SECTION 2.4

Finance Review

A summary of the key financial indicators of the Group for the year ended 31 December 2021 is shown in the table below.

IN THOUSANDS OF USD	2021	2020
Revenue	**257,706**	34,567
EBITDA[1]	**133,101**	(32,909)
Profit/(loss) after tax	**64,963**	(93,227)
Cash generated from/(utilised in) operating activities	**98,121**	(20,166)
Free cash flow[2]	**118,122**	(58,968)
Net cash/(debt)	**62,985**	(12,643)

1 – Earnings before interest, taxation, depreciation and amortisation, adjusted to exclude one-off impairments on the Groups fixed assets, fair value gains or losses on the Group's non-core equity investments and share based payments.
2 – Free cash flow is calculated as cash flow from operating activities less taxation paid, sustaining and expansionary capital expenditure and foreign exchange gains and losses and excludes all working capital movements. A full breakdown can be seen in Note 3: *Segmental Reporting* to the Consolidated Financial Statements.

OVERVIEW

The Group's primary financial key performance indicators ("KPIs") are revenue, EBITDA, free cash flow before working capital movements and net cash/(debt). For a reconciliation of the above KPIs, see Note 3 to the Consolidated Financial Statements.

The Group achieved record revenues of USD257.7 million during 2021, predominantly from the five sets of mini auctions held during the year. The record revenues achieved in 2021 are 19% higher than the USD216.2 million revenues realised in 2019, the last record-breaking and also pre-Covid-19 year for the Group.

These outstanding revenues were made possible by the remarkable work carried out by teams across the Group, managing logistics, new auction viewing locations and auction partner expectations. The online bidding platform for rough gemstones introduced by the Group at the end of 2020, which permits customers located in multiple jurisdictions to participate in a sealed-bid sales process, was also essential in achieving the record-breaking auction revenues. Thanks to these factors, the Group is now in a position to hold rough gemstones auctions whilst navigating the various Covid-19 restrictions in place across the globe and has a more robust sales platform to manage further challenges should they come our way in the future.

The Group also recommenced its mining operations at MRM and Kagem during the year, with both mines back to normal capacity by May 2021. Since May 2021, the production of both emeralds and rubies has been encouraging, with operations at the mines remaining largely uninterrupted by Covid-19.

The exceptional revenues achieved, alongside the slightly reduced cost base for the year that reflects only eight months of normal-capacity mining operations, reduced corporate operating costs and minimal capital expenditure, has resulted in EBITDA of USD133.1 million and free cash flow of USD118.1 million. These excellent results led to the Group ending the year with net cash of USD63.0 million. Please note, however, that these margins are unlikely to be repeated in future periods because of the abnormal cost base in the year.

The phenomenal results achieved by the Group in 2021 come off the back of the worst year in the Group's history, where the Group's operating and financial performance was severely impacted by the Covid-19 pandemic. As operations have moved back to "business-as-usual" during 2021 and with positive emerald and ruby production coming through, Gemfields has reason to look forward with optimism.

REVENUE

IN THOUSANDS OF USD	2021	2020
Kagem	**91,830**	22,300
MRM	**147,367**	–
Fabergé	**13,753**	7,144
Other	**4,756**	5,123
Total	**257,706**	34,567

IMAGE David Lovett, *Chief Financial Officer*

During 2020, the Covid-19 pandemic had a significant impact on the Group, with total revenues for the year falling to USD34.6 million, a substantial 84% reduction on the total revenues of USD216.2 million achieved in 2019. This significant reduction resulted from the Group only being able to hold two emerald auctions in 2020. A CQ auction in Lusaka, Zambia, in February 2020, generating revenues of USD11.4 million at an average of USD4.01 per carat, and a series of HQ mini auctions in November and December 2020 that achieved total revenues of USD10.9 million, with an overall average value of USD59.84 per carat. No ruby auctions were held in 2020.

The series of mini auctions for HQ emeralds held in November and December 2020 were the first of the innovative multi-city online auctions to be held by the Group. The second series of mini auctions using the online bidding platform was held between 15 March 2021 to 17 April 2021 for both HQ emerald and MQ ruby. Total revenues generated from these auctions were USD90.1 million, indicating strong market demand and robust pricing.

A further series of mini auctions for HQ emerald and MQ ruby was held across November and December 2021, generating USD126.1 million in revenue. Additionally, in August 2021 a CQ emerald auction was held that generated revenues of USD23.0 million. As championed by Gemfields over the last decade, the auctions were fully monitored by the Ministry of Mines and Minerals Development of Zambia and the Zambia Revenue Authority for the emerald auctions, and the Ministry of Mineral Resources and Energy and the Mozambique Tax Authority for the ruby auctions, all via video conference. We thank the Governments of both Zambia and Mozambique for working with us to keep the alternative auction process as transparent as possible.

