GEMFIELDS

Groundswell Holdings (Pty) Ltd
Peter D Wimsey & Associates (Pty) Ltd
Rational Expectations (Pty) Ltd
Rozendal & Associates Holdings Ltd
Rozendal Partners (Pty) Ltd

c/o William Marshall-Smith
Groundswell Holdings (Pty) Ltd
15 Rugby Road
Oranjezicht
Cape Town
Republic of South Africa

22 September 2020

Gentlemen,

Your letter dated 8 September 2020

Thank you for your letter dated 8 September 2020 (which we received on 9 September 2020) regarding your proposal that Mr William Marshall-Smith be appointed to the 8th (and presently vacant) seat on the Board of Gemfields Group Ltd ("GGL"). At your request, we have not made your letter available to other GGL shareholders, but we do hope you will reconsider given our principle of transparency.

Timing of an 8th director appointment

You suggest GGL indicated that the search for a non-executive director would be completed by the end of August 2020. However, in the shareholder-management interaction session held on 27 August 2020 (which was attended by a number of other GGL shareholders), it was stated clearly that:

1. GGL expected to close the list of possible candidates for the position by the end of August 2020; and
2. it would take some time thereafter to process and vet candidates, particularly those newly added.

You state correctly that, when asked in that shareholder interaction session to give a specific end date for an appointment, our CEO did not provide one because, inter alia, the provision of requisite vetting information by candidates and the arranging of interviews does not take a defined period of time. In the case of Mr Marshall-Smith's own candidacy, for example, GGL requested his complete list of prior directorships on 3 July 2020. That list was received by GGL on 5 August 2020.

By way of update, at the GGL Board meeting on Thursday 17 September 2020, the Nomination Committee made its recommendations to the full Board as to which candidates – when all had been considered against a number of criteria - should be taken through to the second phase. I anticipate that all candidates will be advised accordingly by the end of this week.

Liberum

Under the arrangement originally entered into with Liberum (which foresaw the need for minimal cash outgoings in the short term), the first months' fees in respect of Liberum's appointment as joint broker (which took effect from 3 August 2020) were to be paid up-front (being GBP 6,700). The balance of the fees payable in respect of 2020 were only to be settled by 31 December 2020 (being after Gemfields' intended auctions in November and December 2020). In addition, Liberum's agreement with GGL can at any time be terminated upon two months' notice.

As noted in our assorted market releases, additional cost saving measures have, and will continue to be, implemented to the extent that the impact of COVID-19 related restrictions protracts. Given the deferment of Gemfields' next auctions from December 2020 to February 2021, revised arrangements have already been put in place with Liberum to suspend the bulk of their services for the time being, with no further fees payable or accruing until 1 March 2021. Fee reductions or temporary suspensions have also been agreed with a number of other service providers and PR agencies.

In relation to your suggestion that money being available for a joint broker implies that money is available for an 8th director, management has expressed the view that pursuing improved AIM liquidity and greater visibility among international investors (to promote broader interest in GGL shares) was considered to be more sensible than the longer-term and harder-to-suspend funding commitment associated with the appointment of an 8th director (particularly when bearing in mind that the incumbent board of seven members oversaw record financial and operating performance in 2019).

Diversity of views at Board level

Your written correspondence has to date twice referred to an apparent lack of diversity of views at Board level. From my perspective, gained over years on the Board of GGL / Pallinghurst Resources Limited, the Independent Non-Executive Directors have challenged Management in robust manner on many occasions. We invite you to share with us – based on your insight into the functioning of the Board - why you believe the former to be the case.

Shareholder support for Mr Marshall-Smith's appointment

You note that 41.9% of GGL shareholders have indicated their support for the appointment of Mr Marshall-Smith to the GGL Board. There is a significant gap between that figure and proportion that have expressed that view to us. We therefore propose further discussion in order to reconcile the difference.

You also suggest that Mr Marshall-Smith adheres to both the AIM and the JSE definitions of independence with regards to the proposed directorship of GGL. Our AIM NOMAD, taking into account Groundswell's coordination and representation of a named group of shareholders, is not of the view that Mr Marshall-Smith can be regarded as independent.

Groundswell has suggested, among other things, that GGL should move its headquarters to South Africa, drop its AIM listing (retaining only the listing on the Johannesburg Stock Exchange) and appoint Mr Marshall-Smith to the GGL Board (and who would be the sixth director holding South African nationality on the Board), which, taken together, are likely to result in Gemfields becoming tax resident in South Africa, with adverse tax consequences. Naturally this combination of proposals may not suit a number of GGL shareholders.

