

21 May 2026

Gemfields

Trimming again

- **2025FY:** In the past year, GEM/GML experienced headwinds across both of its businesses, including aggressive competitor sales, a weak Chinese economy, illegal mining activity and negative grade trends at MRM.
- **2025FY Capital Events:** These headwinds threatened GEM's going concern status, term debt covenants as well as its expansion at MRM but were resolved by a \$33m rights issue and the sale of Fabergé for \$50m.
- **MRM Setbacks:** The key issues facing Gemfields have been the 12-month delay of the c. \$90m PP2 expansion at MRM and the ongoing grade declines at its flagship Mugloto pit that have offset some expansions benefits.
- **Mugloto vs Maninge Nice:** During the year, MRM produced large quantities of rubies from Maninge Nice (MN), which are different from those at Mugloto. These variants may not be as valuable as originally hoped for, partly catalysing a \$35m impairment.
- **MRM Revenue:** We expect MRM to process **2.6mt** in 2026 and **3.5mt/a** in 2027FY and 2028. We estimate MRM revenues of **\$153m** in 2026, assisted by the \$53m February auction and **\$150m/a** in the following years. These estimates have been trimmed by \$40m/a since our last report.
- **MRM Financials:** MRM should generate a profit and a positive cash flow in 2026 assisted by a large stockpile drawdown, capex reductions and an early auction. From 2027FY, if grades don't improve, both cash flow and profits will be under pressure as mining rate increases to 16mtpa, term debt is repaid and D&A charges rise.
- **More from Left Field:** New challenges keep arriving. The impact of the Gulf War on diesel prices could be temporary but severe and the Mozambique Tax Authority (MTA) has claimed VAT on all service payments. Yet another recent challenge has come from proposed changes to the Mozambican Mining Act.
- **Holding Back?** Gemfields corporate supported MRM through inter-company loans and by deferring Marketing, Management and Auction (MMA) fees and dividends in 2025FY. MRM may repay some of these liabilities in 2026FY, but it may be more restricted from 2027FY. Fee payment shortfalls may require Gemfields corporate to reduce its cash holdings to fund its head office and development asset expenses.
- **Kagem Recovery:** Kagem is producing good quantities of high-quality emeralds from three low-cost sections that should support a 2026FY revenue increase to **\$90m**. From 2028, Kagem may resume a major cutback and an expansion.
- **GEM Profits:** We expect GEM to earn revenues of **\$250m** in 2026 and unless MRM is impaired, which looks increasingly likely, could return to profit in 2026FY of **\$1cps**, for the first time in four years. Underlying cash flows are expected to be positive.
- **GEM Valuations:** Our FFVR of our base case which assumes current grades continue over MRM's remaining life of mine is **ZAR96cps (prev ZAR128cps)**. Our optimistic case assumes a 25% increase in grades at MRM and 10% increase at Kagem and values GEM at **ZAR182cps (prev ZAR219cps)**. The mid-point value of the share is **ZAR139cps**, which is 20% below our previous mid-point valuation due to our lower revenue forecasts.

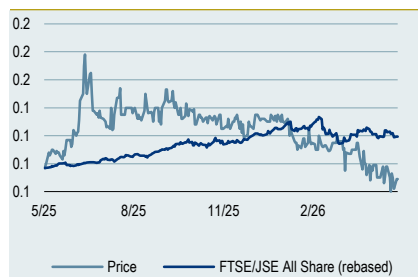
Key forecasts	Dec 23A	Dec 24A	Dec 25A	Dec 26E	Dec 27E	Dec 28E
Net sales (US\$ m)	262	213	135	250	247	250
EBITDA (US\$ m)	83	40	6	83	55	59
EBITDA margin (%)	32	19	5	33	22	23
Net Income (US\$ m)	(3)	(101)	(51)	19	(6)	(5)
Basic (EPS) (US¢)	(1)	(7)	(3)	1	0	0
Underlying (EPS) (US¢)	1	1	0	1	0	0
DPS - ordinary (US¢)	1	0	0	0	0	0
P/E (x)	12.8	8.5	n/a	6.1	n/a	n/a
EV/EBITDA (x)	3.6	6.1	32.3	1.9	2.8	2.4
Dividend yield (%)	4.5	0.0	0.0	0.0	0.0	0.0

Source: Company financials, SBG Securities estimates

Share data

RIC	GMLJ.J
Sub industry	General Mining
Price (19 May 2026)	R 0.890
Market cap. (R m)	1,314
Enterprise value (R m)	2,452
Market cap. (USD m)	79
Enterprise value (USD m)	164
Avg. daily trade value (USD m)	0.02
Free float (%)	50

Price relative to FTSE/JSE All Share



Historical performance relative to FTSE/JSE All Share

Performance over	1M	3M	12M
Absolute (%)	-3.3	-21.9	-10.1
Relative (%)	1.9	-16.2	-34.3

Source: FTSE/JSE All Share, SBG Securities Research

The price relative chart measures performance against the South Africa FTSE/JSE All Share which closed at 114913 on 19 May 2026

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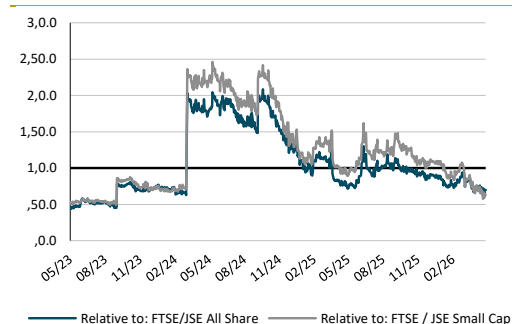
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Valuation metrics	Dec 23A	Dec 24A	Dec 25A	Dec 26E	Dec 27E	Dec 28E
P/E (x)	12.8	8.5	n/a	6.1	n/a	n/a
EV/EBITDA (x)	3.6	6.1	32.3	1.9	2.8	2.4
FCF yield (%)	(9.9)	(67.6)	(18.6)	31.3	16.2	20.8
Dividend yield (%)	4.5	0.0	0.0	0.0	0.0	0.0
Ratio analysis	Dec 23A	Dec 24A	Dec 25A	Dec 26E	Dec 27E	Dec 28E
ROE (headline basis) (%)	4	4	(1)	4	(1)	(1)
EBITDA margin (%)	32	19	5	33	22	23
EBITDA interest cover (x)	0.0	(0.1)	(0.6)	(0.1)	(0.1)	(0.1)
Net profit margin (%)	(1)	(48)	(38)	8	(2)	(2)
Net debt/equity (%)	(2.5)	23.3	11.7	5.5	4.3	1.5
Profit and loss	Dec 23A	Dec 24A	Dec 25A	Dec 26E	Dec 27E	Dec 28E
Revenue (US\$ m)	262	213	135	250	247	250
% growth	-23.2	-18.8	-36.5	85.1	-1.3	1.2
Gross profit (US\$ m)	101	60	11	77	42	45
EBITDA (US\$ m)	83	40	6	83	55	59
% growth	-49.9	-51.3	-84.5	1,233	-34.1	6.6
EBIT (US\$ m)	46	4	(24)	39	3	5
% growth	-64.0	-91.9	-738.0	261.0	-91.7	50.4
Exceptional items (incl. non continuing) (US\$)	29.6	107.8	42.5	6.8	7.7	6.5
Net interest (US\$ m)	(0.8)	(6)	(4)	(5)	(6)	(5)
Tax (US\$ m)	(19)	3	20	(13)	(1)	(2)
Tax rate (%)	117.1	2.7	29.9	40.2	28.0	126.5
Net profit (US\$ m)	(3)	(101)	(51)	19	(6)	(5)
Headline earnings (continuing business) (US\$)	17	16	(3)	15	(3)	(2)
% growth	-72.5	-8.9	-121.6	542.4	-122.6	45.4
Weighted diluted number of shares (m)	1,209	1,167	1,445	1,725	1,725	1,725
Basic (EPS) (US¢)	(1)	(7)	(3)	1	0	0
Basic earnings per share (EPS) growth	(117)	(745)	62	132	(123)	45
Adjusted diluted HEPS (cont. business) (US¢)	1	1	0	1	0	0
% growth	(71.6)	(26.4)	(118.1)	542.4	(122.6)	45.4
Ordinary dividend per share (DPS) (US¢)	1	0	0	0	0	0
Ordinary dividend pay-out ratio (%)	202.0	63.3	0.0	0.0	0.0	0.0

