	5	–	4
<b>Operating profit</b>	4	<b>42 664</b>	29 858
<b>Net finance costs</b>	6	<b>(4 411)</b>	(5 808)
– Finance income		382	668
– Finance costs		(4 793)	(6 476)
<b>Profit before tax for the year from continuing operations</b>		<b>38 253</b>	24 050
Income tax expense	7	(10 711)	(9 020)
<b>Profit after tax for the year from continuing operations</b>		<b>27 542</b>	15 030
<b>DISCONTINUED OPERATION</b>			
Loss after tax from discontinued operation	16	(3 264)	(4 454)
<b>Profit for the year</b>		<b>24 278</b>	10 576
<b>Attributable to:</b>			
Equity holders of parent		13 641	2 617
Non-controlling interests		10 637	7 959
Earnings per share (cents)	8		
– Basic earnings for the year attributable to ordinary equity holders of the parent		9.8	1.9
– Diluted earnings for the year attributable to ordinary equity holders of the parent		9.6	1.8
Earnings per share (cents) for continuing operations			
– Basic earnings for the year attributable to ordinary equity holders of the parent		12.1	5.1
– Diluted earnings for the year attributable to ordinary equity holders of the parent		11.9	5.0

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 US\$'000	2019 US\$'000
Profit for the year		24 278	10 576
<i>Other comprehensive income that will be reclassified to the Consolidated Statement of Profit or Loss in subsequent periods</i>			
Reclassification of foreign currency translation reserve, net of tax	5	–	(4)
Exchange differences on translation of foreign operations, net of tax		(14 049)	4 512
<b>Other comprehensive (loss)/income for the year, net of tax</b>		<b>(14 049)</b>	4 508
<b>Total comprehensive income for the year, net of tax</b>		<b>10 229</b>	15 084
<b>Attributable to:</b>			
Equity holders of the parent		3 779	1 763
Non-controlling interests		6 450	13 321

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2020

	Notes	2020 US\$'000	2019 US\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	304 005	323 853
Right-of-use asset	10	4 823	8 454
Intangible assets	11	12 997	13 653
Receivables and other assets	13	153	–
Deferred tax assets	23	6 346	7 871
		<b>328 324</b>	353 831
<b>Current assets</b>			
Inventories	14	26 741	32 517
Receivables and other assets	13	5 686	6 337
Income tax receivable	21	106	8 189
Cash and short-term deposits	15	49 820	11 303
		<b>82 353</b>	58 346
Assets held for sale	16	3 528	3 943
<b>Total assets</b>		<b>414 205</b>	416 120
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	17	1 397	1 391
Share premium		885 648	885 648
Other reserves	17	(212 164)	(202 857)
Accumulated losses		(511 808)	(525 449)
		<b>163 073</b>	158 733
<b>Non-controlling interests</b>		<b>84 422</b>	85 424
<b>Total equity</b>		<b>247 495</b>	244 157
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	18	1 702	6 009
Lease liabilities	19	4 902	8 539
Trade and other payables	20	2 029	1 936
Provisions	22	12 331	15 588
Deferred tax liabilities	23	84 538	90 995
		<b>105 502</b>	123 067
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	18	14 385	16 332
Lease liabilities	19	1 836	1 940
Trade and other payables	20	28 823	26 390
Income tax payable	21	11 940	13
		<b>56 984</b>	44 675
Liabilities directly associated with the assets held for sale	16	4 224	4 221
<b>Total liabilities</b>		<b>166 710</b>	171 963
<b>Total equity and liabilities</b>		<b>414 205</b>	416 120

Approved by the Board of Directors on 10 March 2021 and signed on its behalf by:

**C Elphick**  
Director

**M Michael**  
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2020

	Attributable to the equity holders of the parent						Total equity US\$'000
	Issued capital US\$'000	Share premium US\$'000	Other reserves <sup>1</sup> US\$'000	Accumulated (losses)/ retained earnings US\$'000	Total US\$'000	Non- controlling interests US\$'000	
Balance at 1 January 2020	1 391	885 648	(202 857)	(525 449)	158 733	85 424	244 157
Total comprehensive (loss)/ income	–	–	(9 862)	13 641	3 779	6 450	10 229
Profit for the year	–	–	–	13 641	13 641	10 637	24 278
Other comprehensive loss	–	–	(9 862)	–	(9 862)	(4 187)	(14 049)
Share capital issued (Note 17)	6	–	(6)	–	–	–	–
Share-based payments (Note 28)	–	–	561	–	561	–	561
Dividends declared	–	–	–	–	–	(7 452)	(7 452)
<b>Balance at 31 December 2020</b>	<b>1 397</b>	<b>885 648</b>	<b>(212 164)</b>	<b>(511 808)</b>	<b>163 073</b>	<b>84 422</b>	<b>247 495</b>
Attributable to discontinued operation (Note 16)	–	–	(53 046)	(192 252)	(245 298)	–	(245 298)
Balance at 1 January 2019	1 390	885 648	(152 029)	(578 834)	156 175	72 103	228 278
Total comprehensive income (loss)/ 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 (loss)/ income	–	–	(854)	–	(854)	5 362	4 508
Share capital issued (Note 17)	1	–	–	–	1	–	1
Transfer between reserves <sup>2</sup>	–	–	(50 768)	50 768	–	–	–
Share-based payments (Note 28)	–	–	794	–	794	–	794
<b>Balance at 31 December 2019</b>	<b>1 391</b>	<b>885 648</b>	<b>(202 857)</b>	<b>(525 449)</b>	<b>158 733</b>	<b>85 424</b>	<b>244 157</b>
Attributable to discontinued operation (Note 16)	–	–	(51 916)	(190 107)	(242 023)	–	(242 023)

<sup>1</sup> Other reserves relate to Foreign currency translation reserves and Share based equity reserves. Refer Note 17, Issued capital and reserves for further detail.

<sup>2</sup> In 2019 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 2020

	Notes	2020 US\$'000	2019 US\$'000
<b>Cash flows from operating activities</b>		<b>96 227</b>	55 490
Cash generated by operations	24.1	93 050	81 644
Working capital adjustments	24.2	464	(2 854)
Interest received		382	668
Interest paid		(3 558)	(5 181)
Income tax received/(paid)	21	5 889	(18 787)
<b>Cash flows used in investing activities</b>		<b>(48 718)</b>	(80 769)
Purchase of property, plant and equipment	9	(1 571)	(9 671)
Waste stripping costs capitalised	9	(47 167)	(73 175)
Proceeds from sale of property, plant and equipment		20	2 077
<b>Cash flows from financing activities</b>		<b>(12 995)</b>	(14 076)
Lease liabilities repaid	19	(1 906)	(1 901)
Net financial liabilities repaid	24.3	(6 431)	(12 175)
Financial liabilities repaid		(55 638)	(47 056)
Financial liabilities raised		49 207	34 881
Dividends paid to non-controlling interests		(4 658)	–
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>34 514</b>	(39 355)
Cash and cash equivalents at beginning of year		11 443	50 812
Foreign exchange differences		3 870	(24)
<b>Cash and cash equivalents</b>		<b>49 827</b>	11 443
<b>Cash and cash equivalents at end of year – continuing operation</b>	15	<b>49 820</b>	11 303
Cash and cash equivalents held at banks		49 820	11 188
Restricted cash		–	115
<b>Cash and cash equivalents at end of year – discontinued operation</b>	16	<b>7</b>	140
Cash and cash equivalents held at banks		7	83
Restricted cash		–	57

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020

## 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) and is domiciled in the United Kingdom (UK). The Company's registration number is 669758.

These financial statements were authorised for issue by the Board on 10 March 2021.

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 2020:

Name and registered address of company	Share-holding	Cost of investment <sup>1</sup>	Country of incorporation	Nature of business
<b>Subsidiaries</b>				
<b>Gem Diamond Technical Services (Proprietary) Limited<sup>2</sup></b> Illovo Corner 24 Fricker Road Illovo Boulevard Johannesburg South Africa	100%	US\$17	RSA	Technical, financial and management consulting services.
<b>Gem Equity Group Limited<sup>3</sup></b> 2nd Floor, Coastal Building Wickhams Cay II PO Box 2221 Roadtown Tortola British Virgin Islands	100%	US\$52 277	BVI	Dormant holding investment company in process of being voluntarily liquidated.
<b>Letšeng Diamonds (Proprietary) Limited<sup>2</sup></b> 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 dormant company established in Lesotho to operate the in-country diamond cutting and polishing.
<b>Gem Diamonds Botswana (Proprietary) Limited<sup>2,4</sup></b> 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 <sup>4</sup> .

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 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 <sup>1</sup>	Country of incorporation	Nature of business
<b>Subsidiaries</b>				
Gem Diamonds Investments Limited <sup>2</sup> Suite 1, 3rd Floor, 11-12 St. James Square, London SW1Y 4LB United Kingdom	100%	US\$17 531 316	UK	Investment holding company holding 100% in each of Calibrated Diamonds Investment Holdings (Proprietary) Limited; Gem Diamonds Innovation Solutions CY Limited; Baobab Technologies BVBA; and Gem Diamonds Marketing Services BVBA, a marketing company that sells the Group's diamonds on tender in Antwerp.

<sup>1</sup> The cost of investment represents original cost of investments at acquisition dates.

<sup>2</sup> No change in the shareholding since the prior year.

<sup>3</sup> During the year Gem Equity Group (GEG) sold its investments, 2% in Gem Diamonds Marketing Services BVBA and 1% in Baobab Technologies investments, to Gem Diamonds Investments Limited. Following the sale of GEG's investments the GEG Board of Directors resolved to voluntarily liquidate GEG. As the operation is being closed and not sold the closure has been classified as an abandonment by the Company.

<sup>4</sup> The Ghaghoo Diamond Mine, which is in the process of being sold, has been classified as a discontinued operation held for sale since 30 June 2019 and disclosed separately (refer Note 16, Asset held for sale).

##### 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 since 30 June 2019.

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

Gem Diamonds Botswana (Ghaghoo Diamond Mine), which during the prior year was classified as a discontinued operation held for sale and separately disclosed, continues to be classified as such as management remain committed to the sales process. Refer Note 16, Asset held for sale.

During the year GEG, a dormant investment company, was abandoned. Following the sale of its investments the Board of Directors of GEG resolved to voluntarily liquidate the operation. This process is expected to be concluded subsequent to year end 31 December 2020. GEG is classified as part of the BVI, RSA, UK and Cyprus segment.

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 tables presents revenue from contracts with customers, profit/(loss) for the year, EBITDA and asset and liability information from operations regarding the Group's geographical segments:

### 1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 1.1 Corporate information (continued)

##### 1.1.3 Segment information (continued)

Year ended 31 December 2020	Lesotho	Belgium	BVI, RSA UK and Cyprus <sup>1</sup>	Total Continuing operations	Discontinued operation	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Revenue from contracts with customers</b>						
Total revenue	186 801	189 825	5 997	382 623	–	382 623
Intersegment	(186 183)	(796)	(5 997)	(192 976)	–	(192 976)
<b>External customers</b>	618	189 029	–	189 647	–	189 647
Depreciation and amortisation	50 636	391	1 463	52 490	–	52 490
– Depreciation and mining asset amortisation	7 216	391	1 463	9 070	–	9 070
– Waste stripping cost amortisation	43 420	–	–	43 420	–	43 420
Share-based equity transactions	157	6	392	555	6	561
<b>Segment operating profit/(loss)</b>	49 061	1 354	(7 751)	42 664	(3 062)	39 602
Net finance costs	(2 742)	(6)	(1 663)	(4 411)	(202)	(4 613)
<b>Profit/(loss) before tax</b>	46 319	1 348	(9 414)	38 253	(3 264)	34 989
Income tax (expense)/income	(10 790)	(179)	258	(10 711)	–	(10 711)
<b>Profit/(loss) for the year</b>	35 529	1 169	(9 156)	27 542	(3 264)	24 278
<b>EBITDA</b>	59 038	1 748	(7 588)	53 198	(2 943)	50 255
<b>Segment assets</b>	396 040	1 694	6 597	404 331	3 528	407 859
<b>Segment liabilities</b>	63 733	496	13 719	77 948	4 224	82 172
<b>Other segment information</b>						
Net cash and short-term deposits <sup>2</sup>	40 311	877	(6 565)	34 623	7	34 630
Capital expenditure						
– Property, plant and equipment	1 535	7	29	1 571	–	1 571
– Net movement in rehabilitation asset <sup>3</sup>	(3 125)	–	–	(3 125)	–	(3 125)
– Waste cost capitalised	47 167	–	–	47 167	–	47 167
<b>Total capital expenditure</b>	45 577	7	29	45 613	–	45 613
Average number of employees employed under contracts of service	323	6	21	350	31	381

<sup>1</sup> No revenue was generated in BVI and Cyprus.