Total revenues of USD91.8 million generated from emeralds in 2021 is a record calendar year for Kagem. Average per carat prices achieved in 2021, of USD115.59 and USD150.65 for the HQ mini auctions and USD6.61 for CQ mini auctions, also set new records for the Group, and were well above the average per carat prices of USD78.63 for HQ and USD4.61 for CQ achieved in 2019. Further, for the

IMAGE Kagem emerald mine, Zambia

HQ auctions the average number of customers participating in the online bidding was 58.5, with an average of 19 bids made per lot. These participation rates far exceed 2019, where the Group saw an average number of customers participating in bidding of 46.5, with an average of 8.5 bids per lot. This strong and wide-reaching demand demonstrates that rough emerald prices and demand are strong despite the impacts of the Covid-19 pandemic. It is noted however, that while the 2021 auctions saw record overall revenues and pricing, each auction has a slightly different composition in terms of the product-mix and should not be directly compared.

Total revenues of USD147.4 million for rubies realised for the year were also record-breaking for the Group. Average per carat prices achieved in 2021 of USD171.33 and USD132.47 for the two MQ mini auctions again set new records and were well above the average per carat prices achieved in 2019 of USD51.99 and USD77.12. The auctions saw an average of 50.5 companies placing bids, with over 95% of lots sold at each auction series. Like emeralds, this indicates that rough ruby prices and demand remain robust despite the impacts of the Covid-19 pandemic. Whilst 2021 was the first-time ruby auctions had been held by the Group since December 2019, meaning that built-up demand over this period could have contributed to these results, those achieved indicate that market dynamics also remain strong. As with emeralds, it should be noted that the specific auction mix and quality composition of the lots offered vary in characteristics and therefore, the results of each auction are not directly comparable.

IMAGE Responsibly sourced rough rubies, Montepuez Ruby Mining, Mozambique

Overall, the persistent demand for both emeralds and rubies has been reflected in the robust prices achieved in all mini auction series held in 2021. Additionally, the Group saw an increase in the number of competitive bids per schedule compared to pre-Covid-19 levels, further demonstrating that the wider market demand is strong. Although the Group may revert to more traditional in-person auctions once the pandemic-related travel restrictions allow, the huge success of the mini auction format provides confidence that an alternative route to market is available. The Group plans to return to its established six-auction schedule for 2022.

Fabergé generated revenues of USD13.8 million in the year, 94% above the USD7.1 million achieved in 2020, and 31% above the USD10.5 million achieved in 2019. Consumer confidence continued to improve throughout 2021 as Covid-19 restrictions were eased, translating into increased sales. Direct-to-customer and web sales both saw strong performance in the year as Fabergé continued to focus on diversifying its revenue streams.

Other revenue represents the direct sales of low-quality emeralds and beryl in India and the sale of historically purchased cut and polished gemstone inventory in the UK and South Africa.

COSTS

In response to the Covid-19 pandemic all but critical operations at Kagem and MRM were suspended in March and April 2020, respectively. Operations recommenced in early 2021, with MRM's treatment plant and sort house starting in mid-February and those at Kagem from mid-March 2021. Mining operations recommenced from April 2021, with both mines operating back at normal capacity by May 2021. At the corporate level, all UK staff members, including the Gemfields Group Limited ("GGL") Board of Directors, received a 20% salary reduction from 1 May 2020, with all significant marketing, travel and other discretionary spend suspended or significantly curtailed. Following the success of the mini auctions held in March and April 2021, salaries were increased back to 100% from April, however, marketing, travel and other discretionary spend remained curtailed for most of the year.

Total mining and production costs (excluding mineral royalties and production taxes) were USD57.8 million in 2021, an increase of USD19.0 million on the prior year, reflecting the recommencement of mining operations from April 2021. Operations at both Kagem and MRM reached normal capacity from May 2021 with minimal disruptions encountered for the remainder of the year. The 2021 cost base however remains 30% below the 2019 costs of USD82.0 million,

predominantly due to the reduced period of operations at both mines when compared to the full year of operation in 2019. For 2022, mining and production costs will likely increase to at least pre-pandemic levels.

Mineral royalties and production taxes, which are calculated as 10% and 6% of ruby and emerald revenues, were USD5.5 million for the Kagem emerald auctions (2020: USD1.7 million) and USD15.0 million for the MRM ruby auctions (2020: Nil).

The change in inventory and cost of goods sold expense for the year has increased from USD0.5 million in 2020, to USD9.7 million in the current year. In other words, sales across the Group were above the volume of carats mined at Kagem and MRM. The Group values its rough emerald and ruby inventories based on their weighted average cost of production. This means that direct costs of production are capitalised to the balance sheet when incurred, with the average cost accumulated per carat then released back to the income statement when the gemstones are sold. For sales of jewellery and cut and polished gemstones, the original inventory purchases are directly capitalised to inventory, hence there are no offsetting movements in the change in inventory line of the Consolidated Income Statement.

In 2021, the larger quantities sold at the mini auctions held in the year caused cost of goods sold ("COGS") to increase by USD52.4 million in comparison to 2020. This has been largely offset by the increase in mining and production costs capitalised to inventory, following the recommencement of mining operations from April 2021. For MRM, a net expense of USD3.0 million was realised, in line with expectation, as operations and hence cost capitalisation only recommenced in April 2021, meaning more carats were sold than produced. At Kagem however, robust production since operations recommenced has meant that cost capitalised were higher than the COGS for Kagem by USD8.1 million in the year.