We reiterate that it is the GGL Board's obligation to make an appointment which it believes to be in the best interests of shareholders as a whole, taking into account applicable corporate governance and listing requirements.

It is difficult for anyone to make informed decisions when presented with only one candidate and without awareness of the identity or relative merits of other candidates. GGL naturally wishes to ensure that any appointment to the 8th seat is well-received by its shareholders as a whole.

You have noted - and we welcome - the "open mind" with which you indicate Mr Marshall-Smith would approach such a role. In this regard, we have however observed that Groundswell's paper on executive remuneration made selective use of peer group companies to drive Groundswell's conclusion. For example, Groundswell used Gem Diamonds Limited and Lucara Diamonds Corp as peer group comparators in relation to share options schemes, but elected to exclude them in relation to basic salaries). We would suggest that this does not appear to infer an objective approach.

Mooted EGM

In relation to your suggestion that you may seek to call an EGM to table a resolution to change the Articles of Incorporation such that directors are appointed by a 50% shareholder vote rather than 75%, you are of course entirely free to do so and we can but reiterate the relevant extract from our letter to you dated 8 June 2020:

> *Our view is that GGL's threshold for the appointment and removal of directors by shareholders should be reduced from 75% to 50% (the "Reduced Threshold") to align GGL with best practice and that this should be put to shareholders at our 2021 AGM, together with such other changes as may arise from our ongoing (internal and external) review of the articles of association (which review includes the other two areas you raised in your e-mail dated 9 April 2020 as well as your further suggestions regarding articles 18 and 24 contained in your letter dated 21 May 2020). Our Chairman and/or CEO have now held discussions with GGL shareholders holding in excess of 610 million shares (52% of GGL's issued share capital), all of whom are content that the Reduced Threshold be tabled at the 2021 AGM, which we will therefore do. Two further GGL shareholders, holding more than 13% between them, had not at the date of this letter yet indicated whether they too would be content with the same. While we note you have a different view, we believe it is inadvisable to implement the Reduced Threshold in the immediate wake of COVID-19 and before GGL has been able to re-establish reasonably stable business, including by hosting a few successful auctions (which will hopefully occur in Q4 2020 and Q1 2021). As is clear to you, GGL is an attractive takeover target: our share price is already very low and may get lower if auction revenue is further delayed or falls below expectations. Dynamics in the gemstone market are understandably shaky and are highly likely to remain that way for the next 4-10 months. These realities, combined with the prevailing global climate of significant economic uncertainty make for seriously suboptimal conditions in which to extract optimal value for shareholders should hostile or*

opportunistic bidding arise. We therefore repeat our view that the Reduced Threshold should be put to shareholders at the 2021 AGM (and which we have committed to doing).

We note that the two shareholders referred to above subsequently confirmed that they too are comfortable that the Reduced Threshold vote be put to shareholders in the 2021 AGM (an event which is only some 9 months away).

Review of Articles of Incorporation

As you are aware, our articles of association are being reviewed in light of (i) the various matters you have raised and (ii) the extent to which further 'normalisation' would be suitable in light of AIM and JSE practices, Guernsey law (where GGL is registered) and the governance benchmarks set by the large diversified mining companies, all with a view to better aligning GGL with market practice and further improving the corporate governance framework.

We remain on course to provide ample time for all GGL shareholders to comment on the proposed changes before appropriately modified articles are put to GGL's shareholders at the 2021 AGM.

Your letter dated 7 August 2020

We also take this opportunity to summarise, briefly, the respective views and positions on assorted other matters raised by Groundswell, including the discussions in the shareholder-management interaction session on 27 August 2020 (which was hosted in order to address the matters raised in your letter dated 7 August 2020).

1. Dropping Gemfields' AIM Listing

In the shareholder-management interaction session on 27 August 2020, Groundswell suggested that Gemfields' AIM listing was not adding value (low share-trading liquidity) and that it should be dropped in order to deliver cost savings.