Relative to JSE All Share



Source: Refinitiv

Cash flow	Dec 24A	Dec 25A	Dec 26E	Dec 27E	Balance sheet	Dec 24A	Dec 25A	Dec 26E	Dec 27E
Normalised EBITDA (US\$ m)	6	(29)	36	1	Intangible fixed assets (US\$ m)	40	15	18	21
Change in working capital (US\$ m)	(13)	21	(14)	(5)	Property, plant equipment (US\$ m)	339	313	308	301
Cash generated by operations (US\$ m)	17	43	52	44	Remaining total fixed assets (US\$ m)	13	39	39	39
Net finance income (charge) (US\$ m)	(6)	(4)	(5)	(6)	Current assets (less cash) (US\$ m)	219	205	230	221
Taxes paid (US\$ m)	(19)	(2)	(10)	(4)	Cash (US\$ m)	21	64	80	60
Dividends paid (US\$ m)	(12)	0	0	0	Total assets (US\$ m)	611	571	595	581
Total cash flow from operations (US\$ m)	12	21	57	44	Total equity (US\$ m)	403	382	401	396
Total capex (US\$ m)	(85)	(43)	(28)	(29)	Total liabilities (US\$ m)	208	189	188	165
Net cash flow from investing activities (US\$)	(85)	(2)	(28)	(29)	Total equity and liability (US\$ m)	513	459	476	465
Share issuance (repurchases) (US\$ m)	0.3	32	0	0	Net cash (debt) (US\$ m)	(80)	(39)	(19)	(15)
Net increase (decrease) in cash (US\$ m)	(31)	44	18	(18)					

Sources: Company financials, SBG Securities estimates

MRM focus: trimming again

2025FY Overview

Gemfields' 2025FY was its financial nadir and we believe 2026 will see a recovery. The confluence of aggressive competitor sales, declining grades, illegal miner invasions, delays to its expansion as well as setbacks in the global economy came at a time when the company was completing a major expansion at MRM, its ruby mining operation in Mozambique.

A substantial capital shortfall as well as threats to debt covenants held by MRM and guaranteed by GEM were addressed by a net equity raise of \$30m in Q2 and the sale of Fabergé for a net immediate payment of \$41m. This cash was accumulated at the corporate level and used to provide liquidity for its operations either directly through inter-company loans or indirectly by suspending Marketing, Management and Auction (MMA) fee payments from MRM.

By 2025FY-end, cash held at the corporate level had increased from \$3m to \$48m despite the influx of \$71m.

By 2025FY-end, cash held at the corporate level had increased from \$3m to \$48m despite the influx of \$71m. With limited ability to increase debt at its subsidiaries, about \$25m was used to fund head office expenses, the expansion of MRM through intercompany loans as well as GEM's development assets.

The surplus capital also indirectly allowed MRM to delay its December auction to February 2026.

Kagem also faced funding constraints with debt of \$19m at the beginning of the year and poor emerald auction results in 2024. As a result, it was forced to cease primary mining activities for the first five months of the year. Instead, broken ore stockpiles were used on a three-shift basis at the wash plant. This strategy and sharp reductions in capital spending stabilised its debt but the low grade of the stockpile resulted in neutral cash flows.

Kagem returned to primary mining in June 2025, with three of the highest-grade sections in operation by year-end.

Kagem returned to primary mining in June 2025, with three of the highest-grade sections in operation by year-end. Of the 250kt processed in the 2025FY, 77kt were sourced from the three sections in the Chama pit. Second half auctions realised \$58m which helped reduce debt to \$12m by year-end.

At MRM, falling premium ruby grades at the flagship Mugloto pit encouraged a shift to the large-scale processing of Maninge Nice (MN) ore.

At MRM, falling premium ruby grades at the flagship Mugloto pit encouraged a shift to the large-scale processing of Maninge Nice (MN) ore. This introduced large amounts of new variants of premium rubies into the sales mix for the first time in October 2025. Figure 1 shows that from 1.39mt of processed ore, MN produced 48kct of the 76kct of premium ruby production in 2025, with just 26kct coming from Mugloto, the lowest on record.

Figure 1: Production and sources of premium rubies (2025)

Pit Source	kmt ex Plant	Grade ct/t	Premium (kct)
Mugloto	820	0,032	26
MN	537	0,09	48
Glass	35	0,035	1
Total	1 391		76

Source: Gemfields 2025 CPR, SBG Securities analysis

MN rubies are described as being 'platy' because of strong basal cleavage, included and highly fractured with lighter red colours. Based on these descriptions, we assume that MN and Glass premium rubies are 30% less valuable than Mugloto premium rubies on a weight-for-weight basis and that MRM's 76kct of premium ruby production was 'equivalent' to 61kct of Mugloto premium rubies.

Part of the reason was the elected delay of the December Mixed-Quality auction which reduced annual revenue to \$50m as well as expenses related to the PP2 commissioning.

Gemfields' efforts at restructuring corporate and subsidiary overheads have been significant, with total SGA costs falling from \$56m in 2022FY to \$37m in 2025FY.

ERM is now the only key development asset, albeit on care and maintenance with limited funds applied to plant and security.

As a result of these headwinds and a large impairment and despite significant cost savings, the company recorded a BEPS loss of **\$2.6cps**.

If MRM is not impaired again, Gemfields could see a profit for the first time in four years in 2026FY with better results from Kagem, the completion of the delayed MRM expansion and the boost from the \$53m February 2026 auction

Our forecasts assume no further decline in Mugloto grades from 0.028ct/t and MN grades of 0.04ct/t.

Rising concerns about grades as well as unexpected cost pressures have caused MRM to adapt its plans.

The continuously falling premium grade of the Mugloto pit from 0.09ct/t in 2021 to 0.037ct/t in 2024 and then to **0.032ct/t** in 2025 as well as uncertainty around the value of the MN gemstones gave rise to an impairment of \$35m which together with an amortisation charge of \$8m resulted in a residual FVU of \$93m.

MRM's operations were strongly cash positive before capex in 2025H1 but less so in 2025H2 despite lower operating costs and capex. Part of the reason was the elected delay of the December Mixed-Quality auction which reduced annual revenue to \$50m as well as expenses related to the PP2 commissioning.