The net add-back in the income statement across the key mining operations has been offset by the COGS arising from the sales of jewellery and cut and polished gemstones across the remainder of the Group. Most notably, the cost of goods sold for Fabergé increased by USD7.1 million in 2021 to give a total cost for the year of USD10.4 million, reflective of the increase in revenues realised by the entity in the year.

In the period from when the mines were placed on temporary suspension in 2020 until 31 March 2021 all unavoidable mining and production costs were expensed directly and not capitalised to inventory.

Mining and production costs capitalised to intangible assets in relation to the Group's development projects were USD3.3 million for the year, slightly above the USD2.9 million capitalised in 2020.

Depreciation and amortisation in the year is USD6.5 million higher than 2020. The increase was predominantly due to the amortisation of the purchase price allocation fair value uplift to the mining assets at Kagem and MRM, representing the excess purchase consideration on acquisition by GGL (formerly Pallinghurst Resources Ltd) in 2017, that is depreciated on a unit of production basis. In 2021, USD12.4 million of the USD27.5 million total depreciation and amortisation related to the mining assets, compared to USD3.9 million in 2020, reflecting the mining operations being suspended over a longer period in 2020. The remaining depreciation and amortisation of USD15.1 million fell slightly compared to the comparative 2020 charge of USD17.1 million as a result of the Group minimising its capital expenditure since the Covid-19 pandemic began.

Selling, general and administrative expenses ("SG&A"), excluding impairment of non-current assets, of USD40.9 million were USD8.3 million above the USD32.6 million spend in 2020. The 25% increase in cost in comparison to 2020 is reflective of the Group moving back towards business-as-usual activities, including the restoration of full salaries across the Group from 1 April 2021, higher insurance premiums, increases in travel expenses as some business travel has opened back up with the easing of Covid-19 restrictions, reinstatement of bonuses, changes in the operational grievance mechanism ("OGM") provision and increases in CSR accrued costs at MRM and Kagem that are linked to revenue generation.

In comparison to 2019, the 2021 SG&A cost remained USD13.7 million below the total 2019 cost incurred of USD54.6 million. Looking forward to 2022, the Group expects SG&A costs to continue to rise to at least their pre-Covid-19 levels, as the Group's marketing and advertising campaigns recommence (2019 spend of USD13.7 million, 54% above the USD6.2 million spent in 2021), global travel opens up and inflationary pressures take hold.

IMAGE Responsibly sourced rough emerald, Kagem Mining, Zambia

The cost base of the Group is also impacted by fluctuations in foreign currency exchange rates in key operating locations. Net foreign exchange gains of USD0.5 million were realised in 2021 in comparison to a loss of USD2.9 million in 2020. The key foreign exchange fluctuations arose predominantly from the Mozambican Metical ("MZN") average rate strengthening by 6% against the US Dollar ("USD") and the Zambian Kwacha ("ZMW") weakening by 6% compared to the USD. During the year, the USD average rate has also devalued by 6% against the Pound Sterling ("GBP"). The strengthening of the GBP led to a foreign exchange loss in the Corporate segment due to the high volume of operating costs denominated in local currency.

In the prior year, net foreign exchange losses of USD2.9 million arose as the USD average rate strengthened significantly, by 43% against the ZMW and 12% against the MZN and weakened by 1% against GBP, leading to losses on the net foreign currency assets at Kagem, MRM and Fabergé.

IMPAIRMENT REVIEW

Impairment charges recognised during the year total USD4.9 million and mostly comprise the USD4.4 million impairment recognised against the intangible assets related to the Group's development project in Ethiopia. For 2020, total impairment charges of USD13.5 million were comprised mainly of the USD11.5 million impairment made against the intangible assets related to the Fabergé brand and trademarks.

For 2021, several indicators of impairment were identified in relation to the development assets held in respect of the Ethiopian development project, resulting in an impairment review of the associated cash generating unit ("CGU") being completed. The review concluded that whilst the ongoing political turmoil exists, high uncertainty surrounding the timing of the return-to-work plan and future spending at the project suggests that the carrying amount of the assets may not be recovered. As such, the Ethiopia development assets were written down to nil value at 31 December 2021, with an impairment charge of USD4.4 million recorded in the income statement.

The USD11.5 million impairment of the Fabergé intangibles in 2020 arose due to the Covid-19 pandemic causing a significant reduction in revenues at Fabergé as well as a less positive outlook on the global luxury goods and retail sectors. The Group determined these events to be indicators of impairment, as prescribed under IAS 36 *Impairment of assets*, resulting in an impairment review being performed on the Fabergé CGU in the prior year. The impairment review was based on a market approach using comparable company revenue multiples. The result of the review completed was the recognition of a USD11.5 million impairment charge against the Fabergé CGU at 30 June 2020.

The Group reassessed the fair value of the Fabergé CGU at 31 December 2021, based on the same methodology as that used for the 30 June 2020 and 31 December 2020 assessments. The results of the review completed support the carrying value of the Fabergé CGU at 31 December 2021, with no further indicators of impairment being identified.

FAIR VALUE GAINS AND LOSSES

Fair value gains and losses arise on the Group's unlisted equity investment in Sedibelo Platinum Mines Limited ("Sedibelo"), a producer of platinum group metals ("PGMs") with interests in the Bushveld Complex in South Africa.

