Wednesday, 11 March 2020

Gem Diamonds Limited
Full Year 2019 Results

Gem Diamonds Limited (LSE: GEMD) ("Gem Diamonds", the "Company" or the "Group") announces its Full Year Results for the year ending 31 December 2019 (the "Period").

FINANCIAL RESULTS:
- Revenue of US$182.0 million (US$267.3 million in 2018)
- Underlying EBITDA from continuing operations of US$41.0 million (US$87.7 million in 2018)
- Profit for the year from continuing operations US$15.0 million (US$52.4 million in 2018)
- Attributable profit from continuing operations US$7.1 million (US$31.7 million in 2018)
- Earnings per share from continuing operations 5.1 US cents (22.9 US cents in 2018)
- Cash on hand of US$11.4 million as at 31 December 2019 (US$9.2 million attributable to Gem Diamonds)

OPERATIONAL RESULTS:
Letšeng
- Carats recovered of 113 974 (126 875 carats in 2018)
- Waste tonnes mined of 24.0 million tonnes (25.8 million tonnes in 2018)
- Ore treated of 6.7 million tonnes (6.5 million tonnes in 2018)
- Average value of US$1 637 per carat achieved (US$2 131 in 2018)
- Eleven diamonds larger than 100 carats each recovered (fifteen in 2018)
- The highest dollar per carat achieved for a white rough diamond during the year was US$48 255 per carat

Lease renewal
The signing of the new mining lease in October 2019 secures Gem Diamonds' mining right at Letšeng until 2039. The new lease sees the royalty rate on diamond sales increase from 8% to 10%, shareholding in the mine remain unaltered (Gem Diamonds at 70% and Government of the Kingdom of Lesotho at 30%) and an increase in the number of work permits that may be granted.

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

Commenting on the results today, Clifford Elphick, Chief Executive Officer of Gem Diamonds, said:

"Gem Diamonds delivered solid operational results which together with the targeted gains of the Business Transformation programme and continued emphasis on cost controls, confirmed our status as one of the lowest-cost producers in the industry."

The operational results were characterised by the achievement of all guided operational metrics and the recovery of 11 diamonds greater than 100 carats each, which also brought the total number of diamonds of greater than 100 carats recovered at the Letšeng mine to 100. This, together with a 13.32 carat pink diamond that was recovered and sold for a Letšeng record of US$656 934 per carat, reaffirms the unique quality of the Letšeng production.

The Letšeng mining lease was renewed for an effective 20-year period which creates long-term stability for Letšeng. This, together with the continued emphasis on cost controls, positions the Company well for an upturn in the market for Letšeng's quality production which appears to have begun."

The Company will host a live audio webcast presentation of the full year results today, 11 March 2020, at 9:30 GMT. This can be viewed on the Company's website: www.gemdiamonds.com.

The page references in this announcement refer to the Annual Report and Accounts 2019, which can be found on the Company's website: www.gemdiamonds.com.

The Gem Diamonds Limited LEI number is 213800RC2PGGMZQG8L67

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ABOUT GEM DIAMONDS:
Gem Diamonds is a leading global diamond producer of high value diamonds. The Company owns 70% of the Letšeng mine in Lesotho. The Letšeng mine is famous for the production of large, top colour, exceptional white diamonds, making it the highest dollar per carat kimberlite diamond mine in the world.

CHAIRMAN'S STATEMENT

Resilience in the face of tough economic conditions.

Dear shareholders,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investor Mining and Tailings Safety Initiative – Church of England[1]
- 727 companies contacted for disclosure
- Only 47% of companies responded
- Companies who did respond represent 83% of the mining industry by market capitalisation

[1] *Information as at 8 March 2020.*

Gem Diamonds voluntarily disclosed all relevant details of its TSFs.

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

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

GENERATING SUSTAINABLE RETURNS FOR OUR SHAREHOLDERS

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

GOVERNANCE TO SUPPORT SUSTAINABLE VALUE CREATION

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

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

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

OUR PURPOSE

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

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

OUTLOOK

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

APPRECIATION

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

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

SECTION 172 OF THE UK COMPANIES ACT 2006

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

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

Stakeholder engagement is also detailed throughout the report.

Harry Kenyon-Slaney
Chairman

10 March 2020

VIABILITY STATEMENT

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

While the Group maintains a full business model, based predominantly on the life of mine (LoM) plan for Letšeng, the Group's annual business and strategic planning process also uses a three-year time horizon. This process is led by the CEO and involves all relevant functions including operations, technology and innovation, sales and marketing, finance, treasury and risk. The Board participates in the annual review process through structured Board meetings and annual strategic sessions. A three-year period provides sufficient and realistic visibility in the context of the industry and environment in which the Group operates, even though LoM, the mining lease tenure and available estimated reserves exceed three years.

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

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

The scenarios tested considered the Group's revenue, EBITDA[1], cash flows and other key financial ratios over the three-year period. The scenarios tested included the compounding effect of the factors below.

Effect	**Extent of sensitivity analysis**	**Related principal risks**	**Area of business model affected**
A decrease in forecast rough diamond revenue from reduced market prices or production volumes	18%	• Rough diamond demand and prices • Production interruption • Knowledge of resource	• Entire business model ie inputs, activities, outputs and outcomes
A strengthening of local currencies to the US dollar from expected market forecasts	7%	• Currency volatility	• Financial capital inputs and outcomes
Impact of amended tax assessment being payable prior to the resolution of the objection lodged. Refer Note 1.2.28, in the financial statements	Full payment within viability period	• Cash generation	• Financial capital inputs

The Group's current net debt[2] position of US$10.2 million as at 31 December 2019 and available standby facilities of US$69.9 million would enable it to withstand the impact of these scenarios over the three-year period. This position is supported by the cash-generating nature of the Group's core asset, Letšeng, and its flexibility in adjusting its operating plans within the normal course of business.

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

HOW WE APPROACH RISK

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

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

Oversight	**BOARD OF DIRECTORS** The Board is accountable for risk management within the Group. It provides stakeholders with assurance that key risks are properly identified, assessed, mitigated and monitored. The Board maintains a formal risk management policy for the Group and formally evaluates the effectiveness of the Group's risk management process. It confirms that the risk management process is accurately aligned to the Group's strategy and performance objectives.	**Top-down approach –** setting the risk appetite and tolerances, strategic objectives and accountability for the management of the risk management framework
Governance	**AUDIT COMMITTEE** The Audit Committee monitors the Group's risk management processes, reviews the status of risk management, and reports on a biannual basis. It is responsible for addressing the corporate governance requirements of risk management and for monitoring each operational site's performance with risk management. **HSSE COMMITTEE** The HSSE Committee provides assurance to the Board that appropriate systems are in place to identify and manage health, safety and environmental risks.	
Responsibility	**MANAGEMENT** Management is accountable to the Board for developing, implementing, communicating and monitoring risk management processes and integrating them into the Group's day-to-day activities. It identifies risks affecting the Group, including internal and external, current and emerging risks. It implements appropriate risk responses consistent with the Group's risk appetite and tolerance. **GROUP INTERNAL AUDIT** Group Internal Audit formally reviews the effectiveness of the Group's risk management processes. The outputs of risk assessments are used to compile the strategic three-year rolling and annual internal audit coverage plan and evaluate the effectiveness of controls.	**Bottom-up approach** – ensures a sound risk management process and establishes formal reporting structures

RISK MANAGEMENT FRAMEWORK

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

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

Risk type	External	Operational	Strategic and operational	Operational	Operational	Strategic	Operational
Description	**Rough diamond demand and prices**	**Diamond damage**	**Knowledge of the resource**	**Cash generation**	**Security of product**	**Growth and return to shareholders**	**Workforce**
Impact	Numerous factors beyond the control of the Group may affect the price and demand for diamonds. These factors include international economic and political trends, as well as consumer trends. Even though the medium to long-term demand is forecast to outpace supply, in the short term the prevailing climate of global economic	Letšeng's valuable Type II diamonds are highly susceptible to damage during the mining and recovery process.	Letšeng's low grade orebodies (average carats recovered per tonne of ore processed) and its dependence on the regular recovery of large high-quality diamonds makes the operation sensitive to resource variability. Mineral resource underperformance affects the Group's ability to operate profitably.	Reduced cash flows may negatively affect the Group's ability to effectively operate, repay debt and fund capital projects. The risk is directly impacted by other principal risks such as rough diamond demand and prices, diamond damage, knowledge of the resource and security of product.	Theft is an inherent risk in the diamond industry. The high-value nature of the product at Letšeng could result in theft and significant losses which will negatively affect revenue and cash flows.	The volatility of the Group's share price and lack of growth negatively impacts the Group's market capitalisation. Constrained cash flows also add pressure on returns to shareholders. The Group currently relies on a single mine for its revenues, profits and cash flows.	Achieving the Group's objectives and sustainable growth depends on its ability to attract and retain key suitably qualified and experienced personnel. Gem Diamonds operates in an environment and industry where experience and skills shortages are prevalent, and in jurisdictions with localisation policies.