<sup>2</sup> Calculated as cash and short-term deposits less drawdown bank facilities (excluding the asset-based finance facility, insurance premium financing and rolling fees capitalised to the Company's \$30.0 million bank loan facility. Refer Note 18, Interest bearing loans and borrowings).

<sup>3</sup> Non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho segment.

Included in revenue for the current year is revenue from six customers which amounted to US\$66.9 million arising from sales reported in the Belgium segments.

Segment assets and liabilities do not include deferred tax assets and liabilities of US\$6.3 million and US\$84.5 million respectively.

Total revenue for the year is higher than that of the prior year mainly due to higher sales prices achieved of US\$1 908 (2019: US\$1 637).

During the year, COVID-19 had the following impact on revenue:

- Production volumes were negatively impacted as a result of Letšeng's production ceasing on 28 March – 26 April 2020, in line with the COVID-19 lockdown restrictions instituted by the Government of Lesotho.
- Six sales tenders were held compared to eight sales tenders during the prior year.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 continued

### 1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 1.1 Corporate information (continued)

#### 1.1.3 Segment information (continued)

Year ended 31 December 2019	Lesotho US\$'000	Belgium US\$'000	BVI, RSA UK and Cyprus <sup>1</sup> US\$'000	Total Continuing operations US\$'000	Discontinued operation <sup>2</sup> US\$'000	Total US\$'000
<b>Revenue from contracts with customers</b>						
Total revenue	179 313	182 788	8 440	370 541	–	370 541
Intersegment	(179 313)	(741)	(8 440)	(188 494)	–	(188 494)
<b>External customers</b>						
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
<b>Segment operating profit/(loss)</b>	<b>38 524</b>	<b>863</b>	<b>(9 529)</b>	<b>29 858</b>	<b>(4 274)</b>	<b>25 584</b>
Net finance costs	(3 792)	(262)	(1 754)	(5 808)	(180)	(5 988)
<b>Profit/(loss) before tax</b>	<b>34 732</b>	<b>601</b>	<b>(11 283)</b>	<b>24 050</b>	<b>(4 454)</b>	<b>19 596</b>
Income tax expense	(8 228)	(151)	(641)	(9 020)	–	(9 020)
<b>Profit/(loss) for the year</b>				<b>15 030</b>	<b>(4 454)</b>	<b>10 576</b>
<b>EBITDA</b>	<b>49 014</b>	<b>1 206</b>	<b>(9 221)</b>	<b>(40 999)</b>	<b>(4 389)</b>	<b>36 610</b>
<b>Segment assets</b>	<b>393 107</b>	<b>2 477</b>	<b>8 722</b>	<b>404 306</b>	<b>3 943</b>	<b>408 249</b>
<b>Segment liabilities</b>	<b>59 854</b>	<b>600</b>	<b>16 293</b>	<b>76 747</b>	<b>4 221</b>	<b>80 968</b>
<b>Other segment information</b>						
Net cash and short-term deposits <sup>3</sup>	(2 964)	1 505	(8 881)	(10 340)	140	(10 200)
Capital expenditure						
– Property, plant and equipment	8 166	324	1 196	9 843	–	9 843
– Net movement in rehabilitation <sup>4</sup>	157	–	–	157	–	157
– Waste cost capitalised	73 175	–	–	73 175	–	73 175
<b>Total capital expenditure</b>	<b>81 498</b>	<b>324</b>	<b>1 196</b>	<b>83 018</b>	<b>–</b>	<b>83 018</b>
Average number of employees employed under contracts of service	362	6	24	392	33	425

<sup>1</sup> No revenue was generated in BVI and Cyprus.

<sup>2</sup> 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.

<sup>3</sup> Calculated as cash and short-term deposits less drawdown bank facilities (excluding the asset-based finance facility. Refer Note 18, Interest bearing loans and borrowings).

<sup>4</sup> Non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho segment.

Included in annual revenue for the 2019 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.

### 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), as issued by the International Accounting Standards Board (IASB). 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 presented in US dollar and rounded to the nearest thousand. The financial results 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 certain standards and amendments for the first time, which are effective for annual periods beginning on or after 1 January 2020 and are listed in the table. The adoption of these new accounting pronouncements has not had a significant impact on the consolidated financial statements of the Group nor the accounting policies, methods of computation or presentation applied by the Group.

Amendments and New Standards	Description
<b>The Conceptual Framework for Financial Reporting</b>	Revised Conceptual Framework for Financial Reporting
<b>Amendments to IFRS 3</b>	Definition of a business
<b>Amendments to IAS 1 and IAS 8</b>	Definition of material
<b>Amendments to IFRS 9, IAS 39 and IFRS 7</b>	Interest rate benchmark reform – Phase 1
<b>Amendments to IFRS 16</b>	COVID-19 Related Rent Concessions

##### Amendment to IFRS 16 – COVID-19 Related Rent Concessions

The amendment to IFRS 16, COVID-19 Related Rent Concessions, which is effective for annual financial reporting periods beginning on or after 1 June 2020 has been early adopted by the Group during the current financial reporting period.

The amendment in the form of a practical expedient, provides optional relief to lessees on the treatment of rent concessions occurring as a direct consequence of the COVID-19 pandemic.

The expedient allows lessees to account for such rent concessions as if they were not lease modifications if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

The practical expedient was applied to all leases where there was a change in lease payments granted by lessors as a direct consequence of COVID-19 related rental concessions. For leases where concessions have been given in the form of forgiveness, the Group included the forgiveness as negative variable lease payments in the Consolidated Statement of Profit or Loss. For leases where concessions have been given in the form of payment deferrals, the Group continued to account for the lease liability and right-of-use asset using the rights and obligations of the existing lease, with a separate lease payable being recognised for the payment deferred in the period when the allocated lease cash payment is due. This adoption did not have a material impact on the Group. Refer Note 10, Right-of-use assets and Note 19, Lease liabilities.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 continued

### 1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 1.2 Summary of significant accounting policies (continued)

##### 1.2.1 Basis of preparation (continued)

###### **New standards issued but not yet effective**

The new standards, amendments and improvements that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are listed in the table below. These standards, amendments and improvements have not been early adopted and it is expected that, where applicable, these standards, amendments and improvements will be adopted on each respective effective date. The impact of the adoption of these standards cannot be reasonably assessed at this stage.

New standards, amendments, and improvements	Description	Effective date*
IFRS 17	Insurance contracts	1 January 2023
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to IAS 37	Onerous contracts – cost of fulfilling a contract	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16	Property, plant and equipment proceeds before intended use	1 January 2022
Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Pending
Improvement IFRS 1	Subsidiary as a first-time adopter	1 January 2022
Improvement IFRS 9	Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
Improvement IAS 41	Agriculture – Taxation in fair value measurements	1 January 2022

\* Annual periods beginning on or after

###### **Interest Rate Benchmark Reform – Phase 2**

The amendment addresses issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative benchmark interest rate.

The Group and its funders have commenced a comprehensive debt refinancing programme of the Group's facilities. The refinancing programme incorporates the consideration of any risk posed to the Group by phase two of the IBOR reform, which is effective from 1 January 2021. The IBOR reform may potentially have an impact on the JIBAR and LIBOR linked interest-bearing loans and borrowings, which includes the LSL215.0 million unsecured project debt facility between Letšeng Diamonds and Nedbank Limited and the Export Credit Insurance Corporation (ECIC) and the US\$30.0 million revolving credit facility between Gem Diamonds Limited and Nedbank Capital. Refer Note 18, Interest-bearing loans and borrowings for more information regarding the maturities and the related benchmark rates subject to the IBOR reform on these loans. The Group will continue to assess the impact of these amendments on the Group's Consolidated Annual Financial Statements until initial application.

###### **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 and country risks on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

### 1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 1.2 Summary of significant accounting policies (continued)

##### 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.

The Group's net cash at 31 December 2020 was US\$34.6 million (31 December 2019: net debt US\$10.2 million) and with its undrawn facilities of US\$60.8 million, its liquidity (defined as net cash and undrawn facilities) of US\$95.4 million remains strong. However, the Group's Revolving Credit facilities, which total US\$70.8 million when fully unutilised, mature within the next 12 months, with US\$34.0 million maturing in July 2021, US\$30.0 million expiring on 31 December 2021 and the balance of US\$6.8 million being a general banking facility with no set expiry date (Refer Note 18, Interest-bearing loans and borrowings). Management have commenced discussions with lenders to restructure and extend the maturity dates of these facilities and are confident that the facilities will be restructured as per previous successful renewals. The uncertainty that exists around the ongoing impact of COVID-19 on future cashflows was considered by performing sensitivities on diamond pricing and diamond production volumes and continued strengthening of the US\$ against the Lesotho Loti.

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.

##### 1.2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company as at 31 December 2020.

###### **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 gains and losses 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.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 continued

### 1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 1.2 Summary of significant accounting policies (continued)

##### 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 judgements when determining whether the commercial viability of an identified resource has been met and when determining whether indicators of impairment exist as referred under Note 1.2.28, Critical accounting estimates and judgements.

##### 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 a 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 9, Property, plant and equipment.

All development expenditure is monitored for indicators of impairment annually. Management is required to make certain estimates and judgements 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.

### 1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 1.2 Summary of significant accounting policies (continued)

##### 1.2.6 Property, plant and equipment (continued)

Item	Method	Useful life <sup>1</sup>
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	Three years; or lesser of life of mine or period of mining lease
Plant and equipment	Straight line	Three to 15 years
Other assets	Straight line	Two to eight years

<sup>1</sup> Certain asset classes are depreciated over the lesser of life of mine, or period of mining lease. Prior to 1 January 2020, the period of mining lease was shorter than the life of mine. On 1 January 2020 a reassessment of assets' useful lives was performed at Letšeng which resulted in a revision of assets' useful lives being made from a remaining useful life of five years (original period of mining lease) to 15 years (life of mine) due to the extension of the Letšeng mining lease. Furthermore, the useful life of plant and equipment was reassessed from a useful life of 10 years to the remaining life of mine (15 years); and the useful life of vehicles, categorised within the "Other assets category", were reassessed from five years to eight years.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed annually. Changes in the expected residual values, expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the depreciation period or method, as appropriate, and are treated as changes in accounting estimates, and adjusted for prospectively, if appropriate.

##### 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.

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 asset. 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.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 continued

### 1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 1.2 Summary of significant accounting policies (continued)

##### 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:

- (a) represents a separate major line of business or geographical area of operations;
- (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- (c) 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 in Note 16, Assets held for sale. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

##### 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 fair value of 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 net identifiable amounts of the assets acquired and the liabilities assumed in the business combination, 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.

### 1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 1.2 Summary of significant accounting policies (continued)

##### 1.2.9 Goodwill (continued)

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 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 transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date.

###### 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 cost are derecognised or impaired, as well as through the amortisation process.

###### 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 are subsequently stated at amortised cost using the effective interest rate method, with any difference between proceeds (net of transaction costs) and the redemption value being 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.