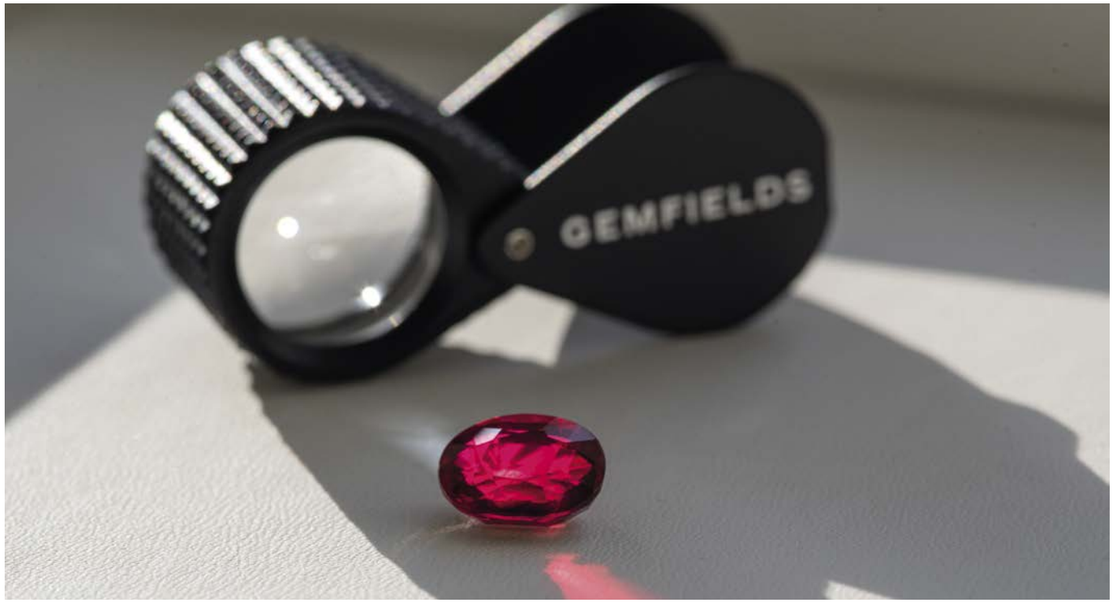
The Directors consider the most appropriate valuation methodology for Sedibelo to be a market comparable analysis based on the enterprise values of Sedibelo's peer group. This method values Sedibelo based on various financial and non-financial multiples including mineral resources (per 4E ounce), mineral reserves (per 4E ounce), production (per ounce), revenue and EBITDA. A discount for the lack of marketability, which takes into account that Sedibelo is an unlisted company, is also applied to the valuation.

In 2020, a USD27.9 million fair value loss arose from the revaluation of this investment, predominantly resulting from the uncertainty in the market caused by the Covid-19 pandemic that was putting downward pressure on the enterprise values of Sedibelo and its peer group.

For 2021, the estimated value of the investment was determined at USD37.2 million, an increase of USD7.6 million over the value determined at 31 December 2020. This increase in fair value has most notably arisen from an increase in the enterprise values of Sedibelo's peer group and from the increase in the net cash held on Sedibelo's balance sheet. These improvements have been driven by the robust PGM spot price environment which has continued to strengthen as the impacts of Covid-19 on the PGM sector have reduced. Accordingly, the USD7.6 million fair value gain has been recorded in the year. Full details can be found in Note 12: *Unlisted equity investments* to the Consolidated Financial Statements.

FINANCE INCOME AND EXPENSES

Net finance expenses for the year were USD3.2 million compared to USD2.9 million in 2020, and mainly comprised USD2.4 million (2020: USD2.7 million) of interest on the USD23.5 million Kagem ABSA facilities and the overdraft facilities at MRM. The remaining



balance comprises USD0.3 million (2020: USD0.3 million) interest on right-of-use assets and USD0.7 million of other finance costs.

TAXATION

IN THOUSANDS OF USD, UNLESS OTHERWISE STATED	2021	2020
Profit/(loss) before taxation	**104,423**	(99,202)
Income tax (charge)/credit	**(39,460)**	5,975
Effective tax rate %	**37.8%**	6%
Cash tax paid	**9,732**	15,003

The effective tax rate for the year of 37.8% reflects a tax charge of USD39.5 million on a profit before tax of USD104.4 million. The charge consisted of a current tax charge of USD30.3 million, a deferred tax charge of USD8.0 million and withholding tax of USD1.2 million on a dividend declared by MRM. In 2020, the USD6.0 million tax credit was made up of a current tax charge of USD0.9 million, a deferred tax credit of USD8.4 million and USD1.5 million withholding tax.

The effective tax rate of 37.8% principally arises from non-deductible costs at Kagem (mineral royalty taxes and CSR costs) and MRM (foreign currency movements and CSR costs) and the higher local tax rates in Mozambique (32%) and Zambia (30%).

In the prior year, the effective tax rate of 6% principally arose from non-deductible costs at Kagem and within the Corporate segment, and various losses incurred during the year but for which no benefit had been recognised.