Risk type	External	Operational	Strategic and operational	Operational	Operational	Strategic	Operational
	uncertainty and liquidity constraints within the diamond sector is causing pressure in rough diamond pricing. These trends are discussed on page 6 and directly affect Gem Diamonds' cash flows and EBITDA and its ability to fund operations, projects and growth plans.						
Opportunity if managed	Additional viewings in new areas could introduce new clients and improve prices realised.	Improvements to blasting techniques and introducing new technology can reduce damage, thereby improving value recovered.	Improving knowledge of the orebody through bulk sampling, geological mapping and ahead of face drilling supports effective forecasting and the ability to plan accurately and optimally, which will improve operating efficiencies and cash flows.	Cash constraints drive more efficient capital allocation and cost disciplines.	Advanced security control measures increase employees' and product's safety and improves revenue.	Delivery on the strategy should improve cash flows, reinforce the balance sheet strength and improve shareholder returns, thereby strengthening Gem Diamonds' position in the industry.	Retaining skills and continuous improvement initiatives build the Group's human capital and can create a competitive advantage.
Key priorities	• Extracting maximum value from our operations • Preparing for our future	• Extracting maximum value from our operations • Preparing for our future	• Extracting maximum value from our operations • Preparing for our future	• Extracting maximum value from our operations • Preparing for our future	• Extracting maximum value from our operations • Working responsibly and maintaining our social licence	• Extracting maximum value from our operations • Preparing for our future	• Extracting maximum value from our operations • Working responsibly and maintaining our social licence • Preparing for our future
Area of business model affected	• Funding the business model • Sales and marketing activities • Chosen distribution channels	• Increase diamond pricing • Outputs of carats recovered • Reduced financial inputs • Increased financial outputs	• Natural capital inputs and outputs of carats recovered • LoM affects the long-term viability of the business model	• Funding the business model	• Outputs of carats recovered • Increase financial outputs • Human capital and safety outcomes	• Viability of business model and financial capital	• Human, intellectual and financial capital inputs into the business model
Mitigation	• Monitoring market conditions and trends • Flexibility in sales processes and the utilisation of multiple sales and marketing channels, and increased viewing opportunities • Reassessing capital projects and operational plans to align with market conditions and preserve cash balances	• Continuous diamond damage monitoring and analysis to identify opportunities to reduce diamond damage • An online system is in place to monitor plant parameters and evaluate trends within the treatment process • An on-mine Diamond Value Management Committee oversees and drives the focus of overall value recovery	• Furthering orebody knowledge through various bulk sampling programmes, combined with geological mapping and modelling methods • Improving confidence in ore volumes and grades per rock type through grade control, reduced ore blending, increased bulk sampling, measuring (density and moisture content), regularly updating geological models, monitoring and controlling external and internal dilution and waste rafts	• Reassessment of capital expenditure and operational strategies • Treasury management practices in place • Access to available facilities • Delivering of BT targets • Regular review of the mine plan to optimise cash flow and to identify rescheduling opportunities	• An advanced security access control and surveillance system is in place complimented by off-site surveillance • Zero tolerance on non-conformance to policy and regulations • The Diamond Recovery Protection Committee (a sub-Committee of the Letšeng Board) monitors security process effectiveness • Appropriate diamond specie insurance cover in place • Regular vulnerability assessments complimented with internal and independent third-party assurance audits undertaken	• Group strategy review performed with objective of improving the share price through: • Renewing the Letšeng mining lease • Delivering the BT target • Reviewing capital allocation • Implementing early identification and anti-breakage technology • Assessing diversification opportunities	• Human resources practices are designed to identify skills shortages and implement development programmes and succession planning for employees. • Incentives are in place to retain key individuals through performance-based bonus and long-term share awards. • Remuneration committees are set-up at a subsidiary level, which review current remuneration policies, skills and succession planning.

Risk type	External	Operational	Strategic and operational	Operational	Operational	Strategic	Operational
			and focusing on waste management • Improving understanding of diamond populations, size frequency distributions and value profiles per kimberlite type through rigorous daily and monthly data plotting and trend analysis.				
Heatmap key	1	2	3	4	5	6	7
Risk exposure	Increased	Decreased	Increased	Increased	Decreased	Increased	No change

Risk type	External and operational	Operational	External	Operational	External and operational	Operational	External
Description	**Environmental**	**Sustainability of Business Transformation**	**Social licence to operate**	**Production interruption**	**Information Technology Systems (IT) and cybersecurity**	**Health and safety**	**Currency volatility**
Impact	Climate and environmental issues, such as recent dam failures, are recognised as top global risks by the World Economic Forum and investors are increasingly focussed on environmental performance. Failure to manage vital natural resources, environmental regulations and pressure from neighbouring communities can affect the Group's ability to operate sustainably.	The BT process identified savings and efficiencies of US$100 million over four years from 2018, with ongoing sustainable benefit of US$30 million per annum from 2022 onwards. The sustainability of the BT benefit is highly dependent on organisational health, change management, skills, workforce motivation and behaviour and contract renegotiations. Failure to sustain the savings identified could impact the Group's cash resources.	Gem Diamonds' social licence to operate arises from the approval of its stakeholders, particularly employees, regulators, communities and society, to conduct its business. This approval is an outcome of the way the Group manages issues such as ethics, labour practices and sustainability in our wider environment, as well as our risk management and engagement activities with stakeholders.	Material mine and/or plant shutdowns or periods of decreased production could arise from various events. These events could lead to personal injury or death, environmental impacts, damage to infrastructure and delays in mining and processing activities and could potentially result in monetary losses and possible legal liability. The Group relies on the use of external contractors in its mining and processing activities. Disputes with these contractors could materially impact the Group's operations.	The Group's operations rely on secure IT systems to process and record financial and operating data in its information management systems. If these IT systems are compromised, there could be a material adverse impact on the Group.	The risk that a major health or safety incident, such as recent dam failures, may occur within the Group is inherent in mining operations. These risks could impact the wellbeing of employees, our licence to operate, the Company's reputation and compliance with debt facility agreements.	The Group receives its revenue in US dollars, and costs are incurred in the local currency of the countries in which the Group operates. Exchange rate volatility between these currencies and the US dollar impacts the Group's profitability and cash flow.
Opportunity if managed	Responsible environmental stewardship improves relationships with regulators and communities while strengthening our brand. Increased investor focus on environmental responsibility could translate into a competitive advantage.	Delivery of the BT target improves cash flow, credibility and positions the Group ahead of the industry.	Realising the Group's vision to make a meaningful and sustainable contribution to the countries in which we operate builds Gem Diamonds' reputation with government, regulators, communities and investors.	Operating at or near steady state levels, improve efficiencies due to stability of production. Focused contract management impacts positively on cash generation through improved procurement and contract renegotiation practices.	IT solutions such as machine learning and artificial intelligence could provide an opportunity to assess mining and processing practices which could improve efficiencies and diamond recoveries. Technologies such as blockchain offer opportunities to create value in the Group's sales and marketing channels (see page 38).	Improving employee health and wellness can increase morale, reduce absenteeism and improve productivity. Ensuring that effective safety policies and processes are in place reduces risk to our workforce, strengthens our relationships with employees and regulators, and safeguards the Group's reputation.	Earning capability in currencies stronger than currencies in which operational costs are incurred result in maximum financial benefit to Letšeng.
Key priorities	• Extracting maximum value from our operations • Working responsibly and	• Extracting maximum value from our operations • Working responsibly and	• Working responsibly and maintaining our social licence • Preparing for our future	• Extracting maximum value from our operations • Working responsibly and	• Extracting maximum value from our operations • Preparing for our future	• Extracting maximum value from our operations • Working responsibly and	• Extracting maximum value from our operations