###### 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.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 continued

### 1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 1.2 Summary of significant accounting policies (continued)

##### 1.2.11 Fair value measurement (continued)

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 that are measured at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the fair 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

The Group assesses, at each reporting date, whether there is an indication that an asset (or CGU) may be impaired in accordance with IAS 36. Goodwill is assessed for impairment on an annual basis and when circumstances indicate that the carrying value may be impaired. 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.

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. Impairment losses relating to goodwill cannot be reversed in future periods.

###### 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. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 1.2 Summary of significant accounting policies (continued)

##### 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 consolidated statement of cash flows, 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 Group's presentation currency are translated into the Group's 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.

###### 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.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 continued

### 1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 1.2 Summary of significant accounting policies (continued)

##### 1.2.17 Share-based payments (continued)

###### Equity-settled transactions

The cost of equity-settled transactions with employees are measured by reference to the fair value of the equity instruments 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 of the vesting conditions or otherwise of the non-market vesting conditions and of the number of equity instruments that is expected to 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 within the year of forfeiture.

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.

##### 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 discount 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 provision

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.

### 1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 1.2 Summary of significant accounting policies (continued)

##### 1.2.19 Restoration and rehabilitation provision (continued)

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, using a pre-tax discount rate. Discount rates used are specific to the country in which the operation is located or reasonable alternatives if in-country information is not available. 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 a decommissioning 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 or to other comprehensive income, in which case the tax consequences are recognised directly in equity and other comprehensive income respectively. 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.

The Group offsets deferred income tax assets and deferred income tax liabilities if, and only if, it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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.

###### 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.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 continued

### 1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 1.2 Summary of significant accounting policies (continued)

##### 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 measured at the amount the obligation is expected to be settled or discounted to present value using a pre-tax discount rate where relevant or where time value of money is expected to be significant. 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. The lease component is accounted for under the requirements of IFRS 16 and the non-lease component is accounted for using the relevant standard based on the nature of the non-lease component.

##### 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. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. Right-of-use assets are subject to impairment. Refer Note 1.2.12, Impairments.

##### 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.

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 is 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 qualitatively and quantitatively 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. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 1.2 Summary of significant accounting policies (continued)

##### 1.2.22 Leases (continued)

##### Group as a lessor

Where the Group is a lessor, it determines at inception whether the lease is a finance or operating lease. When a lease transfers substantially all the risks and rewards of ownership of the underlying asset then the lease is a finance lease; otherwise the lease is an operating lease.

Where the Group is an intermediate lessor, the interest in the head lease and the sub-lease is accounted for separately and the lease classification of a sub-lease is determined by reference to the Right-of-use-asset arising from the head lease. Income from operating leases is recognised 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 or when polished sales prices are mutually agreed between the customer and the Group.

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 or the polished sales prices are mutually agreed between the third party and the Group 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.

##### 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.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 continued

### 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 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 income and expenses 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.

###### COVID-19

The Group has considered the impact of COVID-19 on its significant accounting judgements and estimates. The Group's main source of estimation uncertainty is in relation to assumptions used for the assessment of impairment and impairment reversal of assets. No further significant estimates have been identified as a result of COVID-19, although the pandemic has increased the level of uncertainty inherent in all future cash flow forecasts.

###### 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.

###### 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.

### 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)

###### 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. Refer Note 12, Impairment testing, for further estimates and judgements applied.

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 5.3% (2019: 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 2020 of LSL14.69 (31 December 2019: 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 10.8% for revenue (2019: 11.2%) and 14.3% for costs (2019: 14.7%) 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.

###### 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.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 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)

###### Judgement (continued)

###### Sensitivity

The value in use for Letšeng indicated sufficient headroom, and the further changes to key assumptions which could result in impairment are disclosed in Note 12, Impairment testing.

###### 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 i) the production of inventory and ii) in the creation of future benefits by improving access and mining flexibility in respect of the ore to be mined, (the '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 stripped to the volume (tonnes) of ore mined 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.

### 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)

###### Identifying uncertainties over tax treatments

An amended tax assessment was issued to Letšeng by the Lesotho Revenue Authority (LRA) in December 2019, contradicting the application of certain tax treatments in the current Lesotho Income Tax Act 1993. In March 2020, Letšeng lodged an objection to the assessment, which was supported by the opinion of senior counsel, together with an application for the suspension of payment. The suspension of payment was accepted. The LRA has subsequently lodged an application to the Lesotho High Court pertaining to this matter, to which Letšeng is opposing. The matter has been set down for hearing in August 2021.

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.

No provision or contingent liability, relating to the amended tax assessment in question, is required to be raised in the 2020 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. A portion of the lease payment is expensed in the consolidated statement of profit or loss and the portion relating to waste removal/stripping costs is capitalised to the waste stripping asset in the proportions referred to under the estimate and judgements applied to the Capitalised stripping costs (deferred waste) above. Refer Note 25, Commitments and contingencies.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 continued

	2020 US\$'000	2019 US\$'000
<b>2. REVENUE FROM CONTRACTS WITH CUSTOMERS</b>		
Sale of goods	189 028	182 046
Partnership arrangements	618	–
Rendering of services	1	1
	<b>189 647</b>	182 047
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 partnership arrangements of US\$0.6 million represents the additional uplift from partnership arrangements for which revenue is recognised when the amount is guaranteed (2019: Nil).		
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.		
No revenue was generated from joint operation arrangements during the current or prior year (2020: Nil) (2019: Nil).		
<b>3. OTHER OPERATING (EXPENSES)/INCOME</b>		
Sundry income	26	90
Sundry expenses	(23)	(7)
(Loss)/profit on disposal and scrapping of property, plant and equipment	(30)	762
COVID-19 Standing costs	(3 884)	–
	<b>(3 911)</b>	845
<b>COVID-19 standing costs</b>		
In compliance with the Government of Lesotho's lockdown order, Letšeng temporarily suspended operations between 28 March and 26 April and placed the mine on care and maintenance. After successfully engaging with the Government of Lesotho to designate mining as an essential service, a restart and ramp-up plan was implemented commencing in May, whereby normal production levels for both treatment plants were achieved by 27 May, with incidental waste mining commencing in May and reaching normal levels in July. During the care and maintenance and ramp-up periods where normal waste stripping and carat production levels were disrupted, certain standing fixed mining contract and ore stockpile movement costs incurred were recognised as abnormal costs and have been expensed immediately in the Statement of profit or loss. Of these costs, US\$1.0 million related to costs incurred to implement protocols throughout the Group to address the risk and curb the spread of COVID-19.		

	2020 US\$'000	2019 US\$'000
<b>4. OPERATING PROFIT</b>		
Operating profit includes such non-operating costs and income as listed below:		
<b>Depreciation and amortisation</b>		
Depreciation and amortisation excluding waste stripping costs	(7 046)	(12 400)
Depreciation of right-of-use assets	(2 043)	(2 526)
Waste stripping costs amortised	(43 420)	(43 129)
	<b>(52 509)</b>	(58 055)
Add/(less): Depreciation and mining asset amortisation capitalised to inventory	19	(151)
	<b>(52 490)</b>	(58 206)
<b>Inventories</b>		
Cost of inventories recognised as an expense	(105 524)	(114 678)
<b>Foreign exchange</b>		
Foreign exchange (loss)/gain	(880)	3 550
<b>Lease expenses not included in lease liability</b>		
Mine site property	(69)	(146)
Equipment and service lease	(7 280)	(6 377) <sup>1</sup>
Contingent rental – Alluvial Ventures	(5 190)	(9 472)
Leased premises	–	(152)
	<b>(12 537)</b>	(16 147) <sup>1</sup>
<b>Auditor's remuneration – EY</b>		
Group financial statements	(296)	(296)
Statutory	(176)	(155)
	<b>(472)</b>	(451)
<b>Auditor's remuneration – other audit firms</b>		
Statutory	(17)	(17)
<b>Other non-audit fees – EY</b>		
Tax compliance	(5)	(34)
Tax services advisory and consultancy	(13)	(9)
Other services <sup>2</sup>	–	(15)
	<b>(18)</b>	(58)
<b>Other non-audit fees – other audit firms</b>		
Internal audit	–	(2)
Tax services advisory and consultancy	(15)	–
	<b>(15)</b>	(2)
<b>Employee benefits expense</b>		
Salaries and wages <sup>3</sup>	(18 781)	(20 467) <sup>4</sup>
<b>Underlying earnings before interest, tax, depreciation and mining asset amortisation (underlying EBITDA) before discontinued operation</b>		
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 and income as listed below. The reconciliation from operating profit to underlying EBITDA is as follows:		
Operating profit	42 664	29 858
Other operating income <sup>5</sup>	27	(845)
Foreign exchange loss/(gain)	880	(3 550)
Share-based payments	555	784
Depreciation and amortisation (excluding waste stripping cost amortised)	9 070	14 752
<b>Underlying EBITDA before discontinued operation</b>	<b>53 196</b>	40 999

<sup>1</sup> These expenses consist of mining activities outsourced to a mining contractor. In 2019 the expense incorrectly included the portion of expenses which are capitalised to the Stripping Activity Asset, the comparatives have been corrected to exclude the capitalised expenses. This did not impact the totals included within the Consolidated Annual Financial Statements nor the earnings per share of 2019. Refer Significant accounting policies Note 1.2.6, Property Plant and equipment, Note 1.2.28, Critical accounting estimates and judgements, Note 9, Property, plant and equipment and Note 19, Lease liabilities.

<sup>2</sup> Includes services related to the sale of assets.

<sup>3</sup> Includes contributions to defined contribution plan of US\$0.5 million (31 December 2019: US\$0.5 million). An average of 381 employees excluding contractors were employed during the period (2019: 425).

<sup>4</sup> In 2019 the discontinued operation salaries and wages were incorrectly included in this disclosure, however this did not impact the totals included within the Consolidated Annual Financial Statements nor the Earnings per share of 2019. The comparative has been corrected to exclude the salaries and wages related to the discontinued operation.

<sup>5</sup> Excludes COVID-19 standing costs which are considered as operating costs.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 continued

5. RECLASSIFICATION OF FOREIGN CURRENCY TRANSLATION RESERVE

During the prior year the Group abandoned Gem Diamonds Marketing Botswana (Proprietary) Limited, the sales and marketing office for Ghaghoo's diamonds and Gem Diamonds Technology DMCC. As the operations were closed and not sold the closure was classified as an abandonment, which resulted in the recycling of the foreign currency translation reserve. There was no profit or loss on the abandonment.

	2020 US\$'000	2019 US\$'000
<b>6. NET FINANCE COSTS</b>		
Finance income		
Bank deposits	358	668
Other	24	–
<b>Total finance income</b>	<b>382</b>	668
Finance costs		
Bank overdraft	–	(459)
Finance costs on borrowings	(3 297)	(3 981)
Finance costs on lease liabilities	(608)	(1 087)
Finance costs on unwinding of rehabilitation and decommissioning provision	(888)	(949)
<b>Total finance costs</b>	<b>(4 793)</b>	(6 476)
	<b>(4 411)</b>	(5 808)
<b>7. INCOME TAX EXPENSE</b>		
Current		
– Foreign	(11 593)	(1 805)
Withholding tax		
– Foreign	(529)	(143)
Deferred		
– Foreign	1 411	(7 072)
<b>Income tax expense</b>	<b>(10 711)</b>	(9 020)
Profit before taxation from continuing operations	38 253	24 050
	<b>%</b>	<b>%</b>
<b>Reconciliation of tax rate</b>		
Applicable income tax rate	25.0	25.0
Permanent differences	(3.0)	0.8
Unrecognised deferred tax assets	3.0	7.9
Effect of foreign tax at different rates	1.7	3.2
Withholding tax	1.3	0.6
<b>Effective income tax rate</b>	<b>28.0</b>	37.5

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.

8. EARNINGS PER SHARE

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2020 US\$'000	2019 US\$'000
Profit for the year:	24 278	10 576
Continuing operations	27 542	15 030
Discontinued operation	(3 264)	(4 454)
Less: Non-controlling interests	(10 637)	(7 959)
<b>Net profit attributable to ordinary equity holders of the parent for basic and diluted earnings</b>	<b>13 641</b>	2 617
Weighted average number of ordinary shares outstanding during the year ('000)	139 273	138 964

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.