The deferred tax charge of USD8.0 million arises as Kagem and MRM utilised their 2020 losses after returning to profitability in the current year and from foreign exchange movements that have resulted in a net USD3.3 million deferred tax charge. The foreign exchange movements resulted from the appreciation of the MZN against the USD in the current year as the tax balances at MRM are held in the local currency.

The cash tax paid of USD9.7 million is lower than the USD15.0 million paid in the prior year due to the timing of the tax advance payments and the settlement of final payments of 2019 tax liabilities during 2020, totalling USD1.3 million at Kagem and USD13.6 million at MRM. Due to the strong results realised by both Kagem and MRM in 2021, it is expected that the cash taxes paid in 2022 will increase to reflect the final payments of 2021 current tax liabilities during the coming year.

IMAGE Responsibly sourced cut and polished ruby, Montepuez Ruby Mining, Mozambique

NET PROFIT/(LOSS) AFTER TAXATION

The Group made a profit after tax of USD65.0 million in the year, compared to a loss after tax of USD93.2 million in 2020. The profit for the year reflects the record-breaking auction results achieved combined with the impact of the cost saving initiatives introduced in 2020. The cost-saving initiatives remained in place throughout the first quarter of 2021 and although the Group began to ease the initiatives in April 2021, with the mines at Kagem and MRM both operating at normal capacity from May 2021, the Group remains focussed on cost management. The 2021 profit also includes a USD7.6 million fair value gain on the Group's equity investment in Sedibelo.

The success of the Group's 2021 rough gemstone mini auctions has given the Directors increased confidence that the major impacts of the Covid-19 pandemic on the Group have passed. The Group has successfully navigated the challenges presented whilst strengthening its business model with the introduction of the new online bidding platform for rough gemstone auctions. As such, the remaining curtailments on expenditure are expected to be lifted in 2022, with the Group re-starting its major marketing and advertising campaigns and business travel once again resuming. Consequently, profit margins going forward are not expected to remain at the high levels achieved in 2021.

Earnings per share for the year were USD0.04, compared to a loss per share of USD0.07 in 2020, reflecting the profit for the year on a stable weighted average number of shares in issue.

CAPITAL EXPENDITURE

The Group's reduced operations in the first quarter of 2021, combined with the continued cash-saving measures, saw capital expenditure for the year remain relatively low at USD11.7 million (2020: USD8.6 million) and significantly below the USD30.8 million spent in 2019. The majority of the expenditure was incurred in Mozambique, where USD4.6 million was spent at MRM (2020: USD3.7 million) on replacement mining and ancillary equipment (USD3.7 million) and the Resettlement Action Plan (USD0.9 million). USD4.3 million was spent on exploration and evaluation works at the Group's development projects, predominantly MML (USD1.2 million) and Nairoto (USD2.3 million). At Kagem, USD2.3 million (2020: USD0.9 million) was invested in replacement mining and ancillary equipment as well as infrastructure improvements.

Capital expenditure in 2022 is expected to increase significantly as the Group recommences its plant and machinery replacement schedules and as the construction of the second treatment plant at MRM begins.

CASH FLOWS

Cash and cash equivalents increased by USD54.8 million to USD97.7 million at 31 December 2021 as the Group generated USD98.1 million from operating activities, spending USD17.4 million on investing activities and USD25.9 million financing the business.

The USD98.1 million generated from operations during the year was primarily due to the strong revenues and lower costs base. Due to the timing of the final emerald and ruby auctions held from November to December 2021, USD54.5 million of auction receivables remained outstanding at 31 December 2021, reducing the total cash inflow for the year. The year, however, did benefit from collection of the final USD8.9 million receivables from the emerald HQ mini auctions held in November and December 2020. The larger auction receivables for 2021 were compounded by a USD5.6 million increase in other receivables and an overall USD3.5 million rise in inventory. Trade and other payables also rose in the year by USD23.5 million, resulting from the Group's operations recommencing and returning to normal capacity.

The cash inflows from operations were offset by the payment of USD9.7 million in taxes during the year, primarily at MRM (USD2.9 million) and Kagem (USD6.7 million). Capital expenditure was USD11.7 million, as discussed above.

As a result of the factors described above, free cash flow before working capital movements was USD118.1 million in the year, compared to an outflow of USD59.0 million in 2020.

IN THOUSANDS OF USD	2021	2020
EBITDA	**133,101**	(32,909)
Change in inventory and COGS[1]	**9,704**	486
Costs capitalised to intangible assets[1]	**(3,280)**	(2,907)
Tax paid (excluding royalties)	**(9,732)**	(15,003)
Capital expenditure	**(11,671)**	(8,635)
Free cash flow before working capital movements	**118,122**	(58,968)
Working capital movements[1]	**(31,147)**	27,285
Free cash flow	**86,975**	(31,683)

1 – Change in inventory and cost of goods sold ("COGS") and costs capitalised to intangible assets are added back to EBITDA to calculate free cash flow before working capital movements, and subsequently included within working capital movements in the calculation of free cash flow.