MRM's expansion consumed \$36m of capex in 2025FY but the subsidiary's limited ability to access more than \$90m of third-party debt was balanced by inter-company funding as well as the deferral of the payment of MMA fees and the continued hold on dividend payments that arose in 2023FY and 2024FY. Even so, it ended the year with just \$5m of cash to meet operating liabilities of \$25m.

Along with successful reductions in operating costs, Gemfields' efforts at restructuring corporate and subsidiary overheads have been significant, with total SGA costs falling from \$56m in 2022FY to \$37m in 2025FY. SGA costs at MRM and Kagem fell from \$23m to \$12m while corporate SGA fell from \$19m to \$17m.

In support of these efforts, the administrative head count fell from 436 to 316. Selling and marketing costs fell by 60% while professional and legal expenses fell by 30% despite major corporate activity in the period.

Gemfields also reduced the scope and scale of the activity of its development assets. Nairoto and MML were impaired in 2024FY and operationally suspended in 2025FY. ERM is now the only key development asset, albeit on care and maintenance with limited funds applied to plant and security. Development assets absorbed \$6m of ongoing and capitalised costs in 2025FY compared to \$18m in the prior year.

As a result of these headwinds and a large impairment and despite significant cost savings, the company recorded a BEPS loss of \$2.6cps, compared to a loss of \$7cps in 2024FY and a loss of \$0.8cps in 2023FY. Gross profit fell from \$54m¹ to \$11m. Cash flows from operating and investing activities, excluding Fabergé sale proceeds, improved sharply from a loss of \$73m to a loss of \$21m.

Recovery in 2026FY?

If MRM is not impaired again, Gemfields could see a profit for the first time in four years in 2026FY with better results from Kagem, the completion of the delayed MRM expansion and the boost from the \$53m February 2026 auction. However, MRM still faces constraints that could catalyse another impairment. Its grades are falling; it faces adverse and unbudgeted events such as diesel price increases; and a possible requirement to pay VAT on current and previous service payments. (See *Impairments* in the Appendix.)

MRM is Gemfields' key asset – the **appendix** has more detailed discussions around the operation as well as our profit and cash flow assumptions.

Even with the PP2 commissioning delay, we expect **MRM** to process **2.6mt** this year and with the benefit of the February auction to earn revenue of **\$154m**. The estimate is lower than our previous forecast of \$190m. Our forecasts assume no further decline in Mugloto grades from 0.028ct/t and MN grades of 0.04ct/t.

Rising concerns about grades as well as unexpected cost pressures have caused MRM to adapt its plans. These cost pressures include several recent unbudgeted events such as the impact of the Gulf War on diesel prices as well as a recent disputed claim for outstanding VAT payments that together could add c. \$13m/a to MRM's costs in 2026FY.

¹ Continuing operations only

We also expect MRM to appoint a mining contractor from 2027.

MRM could generate \$40m in net cash flows in 2026, a metric supported by the benefit of the deferred February auction, the use of the stockpile, the completion of the PP2 expansion and the withholding of MMA fees.

MRM may take a precautionary and austerity-based approach to limit what it remits to GEM corporate.

By comparison, the production of premium emeralds from 11 sections for the entire 2024FY was 157kct.

Emerald grades and production remain strong into the current year, and we expect sales to rise from \$80m to \$90m in 2026FY.

Assuming 'unadjusted'³ recovered premium grades do not fall below 0.028ct/t at Mugloto and 0.036ct/t from MN, we expect revenues to be maintained at \$150m/a over the LOM.

The original mine plan required MRM to process 3.7mt in 2026FY using all its **1.4mt** stockpile and to mine **10mt** to provide the balance of fresh ore. We now expect the original mining target to be reduced to **6.6mt** to match the reduced processing capacity caused by the delay of the PP2 plant commissioning until July 2026.

We also expect MRM to appoint a mining contractor from 2027. This may increase mining costs but will allow it to sidestep the \$30m it would have required to spend on a new fleet over the next 12 months. This will reduce capex to \$20m and \$17m in 2026FY and 2027FY respectively. Other ways of reducing capex are also being investigated.

With these changes, and revenue of \$154m, MRM could generate \$40m in net cash flows in 2026FY, a metric supported by the benefit of the deferred February auction, the use of the stockpile, the completion of the PP2 expansion and the withholding of MMA fees.

MRM should be able to report a profit from operations of c. **\$10m** in 2026FY, assuming a rise in MRM's mining and production costs to \$58m, D&A charges of \$30m as well as mining royalty payments of \$20m.

On the face of our estimates, there appears to be enough room for MRM to repay some of its outstanding and current MMA fees. However, uncertainty about grades and the impact and duration of some of the recent adverse events such as diesel prices and the application of VAT, may mean that MRM may take a precautionary and austerity-based approach to limit what it remits to GEM corporate.

Kagem has stabilised its operations with production both from the broken ore stockpile and three production sections. In six months, these three sections generated most of the 152kct of premium emeralds produced in the period. By comparison, the production of premium emeralds from 11 sections for the entire 2024FY was 157kct.

Kagem may add a further mining section in the current year and will continue to process the broken ore stockpile on a three-shift basis through the wash plant.

Emerald grades and production remain strong into the current year, and we expect sales to rise from \$80m to \$90m in 2026FY despite a 40% fall in exports of jewellery from India to the US in Q1 2026.² Together with ongoing cost control, limited mining and minimal capex, the \$15m debt on its balance sheet at the end of 2025FY is likely to be reduced further and some MMA fee payments may be possible.

MRM and Kagem's limited ability to pay their MMA fees may force Gemfields corporate to fall back onto its cash balances. Corporate's operating costs of c. \$18m and its \$7m commitment to maintaining the development assets as well as sustaining its other activities may reduce the cash on its balance sheet by a further **\$7m** to c. **\$42m**.

So, if MRM is not impaired again, we expect Gemfields to record \$1cps profit in 2026FY, the first profit in four years.

Less headroom from 2027FY?

In the 2027FY, we expect MRM to process 3.5mt/a through both its plants. This is a significant increase from the 1.05mt it achieved in 2024. Assuming 'unadjusted' recovered premium grades do not fall below 0.028ct/t at Mugloto and 0.036ct/t from MN, we expect revenues to be maintained at \$150m/a over the LOM. This is a \$40m/a trim from our previous estimates.

MRM will have to remove 16mt of waste and ore without having a low-cost stockpile to meet the increased processing rate. The increased tonnages will dilute the significant overheads⁴ and reduce unit cash costs from \$8.4/t of broken rock in 2025 to \$5/t in

² Gem and Jewellery Export Promotion Council

³ Gemfields is likely to revise how it records large but low-quality stones from MN during 2026FY

⁴ We estimate that MRM security and the camp costs are c. \$8m/a (17%) and \$4m (10%) respectively. SGA cost \$9m (20%) of 2025 cash costs.

Since EDM will be unable to meet MRM's increased power demand for the foreseeable future, MRM will require more diesel generated power to fill the supply gap.

2027FY, but total cash costs, which include SGA expenses, could rise from \$47m in 2025FY to \$85m in 2027FY.

The mining contract should reduce MRM's capex in 2027FY to \$17m but the expansion will require MRM to provide 17MI of fuel for the fleet from 2027FY as well as another 10MI for its generators to support the PP2 plant. Since EDM will be unable to meet MRM's increased power demand for the foreseeable future, MRM will require more diesel generated power to fill the supply gap. (See discussion in *From Left Field* in the Appendix.)