	2020 Number of shares	2019 Number of shares
Weighted average number of ordinary shares outstanding during the year	139 273	138 964
Effect of dilution:		
– Future share awards under the Employee Share Option Plan	2 341	2 640
<b>Weighted average number of ordinary shares outstanding during the year adjusted for the effect of dilution</b>	<b>141 614</b>	141 604

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  
FOR THE YEAR ENDED 31 DECEMBER 2020 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 <sup>1</sup> US\$'000	Total US\$'000
As at 31 December 2020								
Cost								
Balance at 1 January 2020	562 583	122 061	–	5 822	58 219	84 757	6 999	840 441
Additions	47 167	–	–	–	7	1 561	3	48 738
Net movement in rehabilitation provision	(990)	–	–	(1 373)	(381)	(381)	–	(3 125)
Disposals	–	–	–	–	–	–	(85)	(85)
Scrapping <sup>2</sup>	–	(2 929)	–	–	(610)	(993)	(444)	(4 976)
Reclassifications	–	504	–	–	674	(1 751)	573	–
Foreign exchange differences	(21 405)	(4 586)	–	(330)	(1 954)	(3 725)	555	(31 445)
Balance at 31 December 2020	587 355	115 050	–	4 119	55 955	79 468	7 601	849 548
Accumulated depreciation/ amortisation/ impairment								
Balance at 1 January 2020	369 388	53 936	–	4 102	23 901	60 128	5 133	516 588
Charge for the year <sup>3</sup>	43 420	1 174	–	88	2 834	2 513	458	50 487
Disposals	–	–	–	–	–	–	(41)	(41)
Scrapping <sup>2</sup>	–	(2 929)	–	–	(567)	(987)	(488)	(4 971)
Foreign exchange differences	(11 365)	(2 992)	–	(71)	36	(2 504)	377	(16 520)
Balance at 31 December 2020	401 443	49 189	–	4 119	26 204	59 150	5 439	545 543
Net book value at 31 December 2020	185 912	65 861	–	–	29 751	20 318	2 162	304 005

<sup>1</sup> Other assets comprise motor vehicles, computer equipment, furniture and fittings, and office equipment.

<sup>2</sup> Certain assets at Letšeng that were no longer in use were scrapped.

<sup>3</sup> A reassessment of assets' useful lives was undertaken at Letšeng with certain assets' useful lives being realigned from the period of mining lease to the life of mine. The reduction in depreciation charge of US\$3.4 million is expected to continue into the future. Refer Note 1.2.6, Property, plant and 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 <sup>1</sup> 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)	–	–	(150 911) <sup>2</sup>	–	(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	– <sup>2</sup>	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)	–	–	(149 441) <sup>2</sup>	–	(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	– <sup>2</sup>	4 102	23 901	60 128	5 133	525 968
Net book value at 31 December 2019	193 195	68 125	– <sup>2</sup>	1 720	34 318	24 629	1 866	323 853

<sup>1</sup> Other assets comprise motor vehicles, computer equipment, furniture and fittings, and office equipment.

<sup>2</sup> In 2019 only a portion of the exploration and development asset cost and accumulated depreciation was allocated to the asset held for sale, however this asset only related to the asset held for sale. The previously incorrectly unallocated portion of cost and accumulated depreciation of US\$9.4 million, which had a net book value of nil, has been corrected in the prior period property, plant and equipment reconciliation and allocated to asset held for sale. This correction did not impact the totals included within the Consolidated Annual Financial Statements nor the reported earnings per share.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 continued

	Right-of-use assets			
	Plant and equipment US\$'000	Motor vehicles US\$'000	Buildings US\$'000	Total US\$'000
<b>10. RIGHT-OF-USE ASSETS</b>				
As at 31 December 2020				
Cost				
Balance at 1 January 2020	2 012	1 656	7 318	10 986
Additions	821	-	354	1 175
Derecognition of lease	(585)	(1 019)	(988)	(2 592)
Foreign exchange differences	(31)	(273)	(240)	(544)
Balance at 31 December 2020	2 217	364	6 444	9 025
Accumulated depreciation				
Balance at 1 January 2020	980	361	1 191	2 532
Charge for the year	793	114	1 136	2 043
Derecognition of lease	(115)	(175)	(196)	(486)
Foreign exchange differences	79	(45)	79	113
Balance at 31 December 2020	1 737	255	2 210	4 202
Net book value at 31 December 2020	480	109	4 234	4 823
As at 31 December 2019				
Cost				
Balance at 1 January 2019	1 350	1 620	6 642	9 612
Additions	616	-	540	1 156
Foreign exchange differences	46	36	136	218
Balance at 31 December 2019	2 012	1 656	7 318	10 986
Accumulated depreciation				
Balance at 1 January 2019				
Charge for the year	977	360	1 189	2 526
Foreign exchange differences	3	1	2	6
Balance at 31 December 2019	980	361	1 191	2 532
Net book value at 31 December 2019	1 032	1 295	6 127	8 454

Buildings comprise office buildings in Maseru, Antwerp, London and Johannesburg. Plant and equipment mainly comprise back-up power generating equipment utilised at Letšeng. Motor vehicles mainly comprise vehicles utilised by contractors at Letšeng.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

During the year, Letšeng entered into a new contract with its existing ore processing contractor. The original contract, which was assessed as containing a lease on adoption on 1 January 2019, was cancelled. The new contract was assessed as not containing a lease, as Letšeng no longer retained the right to control the use of the assets associated with the contract. All assets and liabilities associated with the original lease were derecognised. Furthermore, Gem Diamonds Limited (GDL) entered into a new contract for the rental of its office space in London. The new contract was assessed as containing a lease resulting in the recognition of the associated assets and liabilities. The original contract was cancelled, and the associated assets and liabilities were derecognised. Total gains of US\$0.2 million relating to the derecognition of leases in the Group have been recognised in the Consolidated Statement of Profit or Loss. Refer Note 19, Lease Liabilities and Note 24.1, Cash generated by operations.

During the year the Group recognised income of US\$0.3 million (2019: US\$0.6 million) from the sub-leasing of office buildings in Maseru. The Group expects to receive the following lease payments from the operating sub-leasing in the following years:

	US\$ '000's
2021	105
2022	111
2023	117
2024	123
2025	96

The Group early adopted IFRS 16 – COVID-19 Related Rent Concessions and applied the practical expedient to all rental concessions received as a direct consequence of the COVID-19 pandemic. This adoption did not have a material impact on the Group. Refer Note 1.2.1, Basis of preparation.

	Intangibles US\$'000	Goodwill <sup>1</sup> US\$'000	Total US\$'000
<b>11. INTANGIBLE ASSETS</b>			
As at 31 December 2020			
Cost			
Balance at 1 January 2020	791	13 653	14 444
Foreign exchange difference	-	(656)	(656)
Balance at 31 December 2020	791	12 997	13 788
Accumulated amortisation			
Balance at 1 January 2020	791	-	791
Amortisation	-	-	-
Balance at 31 December 2020	791	-	791
Net book value at 31 December 2020	-	12 997	12 997
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

<sup>1</sup> Goodwill allocated to Letšeng Diamonds. Refer Note 12, Impairment for impairment testing.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 continued

	2020 US\$'000	2019 US\$'000
<b>12. IMPAIRMENT TESTING</b>		
<b>Impairment testing</b>		
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 2020. 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 2020, the recoverable amount for Letšeng Diamonds has been determined based on a value-in-use model, similar to that adopted in the past.		
<b>Goodwill</b>		
Letšeng Diamonds	12 997	13 653
<b>Balance at end of year</b>	<b>12 997</b>	<b>13 653</b>

Movement in goodwill relates to foreign exchange translation from functional to presentation currency, as disclosed within Note 11, Intangible assets.

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.

	2020 %	2019 %
Discount rate – Letšeng Diamonds		
Applied to revenue	10.8	11.2
Applied to costs	14.3	14.7

### Value in use

Cash flows are projected for a period up to the date that the open pit mining is expected to cease in 2034. This is based on the latest available mine plan and is shorter than the mining lease period which extends to 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

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.

The diamond prices used in the impairment test have been set with reference to recent prices achieved, recent market trends and anticipated market supply and the Group's medium-term forecast. Long-term diamond price escalation reflects the Group's assessment of market supply/demand fundamentals. The valuation of Letšeng at 31 December 2020 exceeded the carrying value by US\$83.0 million (31 December 2019: US\$86.0 million). The valuation is sensitive to input assumptions particularly in relation to the foreign exchange assumption of the US dollar (US\$) to the Lesotho loti (LSL) and the future price growth for diamonds. The Group has assumed an appropriate price increase for its diamonds following the market improvement noted in the diamond prices in the second half of the year.

A range of alternative scenarios have been considered in determining whether there is a reasonably possible change in the foreign exchange rates in conjunction with a reasonably possible change in the diamond price recovery, which would result in the recoverable amount equating to the carrying amount. A 10% strengthening of the LSL to the US\$ to US\$1:LSL13.20 or a further reduction of 9% to the starting diamond prices would result in the recoverable amount equating to the carrying value, with other valuation assumptions remaining the same.

As a result, no impairment charge was recognised during the year.

	2020 US\$'000	2019 US\$'000
<b>13. RECEIVABLES AND OTHER ASSETS</b>		
<b>Non-current</b>		
Deposits	153	–
<b>Current</b>		
Trade receivables	22	89
Prepayments	1 349	1 087
Deposits	–	94
Other receivables	135	797
VAT receivable	4 180	4 270
	<b>5 686</b>	<b>6 243</b>

The carrying amounts above approximate their fair value due to the nature of the instruments.

### Analysis of trade receivables base on their terms and conditions

Neither past due nor impaired	–	39
Past due but not impaired:		
Less than 30 days	22	50
30 to 60 days	–	–
60 to 90 days	–	–
90 to 120 days	–	–
	<b>22</b>	<b>89</b>

Based on the nature of the Group's client base, other financial assets and the negligible exposure to credit risk, the expected credit loss is insignificant and has no impact on the Group.

	2020 US\$'000	2019 US\$'000
<b>14. INVENTORIES</b>		
Diamonds on hand	15 558	21 743
Ore stockpiles	2 365	1 816
Consumable stores	8 818	8 958
	<b>26 741</b>	<b>32 517</b>

Inventory is carried at the lower of cost or net realisable value. During the year no write-downs to net realisable value were recorded.

	2020 US\$'000	2019 US\$'000
<b>15. CASH AND SHORT-TERM DEPOSITS</b>		
Cash on hand	4	1
Bank balances	35 456	10 971
Short-term bank deposit	14 360	331
	<b>49 820</b>	<b>11 303</b>



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 continued

### 15. CASH AND SHORT-TERM DEPOSITS (continued)

The amounts reflected in the financial statements approximate fair value due to the short-term maturity and nature of cash and short-term deposits.

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.

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 2020, the Group had US\$60.8 million (31 December 2019: US\$69.9 million) of undrawn facilities, representing the LSL500.0 million (US\$34.0 million) three-year unsecured revolving working capital facility at Letšeng, the Letšeng ZAR100.0 million (US\$6.8 million) working capital facility and US\$20.0 million from the Company's 12 month unsecured revolving credit facility. For further details on these facilities, refer Note 18, Interest-bearing loans and borrowings.

### 16. ASSETS HELD FOR SALE

In line with the strategic objective to dispose of non-core assets, the Board and Management remain committed to the sale of Gem Diamonds Botswana (Pty) Ltd which owns the Ghaghoo diamond mine. The binding agreement that Gem Diamonds entered into in June 2019 for the sale of 100% of the share capital of GDB lapsed due to certain suspensive conditions not having been met, however Management again opened the process to other prospective buyers during the year and has entered into an exclusivity arrangement with an interested party with whom potential sale discussions are continuing. The sales process faced considerable delays in 2020 largely due to the impact of COVID-19 and in particular the related travel restrictions that prohibited site visits which had been requested for due diligence purposes. This process is expected to be concluded in 2021. During the year, some consumable inventory items were written off relating to expired explosives and plant consumables; and spares and accessories for automobiles no longer on site.