OTHER CASH FLOWS

Total cash utilised in investing activities was USD17.4 million (2020: USD13.2 million), split between USD11.7 million (2020:

USD8.6 million) spent on capital goods (discussed above), USD6.4 million (2020: USD5.0 million) of cash advances made to Mwiriti, the Group's partner in Mozambique, in lieu of future dividends from MRM, offset by a USD0.7 million inflow from other financing activities. A dividend was declared by MRM during the year of which USD5.0 million was payable to Mwiriti. This dividend was settled against the receivable outstanding with Mwiriti in respect of prior cash advances and therefore no cash outflow arose upon its settlement.

The Group's financing activities saw an outflow of USD25.9 million (2020: USD1.1 million), driven by the net repayment of the Group's overdraft facilities at MRM of USD17.3 million (2020: USD8.4 million), a USD4.5 million (2020: USD3.5 million) principal repayment made against the loan held by Kagem and interest paid predominantly on the Kagem loan and MRM facilities of USD3.1 million (2020: USD3.0 million).

FINANCIAL POSITION

The Group's balance sheet is summarised below:

IN THOUSANDS OF USD	2021	2020
Non-current assets	446,214	457,927
Current assets	297,570	198,783
Total assets	**743,784**	**656,710**
Non-current liabilities	(109,579)	(114,185)
Current liabilities	(90,004)	(59,509)
Total liabilities	**(199,583)**	**(173,694)**
Net assets	**544,201**	**483,016**

Assets

IN THOUSANDS OF USD	2021	2020
Property, plant and equipment	**342,617**	362,734
Intangible assets	**49,962**	51,461
Unlisted equity investments	**37,200**	29,600
Inventory	**115,852**	117,839
Auction receivables	**54,527**	8,910
Cash and cash equivalents	**97,720**	43,862
Other assets, including deferred taxation	**45,906**	42,304
Total assets	**743,784**	656,710

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment ("PPE") primarily relates to the mining assets (evaluated mining properties and deferred stripping costs) of USD300.0 million (2020: USD313.4 million), with the remainder being land, buildings, plant and machinery. Of the total mining assets, USD277.4 million (2020: USD303.9 million) relates to the recognition of the fair values of Kagem and MRM at the date that GGL acquired Gemfields Limited in July 2017. These assets are amortised on the unit-of-production basis over the life of the mine. Amortisation of the assets ceased when production was temporarily suspended in early 2020, but has resumed in 2021 in line with the recommencement of mining operations at both mine sites. At 31 December 2021, the carrying values of these assets were USD133.5 million at Kagem (2020: USD140.7 million) and USD143.9 million at MRM (2020: USD163.2 million).

The USD20.1 million reduction in the total PPE balance in the year resulted from the depreciation charge for the year of USD27.5 million that has been offset by USD8.3 million of additions. The additions in the year consisted mainly of USD5.3 million replacement plant and machinery at Kagem and MRM and USD1.2 million for new building lease contracts entered by various Group entities.

INTANGIBLE ASSETS

Intangible assets of USD50.0 million consist of USD28.5 million (2020: USD28.5 million) representing the Fabergé trademarks and brand, USD21.2 million (2020: USD22.9 million) related to unevaluated mining assets across the Group and USD0.3 million (2020: USD0.1 million) of software.

The USD1.5 million reduction in the total intangible asset arises from USD4.8 million of impairment charges recorded in the year, mostly comprising the USD4.4 million recorded against the carrying value of the Ethiopian development assets (see earlier discussion). These impairment charges have been offset by exploration and evaluation spend of USD3.3 million, predominantly arising at MML (USD1.2 million) and Nairoto (USD1.9 million) during the year.

UNLISTED EQUITY INVESTMENTS

The unlisted equity investment relates to the Group's equity holding in Sedibelo. The valuation of this investment is discussed earlier.

INVENTORY

IN THOUSANDS OF USD	2021	2020
Rough emeralds and beryl	**43,582**	39,290
Rough rubies and corundum	**28,603**	31,639
Fabergé jewellery and watches	**29,330**	33,413
Cut and polished product	**5,406**	5,616
Spares and consumables	**8,931**	7,881
Total	**115,852**	117,839

Inventory decreased by USD2.0 million to USD115.9 million at 31 December 2021. The fall is largely due to a USD3.0 million decline in rough rubies at MRM, resulting from gemstones sold at the ruby mini auctions held in the year not having been fully replaced by production since the mine restarted in April 2021. Conversely, at Kagem, inventory has increased by USD4.3 million, resulting from strong production levels at Kagem since the mining operations recommenced, which has meant that production has more than replaced the inventory which was sold in the mini auctions.

Inventory at Fabergé also declined by USD4.1 million in the year, resulting from the strong sales in 2021. In 2020, a USD1.1 million impairment was recorded against Fabergé legacy inventory. No additional provisions have been recorded in 2021.

AUCTION RECEIVABLES

The auction receivables outstanding of USD54.5 million at 31 December 2021 relate to the series of mini auctions held across November and December 2021, with USD20.1 million outstanding from the HQ emerald auctions and USD34.4 million outstanding from the MQ ruby auctions. The outstanding amount from both the emerald and ruby auctions had been fully collected by March 2022.

At 31 December 2020, the auction receivable outstanding was USD8.9 million and principally related to the emerald mini auctions held in November and December 2020. The full amounts outstanding were received by 22 March 2021.