Risk type	External and operational	Operational	External	Operational	External and operational	Operational	External
	maintaining our social licence • Preparing for our future	maintaining our social licence • Preparing for our future		maintaining our social licence		maintaining our social licence	
Area of business model affected	• Natural capital inputs into the business model and negative outcomes in the case of environmental incidents	• Entire business model	• Social capital and viability of business model	• Reduced operational activity could lead to a decline in financial capital and outputs • Negative outcomes decline natural and human capital.	• Entire business model	• Social, relational and human capital and viability of business model if outcomes are negative	• Financial capital inputs and outcomes
Mitigation	• Implemented appropriate Sustainability and Environmental policies which are subject to a continuous improvement review • The current behaviour-based care programme instils environmental stewardship • A climate change adaptation plan has been implemented • A dam safety management framework has been implemented • Annual social and environmental management plan (SEMP) audit program has been implemented • ISO 14001 accreditation obtained • Adopted a UN SDG framework	• Dedicated BT task team • Monitoring through weekly cadence meetings • Delivered US$55 million to date, with medium/low risk of delivering remaining balance.	• Appropriate health, safety and sustainability policies are in place and subject to continuous improvement reviews • The new mining lease caters for appropriate CSI spend • Adopted a UN SDG framework	• Continuous review of business continuity plans • A bespoke contract management role has been fulfilled to ensure proper contract management and minimise the potential for disputes • Maintaining appropriate insurance • Maintaining appropriate levels of resources (fuel, stockpiles etc.) to mitigate certain production interruptions • Improvements implemented in the management of contractors' procurement practices.	• Application of technical and process IT controls in line with industry-accepted standards • Appropriate back-up procedures are in place • Firewalls and other appropriate security applications are in place • Regular testing of back-up restorations are performed • Consultations with professional external advisors take place when there is a need to better understand evolving risks and any mitigating factors to be implemented.	• Implemented appropriate Health and Safety policies and practices which are subject to continuous improvement reviews • Corrective actions identified from incident investigations and internal and external audits are implemented timeously • A dam safety management framework has been implemented • ISO 45001 accreditation obtained.	• A framework to enter into short-term hedging instruments is in place • Appropriate treasury management procedures are in place
Heatmap key	8	9	10	11	12	13	14
Risk exposure	New separately defined risk	Decreased	New separately defined risk	Decreased	New separately defined risk	Increased	Decreased

ENGAGING OUR STAKEHOLDERS ON RISK
S172 (1)(a)-(f)

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

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

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

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

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

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

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

Engaging PACs
The Group actively participates and invests in Corporate Social Initiatives for its project-affected communities (PACs), in accordance with a needs analysis informed investment strategy.
Community representatives sit on the operational corporate social responsibility (CSR) committees.

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

Management evaluates emerging risks and presents them to the Board for consideration and evaluation.
Emerging risks are risks that:
- are likely to materialise or impact over a longer timeframe than existing risks;
- do not have much to reference to by means of prior experience; and
- are likely to be assessed and monitored against vulnerability, velocity and preparedness when determining likelihood and impact.

The current emerging risks on the Group's radar are:
- lab-grown diamonds; (15)
- generational shifts in consumer preferences – social influencers; (16)
- the rate of advancement of digital technologies such as blockchain; (17)
- future workforce (automation, skills for the future etc.); (18) and
- Covid-19 (coronavirus): The sudden outbreak of the virus has the potential to create short-term uncertainty in global markets and to disrupt the viewing of diamonds to be sold at upcoming tenders, which can negatively affect demand and price. In addition, it could also impact the availability and cost of imported goods required for mining operations. The risk is monitored and mitigated in conjunction with the current principle risks relating to 'rough diamond demand and prices' and 'production interruption'. (19)

CHIEF EXECUTIVE'S REVIEW

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

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

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

EXTRACTING MAXIMUM VALUE FROM OUR OPERATIONS

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

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

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

Revenue decreased 32% to US$182.0 million (2018: US$267.3 million), which translated into underlying EBITDA[1] of US$41.0 million and earnings per share of 5.1 US cents. Although the Group returned to a cash generative position in Q4 2019, cash flow from operations decreased 60% to US$55.5 million during 2019, resulting in net debt at year-end of US$10.2 million, compared to net cash[2] of US$17.5 million at the end of 2018. The Group's financial results are discussed in detail in the Group Financial Performance report on page 26.

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

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

WORKING RESPONSIBLY AND MAINTAINING OUR SOCIAL LICENCE

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

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

Safeguarding our communities

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

Supporting local communities and contributing to national priorities

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

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

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

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

PREPARING FOR THE FUTURE

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

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

The diamond detection in kimberlite pilot plant was completed and commissioned on budget during the year. The plant is validating and testing two key technologies to identify locked diamonds within kimberlite and to liberate diamonds using a non-mechanical process to limit diamond damage and lower operating costs.

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

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

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

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

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

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

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

Clifford Elphick
Chief Executive Officer

10 March 2020

GROUP FINANCIAL PERFORMANCE

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

SUMMARY OF FINANCIAL PERFORMANCE

While 2019 was a year of good operational performance and progress on our BT initiatives and other strategic objectives, revenue and EBITDA[1] declined on weaker diamond prices. Tender revenues tracked the weaker market for rough diamonds and 11 diamonds greater than 100 carats were recovered during the year, compared to 15 in 2018, which included the Lesotho Legend that sold for US$40 million.

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

Underlying EBITDA[1] from continuing operations decreased to US$41.0 million from US$87.7 million. Profit attributable to shareholders from continuing operations for the year was US$7.1 million, equating to earnings per share from continuing operations of 5.1 US cents on a weighted average number of shares in issue of 139.0 million. After including the loss of US$4.5 million from the Ghaghoo discontinued operation, the Group's attributable profit was US$2.6 million with earnings per share of 1.9 US cents.

Net cash[2] in the prior year of US$17.5 million, decreased to a net debt[2] position of US$10.2 million at year end. Notwithstanding the lower revenue, the Group continued to invest into future waste stripping and capital expenditure during the year.

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

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

US$ million	**2019**	2018[3]
Revenue	**182.0**	267.3
Royalty and selling costs	**(16.9)**	(22.9)
Cost of sales[4]	**(114.7)**	(146.7)
Corporate expenses	**(9.4)**	(10.0)
Underlying EBITDA[5] from continuing operations	**41.0**	87.7
Depreciation and mining asset amortisation	**(14.7)**	(8.5)
Share-based payments	**(0.8)**	(1.4)
Other income	**1.1**	0.4
Other expenses	**(0.3)**	–
Foreign exchange gain	**3.6**	2.2
Net finance costs	**(5.8)**	(1.7)
Profit before tax from continuing operations	**24.1**	78.7
Income tax expense	**(9.0)**	(26.4)
Profit for the year from continuing operations	**15.1**	52.3
Non-controlling interests	**(8.0)**	(20.6)
Attributable profit from continuing operations	**7.1**	31.7
Loss from discontinued operations	**(4.5)**	(5.7)
Attributable net profit	**2.6**	26.0
Earnings per share from continuing operations (US cents)	**5.1**	22.9
Loss per share from discontinued operations (US cents)	**(3.2)**	(4.1)

Revenue
Revenue of US$182.0 million was generated at Letšeng, achieving an average price of US$1 637 per carat[6] (2018: US$2 131 per carat). In the first half of the year, a 13.32 carat pink diamond was recovered that sold for a Letšeng record of US$656 934 per carat and contributed US$8.8 million to revenue. The Group sold 27 diamonds for more than US$1.0 million each, contributing US$68.2 million to revenue.

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

[1] Refer Note 4, operating profit on page 130, for the definition of non-GAAP measures.
[2] Net cash/(debt) is calculated as cash and short-term deposits less drawn down bank facilities (excluding asset-based finance facility).
[3] Prior year comparatives have been restated due to the recognition of the discontinued operation
[4] Including waste stripping costs amortisation but excluding depreciation and mining asset amortisation.
[5] Underlying EBITDA as defined in note 4 of the notes to the consolidated financial statements.
[6] Includes carats extracted at rough valuation and carry-over inventory.