The asset held for sale is carried at carrying value which is lower than fair value less costs to sell. The fair value is based on unobservable market offers from potential buyers for the disposal group, accordingly the non-recurring fair value measurement is included in level 3 of the fair value hierarchy.

The trading results of the operation continue to be classified as a discontinued operation held for sale and are presented as follows:

	2020 US\$'000	2019 US\$'000
Gross profit	–	–
Other costs	(2 816)	(4 389)
Inventory write-down	(240)	–
Share-based payments	(6)	(10)
Foreign exchange gain	–	125
<b>Operating loss</b>	<b>(3 062)</b>	<b>(4 274)</b>
Net finance costs	(202)	(180)
<b>Loss before tax from discontinued operation</b>	<b>(3 264)</b>	<b>(4 454)</b>
Income tax expense	–	–
<b>Loss after tax from discontinued operation attributable to equity holders of the parent</b>	<b>(3 264)</b>	<b>(4 454)</b>
<b>Loss per share from discontinued operation (cents)</b>		
Basic	(2.3)	(3.2)
Diluted	(2.3)	(3.1)

Gem Diamonds Botswana incurred rental expenses from short-term leases of US\$0.9 million (31 December 2019: US\$1.6 million) during the year.

Gem Diamonds Botswana has estimated tax losses of US\$185.2 million (31 December 2019: US\$184.9 million) for which no deferred tax asset has been recognised. Deferred tax assets of US\$0.3 million were recognised to the extent of the deferred tax liabilities. These have been offset in the table below.

### 16. ASSETS HELD FOR SALE (continued)

	2020 US\$'000	2019 US\$'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1 533	1 568
<b>Current assets</b>		
Inventories	1 774	2 136
Receivables and other assets	214	99
Cash and short-term deposits	7	140
	<b>1 995</b>	<b>2 375</b>
<b>Total assets</b>	<b>3 528</b>	<b>3 943</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Provisions	3 753	3 613
<b>Current liabilities</b>		
Trade and other payables	471	608
<b>Total liabilities</b>	<b>4 224</b>	<b>4 221</b>
The net cash flows attributable to the discontinued operation held for sale are as follows:		
Operating cash outflows	(2 920)	(4 323)
Investing	–	–
Financing cash inflows <sup>1</sup>	2 850	4 384
Foreign exchange (loss)/gain on translation of cash balance	(63)	2
<b>Net cash (outflow)/inflow</b>	<b>(133)</b>	<b>63</b>

<sup>1</sup> Financing provided by Gem Diamonds Botswana (Pty) Ltd's holding company, being Gem Diamonds Limited, to fund care and maintenance costs.

### 17. ISSUED SHARE CAPITAL AND RESERVES

#### Share capital

	31 December 2020		31 December 2019	
	Number of shares US\$'000	US\$'000	Number of shares '000	US\$'000
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	138 984	1 391	138 896	1 390
Allotments during the year	628	6	88	1
<b>Balance at end of year</b>	<b>139 612</b>	<b>1 397</b>	<b>138 984</b>	<b>1 391</b>

#### Share premium

Share premium comprises the excess value recognised from the issue of ordinary shares above its par value.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 continued

### 17. ISSUED SHARE CAPITAL AND RESERVES (continued)

#### Other reserves

	Foreign currency translation reserve US\$'000	Share- based equity reserve US\$'000	Total US\$'000
Balance at 1 January 2020	(208 493)	5 636	(202 857)
Other comprehensive income	(9 862)	–	(9 862)
Total comprehensive income	(9 862)	–	(9 862)
Share capital issue	–	(6)	(6)
Share-based payments	–	561	561
Balance at 31 December 2020	(218 355)	6 191	(212 164)
Balance at 1 January 2019	(207 639)	55 610	(152 029)
Other comprehensive expense	(854)	–	(854)
Total comprehensive expense	(854)	–	(854)
Share-based payments	–	794	794
Transfer between reserves <sup>1</sup>	–	(50 768)	(50 768)
Balance at 31 December 2019	(208 493)	5 636	(202 857)

<sup>1</sup> In the prior year 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 and Botswana (2019: United Arab Emirates operation abandoned in 2019) subsidiaries' functional currencies are different to the Group's presentation currency of US dollar. The rates used to convert the operating functional currency into US dollar are as follows:

	Currency	2020	2019
Average rate	ZAR/LSL to US\$1	16.47	14.45
Year end	ZAR/LSL to US\$1	14.69	13.98
Average rate	Pula to US\$1	11.45	10.76
Year end	Pula to US\$1	10.80	10.58
Average rate	Dirham to US\$1	–	3.67
Year end	Dirham to US\$1	–	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	2020 US\$'000	2019 US\$'000
<b>Non-current</b>				
LSL215.0 million bank loan facility				
Tranche 1	South African JIBAR + 3.15%	31 March 2022	477	4 291
Tranche 2	South African JIBAR + 6.50%	30 September 2022	817	1 168
ZAR12.8 million asset-based finance facility				
	South African Prime Lending Rate	1 January 2024	408	550
			<b>1 702</b>	6 009
<b>Current</b>				
LSL215.0 million bank loan facility				
Tranche 1	South African JIBAR + 3.15%	31 March 2022	635	3 433
Tranche 2	South African JIBAR + 6.75%	30 September 2022	3 268	667
LSL14.5 million insurance premium finance				
	2.95% fixed interest	30 June 2021	542	–
US\$30.0 million bank loan facility				
	London US\$ three-month LIBOR + 5.0%	31 December 2021	9 700	–
US\$45.0 million bank loan facility				
Tranche 1	London US\$ three-month LIBOR + 4.5%	31 December 2020	–	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	176	232
ZAR1.8 million insurance premium finance				
	2.5% fixed interest	1 May 2021	64	–
			<b>14 385</b>	16 332

#### LSL215.0 million (US\$14.6 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\$12.2 million) debt facility supported by the Export Credit Insurance Corporation (ECIC) (five years tenure); and
- Tranche 2: Lesotho loti denominated LSL35.0 million (US\$2.4 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 to fund 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 LSL76.3 million (US\$5.2 million) (31 December 2019: LSL133.7 million (US\$9.6 million)) remains outstanding.

The South African rand-based interest rates for the facility at 31 December 2020 are:

- Tranche 1: 10.10% (31 December 2019: 9.95%); and
- Tranche 2: 6.50% (31 December 2019: 13.55%).

The South African prime lending rate has reduced materially during the year due to the South African Reserve Bank reducing the repo rate to provide relief during the COVID-19 pandemic.

Total interest for the year on this interest-bearing loan was US\$0.6 million (31 December 2019: US\$2.2 million).

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 continued

### 18. INTEREST-BEARING LOANS AND BORROWINGS (continued)

US\$30.0 million (2019: US\$45.0 million) bank loan facility at Gem Diamonds Limited

This facility was a three-and-a-half-year revolving credit facility (RCF) with Nedbank Capital which consisted of two tranches:

- Tranche 1: related to the Ghaghoo US\$25.0 million debt whereby capital repayments commenced in September 2018 with final repayment made on 31 December 2020; and
- Tranche 2: this tranche of US\$20.0 million related to an RCF which included an upside mechanism whereby the tranche increased by a ratio of 0.6:1 for every repayment made under Tranche 1.

Upon expiry of the RCF on 31 December 2020, it was rolled into a US\$30.0 million facility with no tranches for a period of 12 months. The facility will expire on 31 December 2021.

At year end US\$Nil million (31 December 2019: US\$10.0 million) had been drawn down under the facility under Tranche 1 and US\$10.0 million (31 December 2019: US\$2.0 million) under Tranche 2 which was rolled into a new US\$30.0 million RCF. This resulted in US\$20.0 million remaining undrawn under the new RCF. Facility rolling fees of US\$0.3 million were incurred, which were capitalised to the loan balance, resulting in the disclosure of a net US\$9.7 million loan balance. The capitalised rolling fees will be amortised and accounted for as finance costs within profit or loss over the period of the facility (2020: nil). The US dollar-based interest rate for this facility at 31 December 2020 is 4.72% (31 December 2019: 6.44%).

Total interest for the year on this interest-bearing RCF was US\$1.2 million (31 December 2019: US\$1.7 million).

#### ZAR12.8 million (US\$0.9 million) Asset-Based Finance facility

In January 2019, 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 ZAR8.6 million (US\$0.6 million) remains outstanding (31 December 2019: ZAR 10.9 million, US\$0.8 million). The facility is repayable over five years and bears interest at the South African Prime Lending rate, which was 7.00% at 31 December 2020 (31 December 2019: 10.00%).

Total interest for the year on this interest-bearing ABF was US\$0.1 million (31 December 2019: US\$0.1 million).

#### ZAR14.5 million insurance premium finance

The Group through its subsidiary Letšeng Diamonds, entered into a LSL14.5 million (US\$1.0 million) 12-month funding agreement with Premium Finance Partners (Proprietary) Limited for insurance premium finance for its annual Asset All Risk insurance premium. At year end LSL7.5 million (US\$0.5 million) remains outstanding. The funding is repayable in 12-monthly instalments and bears a fixed interest rate of 2.95%. Total interest on this funding is LSL0.4 million (US\$25.9 thousand) of which LSL0.3 million (US\$18.9 thousand) was paid during the year.

#### ZAR1.8 million insurance premium finance

The Group through its subsidiary Gem Diamonds Technical Services, entered into a ZAR1.8 million (US\$0.1 million) 12-month funding agreement with Premium Finance Partners (Proprietary) Limited for its annual Group Umbrella Liability insurance premium. At year end US\$64.3 thousand remains outstanding. The funding is repayable in 10-monthly instalments and bears interest at a fixed rate of 2.50%. Total interest on this funding is ZAR45.2 thousand (US\$2.7 thousand) of which ZAR18.3 thousand (US\$1.1 thousand) interest was paid during the year.

#### Other facilities

The Group through its subsidiary Letšeng Diamonds, has a LSL500.0 million (US\$34.0 million) three-year unsecured revolving working capital facility jointly with Standard Lesotho Bank and Nedbank Capital, which was renewed in July 2018 and expires in July 2021. The facility is expected to be renewed during 2021. There was no draw down of this facility at year end.

The Group, through its subsidiary, Letšeng Diamonds, has a ZAR100.0 million (US\$6.8 million) overdraft facility with Nedbank Limited (acting through its Nedbank Corporate and Investment Banking division). There was no draw down of this facility at year end.

### 19. LEASE LIABILITIES

	2020 US\$'000	2019 US\$'000
Non-current	4 902	8 539
Current	1 836	1 940
<b>Total lease liabilities</b>	<b>6 738</b>	10 479
<b>Reconciliation of movement in lease liabilities</b>		
As at 1 January	10 479	11 043
Additions	1 175	1 156
Interest expense	608	1 087
Lease payments	(2 522)	(2 988)
Derecognition of lease	(2 296)	–
Foreign exchange differences	(705)	181
<b>As at 31 December</b>	<b>6 739</b>	10 479

Lease payments comprise payments in principle of US\$1.9 million (31 December 2019: US\$1.9 million) and repayments of interest US\$0.6 million (31 December 2019: US\$1.1 million).

The Group recognised variable lease payments of US\$41.4 million (31 December 2019: US\$53.6 million) for the year ended 31 December 2020 which consist of mining activities outsourced to a mining contractor. Total costs incurred for the year amount to US\$41.4 million (31 December 2019: US\$53.6 million) of which US\$34.1 million (31 December 2019: US\$47.2 million) has been capitalised to the Stripping Asset. Refer Note 1.2.6, Property Plant and equipment, Note 1.2.28, Critical accounting estimates and judgements, Equipment and service lease, Note 4, Operating profit.