Gemfields noted, inter alia:

a. That the desired trajectory following GGL's listing on AIM on 14 February 2020 had been somewhat stymied by the arrival of COVID-19;
b. That GGL had been listed only on the Johannesburg Stock Exchange (plus Bermuda) for many years and that this had proven to be unsatisfactory (for liquidity, research, distribution and media coverage reasons);
c. The importance of a London listing and sterling-denominated paper (i) to many of Gemfields' existing international shareholders and (ii) in attracting international institutions and funds as prospective GGL shareholders, a number of whom are precluded under their investment mandates from holding shares on the JSE; and
d. The enhanced protection provided to shareholders by the UK Takeover Code.

Gemfields is of the view that GGL's AIM listing should therefore be retained.

2. Moving Gemfields' Head Office from London to South Africa

Groundswell has suggested that Gemfields' London office be relocated to South Africa, noting that South Africa is closer to Gemfields' mines in Mozambique and Zambia, is a lower cost jurisdiction and has the requisite human capital available.

Gemfields noted, inter alia, that:

a. parties who have been involved in mining operations for a reasonable period would likely agree that mines cannot be run from 50km away, let alone from circa 2,000km away (Johannesburg) or 8,000km away (London). Rather, mines have to be run onsite. When Gemfields first acquired the Kagem emerald mine in 2008, Kagem's management sat in an office in Kitwe, 25km to the north of the mine. Because running a mine remotely, even if only 25kms away, is a considerably inferior arrangement, the management team was moved to the Kagem mine itself;
b. once Sedibelo is sold, GGL would have no assets or interests in South Africa;
c. such a move would, in reality, likely require that by far the bulk of the London team would need to be replaced by new team members hired in South Africa (given South African work permits would be difficult to obtain if the requisite human capital was available locally, existing team members potentially expecting expat rates of pay and the disruptive aspects to the business of asking team members to relocate their homes, investigate schools and re-settle families, all in the shadow of the COVID-19 pandemic);
d. losing key team members would constitute a considerable loss of skills and experience to the detriment of Gemfields and its shareholders. It was noted that a significant number of team members had spent years establishing relationships and credibility within Mozambique and Zambia and that it would be unwise to discard these (for example, this hard-won reputational credibility has allowed Gemfields on occasion to obtain consent to offset corporation tax payable against VAT refunds due from government);
e. an indicative assessment of Groundswell's suggestion suggested that fixed costs (of around USD 3.3 million, or 21 days of opex at present levels) might be saved per annum by moving the London office to South Africa and replacing the team. However, beyond the practical considerations already mentioned, there are other cost considerations that don't fall into the "fixed cost" category;
f. there are important tax considerations: based on a preliminary review, if Gemfields' management was moved to South Africa, so would its tax residency given that the place of 'effective management or control' would be in South Africa. There might be legitimate ways around this by, for example, retaining key decision makers in London such that the place of 'effective management or control' remained in London but it certainly seems pointless and inefficient to be running offices in both London and South Africa;
g. A shift in tax residence would likely see Gemfields lose its brought forward tax losses of approximately USD 20.7 million (worth USD 3.9 million at the current tax rate);
h. Gemfields would likely become subject to a higher corporation tax rate of 28% in South Africa versus the prevailing 19% in the United Kingdom;
i. Gemfields has received initial advice that past practice in applying the South Africa/Zambia tax treaty has been complex and that withholding tax at 20% may therefore be payable in South Africa on the auction, marketing and management fees presently paid by Kagem to Gemfields;

j. as an indicative assessment, if Gemfields had been resident in South Africa for the year to December 2019, CIT would have been approximately USD 2.5 million versus nil in UK (due to tax losses).

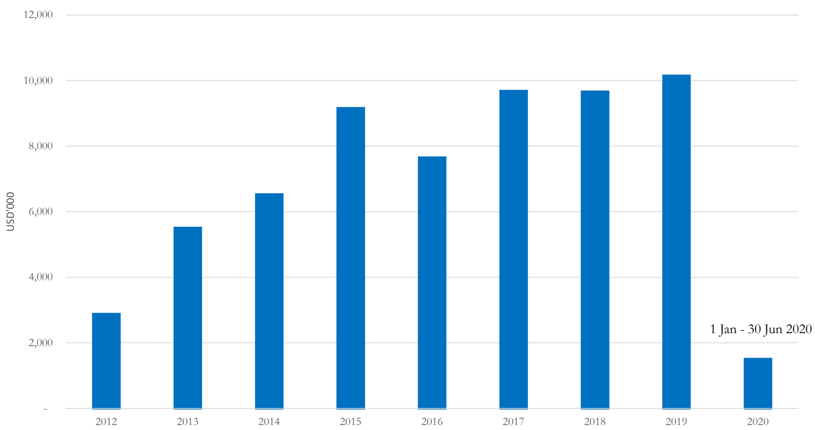
3. Marketing: Consumers vs Trade Only (and Fabergé)

By the end of the marketing sessions held on 20 July 2020 and 6 August 2020, the fundamental difference of views between the Groundswell Consortium and Gemfields management in respect of the approach to gemstone marketing was clear.