Letšeng 12-month rolling average (US$ per carat)	
Q4 2018	2 131
Q1 2019	1 769

Q2 2019	1 612
Q3 2019	1 507
Q4 2019	1 637

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

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

Expenditure

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

Total operating costs in local currency decreased by 14% to Lesotho loti (LSL)1 649.6 million compared to LSL1 928.0 million in 2018, resulting in total operating costs per tonne treated of LSL245.92, which is 17% lower than 2018 of LSL295.14 per tonne treated.

UNIT COST PER TONNE TREATED

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

Direct cash cost[2] per tonne is LSL150.61, representing a 6% increase from 2018. Waste cash cost per waste tonne mined increased by 8% to LSL38.62 (2018: LSL35.78). These cash cost increases were driven by local country inflation, increased costs of imported mining accessories and increased hauling distances. The decrease in waste tonnes mined of 7%, of which the largest reduction occurred in Q4 2019, contributed to the increase in waste cash cost per tonne, but resulted in an overall decrease in waste cash costs. The cost savings derived from BT initiatives specifically targeting mining contractor costs and efficiencies within blasting and plant consumables partially offset these increases.

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

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

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

[1] Non-cash accounting charges include waste stripping cost amortised, inventory and ore stockpile adjustments, and the impact of adopting IFRS 16 Leases, and excludes depreciation and mining asset amortisation.
[2] Direct cash costs represent all operating costs, excluding royalty and selling costs.

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

Exchange rates	**2019**	2018	% change
LSL per US$1.00			
Average exchange rate	**14.45**	13.25	9
Year end exchange rate	**13.98**	14.39	(3)
BWP per US$1.00			
Average exchange rate	**10.76**	10.20	5

Year end exchange rate	**10.58**	10.73	(1)
GBP per US$1.00			
Average exchange rate	**1.28**	1.34	(4)
Year end exchange rate	**1.32**	1.27	4

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

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

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

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

Historical corporate costs data (US$ million)

Year	**Baseline costs**	**Project costs**
2014	12.4	–
2015	11.6	0.1
2016	10.5	0.5
2017	9.0	0.2
2018	9.3	0.7
2019	7.7	1.7

Underlying EBITDA[1] and attributable profit

Group underlying EBITDA[1] from continuing operations decreased to 53% to US$41.0 million (2018: US$87.7 million) as a result of the decrease in revenue. Profit attributable to shareholders was US$7.1 million, which translates to 5.1 US cents per share based on a weighted average number of shares in issue of 139.0 million.

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

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

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

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

Statement of financial position – selected indicators

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

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

Capital expenditure (excluding waste stripping) was reduced during the year, with US$9.7 million spent (2018: US$23.0 million) mainly on the completion of the 'detecting diamonds within kimberlite' pilot plant (US$1.1 million), extension of the footprint of the Patiseng TSF (US$1.5

million), replacement of the jaw crusher of the primary crushing area (PCA) (US$0.7 million) and on reserve and resource studies ahead of releasing an updated reserve and resource statement (US$1.5 million).

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

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

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

Cash movement (US$ million)	
Cash – 31 December 2018	51
Facilities – 31 December 2018	58
Letšeng – cash generated	94
Proceeds on disposal of assets	2
Letšeng waste – costs capitalised	(73)
Tax paid	(19)
Net financial liabilities repaid (incl. IFRS 16)	(14)
Investment in PPE	(10)
Corporate costs	(8)
Net finance costs	(5)
Investment – Ghaghoo	(4)
Working capital	(3)
Cash – 31 December 2019	11
Facilities 31 December 2019	70

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

In December 2019, the Company accessed US$2.0 million of its three-year RCF. In addition repayments of US$10.0 million on the Gem Diamonds Limited facility, relating to the Ghaghoo US$25.0 million debt were made. The remaining balance of US$10.0 million will be repaid in quarterly instalments, and the final repayment is due on 31 December 2020. Similarly, repayments of LSL57.3 million (US$4.0 million) were made on the project debt facility for the construction of the mining complex at Letšeng. The outstanding balance of LSL133.7 million (US$9.6 million) will be repaid by September 2022.

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

Summary of loan facilities as at 31 December 2019

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

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

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

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

The operation was classified as a discontinued operation in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Care and maintenance costs of US$4.5 million have been recognised and disclosed separately in the statement of profit or loss for the year and disclosed separately in the statement of financial position at the lower of carrying value and fair value less costs to sell.

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

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

SENSITIVITIES
In the conduct of its business, the Group is exposed to a range of external factors that are outside of its control. The Group has the necessary resilience, balance sheet strength and access to funds to adjust for shifts in these factors. The graph below illustrates the sensitivity of 2019's EBITDA[1] to various factors that have the most significant impact on our ability to create value.

Sensitivity (US$ million) impact of 1% change on EBITDA	
Royalties rate change (absolute)	1.8
Average selling price or rough diamonds sold	1.6
Operating cost per tonne – direct cash cost[2]	1.1
Exchange differences	1.1
Diesel price or volume	0.2
Corporate expenses	0.1

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

OUTLOOK
Our focus in the year ahead remains on mining in line with the revised mine plan to drive down Letšeng's waste stripping costs and increase Satellite pipe contribution, which will further improve the net present value of the operation. Continued focus on optimising the operations, delivering on the targets of the BT programme and embedding continuous improvement will improve free cash flow, enable repayment of financial debts as they fall due and complete capital projects on time.
The outbreak of Covid-19 (coronavirus) impacting trading and financial markets could potentially have an impact on upcoming tenders and availability of imported goods. Current focus will include monitoring and mitigating risks associated to this in line with the risk management framework.

Michael Michael
Chief Financial Officer

10 March 2020

BUSINESS TRANSFORMATION

On track to deliver US$100 million by 2021

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

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

Work streams of the BT programme include:
- Mining
- Processing
- Working capital and overheads
- Corporate activities

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

Year	Total annual benefit (US$ millions)	Total cumulative benefit (US$ millions)
2017A	1	1
2018A	20	21
2019A	34	55
2020E	22	77
2021E	23	100
2022E onwards	30	–

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

Mining (US$ million)

	Drill, load and haul	Pit design	Blasting practices
Target	25	13	8
Delivered to date	13	5	4
Remaining delivery	12	8	4

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

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

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

Working capital and overheads (US$ million)

	Working capital	Overheads
Target	1	5
Delivered to date	1	2
Remaining delivery	0	3

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

Processing (US$ million)

	Plant uptime	Additional throughput	Plant consumables
Target	7	26	2
Delivered to date	3	21	1
Remaining delivery	4	5	1

Through the implementation of 76 initiatives since commencement of BT, the improvement in plant uptime and stability continues to contribute to the overall target. To further improve plant uptime, various incremental improvement projects, requiring capital investment, are being considered.

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

Corporate activities (US$ million)

	Non-core assets	**Corporate expenses**
Target	8	5
Delivered to date	3	2
Remaining delivery	5	3

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

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

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

2020 FOCUS

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

LETŠENG

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

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

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

KEY PROJECTS 2019
- The extension of the footprint of the Patiseng TSF, which provides deposition space until 2024
- Successful replacement of the jaw crusher and refurbishment of the PCA
- Implementation of fleet management system
- Commenced construction of centralised security servers and control rooms to improve maintenance and security
- Kick-off of CI (see pages 40 to 43)

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

KPIs

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

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

Enhancing value over volume

PERFORMANCE

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

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

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

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

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

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

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

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

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

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

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

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

Through the Group's subsidiary GDIS, the integrated pilot plant for the early detection of diamonds within kimberlite, with the aim to reduce diamond damage, was completed and commissioned at Letšeng during the year. Ramp-up and ongoing testing of the technology continues. Refer to the technology and innovation section on page 38 for more information on this plant.

Dam safety and integrity
Tailings dam integrity has come under the spotlight in recent times[1], with investors becoming increasingly aware of the possible adverse impact these facilities may have on life and the environment.

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

Letšeng reviewed the construction methods, operating procedures and inspections of the old and recently constructed tailings and water dams internally and with independent expert consultants. The Letšeng dams were constructed using the "centre line and downstream tipping" method[2]. Most recent dam failures reported in the mining industry were related to dams built using "upstream" construction methods.