Figure 2: MRM diesel consumption, fleet and power

	2024A	2025A	2026F	2027F	2028F
Processed Ore (Mt)	1 072	1 391	2 600	3 500	3 500
Diesel Generator (MWh)	2 452	9 673	22 062	31 962	31 962
Diesel for Power (M. litres)	1	3	7	10	10
MRM Fleet Broken Ore (Mt)	8	7	6,6	16	16
Diesel for Fleet (M. litres)	6	7	6	17	17
Total Diesel (MI)	7	10	13	26	26

Source: Gemfields 2025 AR, SBG Securities analysis and estimates

Figure 2 shows the expected increase in diesel intensity over the next two years. Although it will still require c. 1l to mine a tonne of broken rock, the demand for diesel to generate power is estimated to increase from 0.7/t of processed ore to 2.7/t from 2027FY.

The structural shift to higher costs in 2027FY will be matched by the repayment of term loans and interest payments of \$23m/a from January 2027.

The structural shift to higher costs in 2027FY shown in Figure 3 will be matched by the repayment of term loans and interest payments of \$23m/a from January 2027. After taking care of VAT and diesel price increases, MRM is unlikely to pay GEM corporate MMA fees or repay its intercompany loans.

Figure 3: MRM cash flow (\$m)

	2025A	2026F	2027F	2028F
Revenue	50	153	150	150
CF From Ops and Investing	-	13	47	29
CF From Financing Activities	7	-3	-23	-23
Total Cash Flows	-	6	44	5

Source: company data, SBG Securities estimates

MRM's profits will be affected by the c. \$90m of PP2-related capital that will be depreciated after the commissioning date in July 2026 to the end of the very short LOM.

MRM's profits will be affected by the c. \$90m of PP2-related capital that will be depreciated after the commissioning date in July 2026 to the end of the very short LOM. As a result, a sharp rise in these charges looks likely although the rise could be diluted by a possible reserve upgrade in 2027 and/or by auditors allowing inferred resources to be included in the LOM.⁵ (See Figure 4 and section on *Depreciation and Amortisation* in the Appendix.)

We assume some dilution but expect depreciation charges to increase to \$20m in 2027FY and amortisation charges to increase from \$9m in 2025FY to \$15m as the FVU will also be written off over the limited LOM.

⁵ There are some examples of looser interpretations. For example, although the NYSE requires LOM to be strictly defined to mineable reserves, it allows some companies the option of calculating depreciation over 'mineable' inferred resources...for example, "in instances where management is able to demonstrate the economic recovery of resources with a high level of confidence, such additional resources are included in the calculation of depreciation"

Figure 4: MRM profit/loss (\$m)

	2025A	2026F	2027F	2028F
Revenue	50	153	150	150
Gross Profit	- 3	19 -	3 -	3
SGA**	- 9 -	11 -	12 -	13
Pre Impairment Loss/Profit From Ops	- 12	8 -	15 -	16

Source: company data, SBG Securities estimates

The cutback will probably be allocated to a contract miner, which will remove the need to invest heavily in fleet purchases.

Of the \$42m we estimate to be available from 2027FY, \$25m can be considered restricted cash which 'insures' the company against another breach of the Absa term loan covenant.

Among the many concerning proposals is the transfer of an additional 10% of revenues to local government and communities.

Our base case for this report is the current premium grade reported from the Mugloto and MN pits. This is because there is little reason to predict better or worse outcomes.

Kagem will probably continue mining three to four sections in 2027 and delay the large open pit cutback until 2028. The cutback will probably be allocated to a contract miner, which will remove the need to invest heavily in fleet purchases. We forecast another **\$90m** in revenue in 2027FY based on the ongoing performance of the Chama pit.

In summary, the **\$150m** revenue scenario in 2027FY will allow MRM to make its term loan payments but would limit its ability to settle the liabilities owed to corporate office and to reduce overdrafts. Kagem's forecast **\$90m** revenue would provide some cash support for Gemfields corporate but a drawdown of resources is still likely.

There is a limit to this. Of the \$42m we estimate to be available from 2027FY, \$25m can be considered restricted cash which 'insures' the company against another breach of the Absa term loan covenant which poses a key risk to its going concern status.

Under our assumptions, GEM will revert to a small loss or neutral profit and a negative free cash flow of **\$16m** in 2027FY.

Mozambique has become a difficult operating environment. The recent VAT claim and reports that the Mozambican government is proposing to amend the Mining Act are symptoms of a distressed economy and populist pressures. Among the many concerning proposals is the transfer of an additional 10% of revenues to local government and communities. The proposal is ambiguously worded, but if it is legislated in the media-reported form ([Link](#)), it and many of the other proposals will have significant negative impacts on mining companies in Mozambique. (See *More from Left Field* in the Appendix.)

Security issues are also a concern given the rising frequency of insurgent attacks in Cabo Delgado in the last two months. (See section on *Insecurity* in the Appendix.)

Grade and value

Our base case for this report is the current premium grade reported from the Mugloto and MN pits. This is because there is little reason to predict better or worse outcomes.

It is the most important single variable in our models, and its impact should be considered separately.

Although a 25% fall in grades would bring MRM to breakeven, a 25% increase in grades could materially improve the entire suite of financial metrics. With MRM revenue of **\$190m**, Gemfields would be able to report a **\$2cps profit** and allow fees and inter-company loans to flow up to support the corporate office and liberate the need to maintain a large amount of cash on the balance sheet.

A grade reversal of this extent is possible, but unpredictable although the fact that premium grades are falling suggests that Mugloto's mining faces are moving further from the original ruby source. **However, new sources, traps or secondary enrichment zones could be discovered as the mining faces expand which could sharply improve the reported grades.**

Our valuation is defined by our base case which values GEM at **ZAR96cps** using current grades as a forecast and a R17/USD exchange rate. The valuation is based on a DCF using a 25% real discount over the life-of-mine for both operations. This is the highest used across our valuations and is based on the highly speculative nature of the ore

bodies, the lack of transparency of gemstone prices and the difficulties of operating in Zambia and Mozambique.

Our optimistic case uses a 25% improvement in grades for MRM and a 10% increase in grades/revenues at Kagem. For MRM, this is possible if a new source of rubies is discovered during mining or if ruby prices strengthen. For Kagem, there is a reasonable expectation that emerald prices could increase. These inputs increase GEM's value to **ZAR182cps**.

Our breakout of the valuation is shown in Figure 5 below. We assume the full MMA fees are remitted to GEM corporate for both operations. MRM's valuation is low because we assume nearly \$90m of third-party debt must be repaid by the operating entity by the end of 2030. The benefit of 25% higher revenues makes a significant difference to the operation's value due to its marginal valuation at current grades/prices. This leverage speaks to the embedded option value in the counter.

Figure 5: Gemfields valuation (USDm)

Kagem (75%)	37	50
Kagem MMA	47	51
MRM (75%)	6	69
MRM MMA	49	57
Cash	80	80
Head office+Others	-18	-18
Development	-6	-6
Debt	-99	-99
Valuation USDm	97	185
Issued Shares	1 725	1 725
Valuation/Share (USD)	0,06	0,11
Valuation/Share @ZAR17:USD	0,96	1,82

Source: SBG Securities estimates

Appendix

Digging deeper into MRM

MRM is the key to Gemfields' short- to longer-term future as well as its valuations. In this appendix we take a closer look at the operation and some of the assumptions behind our forecasts.