IMAGE Responsibly sourced rough emerald, Kagem Mining, Zambia

OTHER ASSETS

Other assets of USD45.9 million (2020: USD42.3 million) consist of USD20.9 million (2020: USD13.7 million) of VAT receivables across the Group, deferred tax assets of USD2.9 million (2020: USD3.0 million) related to prior period losses incurred in the Corporate segment, trade receivables at Fabergé of USD6.8 million (2020: USD4.1 million), related party receivables of USD8.1 million (2020: USD6.7 million) held with Mwiriti, the Group's partner in MRM and Nairoto and other receivables, including prepayments, of USD7.2 million (2020: USD14.8 million).

The major movements in the year come from the increase in VAT receivables that was caused by the Covid-19 pandemic slowing the processing of VAT refunds in some local jurisdictions, as well as the appreciation of the MZN causing a USD1.8 million increase in the USD receivable at MRM due to the fact that the VAT receivable is held in local currency in Mozambique. During the year, MRM received USD0.7 million in cash refunds with an improvement in reimbursement rates expected in 2022. At Kagem, USD1.0 million of refunds were received and were offset against other (mainly payroll) taxes. With the fiscal changes expected in Zambia for 2022, it is expected that the rate of refund will increase over the coming year. The related party receivable from Mwiriti also increased by USD1.4 million during the year, due to an increase in the advance payments made in relation to future dividends in 2021. The total advance at 31 December 2021 was USD5.1 million, and is expected to be fully recovered in the first half of 2022. Offsetting these changes was the release of the USD4.2 million tax receivable at MRM recognised at 31 December 2020, relating to advance payments for 2020 that could only be offset against other taxes once approval was granted in 2021.

LIABILITIES

IN THOUSANDS OF USD	2021	2020
Deferred tax liability	**86,244**	79,236
Trade and other payables	**39,137**	17,303
Current tax payable	**20,987**	4,274
Provisions	**9,831**	7,631
Lease liabilities	**3,649**	3,745
Borrowings	**34,735**	56,505
Other liabilities	**5,000**	5,000
Total liabilities	**199,583**	173,694

DEFERRED TAX LIABILITIES

The deferred tax liabilities arise from the evaluated mining property and inventory at Kagem and MRM recognised on the IFRS 3 *Business combinations* fair value uplift on acquisition of Gemfields Limited by

the former Pallinghurst Resources Limited (now Gemfields Group Limited) in 2017.

The deferred tax liability increased in the year by USD7.0 million, primarily due to a reduction in tax losses that resulted as Kagem and MRM were able to utilise their accumulated losses against their taxable profits made during the year. Additionally, the appreciation of the MZN against the USD in the current year resulted in a USD3.5 million foreign currency impact on the Mozambique deferred tax balances.

TRADE AND OTHER PAYABLES

Trade and other payables have increased by USD21.8 million to USD39.1 million at 31 December 2021, reflecting the recommencement of principal operations at the mines during 2021. A large driver of the 31 December 2021 balance is USD12.2 million (2020: 1.3 million) related to WHT at MRM and mineral royalties and production taxes payable by MRM and Kagem in relation to the November and December 2021 mini auctions.

CURRENT TAX PAYABLE

The current tax payable of USD21.0 million consists of USD12.3 million payable by MRM, USD7.2 million payable by Kagem and USD1.5 million payable in the UK. All amounts relate to the tax payments due for the 2021 financial year.

PROVISIONS

Provisions of USD9.8 million include USD1.2 million (2020: USD2.0 million) of environmental provisions for the rehabilitation and restoration of mined areas at Kagem and MRM; USD0.2 million (2020: USD1.1 million) for the Resettlement Action Plan ("RAP") provision at MRM and USD8.4 million (2020: USD4.5 million) other provisions for future legal claims, including the OGM and employee end-of-contract benefits.

The RAP provision relates to MRM's obligation to compensate the households and other land users who are physically or economically displaced by the proposed mining in its concession area, in accordance with local legislative requirements. The RAP village was completed by the end of 2021, with the remaining balance at 31 December 2021 relating to remaining ancillary payments.

The independent OGM officially launched in February 2021. The OGM has been set-up by MRM to further its ongoing commitment to transparency and support for the local community, and under the voluntary settlement agreement that ended the Leigh Day litigation. The independent OGM formally launched on 4 February 2021, following the completion of a pilot phase and a local public awareness campaign. The OGM has been designed in keeping with the laws of Mozambique, the UNGP's and industry best practices. An Independent Panel determine the outcome of the grievances submitted to the OGM, following investigation by an independent Fact-Finding Team.

In the three-months following the scheme's launch, a significant number of cases were filed, which led to an increase in the Group's initial estimate of the total potential pay-out under the scheme. To date, only a small number of cases have been ruled on by the independent panel, which, combined with the fact that the OGM is unprecedented in-country, makes the estimate inherently difficult to value. The provision recorded at 31 December 2021 reflects management's best estimate of the potential liability at the balance sheet date. In valuing the provision at 31 December 2021, management has calculated a range of outcomes, and it is noted that the high end of the range is not materially different from the best estimate which has been included within the Consolidated Financial Statements. The Group continues to monitor the scheme closely and will provide an update once more data is available.