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

Stringent safety checks and inspections are conducted daily, weekly and monthly. Independent professional engineers perform audits routinely every quarter, or more often as required. Risks identified are mitigated and any required remedial steps are implemented. Training and awareness programmes regarding the early-warning system have been implemented on site and at local communities. The communication and alarm systems are regularly tested and used to ensure the emergency readiness of response teams and potentially affected communities (PACs).

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

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

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

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

[1] *Mining Weekly, December 2019, page 26.*
[2] *A discussion of the construction and applicability of the various types of tailings facilities is available on the International Council of Mining and Metals website at www.icmm.com/en-gb/environment/tailings.*

ENGAGING OUR COMMUNITIES
S172 (1)(d)
Letšeng is committed to working closely and in collaboration with its stakeholders. The operation's PACs play a vital role in the success of the operation and Letšeng is committed to ensuring that PACs benefit from the operation. The mine invested US$0.8 million in community projects during 2019 (2018: US$0.8 million) which focuses on infrastructure, education and small and medium enterprise development in these communities. Projects are selected to address the most pressing community concerns identified through ongoing community engagement informed by our operation-specific social and environmental impact assessments (SEIA) and community needs analyses.

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

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

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

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

TECHNOLOGY AND INNOVATION

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

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

KEY PROJECTS 2019
- Completion and commissioning of the pilot plant at Letšeng
- Developing and implementing of the enhanced electronic tender platform

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

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

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

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

Opportunities to reduce diamond damage that show the most potential include:
- early identification of diamonds within kimberlite; and
- non-mechanical means of liberating these diamonds within kimberlite.

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

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

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

Providing clarity for customers
With consumers increasingly considering social and environmental factors in their purchasing decisions, technologies that can prove authenticity, provenance and traceability of diamonds support ethical sourcing and processing in the diamond value chain. This is particularly relevant with younger consumers where these considerations are even more likely to influence buying patterns. Technologies such as blockchain represent a secure means of linking the source of rough diamonds with the final cut and polished diamonds. Solutions are available that provide consumers with information about the mine and country of origin of their diamonds, as well as the positive impact that the mine and the broader industry have on the communities and countries in which they operate. These technologies support the sales and marketing of diamonds from environmentally and socially responsible mining companies like Gem Diamonds.

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

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

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

PREPARATION OF THE FINANCIAL STATEMENTS

The Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group, and of their profit or loss for that period. In preparing the Group financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose, with reasonable accuracy at any time, the financial position of the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

Michael Michael
Chief Financial Officer

10 March 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gem Diamonds Limited

Report on the Audit of the Consolidated Financial Statements
Opinion
We have audited the consolidated financial statements of Gem Diamonds Limited and its subsidiaries (the Group) set out on pages 104 to 160, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements of the Group and in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits of the Group and in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA code) and the International Ethics Standards Board for Accountants' International *Code of Ethics for Professional Accountants* (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.
We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter (KAM)	How the matter was addressed in the audit

Taxation – Uncertainty over income tax treatments on an amended tax assessment received by Letšeng Diamonds Proprietary Limited.
 	
In December 2019, an amended tax assessment was issued to Letšeng Diamonds (Pty) Ltd by the Lesotho Revenue Authority ('LRA') as noted in the consolidated financial statements in Note 1.2.1. and Note 1.2.28 respectively.
The matter identified had to be evaluated to determine whether the tax treatment/position accounted for is appropriate. Management involved external senior legal counsel to assess the uncertainty to appropriately corroborate the Group position taken.
The significant judgement involved in the process on the LRA matter, relates to:
• Ambiguity in the application of the Lesotho Income Tax Act and related guidelines (such as ordinances, circulars and letters) and their interpretations;
• Income tax practices that are generally applied by the taxation authorities and tax payers in specific jurisdictions and situations; and
• Tax memoranda/opinions prepared by qualified in-house or external tax advisor.
 	
Management believes the assessment to be contradictory to the application of certain tax treatments in the current Lesotho Income Tax Act and concluded the matter not to be an uncertain tax position.
 	
The matter is therefore considered to be a KAM due to the extensive audit effort assessing the various memoranda and opinions which required the assistance of our tax experts, and the extent of discussions required with management to understand their views.
	Our audit procedures included amongst others the following:
	• We evaluated management's Group tax risk register and their determination and assessment of uncertain tax positions and tax contingencies and the application of *IFRIC 23, Uncertainty over income tax treatments*. Specifically, we inspected management's documentation of their assessment of "probable or not" relating to the amended assessment raised by the LRA;
	• We engaged, as part of our team, tax specialists to assist us with our audit procedures, specifically relating to the amended assessment received from the LRA. Our experts on the audit team inspected and assessed the following documents:
	  • The amended assessment received from the LRA.
	  • For the key matters raised by the LRA, the references to the legislation by the LRA, the method of resolution suggested by the LRA, and the salient dates relevant to the matter;
	  • Objections and other correspondence with the LRA, to determine the reasonableness of management's response, relative to the tax legislation, other supporting information and documentation used by management to support their response, as well as prior treatment of the matter in their tax returns;
	  • Senior counsel's opinion, to determine whether the opinion corroborates managements position and response.
	• We assessed the adequacy of the disclosures related to *IFRIC 23, Uncertainty over income tax treatments* and *IAS 12, Income taxes*, in the notes to the consolidated financial statements.

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Ernst & Young Inc.
Director – Philippus Dawid Grobbelaar
Registered Auditor
Chartered Accountant (SA)

10 March 2020

102 Rivonia Road
Sandton
Private Bag X14
Sandton
2146

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2019

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

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2019

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

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

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

C Elphick
Director

M Michael
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

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

[1] Refer Note 17, Issued capital and reserves for further detail.
[2] The Company elected to release share-based equity reserve relating to lapsed and exercised options to accumulated (losses)/retained earnings.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2019

1. NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1.1 Corporate information

1.1.1 Incorporation

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

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

The Group is principally engaged in operating diamond mines.

1.1.2 Operational information

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

Name and registered address of company	Share-holding	Cost of investment[1]	Country of incorporation	Nature of business
Subsidiaries				
Gem Diamond Technical Services (Proprietary) Limited[2] Illovo Corner 24 Fricker Road Illovo Boulevard Johannesburg South Africa	100%	US$17	RSA	Technical, financial and management consulting services.
Gem Equity Group Limited[2] Ground Floor, Coastal Building Wickhams Cay II Roadtown Tortola VG 1130 British Virgin Islands	100%	US$52 277	BVI	Dormant investment company holding 1% in Gem Diamonds Botswana (Proprietary) Limited, 2% in Gem Diamonds Marketing Services BVBA and 1% in Baobab Technologies BVBA.
Letšeng Diamonds (Proprietary) Limited[2] Letšeng Diamonds House Corner Kingsway and Old School Roads Maseru Lesotho	70%	US$126 000 303	Lesotho	Diamond mining and holder of mining rights. Letšeng Diamonds (Proprietary) Limited holds 100% of the A class shares and 70% of the B class shares in Letšeng Diamonds Manufacturing (Proprietary) Limited, which is a company established in Lesotho to operate the in-country diamond cutting and polishing. The company is currently dormant.
Gem Diamonds Botswana (Proprietary) Limited[2,3] Suite 103, GIA Centre Diamond Technology Park Plot 67782, Block 8 Gaborone Botswana	100%	US$5 844 579	Botswana	Diamond mining; evaluation and development; and holder of mining licences and concessions[3].
Gem Diamonds Investments Limited[2,4] 20 – 22 Bedford Row London WC1R 4JS United Kingdom	100%	US$17 531 316	UK	Investment holding company holding 100% in each of Calibrated Diamonds Investment Holdings (Proprietary) Limited and Gem Diamonds Innovation Solutions CY Limited; 99% in Baobab Technologies BVBA; and 98% in Gem Diamonds Marketing Services BVBA, a marketing company that sells the Group's diamonds on tender in Antwerp.