These assumptions are unusually speculative for a mining company. In brief, our revenue estimates should be considered as scenarios that allow plausible profit and cash flow outcomes to be estimated.

This uncertainty reflects a lack of knowledge of future premium ruby grades, a difficult social environment, rapidly changing fiscal and regulatory requirements as well as the difficulty of assessing the value of different ruby sources and their mix in auctions.

The impact and duration of diesel price increases and fuel shortages because of geopolitical tensions have provided more uncertainty that could flow into host countries' fiscal and forex regulations.

Ore body reserves and grades

MRM has seen a steady decline of premium ruby grades at the flagship Mugloto pit from 0.098ct/t in 2019 to 0.032ct/t in 2025FY and may now be 0.028ct/t.

MRM has seen a steady decline of premium ruby grades at the flagship Mugloto pit from 0.098ct/t in 2019 to 0.032ct/t in 2025FY and may now be 0.028ct/t. This decline may suggest that mining is moving away from the ruby source but there is little predictive power in the reserve statement that estimates a single combined grade of all products, including almost valueless corundum and low sapphire.

The lower grades are slowly working their way into the reserve statements. Mugloto reserve tonnages increased from 8mt in 2024FY to 10mt in 2025FY without converting inferred resources, but total grades fell from 3ct/t to 2.5ct/t. These changes imply that MRM is diluting grades by increasing gravel volumes. Even though these grades are too broad to be meaningful, they are still optimistic and twice what was recovered from Mugloto in 2025FY.

The reserve volume increase allows MRM to maintain a LOM until the end of 2030.

The reserve volume increase allows MRM to maintain a LOM until the end of 2030. MRM has large volumes of inferred resources that it will be able to mine during and after the next five years but defining their grade and value will require extensive work.

The reserve grade of the 1.4mt stockpile increased materially without explanation in the latest CPR and we expect some surprises as it gets processed in 2026FY.

The reserves will be subject to an external CPR in 2027FY, the first since 2019.

The reserves will be subject to an external CPR in 2027FY, the first since 2019. Ideally, we would expect a harder line to be drawn on reserve qualifications and grade forecasts to be based on premium rubies only. This sort of reserve definition requires many large bulk samples (c 20kt each) to ensure the very low populations of quality stones are properly measured.

It is concerning that grades have fallen further in 2026FY for both Mugloto and MN. Our LOM forecasts assume these grades stabilise, simply because there is no better data or reason to expect them to improve or to fall further. These assumptions are tabled in Figure 6 below.

Figure 6: Premium grades (ct/t)

	2024A	2025A	2026F	2027F	2028F	2029F	2030F
Mugloto	0,037	0,032	0,028	0,028	0,028	0,028	0,028
MN+/Stock	0,042	0,09	0,033	0,04	0,04	0,04	0,04
Glass	0,031	0,035	0,03	0,03	0,03	0,03	0,03
Average	0,037	0,054	0,031	0,032	0,032	0,032	0,032

Source: Gemfields AR, SBG Securities estimates

Production trajectory

MRM originally forecast PP1 and PP2 plants to process 3.7mt of ore in 2026FY. The 200tph PP1 regularly achieves c. 1.05mtpa⁶ so the 400tph PP2 was expected to produce 2.65mtpa⁷.

Despite these delays, about 0.3mt was processed by the PP2 plant in Q1 2026 and we expect a further 0.4mt will be processed in Q2 2026 as the dry season allows more material to be processed.

MRM's processing capability was restricted in 2026H1 by PP2's commissioning delays which are expected to continue to Q3 2026. Despite these delays, about 0.3mt was processed by the PP2 plant in Q1 2026 and we expect a further 0.4mt will be processed in Q2 2026 as the dry season allows more material to be processed.

Assuming the plant is fully commissioned from July, MRM should be able to process up to 3mt by 2026FY-end.

The original 3.7mt target would have been difficult to meet not only because of the PP2 delay, but also because the current fleet⁸ was expected to move 10mt and another 1.4mt from the stockpile. This compares with the 6.8mt it mined in 2025FY on a double shift basis with another 0.3mt sourced from the stockpile.

We expect the plant delay will require the mine to remove only 6.6mt of rock and to deliver about 1.2mt of fresh ore to meet the **2.6mt** processing rate.

From 2027FY, MRM will move 16mt of waste and ore to fill its nominal 3.7mt/a of processing capacity, without help from a stockpile.

From 2027FY, MRM will move 16mt of waste and ore to fill its nominal 3.7mt/a of processing capacity, without help from a stockpile. This would require \$30m of new equipment of which \$17m is due in 2026FY and the balance in early 2027FY. However, there is now a high likelihood that MRM will switch to a 'dry' three-year mining contract to reduce capex.

We forecast processing rates to stabilise around **3.5mtpa** from 2027 to 2030, lower than the 3.7mtpa predicted by Gemfields although the proposed availability and utilisation metrics for PP2 look reasonable. Our forecast predicts that social disturbances, weather issues, power constraints as well as the need to batch bulk samples will reduce output.

Our view of MRM's production trajectory and ore sources is summarised in Figure 7 below. We assume that Mugloto rubies return to centre stage from 2027FY due to declining grades of MN.

Figure 7: Tonnes ex plant (Mt)

Years	2024A	2025A	2026F	2027F	2028F	2029F	2030F
Mugloto	1 014	820	1 050	2 200	2 200	2 200	2 200
MN+Stocks	31	537	1 500	1 150	1 150	1 150	1 150
Glass	28	35	50	150	150	150	150
Total	1 072	1 391	2 600	3 500	3 500	3 500	3 500

Source: Gemfields AR, SBG Securities estimates

Mugloto vs MN valuations

The unprecedented switch to Maninge Nice in 2025FY resulted in large volumes of different types of rubies being produced. These rubies are described as being "platy", having inclusions and being "very fractured with a strong basal cleavage". They are also described as being pinker and more fluorescent. Most of these attributes describe a less valuable product than Mugloto's deep red and rounded gemstones.

⁶ Availability of 88% and utilisation of 94% in 2025FY. Batch processing of test samples may affect these metrics in future.

⁷ Expected availability of 83% and utilisation of 91%, which appears to be conservative.

⁸ We believe the fleet to be 'old'. Fleet replacement schedules are 18,000hrs except for trucks which are 10,000hrs. These are relatively long lives by mining standards.

However, defining the value difference across a spectrum of product has proven difficult for Gemfields and may require two years of auctions to define quantitatively.

Another difficulty in making comparisons is that the classification of MN's premium rubies in 2025 drifted from the original size and quality definition to size only.

This table predicts that although processing volumes will treble, production of premium rubies will only increase by 50% in 2027FY due to the impact of lower grades.

The unpredictability of what is offered in these mixed-quality (MQ) auctions is compounded by the fact that there are only two to three auctions or price discovery points a year.

The \$154m forecast is lower than our previous forecast of \$190m due to the use of the stockpile, the lower grades of both pits and the PP2 delay.

The February 2026 auction confirmed that MN rubies are less valuable than those from Mugloto, despite initial positive reactions after the September 2025 auction. However, defining the value difference across a spectrum of product has proven difficult for Gemfields and may require two years of auctions to define quantitatively.

A key reason for this time lag is that the consumer must be convinced that the pinker grades are desirable. If they are, cutters and retailers will be able to sell the better MN stones as 'untreated' to capture the significant price premium attached to this classification.