Residual value guarantees of US\$0.1 million (31 December 2019: 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  
FOR THE YEAR ENDED 31 DECEMBER 2020 continued

	2020 US\$'000	2019 US\$'000
<b>20. TRADE AND OTHER PAYABLES</b>		
Non-current		
Severance pay benefits <sup>1</sup>	2 029	1 936
Current		
Trade payables <sup>2</sup>	12 892	13 368
Accrued expenses <sup>2</sup>	8 169	8 817
Leave benefits	685	615
Royalties and withholding taxes <sup>2</sup>	3 955	3 573
Dividend payable to non-controlling interest	3 064	–
Other	58	17
	<b>28 823</b>	<b>26 390</b>

<sup>1</sup> 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.

<sup>2</sup> These amounts are mainly non-interest bearing and are settled in accordance with terms agreed between the parties.

Royalties consist of a levy paid to the Government of the Kingdom of Lesotho on the value of diamonds sold by Letšeng.

In November, Letšeng declared a LSL400.0 million dividend (US\$24.8 million), of which LSL150.0 million remains unpaid at year end (US\$10.2 million). The dividend payable to the Non-controlling interest represents 30% of the unpaid dividend, payable to the Government of Lesotho.

The carrying amounts above approximate fair value.

	2020 US\$'000	2019 US\$'000
<b>21. INCOME TAX PAYABLE/(RECEIVABLE)</b>		
Reconciliation of movement in income tax payable		
Balance at 1 January	(8 176)	8 964
Payments received/(made) during the year	5 889	(18 787)
Income tax charge	11 593	1 948
Foreign exchange differences	2 528	(301)
<b>Balance at 31 December</b>	<b>11 834</b>	<b>(8 176)</b>
Split as follows		
Income tax receivable	(106)	(8 189)
Income tax payable	11 940	13
<b>22. PROVISIONS</b>		
Rehabilitation provisions	12 331	15 588
Reconciliation of movement in rehabilitation provisions		
Balance at 1 January	15 588	17 876
Decrease during the year	(3 125)	(295)
Unwinding of discount rate	888	1 130
Transferred to liabilities directly associated with the asset held for sale (Note 16)	–	(3 613)
Foreign exchange differences	(1 020)	490
<b>Balance at 31 December</b>	<b>12 331</b>	<b>15 588</b>

#### 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.

## 22. PROVISIONS (continued)

### Rehabilitation provisions (continued)

In determining the amounts attributable to the rehabilitation provision at the Lesotho mining area, management used a discount rate of 9.7% (31 December 2019: 6.7%), estimated rehabilitation timing of 15 years (31 December 2019: 17 years) and an inflation rate of 5.3% (31 December 2019: 5.0%). 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 (decrease)/increase in the provision at Letšeng and Ghaghoo (Refer Note 16, Asset held for sale) respectively 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.

	2020 US\$'000	2019 US\$'000
<b>23. DEFERRED TAXATION</b>		
Deferred tax assets		
Lease liabilities	1 683	2 705
Accrued leave	263	52
Provisions	4 400	5 114
	<b>6 346</b>	<b>7 871</b>
Deferred tax liabilities		
Property, plant and equipment	(79 902)	(84 532)
Right-of-use assets	(1 236)	(2 174)
Prepayments	(218)	(251)
Unremitted earnings	(3 182)	(4 038)
	<b>(84 538)</b>	<b>(90 995)</b>
Net deferred tax liability	<b>(78 192)</b>	<b>(83 124)</b>
Reconciliation of net deferred tax liability		
Balance at beginning of year	(83 124)	(74 054)
Movement in current period:		
– Accelerated depreciation for tax purposes	548	(6 914)
– Accrued leave	21	(4)
– Operating lease liability	–	(351)
– Unremitted earnings	857	–
– Prepayments	29	41
– Provisions	12	(351)
– Lease liabilities	(582)	2 626
– Right-of-use assets	527	(2 112)
– Foreign exchange differences	3 520	(2 005)
<b>Balance at end of year</b>	<b>(78 192)</b>	<b>(83 124)</b>

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 undistributed reserves of the Group's subsidiaries for which a deferred tax liability has not been recognised is US\$97.1 million (31 December 2019: US\$127.9 million).

The Group has estimated tax losses of US\$34.0 million (31 December 2019: US\$27.5 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  
FOR THE YEAR ENDED 31 DECEMBER 2020 continued

	Notes	2020 US\$'000	2019 US\$'000
<b>24. CASH FLOW NOTES</b>			
<b>24.1 Cash generated by operations</b>			
Profit before tax for the year – continuing operations		38 253	24 050
Loss for the year – discontinued operation		(3 264)	(4 454)
<b>Adjustments for:</b>			
Depreciation and amortisation excluding waste stripping	4	7 027	12 551
Depreciation on right-of-use assets	10	2 043	2 526
Waste stripping cost amortised	4	43 420	43 129
Finance income	6	(382)	(668)
Finance costs	6, 16	4 994	6 656
Unrealised foreign exchange differences		(4 019)	(4 184)
Loss/(profit) on disposal and scrapping of property, plant and equipment		30	(762)
Gain on derecognition of leases		(150)	–
Inventory write down	16	240	–
Reclassification of foreign currency translation reserve		–	(4)
Movement in prepayment		–	(647)
Bonus, leave and severance provisions raised		4 317	3 108 <sup>1</sup>
Share-based payments		561	794
Environmental rehabilitation realignment		–	(451) <sup>1</sup>
Gain on abandonment		(20)	–
		<b>93 050</b>	<b>81 644</b>
<b>24.2 Working capital adjustment</b>			
Decrease/(Increase) in inventory		3 489	(851)
Decrease in receivables		1 316	1 596
Decrease in payables		(4 341)	(3 599)
		<b>464</b>	<b>(2 854)</b>
<b>24.3 Cash flows from financing activities (excluding lease liabilities)</b>			
Balance at beginning of year		22 341	34 166
Net cash used in financing activities		(6 431)	(12 175)
– Financial liabilities repaid		(55 638)	(47 056)
– Financial liabilities raised		49 207	34 881
Interest paid		(2 884)	(4 094)
Non-cash movements		3 060	4 444
– Interest accrued		2 884	4 094
– Financial liabilities raised <sup>2</sup>		1 047	–
– Foreign exchange differences		(871)	350
Balance at year end	18	<b>16 086</b>	<b>22 341</b>

<sup>1</sup> These amounts have been disaggregated in the current year for comparative purposes, and were previously grouped and disclosed as other non-cash movements in 2019.

<sup>2</sup> This amount relates to funding obtained for insurance premium finance. The funding was paid directly by the lender to the third party and is being repaid by the Group in monthly installments to the lender. Refer Note 18, Interest bearing loans and borrowings.

**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.

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:

	2020 US\$'000	2019 US\$'000
– Within one year	162	149
– After one year but not more than five years	695	862
– More than five years	993	1 821
	<b>1 850</b>	<b>2 832</b>

**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. A portion of the lease payment is therefore expensed in the Consolidated statement of profit or loss and the portion relating to waste removal/stripping costs is capitalised to the waste stripping asset in the proportions referred to under the estimate and judgements applied to the Capitalised stripping costs (deferred waste). 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.

– Within one year	52 855	59 267
– After one year but not more than five years	181 904	254 218
	<b>234 759</b>	<b>313 485</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 continued

	2020 US\$'000	2019 US\$'000
<b>25. COMMITMENTS AND CONTINGENCIES (continued)</b>		
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	37	39
– After one year but not more than five years	50	69
	<b>87</b>	108
Capital expenditure		
Approved but not contracted for	1 091	3 299
Approved and contracted for	372	1 490
	<b>1 463</b>	4 789

The main capital expenditure approved relates to investment in continued tailings storage extension of US\$1.0 million (31 December 2019: US\$0.6 million), investment at the mining fleet maintenance workshop of US\$0.3 million (31 December 2019: nil) and the purchase of safety equipment and vehicles of US\$0.1 million. The expenditure is expected to be incurred over the next 12 months but will be assessed in line with the uncertainty presented by the COVID-19 pandemic.

#### 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 agreement is based on 39.5% to 60% (2019: 40% to 60%) of the value (after costs) of the diamonds recovered by Alluvial Ventures and is limited to US\$1.4 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 2019: US\$0.2 million).

The Group monitors possible tax claims within the various jurisdictions in which the Group operates. 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
Government of the Kingdom of Lesotho	Non-controlling interest

Refer Note 1.1.2, Operational information, for information regarding shareholding in subsidiaries.

	2020 US\$'000	2019 US\$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	344	440
Short-term employee benefits	3 612	3 063
	<b>3 956</b>	3 503
<b>Fees paid to related parties</b>		
Jemax Management (Proprietary) Limited	(83)	(83)
<b>Royalties paid to related parties</b>		
Government of the Kingdom of Lesotho	(18 425)	(15 459)
<b>Lease and licence payments to related parties</b>		
Government of the Kingdom of Lesotho	(132)	(146)
<b>Sales to/(purchases from) related parties</b>		
Jemax Management (Proprietary) Limited	(4)	(5)
<b>Amount included in trade payables owing to related parties</b>		
Jemax Management (Proprietary) Limited	(9)	(9)
<b>Amounts owing to related party</b>		
Government of the Kingdom of Lesotho	(3 955)	(3 537)
<b>Dividends declared</b>		
Government of the Kingdom of Lesotho	(7 452)	–
<b>Dividends payable</b>		
Government of the Kingdom of Lesotho	(3 064)	–

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 FOR THE YEAR ENDED 31 DECEMBER 2020 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 2020, the Group had US\$60.8 million (31 December 2019: US\$69.9 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.

Refer Note 18, Interest bearing loans and borrowings for detail on the debt facilities in the Group.

#### 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.

### 27. FINANCIAL RISK MANAGEMENT (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; and
- The analysis of the currency risk arises because of financial instruments which are 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 2020.

There has been no change in the assumptions or method applied from the prior year.

##### Sensitivity analysis

At year-end, Letšeng had US\$31.1 million cash on hand. If the US dollar had appreciated/(depreciated) by 10% against the LSL, the Group's profit before tax at 31 December 2020 would have been US\$2.8 million (lower)/higher (31 December 2019: immaterial).

##### (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 2020, the Group had no forward exchange contracts outstanding (31 December 2019: 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 80 basis points (2019: 60 basis points) during the year, profit before tax and equity would have been US\$0.1 million (lower)/higher (31 December 2019: US\$0.2 million). The assumed movement in basis points is based on the currently observable market environment, which has been impacted by the COVID-19 pandemic.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 continued

### 27. FINANCIAL RISK MANAGEMENT (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, to minimise the exposure to credit risk to the lowest level possible from the perspective of the Group's cash and cash equivalents. 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 the customers pay and settle their accounts on the date of receipt of goods.

No other financial assets are impaired or past due and accordingly, no additional analysis has been provided.

The Group did not hold any form of collateral or credit enhancements for its credit exposures during the 31 December 2020 and 31 December 2019 financial reporting periods.

#### (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\$60.8 million at year end (2019: US\$69.9 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:

	2020 US\$'000	2019 US\$'000
<b>Floating interest rates</b>		
Interest-bearing loans and borrowings		
– Within one year	14 960	17 734
– After one year but not more than five years	1 750	6 636
<b>Total</b>	<b>16 710</b>	<b>24 370</b>
<b>Lease liabilities</b>		
– Within one year	2 375	2 895
– After one year but not more than five years	5 880	10 416
<b>Total</b>	<b>8 255</b>	<b>13 311</b>
<b>Trade and other payables</b>		
– Within one year	28 823	26 390
– After one year but not more than five years	2 029	1 936
<b>Total</b>	<b>30 852</b>	<b>28 326</b>

### 28. SHARE-BASED PAYMENTS

The expense recognised for employee services received during the year is shown in the following table:

	2020 US\$'000	2019 US\$'000
Equity-settled share-based payment transactions charged to the statement of profit or loss – continuing operation	555	784
Equity-settled share-based payment transactions charged to the statement of profit or loss – discontinued operation	6	10
<b>Total</b>	<b>561</b>	<b>794</b>

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 four awards where options are still outstanding.