BORROWINGS AND NET DEBT

IN THOUSANDS OF USD	2021	2020
Cash and cash equivalents	**97,720**	43,862
Current borrowings	**(24,735)**	(33,005)
Non-current borrowings	**(10,000)**	(23,500)
Net cash/(debt)	**62,985**	(12,643)

The increase in net cash in the year reflects the strong results from the mini auctions held in 2021, combined with the cost saving initiatives that have been in place across the Group to continue to keep cash spend low whilst the Group navigated Covid-19.

At 31 December 2021, the Group held USD34.7 million in borrowings, a decline of USD21.8 million from 2020. These financing facilities are used to support the working capital and other funding requirements of the Group and to sustain its operations, as well as any planned growth and expansion.

The facility in place at Kagem is held with ABSA Zambia and consists of a USD20.0 million five-year-term loan and a USD10.0 million revolving credit facility that has an initial three-year term but is extendable for an additional two years upon agreement by both parties. Both facilities bear interest at three-month USD LIBOR plus 5.5% per annum. The total facility drawn is currently USD23.5 million, with USD13.5 million being payable in December 2022. The USD10.0 million revolving credit facility was renewed for an additional 12 months in the first quarter of 2022.

MRM has the following facilities:

- A USD15.0 million unsecured overdraft facility entered into with ABSA Mozambique in April 2016. The facility has an interest rate of three-month USD LIBOR plus 4.0% per annum. At 31 December 2021, USD11.2 million was drawn (31 December 2020: USD14.2 million). The facility is renewed annually with the next renewal expected in December 2022.
- A USD15.0 million overdraft facility entered into with Banco Commercial E De Investimentos, S.A. ("BCI") in June 2016. The facility has an interest rate of three-month USD LIBOR plus 3.75% per annum. At 31 December 2021, the facility had been fully paid down (31 December 2020: USD14.3 million was drawn). The facility is renewed annually with the next renewal expected in September 2022.
- In addition to this, MRM has agreed an additional USD15.0 million lease facility from BCI. The agreement is expected to be signed and completed by the end of March 2022, following which MRM will consider drawing this down.

COVID-19 AND GOING CONCERN

Like many businesses, the potential financial impact of Covid-19 on the Group has been given significant consideration when assessing the going concern assumption. In 2021, the continued easing of the various Covid-19 related restrictions across the globe allowed the Group to recommence operations at both mines in the first quarter of 2021 and hold auctions using the online bidding format for both emeralds and rubies. The recovery in the coloured gemstone market is evident, with both the emerald and ruby auctions achieving record-breaking revenues for 2021.

The success of the Group in 2021 has significantly improved the Group's gross cash position to USD97.7 million at 31 December 2021, with USD54.5 million of auctions receivables that had been fully collected by the the date of signing these these financial statements.

The critical assumptions for the Group in assessing going concern are the timing of cash inflows from its emerald and ruby auctions and continued support from the Group's lenders. If the Group can meet its planned auction schedule in 2022, the Group will be able to continue as a going concern. The Group's expectation is that, if needed, it would draw down on all existing facilities and that all of its existing debt facilities will remain in place throughout the forecast period.

With confidence continuing to grow that the world is reaching the pandemic endgame and following the all-time record auction results of 2021, the Directors believe that any full-scale suspension of operations, akin to those seen in 2020 and 2021, is highly unlikely, and expect to return to the normal yearly auction schedule from 2022 onwards. Further, the Directors remain confident in the current high-level of market demand for gemstones.

As disclosed in Note 1 of the Consolidated Financial Statements, given these circumstances and the strong relationships with our lenders, and in the absence of any unforeseen circumstances, the Directors do not believe there to be any material uncertainties present that would cast significant doubt over the Group's ability to continue as a going concern.

In addition, the ongoing conflict in Ukraine provides some uncertainty in the global economy. However, the Group does not believe this to be a significant risk to operations. The potential increases in fuel and other input prices in the jurisdictions in which the Group operates are not deemed to be a long-term risk, as any upward pressures are able to be largely absorbed and it is also likely that any such rises will be offset by currency movements. In fact, recent publications show that commodity prices are seeing significant gains across the African countries in which Gemfields operates. As such, it is likely that improvements will in fact be seen in these economies. The Directors will continue to monitor developments but remain confident that with no direct impact on our gemstone prices the overall cost implications and risk exposure to the Group will remain low.

SUMMARY

The second half of 2021 has provided grounds for optimism at Gemfields. Exceptional auction results alongside the reduced cost base have yielded excellent financial KPIs. Strong production since restarting the mining operations should also give confidence that the planned auction schedule for 2022 will go ahead as planned. It should however be noted that following the mines' reopening and the associated cost increases, the current multiples for EBITDA and free cash flow are unlikely to be repeated in 2022.

Off the back of the strong 2021 results and the future prospects, the Board have approved the payment of Gemfields' maiden dividend of USD20.0 million, or approximately USDc1.7 per share. The dividend will be distributed to shareholders during the first half of 2022.

David Lovett
Chief Financial Officer
24 March 2022