For our purposes, we assume that mid- to lower-tier MN stones may be worth 40% less than Mugloto equivalent production. However, at the very high end they may be worth the same. For example, the 38ct MN ruby sold in September 2025 was the third largest and the fifth most valuable sold by Gemfields.

Another difficulty in making comparisons is that the classification of MN's premium rubies in 2025 drifted from the original size and quality definition to size only. We expect Gemfields to correct this anomaly to allow better comparisons between MN and Mugloto.

This correction will reduce MN's reported production of premium rubies as well as its premium ruby grades. In the interim, we assume a 30% valuation discount for reported MN and Glass premium ruby grades and production to create a normalised Mugloto-equivalent production index as shown in the table in Figure 8 below.

This figure predicts that although processing volumes will treble, production of premium rubies will only increase by 50% in 2027FY due to the impact of lower grades.

Figure 8: Premium ruby production (kct)

	2024A	2025A	2026F	2027F	2028F	2029F	2030F
Mugloto	38	26	29	62	62	62	62
MN+Stocks	1	48	50	46	46	46	46
Glass	1	1	2	5	5	5	5
Total	40	76	80	112	112	112	112
Normalise	39	61	60	92	92	92	92

Source: Gemfields CPR 2025, SBG Securities estimates

Auction and revenues

MRM, like Kagem, sells variable amounts of high-quality gemstones in its auctions along with less valuable material. The unpredictability of what is offered in these mixed-quality (MQ) auctions is compounded by the fact that there are only two to three auctions or price discovery points a year.

In 2025FY, the December mixed-quality auction was postponed to February 2026 to allow more better-quality stones to be sold. The February revenue of \$53m along with \$50m of earlier MQ sales and \$7m of commercial quality represents the full value of 2025FY's production.

Based on the \$103m 'achieved' in 2025FY, we expect another two mini auctions and one MQ auction to realise \$101m that together with the \$53m sold in February could generate **\$154m** in 2026FY. The \$154m forecast is lower than our previous forecast of \$190m due to the use of the stockpile, the lower grades of both pits and the PP2 delay.

From 2027FY, based on a throughput of **3.5mt** and steady grades, we assume **\$150m/a** revenue from two to three auctions a year. This estimate is also \$40m lower than our previous forecasts.

The impact of ongoing geopolitical events on premium ruby prices has not yet been measured in an auction.

These revenue forecasts are sensitive to our assumption that ruby grades and ruby prices remain steady. Gemfields' recent LOM impairment calculation for MRM shows just how sensitive grade assumptions can be. For a 5% grade decline the loss of value was \$50m, equivalent to a c. 50% reduction of its then \$100m FVU. The reverse would obviously also hold true and that possibility is addressed in our valuation section.

The impact of ongoing geopolitical events on premium ruby prices has not yet been measured in an auction. However, a recent SBG Securities report indicates that high-end jewellery sales are proving resilient. [1Q-CY26 Richemont - Jewellery resilience amid geopolitical risk](#)

Capital and costs

MRM budgeted to spend \$36m on ongoing and expansion capex in 2026FY with \$16m allocated to the expansion. Of the \$16m around \$4m will be paid to Consulmet when the PP2 is commissioned with the balance to be spent on yellow metal.

The need to replace existing equipment as well as to provide capacity for the expansion is the focus of the budget with \$17m to be invested in equipment for both ongoing operations and the expansion. A further \$20m of yellow metal would be required in 2027FY.

This could reduce the 2026FY and 2027FY capex budgets to around \$20m and \$17m respectively and potentially sharpen MRM's mining edge.

The cash flow pressure on MRM from 2027 is causing Gemfields to rethink these budgets and strategy. It is now likely to opt for a three-year mining contract or lease the machines. This could reduce the 2026FY and 2027FY capex budgets to around \$20m and \$17m respectively and potentially sharpen MRM's mining edge.

Although the cost of contract mining⁹ will be higher than the owner-operator model, the expansion should dilute overheads and reduce unit cash costs¹⁰. Current cash costs of \$8.4/t are expected to fall to \$8/t in 2026FY and then to \$5/t¹¹ in 2027FY. This implies that cash costs on the mine will rise from \$48m to \$85m.

Gemfields has been successful in reducing these from \$15m in 2024FY to \$9m in 2025FY and expects them to remain at around \$12m this year.

These cash costs include SGA expenses which are MRM's below-the-GP-line overheads. Gemfields has been successful in reducing these from \$15m in 2024FY to \$9m in 2025FY and expects them to remain at around \$12m this year. Above-the-GP line mine overheads such as security and camp costs have been more difficult to reduce in the current social and insurgency-related environment. (See the *Insecurity* section below.)

Depreciation and amortisation

The D&A charges on MRM's segmental income statement are likely to change materially in the current year from 2025FY's \$19m.

The D&A charges on MRM's segmental income statement are likely to change materially in the current year from 2025FY's \$19m.

This applies both to depreciation arising from the completion of the PP2 plant as well as amortisation of MRM's FVU created when the precursor to GEM acquired the mine in 2017. The conundrum is that MRM has a short reserve-based LOM of less than five years, which could require a rapid increase in charges.

At 2025FY-end, MRM had \$124m of PPE on its balance sheet. Of this, \$82m was PP2-related work in progress which meant that \$43m of PPE generated \$10m of depreciation charges. By the end of this year, we expect the quanta of PPE to be depreciated to rise to \$150m of which PP2 will account for c. \$90m once it is commissioned. (See the *true cost of the Expansion* below.)

⁹ Contract miners can mobilise within 3-6 months. Mobilisation fees are charged. Typically, they would construct their own support infrastructure at Pemba and on-site. Their key return element is performance based which requires them to operate their fleet at utilisation and availability metrics underpinned by their own operators and technicians. They are likely to transfer used equipment for a short-term contract of this nature to allow competitive tenders and with Mozambique's reported reluctance to allow re-exports of yellow metal.

¹⁰ Cash costs include mining and production, SGA and security costs but exclude MMA fees and royalties.

¹¹ Stated on a broken rock basis that includes all ore and waste mined.

The LOM will be shorter than many of those lives and require the plant to be fully written off by the end of 2030.

Ideally, the CPR report should be supported by large-scale bulk sampling which can credibly convert inferred resources into the indicated category.

Large industrial users like MRM usually receive a discount on these retail prices, but have seen similar increases from \$1/l to \$1.55/l

As the plant expands and if EDM is unable to fill the power gap, diesel power generation will increase significantly.

Normal accounting rules would require depreciation of the components of the plant and equipment based on their useful lives. However, the LOM will be shorter than many of those lives and require the plant to be fully written off by the end of 2030. This would imply depreciation charges of c. \$10m in 2025FY could rise to c. \$30m from 2027FY, all things being equal.

To avoid this, GEM must convince auditors that MRM's economic life is longer than four years. The empirical support for this will come from an external CPR report that may be available only in 2027FY. Ideally, this report should be supported by large-scale bulk sampling which can credibly convert inferred resources into the indicated category. Premium grade estimates have become increasingly important given that a further 25% fall could bring the operation to below break even.

In our forecasts, we assume a CPR-approved LOM increase of a further 3 years to 2033 (11mt) and that auditors will allow depreciation charges of \$20m/a over the next three years.