On the one hand, the Groundswell Consortium is of the view that Gemfields should not be marketing to consumers and that it should not be a 'B2C' brand. Rather, Groundswell believes that Gemfields should focus only on trade clients (or 'B2B' marketing) and which would in turn allow the marketing spend to be reduced dramatically. Groundswell's has suggested that, based on the diamond sector, Gemfields should be spending around 2% of revenue on marketing.

On the other hand, Gemfields management believes that creating demand for coloured gems by marketing to consumers has played a pivotal role in Gemfields' progress to date and that the "mine and market" approach is crucial to ongoing development of the coloured gemstone market, as was the case for the diamond sector and worked very well in the development of TanzaniteOne. If a coloured gemstone 'seed' has not been planted in the mind of a consumer by advertising or press coverage, they have little impetus to enquire about them at the point of sale. Gemfields has noted that it spends approximately 6% of revenue on marketing (with many companies in other consumer-facing industries spending 8-10% of revenue on marketing). Gemfields has also noted the ever-increasing importance of responsible sourcing, with jewellers and consumers wishing to understand the supply chain and route to market behind their gemstones. This is best addressed by having a "trusted name" which consumers can insist on purchasing in order to be sure that their purchase is having a positive impact in the country of origin.

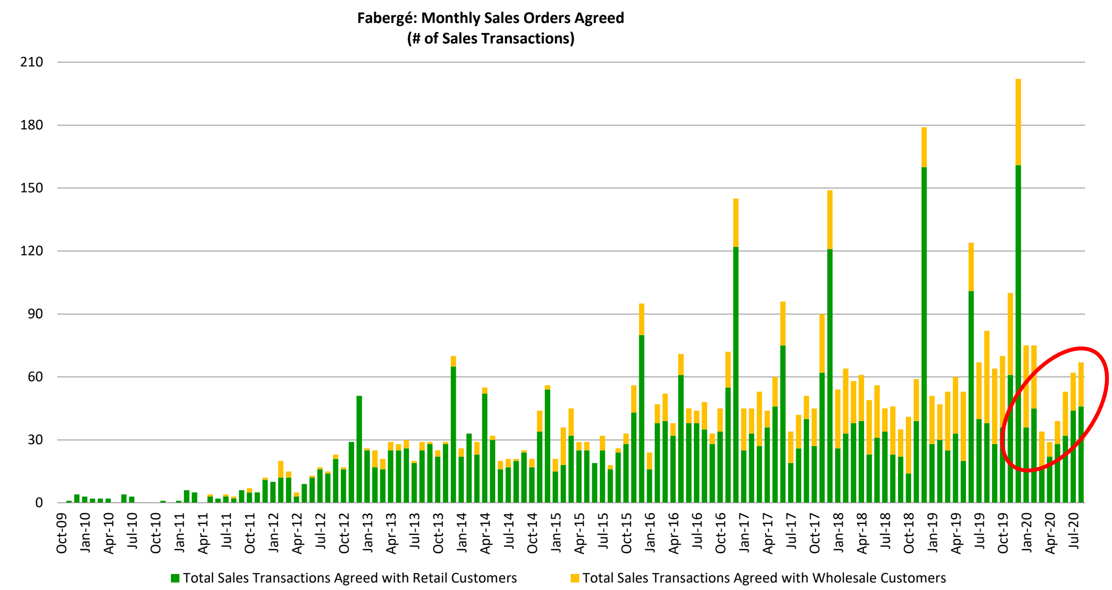
Gemfields has noted that its marketing costs would naturally be much reduced in 2020 given the impact of COVID-19 and the need to preserve cash. While pre-committed 2020 marketing expenditure could not readily be avoided, Gemfields' marketing spend (in USD millions) to 30 June 2020 is depicted below:



This difference on the approach to marketing strategy also led to differences of opinion regarding Fabergé, with Gemfields' management noting (as was demonstrated by manifold slides in the two marketing sessions) that the Fabergé brand is a much more powerful and far-reaching tool in propagating the coloured gemstone message to a wider audience of consumers and journalists. By contrast, the Groundswell Consortium feels Fabergé should be sold given your view that Gemfields need not market to, or interact with, consumers.