All four 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 (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
- the vested awards are 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
- the vested awards are equity settled.

The fair value of the Nil value awards is based on the observable Gem Diamonds Limited share price on the date of award with no adjustments to the price made.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 continued

### 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	146 451	53 114	58 209	15 000	–
Dividend yield (%)	2.00	2.00	0.00	0.00	0.00
Expected volatility <sup>1</sup> (%)	39.71	37.18	37.25	–	42.10
Risk-free interest rate <sup>2</sup> (%)	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

<sup>1</sup> Expected volatility was based on the average annual historic volatility of the Company's share price over the previous three years.

<sup>2</sup> The relevant risk-free interest rate is taken from a UK Treasury Bond issued which closely matches the lifetime of the option.

#### LTIP 2017 Award

Under the 2017 LTIP rules, there are four 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 – June 2020

On 9 June, 1 249 000 nil-cost options were granted to certain key employees and Executive Directors. 180 000 of the options granted relate to market conditions. The options vest after a three-year period and are exercisable between 9 June 2023 and 8 June 2030. 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 £0.15 (US\$0.19). Of the 1 249 000 options originally granted, 1 229 356 are still outstanding following the resignation of a number of employees, the lapsing of awards due to certain performance conditions not having been met and management's estimates of the vesting of the remaining tranches.

### 28. SHARE-BASED PAYMENTS (continued)

The following table reflects details of all the awards within the 2017 LTIP that remain outstanding:

	LTIP June 2020	LTIP March 2019	LTIP March 2018	LTIP July 2017
Number of options granted – nil value	1 069 000	1 160 500	1 265 000	1 150 000
Number of options granted – market value	180 000	142 500	185 000	185 000
Date exercisable	9 June 2023	20 March 2022	20 March 2021	4 July 2020
Options outstanding	1 229 356	1 102 732	1 034 136	248 584
Dividend yield (%)	0.00	0.00	0.00	2.00
Expected volatility <sup>1</sup> (%)	47.00	43.00	40.00	40.21
Risk-free interest rate <sup>2</sup> (%)	0.34	1.2	1.2	0.67
Expected life of option (years)	3.00	3.00	3.00	3.00
Exercise price (US\$)	nil	nil	nil	nil
Exercise price (GBP)	nil	nil	nil	nil
Weighted average share price (US\$)	0.39	1.20	1.35	1.24
Fair value of nil value options (US\$)	0.39	1.20	1.35	1.11
Fair value of nil value options (GBP)	0.31	0.90	0.96	0.86
Fair value of market value options (US\$)	0.19	0.58	0.74	0.72
Fair value of market value options (GBP)	0.15	0.44	0.53	0.56
Model used	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo

The following table illustrates the number ('000) and movement in the outstanding share options during the year:

	2020 '000	2019 '000
Outstanding at beginning of year	4 002	3 538
Granted during the year	1 249	1 303
Exercised during the year <sup>3</sup>	(480)	(81)
Forfeited	(884)	(758)
<b>Balance at end of year</b>	<b>3 887</b>	4 002
<b>Exercisable at end of year</b>	<b>535</b>	613

<sup>1</sup> Expected volatility was based on the average annual historic volatility of the Company's share price over the previous three years.

<sup>2</sup> The relevant risk-free interest rate is taken from a UK Treasury Bond issued which closely matches the lifetime of the option.

<sup>3</sup> Options were exercised regularly throughout the year. The weighted average share price during the year was £0.39 (US\$0.50) (2019: £0.80 (US\$1.02)).

The weighted average remaining contractual life for the share options outstanding as at 31 December 2020 was 7.5 years (2019 8.0 years).

The weighted average fair value of the share options outstanding as at 31 December 2020 was US\$0.79 (2019: US\$1.02).

#### 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 Company Employee Share Trust was deregistered in 2017 following the grant of these shares. 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. The fair value of these outstanding awards at 31 December 2020 was £0.41 (US\$0.52) (2019: £0.41 (US\$0.52)). The shares outstanding at the end of the year are as follows:

	2020 '000	2019 '000
Outstanding at beginning of year	47	47
Granted during the year	–	–
Exercised during the year	(30)	–
<b>Balance at end of year</b>	<b>17</b>	47
<b>Exercisable at end of year</b>	<b>17</b>	47



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 continued

### 29. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than the 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	2020 US\$'000	2019 US\$'000
<b>Financial assets at amortised cost</b>		
Cash (net of overdraft) – continuing operations	15 49 821	11 303
Cash – discontinued operation	16 7	140
Receivables and other assets – continuing operations	13 4 490	4 735
Receivables and other assets – discontinued operation	16 195	99
<b>Total</b>	<b>54 513</b>	16 277
<b>Total non-current</b>	<b>153</b>	–
<b>Total current</b>	<b>54 360</b>	16 277
<b>Financial liabilities at amortised cost</b>		
Interest-bearing loans and borrowings	18 16 087	22 341
Trade and other payables – continuing operations	20 30 852	28 325
Trade and other payables – discontinued operation	16 471	608
<b>Total</b>	<b>47 410</b>	51 274
<b>Total non-current</b>	<b>3 730</b>	16 484
<b>Total current</b>	<b>43 680</b>	45 269

The carrying amounts of the Group's financial instruments held approximate their fair value.

There were no open hedges at year end (2019: nil).

### 30. PROPOSED DIVIDENDS ON ORDINARY SHARES

Proposed ordinary cash dividend of US\$3.5 million for 2020 based on 2.5 US cents per share (2019: US\$ nil).

Proposed dividends on ordinary shares are subject to approval at the AGM to be held on 2 June 2021 and are not recognised as a liability as at 31 December.

### 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 requires adjustments or disclosures.

### 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	2020 US\$'000	2019 US\$'000
<b>Letšeng Diamonds (Proprietary) Limited</b>	Lesotho		
Accumulated balances of material non-controlling interest		79 906	76 427
Profit allocated to material non-controlling interest		10 683	8 319
The summarised financial information of this subsidiary is provided below. This information is based on amounts before intercompany eliminations.			
<b>Summarised statement of profit or loss for the year ended</b>			
<b>31 December</b>			
Revenue		186 579	179 785
Cost of sales		(112 081)	(127 244)
<b>Gross profit</b>		<b>74 498</b>	52 541
Royalties and selling costs		(19 043)	(15 715)
Other (expenses)/income		(6 695)	3 333
<b>Operating profit</b>		<b>48 760</b>	40 159
Net finance costs		(2 840)	(3 792)
<b>Profit before tax</b>		<b>45 920</b>	36 367
Income tax expense		(10 307)	(8 637)
<b>Profit for the year</b>		<b>35 613</b>	27 730
<b>Total comprehensive income</b>		<b>35 613</b>	27 730
Attributable to non-controlling interest		10 683	8 319
Dividends paid to non-controlling interest		(4 658)	–
Dividends payable to non-controlling interest		(3 064)	–
<b>Summarised statement of financial position as at 31 December</b>			
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment, deferred tax assets, intangible assets and receivables and other assets		325 009	340 646
<b>Current assets</b>			
Inventories, receivables and other assets, and cash and short-term deposits		78 098	53 476
<b>Total assets</b>		<b>403 107</b>	394 122
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings, trade and other payables, provisions, lease liabilities and deferred tax liabilities		101 203	109 385
<b>Current liabilities</b>			
Interest-bearing loans and borrowings and trade and other payables		35 553	29 981
<b>Total liabilities</b>		<b>136 756</b>	139 366
<b>Total equity</b>		<b>266 351</b>	254 756
<b>Attributable to:</b>			
Equity holders of parent		186 446	178 329
Non-controlling interest		79 906	76 427
<b>Summarised cash flow information for the year ended</b>			
<b>31 December</b>			
Operating cash inflows		105 471	70 108
Investing cash outflows		(48 700)	(81 314)
Financing cash outflows		(20 640)	(6 701)
Foreign exchange differences		2 787	(15)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>38 918</b>	(17 922)

# ABBREVIATIONS AND DEFINITIONS

ABF	Asset Based Finance Facility	IFRS	International Financial Reporting Standards
AGM	Annual General Meeting	ISO	International Organization for Standardization
AIFR	All injury frequency rate	IT	Information technology
AV	Alluvial Ventures (a third-party contractor)	JIBAR	Johannesburg Interbank Agreed Rate
Basotho	Lesotho nationals	KPI	Key performance indicator
BT	Business Transformation	LIBOR	London Interbank Offered Rate
BVI	British Virgin Islands	LoM	Life of mine
BWP	Botswana pula	LCRA	Lesotho Revenue Authority
CAGR	Compound annual growth rate	LSL	Lesotho loti
CEO	Chief Executive Officer	LTI	Lost time injury
CGU	Cash-generating unit	LTIFR	Lost time injury frequency rate
CO <sub>2</sub> e	Carbon dioxide equivalent	LTIP	Long-term incentive plan
cpht	Carats per hundred tonnes	Net cash/ (debt)	The sum of cash and cash equivalents less drawn down bank facilities (excluding asset-based finance facility)
CSI	Corporate social investment	PAC	Project affected community
CSR	Corporate social responsibility	RCF	Revolving credit facility
DTR	Disclosure Guidance and Transparency Rules	SEIAs	Social and environmental impact assessments
EBITDA	Earnings before interest, tax, depreciation and amortisation	SDGs	Sustainable Development Goals
ECL	Expected credit loss	STIB	Short-term incentive bonus
EPS	Earnings per share	The Board	The Gem Diamonds Board of Directors
ESOP	Employee Share Option Plan	The Group	The Gem Diamonds Company and its subsidiaries
EU	European Union	TSR	Total shareholder return
EY	Ernst & Young	UK	United Kingdom
FCA	Financial Conduct Authority	UN	United Nations
FRC	Financial Reporting Council	US\$	United States dollar
FTSE	Financial Times Stock Exchange	USA/US	United States of America
GHG	Greenhouse gas	VAT	Value added tax
GRI	Global Reporting Initiative	WACC	Weighted average cost of capital
ha	Hectare		
HSSE	Health, safety, social and environment		
IAS	International Accounting Standards		

# CONTACT DETAILS AND ADVISERS

<b>Gem Diamonds Limited</b> Registered office 2nd Floor, Coastal Building Wickhams Cay II PO Box 2221 Road Town Tortola British Virgin Islands	<b>Financial adviser and sponsor</b> JPMorgan Cazenove Limited 20 Moorgate London EC2R 6DA United Kingdom T: +44 (0) 20 7588 2828 F: +44 (0) 20 7155 9000	<b>Auditors</b> Ernst & Young Incorporated 102 Rivonia Road Sandton 2146 South Africa T: +27 (0) 11 772 3000
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# REPORT ON PAYMENTS TO GOVERNMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## REPORT ON PAYMENTS TO GOVERNMENTS CONTINUED

### INTRODUCTION

This report provides an overview of the payments made to governments by Gem Diamonds Limited and its subsidiaries (the Group) for the 31 December 2020 financial year, as required under the United Kingdom's (UK) Report on Payments to Governments Regulations 2014 (as amended December 2015). These UK Regulations enact domestic rules in line with Directive 2013/34/EU (the EU Accounting Directive (2013)) and apply to companies that are involved in extractive activities.

This Report is also filed with the National Storage Mechanism intended to satisfy the requirements of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in the UK.

The Gem Diamonds Limited LEI number is 213800RC2PGGMZQG8L67.

### BASIS FOR PREPARATION

#### Reporting entities

This report includes payments to governments made by subsidiaries in the Group that are engaged in extractive activities. During the 2020 financial reporting period, extractive activities were conducted in Lesotho while the operation in Botswana was under care and maintenance. All payments made in relation to the Botswana entity were under the materiality level and therefore not reported.

#### Extractive activities

Extractive activities relate to the exploration, prospection, discovery, development and extraction of minerals, oil, natural gas deposits or other materials. Gem Diamonds Limited, through its subsidiaries, is engaged in diamond mining activities.