MRM amortised \$8m of the FVU in 2025FY. The amortisation of its current FVU of \$93m will also be affected by the LOM, reducing from 15 years to 4 years and could rise to c. \$15m from 2026 to 2030. LOM extensions will not increase the FVU but could reduce the amortisation rate.

From left field – diesel and the Gulf War

The Gulf War has resulted in a 48% increase in the Mozambican retail diesel price from \$1.25/l to \$1.85/l. Large industrial users like MRM usually receive a discount on these retail prices, but have seen similar increases from \$1/l to \$1.55/l. If oil prices are maintained above \$100/bbl, we expect further price increases in the short term.¹²

Our base case is that the effects of the Gulf War will last a year from July 2026 and that the retail price of diesel will rise from \$1.25/l to average \$2/l in the 12 months from June 2026. We also assume that fuel will be made continuously available through government procurement systems.

MRM used an estimated 9MI of diesel for its diesel generators and its mining fleet in 2025FY, an increase from 7MI in 2024.

The increase was largely due to the startup of the PP2 plant which doubled MRM's power requirement to 15.5kWh. The state electricity company (EDM) was largely unable to provide additional power due to inadequate infrastructure. As a result, MRM had to generate 9.7kWh, or four times more power through its diesel generators and use 3MI of fuel at a cost of c. \$4m.

As the plant expands and if EDM is unable to fill the power gap, diesel power generation will increase significantly. The scenario shown in Figure 9 below predicts diesel used for power will increase from c. 3MI to 5MI in 2026FY. If the retail diesel price rises to \$2/l, unbudgeted diesel power costs could be \$3m.

¹² Diesel prices at the pump increased from \$1.25/l to \$1.85/l on 5 May. Large industrial consumers like MRM that previously paid \$1/l are now paying \$1.55/l. FOB import prices have risen from \$730/t (\$0.6/l) in February 2026 to \$1,480/t (\$1.25/l) in April so the latest increase kept tax receipts at \$0.6/l. A Brent oil price of \$110/bbl will require further increases. Our estimates assume MRM's prices will increase to \$1.85/l and that retail prices increase to a \$2/l over the next 12 months. Shortages and rationing have been reported at city pumps, mostly due to pre-emptive buying by consumers, but Mozambique authorities acknowledge that forex shortages are also a factor.

Figure 9: MRM diesel consumption for power generation

	2024A	2025A	2026F	2027F	2028F
Processed Ore (mt)	1 072	1 391	2 600	3 500	3 500
Solar (MWh)	38	38	38	38	38
EDM (MWh)	5 100	5 819	6 500	6 500	6 500
Diesel (MWh)	2 452	9 673	22 062	31 962	31 962
Total (MWh)	7 590	15 530	28 600	38 500	38 500
Power (MWh/t ore)	7,1	11	11	11	11
Diesel CF (l/MWh)	300	300	300	300	300
Diesel Use (M. litres)	1	3	7	10	10

Source: Gemfields 2025 AR, SBG Securities estimates

The impact of the Gulf War would be greater for the mining fleet. In 2025FY, the fleet used c. 6MI as shown in Figure 10, which could increase to 8MI in 2026FY and 14MI/a from 2027FY.

Figure 10: MRM fleet diesel consumption

	2024A	2025A	2026F	2027F	2028F
Mined Ore+Waste (Mt)	8,0	6,8	6,6	16,0	16,0
Fleet (MWh)	61 983	70 006	63 642	169 712	169 712
Net CV CF (l/KWh)	10,2	10,2	10,2	10,2	10,2
Diesel Use (M. litres)	6	7	6	17	17

Source: Gemfields 2025 AR, SBG Securities estimates

Based on total diesel consumption rising to 13MI in 2026FY and 22MI in 2027FY and an increase in retail diesel costs to \$2/l for a 12-month period from May 2026, MRM's unbudgeted costs could rise from \$5m in 2026FY to c. \$10m in 2027FY. If diesel supplies are interrupted or if the diesel fuel price increases last for longer than 12 months, the consequences would be more severe.

The large increase in diesel consumption from 9MI to 22MI in two years indicates that MRM or its supplier will have to build large diesel storage tanks at both Pemba and on-site.

More from the left field – regulatory and fiscal issues

Although Mozambican mining regulations and fiscal policies have been generally favourable or stable for Gemfields, there have been recent negative developments that have a connection to Mozambique's chronic forex shortages.

One of these was the temporary requirement for exporters to surrender 50% of dollar revenues into meticaïs. This requirement has been renewed and may become permanent. Until now, this has not been an issue since most of MRM's production costs are metical related, including power, fuel, labour and taxes.

In the future, this regulation may become a problem when and if MRM profits grow to the point that it cannot use the local currency and needs to convert the meticaïs into USD-based payments, such as MMA fees and mineral royalties. Conversion of excess meticaïs to USD is already a lengthy process because of Mozambique's thin forex market.

At present, Gemfields believes that the repayment of its USD-denominated debt will be allowed before meeting the foreign exchange surrender regulation.

MRM does not sell goods in the country, so it does not create a VAT credit from its business activities. Until now it has not paid VAT on services but has paid VAT on other expenses, including imports, which the MTA is required to repay. Substantial repayment delays required Gemfields to relegate \$30m of VAT receivables to the long-term asset category in 2025FY which it is attempting to recover.

This requirement has been renewed and may become permanent.

At present, Gemfields believes that the repayment of its USD-denominated debt will be allowed before meeting the foreign exchange surrender regulation.

More recently, Gemfields was issued with a counterclaim from the MTA that calculated MRM's outstanding VAT liability for payments made for services over previous years

However, this depends on the untested ability of the MTA to repay its VAT liabilities.

These proposals would create significant barriers to new miners such as a non-dilutable 15% share to be held by ENM, a state entity.

More recently, Gemfields was issued with a counterclaim from the MTA that calculated MRM's outstanding VAT liability for payments made for services over previous years for a very similar amount to MRM's long-term VAT receivable.

This claim is being disputed but if it is not resolved in MRM's favour, it could have two possible effects. The first is that it would require c. \$30m of historical VAT liabilities to be repaid by MRM, which could be a one-off cash outflow. The second is that it may lift the assumed VAT exemption on services including MMA fees and contract mining expenses. If so, MRM would be forced to pay VAT at 16% on c. \$50m/a of additional costs adding \$8m/a to its annual cash costs.

The legal framework for VAT has been changed and requires the MTA to facilitate the repayment of overdue VAT accounts in 150 days. So, any one-off VAT payment as well as the additional ongoing VAT expenses and the previous VAT payments should be reimbursed. However, this depends on the untested ability of the MTA to repay its VAT liabilities. What is certain is that a successful claim would negatively affect MRM's ability to pay its MMA fees.

The next left field surprise could come from Mozambique's recently published draft Mining Act amendments. These proposals would create significant barriers to new miners such as a non-dilutable 15% share to be held by ENM, a state entity. Others, such as the restrictive conditions around transfer and encumbrance of mining rights as well as moveable assets would affect existing mining companies. Another proposal is interpreted by the media as requiring the transfer of 10% of revenue to local community development. [Link](#)

Profits and cash flows

The table in Figure 11 below shows what we expect from MRM's profits and cash flows over the next three years. In 2026FY, there should be a GP profit which will fall from 2027FY if grades don't recover. This would be the result of both higher cash costs as well as non-cash charges as discussed above.