[1] The cost of investment represents original cost of investments at acquisition dates.
[2] No change in the shareholding since the prior year.
[3] During the year the Ghaghoo Diamond Mine, which is in the process of being sold, was classified as a discontinued operation held for sale and has been disclosed separately (refer Note 16, Assets held for sale).
[4] During the year the Group abandoned Gem Diamonds Marketing Botswana (Proprietary) Limited, which was the sales and marketing office for Ghaghoo's diamonds and Gem Diamonds Technology DMCC, which owned an investment property in Dubai that was sold at the end of the prior year. As the operations are being closed and not sold the closure has been classified as an abandonment (refer Note 5, Reclassification of foreign currency translation reserve), both these companies were 100% held by Gem Diamonds Investments Limited.

1.1.3 Segment information

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

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

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

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

During the year, two immaterial operations, Gem Diamonds Marketing Botswana (Proprietary) Limited (GDMB) and Gem Diamonds Technology DMCC (GDTD) were abandoned. GDMB was the sales and marketing office for Ghaghoo's diamonds and was previously classified as part of the Botswana segment. GDTD owned an investment property in Dubai that was sold at the end of the prior year and was previously classified as part of the Belgium segment (refer Note 5, Reclassification of foreign currency translation reserve).

Segment performance is evaluated based on operating profit or loss. Intersegment transactions are entered into under normal arm's length terms in a manner similar to transactions with third parties. Segment revenue, segment expenses and segment results include transactions between segments. Those transactions are eliminated on consolidation.

Segment revenue is derived from mining activities, polished manufacturing margins, and Group services.

The following table presents revenue, profit/(loss), EBITDA and asset and liability information from operations regarding the Group's geographical segments:

Year ended 31 December 2019	Lesotho US$'000	Belgium US$'000	BVI, RSA UK and Cyprus[1] US$'000	Total Continuing operations US$'000	Discontinued operation[2] US$'000	Total US$'000
Revenue						
Total revenue	**179 313**	**182 788**	**8 440**	**370 541**	**–**	**370 541**
Intersegment	**(179 313)**	**(741)**	**(8 440)**	**(188 494)**	**–**	**(188 494)**
External customers	**–**	**182 047**	**–**	**182 047**	**–**	**182 047**
Depreciation and amortisation	**57 293**	**374**	**539**	**58 206**	**–**	**58 206**
– Depreciation and mining asset amortisation	**14 164**	**374**	**539**	**15 077**	**–**	**15 077**
– Waste stripping cost amortisation	**43 129**	**–**	**–**	**43 129**	**–**	**43 129**
Share-based equity transactions	**264**	**6**	**514**	**784**	**10**	**794**
Segment operating profit/(loss)	**38 524**	**863**	**(9 529)**	**29 858**	**(4 274)**	**25 584**
Net finance costs	**(3 792)**	**(262)**	**(1 754)**	**(5 808)**	**(180)**	**(5 988)**
Profit/(loss) before tax	**34 732**	**601**	**(11 283)**	**24 050**	**(4 454)**	**19 596**
Income tax expense	**(8 228)**	**(151)**	**(641)**	**(9 020)**	**–**	**(9 020)**
Profit/(loss) for the year				**15 030**	**(4 454)**	**10 576**
EBITDA	**49 014**	**1 206**	**(9 221)**	**(40 999)**	**(4 389)**	**36 610**
Segment assets	**393 107**	**2 477**	**8 722**	**404 306**	**3 943**	**408 249**
Segment liabilities	**59 854**	**600**	**16 293**	**76 747**	**4 221**	**80 968**
Other segment information						
Capital expenditure						
– Property, plant and equipment[3]	**8 323**	**324**	**1 196**	**9 843**	**–**	**9 843**
– Waste cost capitalised	**73 175**	**–**	**–**	**73 175**	**–**	**73 175**
Total capital expenditure	**81 498**	**324**	**1 196**	**83 018**	**–**	**83 018**

[1] No revenue was generated in BVI and Cyprus.
[2] The results of Gem Diamonds Botswana, which has been classified as a discontinued operation held for sale and which was previously included in the Botswana segment, has been reclassified to the discontinued operation segment.
[3] Capital expenditure includes non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho segment.

Included in annual revenue for the current year is revenue from one customer which amounted to US$21.1 million arising from sales reported in the Belgium segments.

Segment assets and liabilities do not include deferred tax assets and liabilities of US$7.9 million and US$91.0 million respectively.

Total revenue for the year is lower than that of the prior year mainly as a result of the lower volume of large diamonds recovered during the year. The revenue of the prior year was specifically bolstered by the recovery and sale of the 910 carat Lesotho Legend which sold for US$40.0 million.

Year ended 31 December 2018	Lesotho US$'000	Belgium[1] US$'000	BVI, RSA, UK and Cyprus[2] US$'000	Continuing operations	Discontinued operation[3]	Total US$'000
Revenue						
Total revenue	262 636	267 370	9 440	539 446	–	539 446
Intersegment	(262 636)	(432)	(9 088)	(272 156)	–	(272 156)
External customers	–	266 938	352	267 290	–	267 290
Depreciation and amortisation	76 537	204	120	76 861	43	76 904
– Depreciation and mining asset amortisation	8 332	204	120	8 656	43	8 699
– Waste stripping cost amortisation	68 205	–	–	68 205	–	68 205
Share-based equity transactions	317	6	1 099	1 422	15	1 437
Segment operating profit/(loss)	88 815	2 025	(10 475)	80 365	(5 528)	74 837
Net finance costs	743	–	(2 401)	(1 658)	(190)	(1 848)
Profit/(loss) before tax	89 558	2 025	(12 876)	78 707	(5 718)	72 989
Income tax expense	(20 779)	(542)	(5 027)	(26 348)	–	(26 348)
Profit for the year				52 359	(5 718)	46 641
EBITDA	95 607	2 114	(10 040)	87 680	(5 423)	82 257
Segment assets	358 648	3 305	27 552	389 505	3 942	393 447
Segment liabilities	62 753	689	23 637	87 079	4 036	91 115
Other segment information						
Capital expenditure						
– Property, plant and equipment[4]	22 628	1 880	899	25 407	–	25 407
– Waste cost capitalised	79 294	–	–	79 294	–	79 294
Total capital expenditure	101 922	1 880	899	104 701	–	104 701

[1] The results of Gem Diamonds Marketing Botswana, previously included in the Botswana segment, have been reclassified to the Belgium segment.
[2] No revenue was generated in BVI and Cyprus.
[3] The results of Gem Diamonds Botswana, which has been classified as a discontinued operation held for sale and which was previously included in the Botswana segment, has been reclassified to the Discontinued operation segment.
[4] Capital expenditure includes non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho segment.

Included in annual revenue for the 2018 year is revenue from two customers which amounted to US$88.3 million arising from sales reported in the Belgium segments.

Segment assets and liabilities do not include deferred tax assets and liabilities of US$5.7 million and US$79.8 million respectively.

1.2 Summary of significant accounting policies

1.2.1 Basis of preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements have been prepared under the historical cost basis except for assets and liabilities measured at fair value. The accounting policies have been consistently applied except for the adoption of the new standards and interpretations detailed on the following pages.

The functional currency of the Company and certain of its subsidiaries is US dollar, which is the currency of the primary economic environment in which the entities operate. All amounts are expressed in US dollar and rounded to the nearest thousand. The financial statements of subsidiaries whose functional and reporting currency is in currencies other than US dollar have been converted into US dollar on the basis as set out in Note 1.2.16, Foreign currency translations.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 1.2.28, Critical accounting estimates and judgements.

Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group adopted *IFRS 16 Leases* for the first time using the modified retrospective method of adoption with the date of initial application being 1 January 2019 without restating comparative figures. The nature and effect of the changes as a result of adoption of this new accounting standard is described below. All other accounting policies adopted are consistent with those applied in the previous financial year.

IFRS 16 Leases

IFRS 16 supersedes *IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives* and *SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The nature of the effect of adoption of IFRS 16
The Group has lease contracts for various items of buildings, plant and equipment and vehicles. Before the adoption of IFRS 16 the Group determined whether an arrangement contained a lease based on whether the fulfilment of the arrangement was dependent on the use of a specific asset or assets or the arrangement conveyed a right to use the asset. For leases that contain one lease component and one or more additional lease or non-lease components, the Group allocated the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. A reassessment would be made after inception of the lease only if one of the following applied: (a) There was a change in contractual terms, other than a renewal or extension of the arrangement; (b) A renewal option was exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) There was a change in the determination of whether fulfilment is dependent on a specific asset; or (d) There was a substantial change to the asset. Where a reassessment was made, lease accounting commenced or ceased from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Leases where the lessor retained substantially all the risks and rewards of ownership were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the statement of profit or loss on a straight-line basis over the period of the lease. When the Group was a party to a lease where there was a contingent rental element associated within the agreement, a cost was recognised as and when the contingency materialised.