#### Scope of payments

The report discloses only those significant payments made to governments arising from extractive activities.

#### Government

Government includes any national, regional, or local authority of a country. It includes a department, agency or undertaking (ie corporation) controlled by that authority.

### Payment types disclosed at legal entity level

#### Production entitlements

There were no payments of this nature for the year ended 31 December 2020.

#### Taxes

These are payments on the entity's income, production, or profits, excluding taxes levied on consumption such as value added taxes, personal income taxes or sales taxes in line with in-country legislation.

#### Royalties

These are payments for the right to extract diamonds and are determined on percentage of sales in terms of in-country legislation and/or mining lease agreements.

#### Dividends

These are dividend payments, other than dividends paid to a government as an ordinary shareholder of an entity unless paid in lieu of production entitlements or royalties. There were no dividend payments of this nature to governments for the year ended 31 December 2020.

#### Signature, discovery, and production bonuses

There were no payments of this nature to governments for the year ended 31 December 2020.

#### Licence fees

These are fees paid for acquisition of leases and licences, including annual renewal fees, in order to obtain and maintain access to the areas in which extractive activities are performed.

#### Payments for infrastructure improvements

There were no payments of this nature to governments for the year ended 31 December 2020.

#### Cash flow basis

Payments reported are on a cash flow basis and may differ to amounts reported in the Gem Diamonds Limited 2020 Annual Report and Accounts, which are prepared on an accrual basis.



## REPORT ON PAYMENTS TO GOVERNMENTS CONTINUED

**Materiality level**

In line with the guidance provided in the Report on Payments to Governments Regulations, payments made as a single payment, or as a series of related payments, that are equal to or exceed US\$110 000 (£86 000), are disclosed in this report. All payments below this threshold have been excluded.

**Reporting currency**

The payments to government have been reported in US dollar.

Payments made in currencies other than US dollar were translated at the relevant annual average rate for the year ended 31 December 2020.

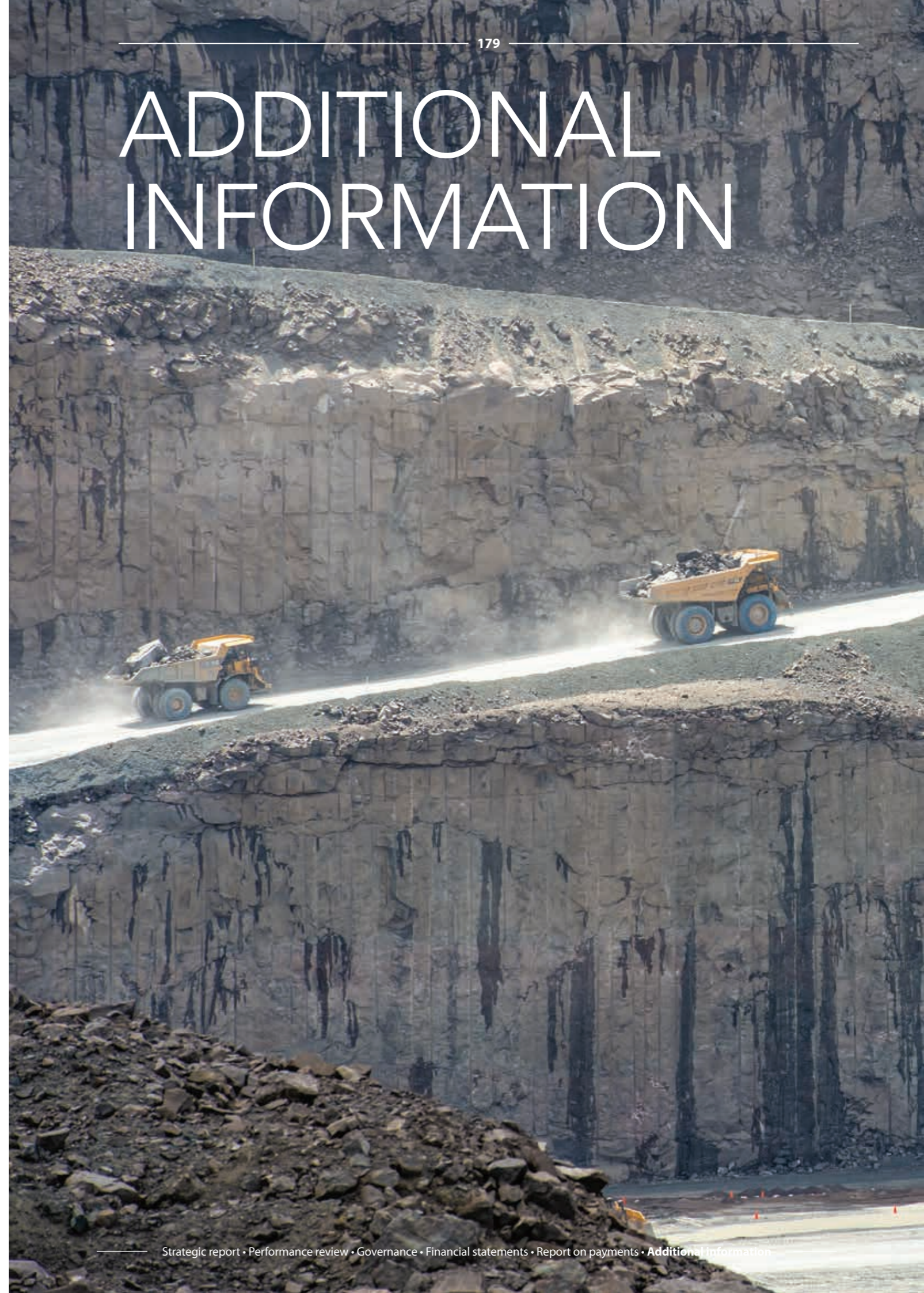
**SUMMARY REPORT**

Operation	Country	Taxes US\$'000	Royalties US\$'000	Licence fee US\$'000	Total US\$'000
Letšeng Diamonds (Proprietary) Limited	Lesotho	(8 707) <sup>1</sup>	18 236	144	9 673
<b>Total</b>		<b>(8 707)</b>	<b>18 236</b>	<b>144</b>	<b>9 673</b>

Lesotho	Taxes US\$'000	Royalties US\$'000	Licence fee US\$'000	Total US\$'000
Letšeng Diamonds (Proprietary) Limited				
Lesotho Revenue Authority	(8 707)	–	–	(8 707)
Government of Kingdom of Lesotho	–	18 236	144	18 380

<sup>1</sup> Letšeng Diamonds (Proprietary) Limited was in a net refund position during the year due to refunds on income taxes received which was paid in 2019.

# ADDITIONAL INFORMATION





## ADDITIONAL INFORMATION CONTINUED

## ABBREVIATIONS AND DEFINITIONS

AGM	Annual General Meeting	ha	Hectare
AIFR	All injury frequency rate	HSSE	Health, safety, social and environment
AV	Alluvial Ventures (a third-party contractor)	IAS	International Accounting Standards
Basotho	Lesotho nationals	IFRS	International Financial Reporting Standards
BEPS	Basic earnings per share	ISO	International Organization for Standardization
BT	Business Transformation	JIBAR	Johannesburg Interbank Agreed Rate
BWP	Botswana pula	KPI	Key performance indicator
CAGR	Compound annual growth rate	LIBOR	London Interbank Offered Rate
CEO	Chief Executive Officer	LoM	Life of mine
CI	Continuous Improvement	LSL	Lesotho loti
CLO	Community Liaison Officer	LTI	Lost time injury
CO2e	Carbon dioxide equivalent	LTIFR	Lost time injury frequency rate
cpht	Carats per hundred tonnes	LTIP	Long-term incentive plan
CSI	Corporate social investment	Net cash/ (debt)	The sum of cash and cash equivalents less drawdown bank facilities (excluding asset-based finance facility and insurance premium financing)
CSR	Corporate social responsibility		
CSRI	Corporate social responsibility investment		
DTR	Disclosure Guidance and Transparency Rules	PAC	Project-affected community
EBITDA	Earnings before interest, tax, depreciation and amortisation	PPE	Personal protective equipment
		RCF	Revolving credit facility
EPS	Earnings per share	SEIAs	Social and environmental impact assessments
ESG	Environmental, social and governance	STIB	Short-term incentive bonus
ESOP	Employee Share Option Plan	The Board	The Gem Diamonds Board of Directors
EU	European Union	The Group	The Gem Diamonds Company and its subsidiaries
EY	Ernst & Young		
FCA	Financial Conduct Authority	TSR	Total shareholder return
FRC	Financial Reporting Council	UK	United Kingdom
FTSE	Financial Times Stock Exchange	US\$	United States dollar
GDIP	Gem Diamonds incentive plan	USA/US	United States of America
GHG	Greenhouse gas	VAT	Value added tax
GRI	Global Reporting Initiative		

## ADDITIONAL INFORMATION CONTINUED

## CONTACT DETAILS AND ADVISERS

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<p><b>FEEDBACK</b> Gem Diamonds Limited Glenn Turner T: +44 (0) 203 043 0280 E: IR@gemdiamonds.com</p>		

## ADDITIONAL INFORMATION CONTINUED

## DIRECTORS' AND EXECUTIVE MANAGEMENT CVs

## Non-Executive Directors

**HARRY KENYON-SLANEY (60)**

## Independent non-Executive Chairperson

BSc Geology (Southampton University),  
International Executive Programme  
(INSEAD France)

Chairperson tenure <9 years

No independence conflict exists

Appointed to the Board in June 2017

**Skills and experience**

Harry has over 38 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 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 Member

**MICHAEL LYNCH-BELL (67)**

## Independent non-Executive Director

BA Hons Economics and Accountancy  
(University of Sheffield); FCA of the Institute of  
Chartered Accountants in England and Wales

Tenure <9 years

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 and remuneration committees at Lenta Limited; chair of Little Green Pharma Ltd; and non-executive director and chair of the remuneration committee of Barloworld Limited.

Chairperson Chairperson Member

**Committee icons**

Audit Remuneration Nominations Sustainability

## ADDITIONAL INFORMATION CONTINUED

**MIKE BROWN (60)**

## Independent non-Executive Director

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

Tenure <9 years

Appointed to the Board in January 2018

**Skills and experience**

Mike has over 36 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 Member Member

**JOHNNY VELLOZA (50)**

## 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. He has held senior operational management roles in large mining companies, including De Beers, AngloGold Ashanti and BHP Billiton. Since starting his career 26 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



## ADDITIONAL INFORMATION CONTINUED

**MAZVI MAHARASOA (51)**

Non-Executive Director  
BLLM International and Commercial Law  
(University of Buckingham)

Appointed to the Board in July 2019

**Skills and experience**

Mazvi has over 21 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.

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

**Current external appointments**

Mazvi is currently a non-executive director of First National Bank Lesotho Limited and a non-executive director of several private companies



Member

**Executive Directors****CLIFFORD ELPHICK (60)**

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 chairperson of Zanaga Iron Ore Co. Limited.

**Committee icons**

Audit



Remuneration



Nominations



Sustainability

## ADDITIONAL INFORMATION CONTINUED

**MICHAEL MICHAEL (50)**

Chief Financial Officer  
BCom Hons (Rand Afrikaans University); CA(SA)

Appointed to the Board in April 2013

**Skills and experience**

Michael has over 21 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 and appointed to the Board.

**Current external appointments**

None

**Executive Management****GLENN TURNER (60)**

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. He was responsible for a number of key initiatives during his tenure, including overseeing De Beers' re-entry into the USA.

**Current external appointments**

Glenn is currently a non-executive director of Agribiomed Limited and Lineout Holdings Limited.

**BRANDON DE BRUIN (49)**

Group Operations and Business  
Transformation Executive  
BCom; LLB (University of the Witwatersrand);  
Attorney (South Africa) and Solicitor  
(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 Chase, 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 in 2019 was appointed as the Group Operations and Business Transformation Executive.

**Current external appointments**

None

# GEM DIAMONDS LIMITED

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