To introduce a fresh opinion, Gemfields offered to arrange a conversation for Groundswell with one of the veteran gemstone sector analysts based in London. That conversation took place on 27 August 2020 and we hope that proved useful.

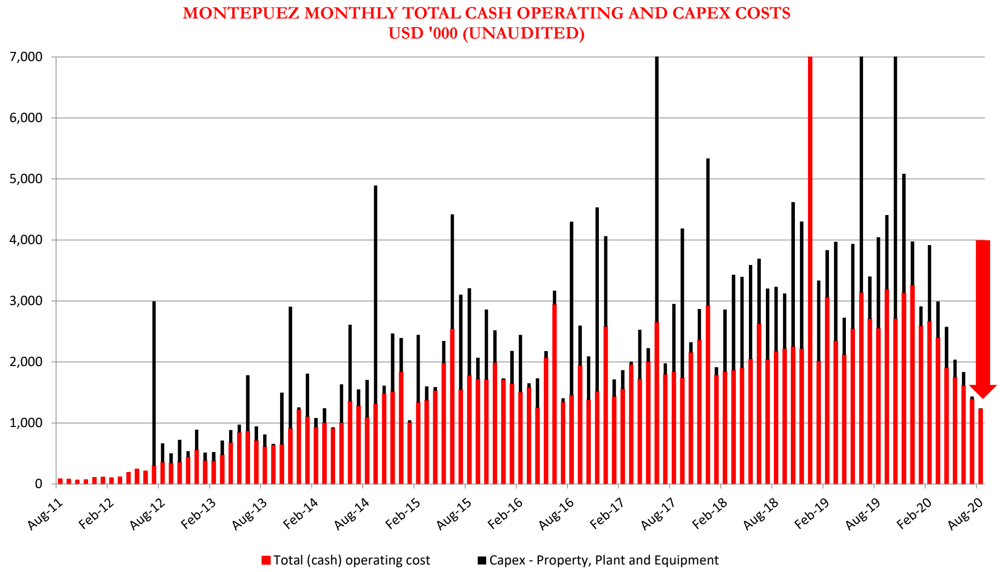
Groundswell recommended in its letter dated 7 August 2020 that Fabergé should be placed on care and maintenance with immediate effect, with costs pared back aggressively pending a sale of Fabergé to a third party, but noting that a sale "may take time to achieve in the current environment". Gemfields' management is of the view that placing Fabergé on care and maintenance now would destroy substantial value in the eyes of any acquiror and therefore for GGL shareholders. Taking the steps proposed by Groundswell would have stymied the ongoing recovery in Fabergé's sales post COVID-19, thereby damaging the value potential seen by suitors. The graph below depicts the recovery in Fabergé's number of sales transactions on a monthly basis:



4. Restarting MRM

Groundswell has recommended that the GGL Board "*give serious consideration to opening up MRM sooner rather than later given there is both insufficient stock of premium rubies and that the cash cost of closing MRM is not significantly lower than operating it*."

Gemfields believes that MRM has sufficient ruby inventory in hand to support one mixed quality ruby auction and that the cost savings at MRM justify keeping principal operations suspended in order to preserve cash until we see reasonable certainty of proper revenue. MRM's monthly cash operating costs (down from circa USD 2.8 million to circa USD 1.3 million) are depicted below:



5. Redundancies

Groundswell has suggested that it is inconceivable that redundancies have not yet been made.

Gemfields has noted, inter alia, that:

a. running a redundancy program is not a short-term cash saving measure. In general, persons being made redundant are paid their contractual notice period plus an additional sum. Cash savings therefore only begin to be realised some 3-6 months from the date of redundancy;
b. cutting headcount at lower salary levels does not have a significant impact on cash burn, while cutting headcount at more senior levels can impede the return to full-scale operations (as well as resulting in a loss of key skills, knowledge, experience and relationships from the group). Rehiring and re-training is also expensive and time-consuming;
c. people who know what they are doing in international marketing, and specifically in luxury goods such as emeralds and rubies, are not "plug-and-play" assets;
d. in contrast to the immediate cash and human resources hit caused by redundancies, the 20-25% remuneration reductions implemented by Gemfields yielded immediate savings (we are in a better cash - and morale - position today because we did not elect to make redundancies in say May or June);
e. particular consideration must be given to our partners, stakeholders and communities. For example, we must work reasonably and in good faith with our host countries and communities in Mozambique and Zambia: turning their citizens out to the streets in the middle of the pandemic is not only a social and humanitarian stain on Gemfields and ESG-focused shareholders, but would certainly undermine the goodwill and social-licence-to-operate which Gemfields presently has. In Zambia, Gemfields' has thus far been well received by the Zambian Government, with reciprocal flexibility and support. It is worth noting that 2021 is an election year in Zambia and that mining companies can easily fall into disfavour (e.g. both Glencore's Mopani and Vedanta's KCM). In addition to the afore-mentioned considerations, in Mozambique, putting say 10% of the employees (some one hundred people) out of work would create far greater impetus for illegal mining by those persons, particularly given their knowledge of the operation.

6. Rights Issue

Groundswell suggested that, in its view, a rights issue by GGL is the likely scenario.

Gemfields has noted, inter alia, that:

a. a rights issue (or similar capital raising mechanism) is the least favoured option for bolstering cash but cannot be ruled out should other options prove inadequate or unviable;
b. monthly operating cash costs have thus far been reduced by approximately 60% to around USD 5 million;
c. we do not plan to re-start full-scale mining operations until we have reasonable sight of rough gemstone sales revenue;
d. based on a monthly cash spend of circa USD 5 million, the available cash balance plus undrawn debt of USD 69.2 million (reported in respect of 30 June 2020) would provide around a year of funding. But bear in mind that we cannot move funds around the group freely and hence it's prudent to be more conservative. Auction receivables, plus the additional USD 15 million of loan funding in Mozambique, would increase the time we could last without meaningful rough gemstone sales.

In addition, there are a number of mechanisms or outcomes which could potentially negate any need for a rights issue. These include, but are not limited to:

a. a sale of our interest in Sedibelo (which we regard as a leading ointment);
b. additional debt funding (and, as noted in our market update of 29 July 2020, we have been working on an additional USD 15 million facility at MRM in respect of which we have now had written confirmation from the bank involved);
c. income from the series of "mini-auctions" of emeralds which we propose hosting in Jaipur in November and December 2020, should logistics allow;
d. a reasonably successful, or even partly successful, auction (of either rubies or emeralds) by end February 2021;
e. online auctions after "shuttle-viewings" in 2-3 cities (and our team is already well-positioned with an online platform to run an online auction, although in-person viewings remain essential and we're tracking developments in several cities regarding the hosting of such viewings);
f. directly negotiated sales of selected grades to customers who have demand;
g. expanding our programme of direct sales of the lowest Kagem grades in Jaipur to potentially include grades typically sold at our commercial quality emerald auctions (the problem being we still cannot presently get emeralds into Jaipur); and
h. A sale of Fabergé, should it come to that.

7. Sedibelo

Disposing of Sedibelo is certainly near the top of Gemfields' cash generating options and, as we have previously explained, this is being actively pursued. Unfortunately, there is no ready market for our minority stake and our stake in Sedibelo is held via an interposed company incorporated in Luxembourg, from which we are seeking to extract our holding. The extraction is somewhat complicated and includes the need to resolve issues surrounding TPECs (Tracking Preferred Equity Certificates), a type of financial instrument often used in Luxembourg. We continue to work with several parties to pursue an exit and assure you that we are aligned in seeking to sell Sedibelo sooner rather than later.

8. Executive Director Remuneration

Further to the shareholder interaction session held with GGL's Remuneration Committee on 16 July 2020, I am pleased to advise that good progress has been made in respect of converting the short term incentive scheme from one based on the GGL share price to one based on a set of key performance indicators. We expect to complete and implement the new arrangements – which will apply to both 2020 and 2021 - before the end of this year. Work on adjustments to the long-term incentive scheme, which involves obtaining consents from participants in the existing scheme, continues.

Please rest assured the Gemfields team continues to make every effort to secure the business for the turbulent months ahead and to optimise on opportunities as the market for rough coloured gemstones recovers in 2021.

In order that we continue with our policy of keeping all shareholders of GGL apprised of communications in a timely, open and transparent manner, please note that we shall make this letter available in the usual manner through the website by the end of this week.

Finally, please do not hesitate to let us know should you have any further questions.

Yours sincerely,

Martin Tolcher
Chairman