Upon adoption of IFRS 16, the Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group. The Group did not have any finance leases at the time IFRS 16 was adopted on 1 January 2019.

Leases previously accounted for as operating leases
The Group recognised a new category of assets, namely right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. For all leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities on the date of initial application (ie. 1 January 2019), adjusted by the amount of any prepaid or accrued lease payments relating to that lease. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:
- used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- applied the short-term leases exemptions to lease contracts with a lease term that ends within 12 months of the date of initial application;
- applied the materiality exemption on transition to the lease contracts for which the underlying asset was of a low value and was not qualitatively material to the Group;
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- used hindsight for historical lease payments made to determine the value of the liability and right-of-use asset at date of initial application where the contract did not refer to an annual fixed escalation rate; and
- used hindsight to determine the lease term if the contract contained options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:
- right-of-use assets of US$9.6 million, net of accrued lease payments of $1.4 million, were recognised and presented separately in the statement of financial position;
- additional lease liabilities of US$11.0 million were recognised and presented separately in the statement of financial position; and
- deferred tax assets and liabilities of $2.4 million respectively were presented separately in the statement of financial position.

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease) is as follows:

	1 January 2019 US$'000
Assets	
Right-of-use assets	**9 612**
Deferred tax assets	**2 375**
Total assets	**11 987**
Liabilities	
Lease liabilities	**11 043**
Deferred tax liabilities	**2 375**
Trade and other payables	**(1 431)**
Total liabilities	**11 987**

The Ghaghoo mining operation was placed on care and maintenance in 2017 and subsequently classified as a discontinued operation held for sale during the current year. The entity only has short-term leases and leases of low-value assets and the adoption of IFRS 16 at Ghaghoo, did not have an impact at a Group level.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018 as follows:

	1 January 2019 US$'000
Operating lease commitments as at 31 December 2018	**136 423**
Weighted average incremental borrowing rate as at 1 January 2019	**10%**
Discounted operating lease commitments at 1 January 2019	**128 490**
Less:	
Commitments relating to short-term leases	**(102)**
Variable lease payments	**(120 899)**
Out of scope leases eg mining leases	**(1 069)**
Add:	
Arrangements not previously separately disclosed as operating leases commitments	**4 623**
Lease liabilities as at 1 January 2019	**11 043**

For amounts recognised in the statement of financial position and profit or loss at year end, refer Note 10, Right-of-use assets and Note 19, Lease liabilities.

Management applied judgement when determining whether contracts contained a lease. Refer Note 1.2.28, Critical accounting estimates and judgements.

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- how an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies judgement in identifying uncertainties over income tax treatments, as referred under Note 1.2.28, Critical accounting estimates and judgements, and concluded that there were no uncertain tax treatments relating to the current year. The interpretation did not have an impact on the consolidated financial statements of the Group.

Several other amendments, interpretations and improvements apply for the first time in 2019, and are listed in the table below. These amendments and interpretations do not have an impact on the consolidated financial statements of the Group.

Standard, amendment, interpretation or improvement	
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Improvements to IFRS 3	Business Combinations – previously held interests in joint operation
Improvements to IFRS 11	Joint Arrangements – previously held interests in joint operation
Improvements to IAS 12	Income Taxes – income tax consequences of payments on financial instruments classified as equity
Improvements to IAS 23	Borrowing Costs – borrowing costs eligible for capitalisation

Standards issued but not yet effective
The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The standards, interpretations and amendments that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are listed in the table below, and are not expected to impact the Group.

Standard, amendment, interpretation or improvement	
IFRS 17	Insurance Contracts
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IAS 1 and IAS 8	Definition of Material Costs

Business environment and country risk
The Group's operations are subject to country risk being the economic, political and social risks inherent in doing business in certain areas of Africa and Europe. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange rate fluctuations and the enforceability of contract rights.
The consolidated financial information reflects management's assessment of the impact of these business environments on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

1.2.2 *Going concern*
The Company's business activities, together with the factors likely to affect its future development, performance and position have been assessed by management. The financial position of the Company, its cash flows and liquidity position are presented in the Annual Report and Accounts. In addition, Note 27, Financial risk management, includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to market risk, credit risk and liquidity risk.

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

These financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities as they fall due for the foreseeable future.

1.2.3 Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company as at 31 December 2019.

Subsidiaries
Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three of the following criteria must be met: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intragroup balances and transactions, including unrealised profits arising from them, are eliminated in full.

Non-controlling interests
Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to the parent company and is presented separately within equity in the consolidated statement of financial position, separately from equity attributable to owners of the parent. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

1.2.4 Exploration and evaluation expenditure
Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

- acquisition of rights to explore;
- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- conducting market and finance studies.

Administration costs that are not directly attributable to a specific exploration area are charged to the statement of profit or loss. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised, as a component of property, plant and equipment, and amortised over the term of the permit.

Exploration and evaluation expenditure is capitalised as incurred. Capitalised exploration expenditure is recorded as a component of property, plant and equipment, as an exploration and development asset, at cost less accumulated impairment charges. As the asset is not available for use, it is not depreciated.

All capitalised exploration and evaluation expenditure is monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest in conjunction with the group of operating assets (representing a cash-generating unit (CGU)) to which the exploration is attributed. To the extent that exploration expenditure is not expected to be recovered, it is charged to the statement of profit or loss. Exploration areas where reserves have been discovered, but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is under way as planned.

Management is required to make certain estimates and assumptions when determining whether the commercial viability of an identified resource and when determining whether indicators of impairment exist as referred under Note 1.2.28, Critical accounting estimates and judgements.

1.2.5 Development expenditure

When proved reserves are determined and development is sanctioned, capitalised exploration and evaluation expenditure is reclassified from exploration phase to development phase. As the asset is not available for use, during the development phase, it is not depreciated. On completion of the development phase, any capitalised exploration and evaluation expenditure already capitalised to development asset, together with the subsequent development expenditure, is reclassified within property, plant and equipment to mining assets and depreciated on the basis as laid out in Note 1.2.6, Property, plant and equipment.

All development expenditure is monitored for indicators of impairment annually. Management is required to make certain estimates and assumptions when determining whether indicators of impairment exist as referred under Note 1.2.28, Critical accounting estimates and judgements.

1.2.6 Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition and construction of the items, to get the asset in its condition and location for its intended use among others, professional fees, and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policies.

Subsequent costs to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised when the cost of the item can be measured reliably, with the carrying amount of the original component being written off. All repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation commences when an asset is available for use. Depreciation is charged so as to write off the depreciable amount of the asset to its residual value over its estimated useful life, using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group.

Item	Method	Useful life
Mining assets	Straight line	Lesser of life of mine or period of mining lease
Decommissioning assets	Straight line	Lesser of life of mine or period of mining lease
Leasehold improvements	Straight line	Lesser of three years or period of mining lease
Plant and equipment	Straight line	Three to 10 years
Other assets	Straight line	Two to five years

Pre-production and in production stripping costs

Costs associated with removal of waste overburden are classified as stripping costs.

Stripping activities that are undertaken during the production phase of a surface mine may create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where production stripping costs are incurred and where the benefit is the creation of mining flexibility and improved access to ore to be mined in the future, the costs are recognised as a non-current asset if:
(a) future economic benefits (being improved access to the orebody) are probable;
(b) the component of the orebody for which access will be improved can be accurately identified; and
(c) the costs associated with the improved access can be reliably measured.

The non-current asset recognised is referred to as a 'stripping activity asset' and is separately disclosed in Note 9, Property, plant and equipment. If all the criteria are not met, the production stripping costs are charged to the statement of profit or loss as operating costs. The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs.

If incidental operations are occurring at the same time as the production stripping activity, but are not necessary for the production stripping activity to continue as planned, these costs are not included in the cost of the stripping activity asset. If the costs of the stripping activity asset and the inventory produced are not separately identifiable, a relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset.