Figure 11: MRM profit/loss forecasts

	2025A	2026F	2027F	2028F
Revenue	50	153	150	150
Mining and Production Costs*	- 39	- 58	- 73	- 73
Mineral Royalties	- 6	- 18	- 17	- 17
MMA	- 6	- 18	- 18	- 18
Inventory Changes	17	- 10	- 10	- 10
Depreciation	- 10	- 15	- 20	- 20
Amortisation	- 9	- 15	- 15	- 15
Gross Profit	- 3	19	- 3	3
SGA**	- 9	- 11	- 12	- 13
Loss/Profit from Ops	- 12	8	- 15	16

Source: Gemfields 2025 AR, SBG Securities estimates

Figure 12 shows MRM to be strongly cash flow positive after operating and investment cash flows in 2026FY but with a far tighter balance after debt and interest repayments from 2027FY. This model assumes that capex is reduced by contract mining and that little tax is paid.

Figure 12: MRM cash flow forecasts (\$m)

	2025A	2026F	2027F	2028F
Revenue	50	153	150	150
Operating Costs	37	97	112	113
MMA	6	18	17	17
Inventory	17	10	10	10
Work Capital	35	20	15	15
Capex	36	20	17	17
Total	63	106	122	123
CF From Op and Investing	13	47	29	28
Term Loan Repayments	0	0	-20	-20
Overdraft Finance Charges	-3	-3	-3	-3
Overdraft (+/-)	10	0	0	0
Dividend Payments	0	0	0	0
Free Cash Flows	6	44	6	5

Source: Gemfields 2025 AR, SBG Securities estimates

Our scenario shows MRM to be strongly cash flow positive after operating and investment cash flows in 2026FY but with a far tighter balance after debt and interest repayments from 2027FY.

We do not consider any payment that may have to be made to settle the MTA's claim for outstanding VAT payments. If this claim must be settled, MRM's liquidity would be severely affected and potentially be unaffordable. We also do not consider the implication of the many recent draft amendments to Mozambican mining law such as the proposal to extract 10% of revenues from mining companies over and above the royalty requirements already in place.

The impact of deferring dividends and MMA fees to the centre will be that the cash held by corporate will have to be used to cover its ongoing SGA expenses as well as the residual payments to keep its development assets alive. This scenario means that GEM corporate may have to continue to draw down its cash resources to support its c. \$27m head office and other expenses.

GEM's corporate cash holdings may become a significant metric over the next three years given the need to hold up to \$25m of insurance against a second covenant default.

GEM's corporate cash holdings may become a significant metric over the next three years given the need to hold up to \$25m of insurance against a second covenant default.

Impairments

In 2025FY, Gemfields impaired MRM's FVU by **\$35m**. This was based on declining recovered grades and lower than expected or conservative prices for its MN rubies. The LOM calculation also used the last three auction results for the value of Mugloto production although these have not changed materially.

As a result of the impairment and an \$8m amortisation charge, the FVU reduced to \$93m by 2025FY-end. Ironically, the impairment has reduced GEM's NAV discount.

The dynamics behind the next, 2026FY, evaluation may be complex. The shorter the LOM, the higher the discounted cash flow that could result. On the other hand, if current grades persist the remodelled LOM revenues from Mugloto and MN would fall.

There is not sufficient information to estimate the outcome, but the sensitivity of the 2025FY LOM calculations to grade declines suggests that a further impairment is probable.

Insecurity

MRM has considerable security issues related to illegal miner activity as well as from terrorist activity in Cabo Delgado.

Insurgent activity increased markedly in April after the end of Ramadan with at least 15 incidents reported in the last three weeks of April with several civilians and soldiers killed. One focal area was west of Meluco, about 60km NE of MRM and another recent incident occurred 16km away. (*zitamar.com*)

Activity is sporadic and is often undertaken by small, poorly armed groups but the trend over time appears to show increased activity after a relatively quiet 2024. The presence of Tanzanians has been reported suggesting the spread of recruitment networks.

Gemfields reports that *"to mitigate the risk, MRM, with support from the government of Mozambique have deployed additional military inside and outside of operational areas, and MRM started regular flights between Pemba and Montepuez, largely replacing road transportation through high-risk areas. The airstrip inside the mine is being maintained for emergency evacuation."*

The incidence of **illegal mining** and confrontations with illegal miners has also increased, initially because of the disputed October elections. These incidents have been associated with increasingly hostile actions against mine infrastructure as well as against police.

Gemfields also alerted investors to these risks;

"The impact of October 2024 public unrest was felt throughout 2025 due to failure of law-and-order mechanisms. MRM could see a huge influx of aggressive illegal miners in larger groups causing several acts of vandalism and attacks on MRM properties and people. Several attacks on public infrastructure and law enforcement agencies were observed throughout the country."

These risks to our valuations are accounted for in our real discount rate of 25% as well as in our estimates of 3.5mt processing rates. However, a severe incident could have a large impact on share prices.

Gemfields has escalated the issue to the Presidency to combat the problem more effectively.

The true cost of the expansion?

The PP2 expansion was initially estimated to be **\$70m**, payable to Consolmet in phases with the final payment due when it completes its hot commissioning tests. The contract is turnkey and priced in rands.

In practice, the cost of PP2 increased to \$82m in 2025FY. This is the result of the capitalisation of \$5m of term loan interest, some power infrastructure costs and customs fees. All operating costs have been expensed.

In the year ahead, capitalised interest could add a further \$4m to the total as well as the final Consolmet payment of \$4m with some additional costs of c. \$4m related to scope changes or plant design changes.

So, although the final cost of the Consolmet contract is likely to be close to \$70m, we expect about \$94m of PP2's WIP to be transferred to 'active' PPE when the PP2 is commissioned in Q3 2026.

So, although the final cost of the Consolmet contract is likely to be close to \$70m, we expect about \$94m of PP2's WIP to be transferred to 'active' PPE when the PP2 is commissioned in Q3 2026.

Finally, to match the expanded new plant capacity, about \$30m of new equipment would have been required. Although a contract miner will remove this requirement, it will be buried in their terms albeit for older, used equipment. So, from this perspective, PP2 would have ended up costing GEM c. **\$124m**.

Companies Mentioned (Price as of 20 May 2026)

Gemfields (GMLJ.J, R0.890, FVVR: R0.96/s – R1.82/s)

Disclosure Appendix

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GMLJ.J	Closing	Future Value	Coverage
Date	Price	Valuation Range	
2025-11-05	1.29	1.28 - 2.19	Current Analyst

Analysts' stock ratings are defined as follows*:

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Price Target: (12 months) for (GMLJ.J)

Methods: Our valuation of Gemfields is based on a sum-of-the parts DCF estimate of its 75% ownership of its two operations MRM and Kagem. We separate the MMA fee income from the underlying asset value and assume all fees are paid in full in the year they are incurred. The DCF uses a 25% real discount rate to reflect the country, and geological risk attached to GEMs operations. Balance sheet cash and debt is used to adjust the final value. Our optimistic case allows for a 25% increase in premium ruby grades at MRM and a 10% increase in revenues/grade and Kagem

Risks: The company has an unusual number of risks attached to its business, even for a commodity company. The risks range from the two jurisdictions the company operates in, which are under fiscal and financial pressures which have resulted in ad hoc changes to regulations. The gemstone market is opaque and rough stones can only be valued at the few auction held during the year. The additional layer of risk is attached to the geology of these unusual deposits which have prevented accurate grade projections

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