The stripping activity asset is subsequently amortised over the expected useful life of the identified component of the orebody that became more accessible as a result of the stripping activity. Based on proven and probable reserves, the expected average stripping ratio over the average life of the area being mined is used to amortise the stripping activity. As a result, the stripping activity asset is carried at cost less amortisation and any impairment losses. The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the orebody divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Changes in the stripping ratio are accounted for prospectively as a change in estimate.

Management applies judgement to calculate and allocate the production stripping costs to inventory and/or the stripping activity asset(s) as referred under Note 1.2.28, Critical accounting estimates and judgements.

1.2.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

1.2.8 Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held-for-sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that it will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:
(a) represents a separate major line of business or geographical area of operations;
(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
(c) is a subsidiary acquired exclusively with a view to re-sale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Additional disclosures are provided Note 16, Assets held for sale. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

1.2.9 Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in the business combination.

Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements, are accounted for separately from the business combination in accordance with their nature and applicable IFRS.

Identifiable intangible assets, meeting either the contractual legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition date fair value can be measured reliably.

If the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities, and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in profit and loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s CGUs (or groups of CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes, and shall not be larger than an operating segment before aggregation.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

1.2.10 Financial instruments

The Group shall only recognise a financial instrument only when the Group becomes a party to the contractual provisions of the instrument. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date based on the business model for managing these financial assets and the contractual cash flow characteristics. Currently the Group only has financial assets at amortised cost which consist of receivables and other assets, and cash and short-term deposits which is held within a business model to collect contractual cash flows and for which the contractual cash flow characteristics are solely payments of principal interest. When financial assets are recognised initially, they are measured at fair value plus (in the case of financial assets not at fair value through profit or loss) directly attributable costs.

Financial assets at amortised cost
Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities greater than 12 months after the reporting date. These are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method, if the time value of money is significant, less any allowance for impairment. Gains and losses are recognised in the statement of profit or loss when the financial assets at amortised are derecognised or impaired, as well as through the amortisation process.

Derecognition
A financial asset is primarily derecognised when the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset. Gains or losses from derecognition of financial assets are recognised in the statement of profit or loss.

Financial liabilities
Financial liabilities, which consist of interest-bearing borrowings and trade and other payables, are recognised initially at fair value, net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss, unless capitalised in accordance with Note 1.2.7, Borrowing costs, over the contractual period of the financial liability, using the effective interest rate method.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Gains or losses from derecognition of financial liabilities are recognised in the statement of profit or loss.

1.2.11 Fair value measurement
The Group measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1.2.12 Impairments
Non-financial assets
Assets that are subject to amortisation or depreciation are reviewed for impairment if it is determined that there is an indication of impairment in accordance with IAS 36. Goodwill is assessed for impairment on an annual basis. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Non-financial assets that were previously impaired are reviewed for possible reversal of the impairment at each reporting date. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the statement of profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets
Assets carried at amortised cost

The Group recognises an allowance for expected credit losses (ECLs) for all financial assets at amortised costs in the statement of profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

1.2.13 Inventories

Inventories, which include rough diamonds, ore stockpiles and consumables, are measured at the lower of cost and net realisable value. The amount of any write-down of inventories to net realisable value and all losses, is recognised in the period the write-down or loss occurs. Cost is determined as the average cost of production, using the weighted average method. Cost includes directly attributable mining overheads, but excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs to be incurred in marketing, selling and distribution.

1.2.14 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost. Cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term, highly liquid investments with original maturities of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1.2.15 Issued share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

1.2.16 Foreign currency translations

Presentation currency

The results and financial position of the Group's subsidiaries which have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- statement of financial position items are translated at the closing rate at the reporting date;
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- resulting exchange differences are recognised as a separate component of equity.

Details of the rates applied at the respective reporting dates and for the statement of profit or loss transactions are detailed in Note 17, Issued capital and reserves.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss. Non-monetary items that are measured in terms of cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary items for each statement of financial position presented are translated at the closing rate at the reporting date.

1.2.17 Share-based payments

Employees (including Senior Executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). In situations where some or all of the goods or services received by the entity as consideration for equity instruments cannot be specifically identified, they are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous reporting date is recognised in the statement of profit or loss, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified, or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative, due to the fact that it would not be beneficial to the employees.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the statement of profit or loss for the award is expensed immediately. Where an equity-settled award is forfeited, it is treated as if vesting conditions had not been met and all costs previously recognised are reversed and recognised in income immediately for the current year and through retained earnings for costs, recognised in previous years.

Management applies judgement when determining whether share options relating to employees who resigned before the end of the service condition period are cancelled or forfeited as referred under Note 1.2.28, Critical accounting estimates and judgements.

The Group periodically releases the share-based equity reserve to retained earnings in relation to lapsed, forfeited and exercised options.

1.2.18 Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of a past event; and
- a reliable estimate can be made of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

1.2.19 Restoration and rehabilitation

The mining, extraction and processing activities of the Group normally give rise to obligations for site restoration and rehabilitation. Rehabilitation works can include facility decommissioning and dismantling, removal and treatment of waste materials, land rehabilitation, and site restoration. The extent of the work required and the estimated cost of final rehabilitation, comprising liabilities for decommissioning and restoration, are based on current legal requirements, existing technology and the Group's environmental policies, and is reassessed annually. Cost estimates are not reduced by the potential proceeds from the sale of property, plant and equipment.

Provisions for the cost of each restoration and rehabilitation program are recognised at the time the environmental disturbance occurs. When the extent of the disturbance increases over the life of the operation, the provision and associated asset is increased accordingly. Costs included in the provision encompass all restoration and rehabilitation activity expected to occur. The restoration and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value. Discount rates used are specific to the country in which the operation is located. The value of the provision is progressively increased over time as the effect of the discounting unwinds, which is recognised in finance charges. Restoration and rehabilitation provisions are also adjusted for changes in estimates.

When provisions for restoration and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset where it gives rise to a future benefit and depreciated over future production from the operation to which it relates.

Management is required to make significant estimates and assumptions when determining the amount of the restoration and rehabilitation provisions as referred under Note 1.2.28, Critical accounting estimates and judgements.

1.2.20 Taxation

Income tax for the period comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax is provided except where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised. Withholding tax is recognised in the statement of profit or loss when dividends or other services which give rise to that withholding tax are declared or accrued respectively. Withholding tax is disclosed as part of current tax.

Royalties
Royalties incurred by the Group comprise mineral extraction costs based on a percentage of sales paid to the local revenue authorities. These obligations arising from royalty arrangements are recognised as current payables and disclosed as part of royalty and selling costs in the statement of profit or loss.

Royalties and revenue-based taxes are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is based on taxable income – rather than based on quantity produced or as a percentage of revenue. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. The royalties incurred by the Group are considered not to meet the criteria to be treated as part of income tax.

1.2.21 Employee benefits
Provision is made in the financial statements for all short-term employee benefits. Liabilities for wages and salaries, including non-monetary benefits, benefits required by legislation, annual leave, retirement benefits and accumulating sick leave obliged to be settled within 12 months of the reporting date, are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled. Benefits falling due more than 12 months after the reporting date are discounted to present value. The Group recognises an expense for contributions to the defined contribution pension fund in the period in which the employees render the related service.

Bonus plans
The Group recognises a liability and an expense for bonuses. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation. These liabilities are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled.

1.2.22 Leases
At inception, the Group assesses whether a contract is or contains a lease. This assessment involves the exercise of judgement whether it depends on a specified asset, whether the Group obtains substantially all the economic benefits from the use of that asset, and whether the Group has the right to direct the use of the asset. For leases that contain one lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Right-of-use assets
The Group recognises right-of-use assets at the commencement date of the lease (ie, the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, costs to dismantle, restore and remove the right-of-use asset, and lease payments made at or before the commencement date less any lease incentives received. After the commencement date, the right-of-use assets are measured using a cost model. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification to the terms and conditions of the lease or if there a lease reassessment.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases (ie, those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

1.2.23 Revenue from contracts with customers
Revenue comprises net invoiced diamond sales to customers excluding VAT. Diamond sales are made through a competitive tender process and recognised when the Group's performance obligations have been satisfied at the time the buyer obtains control of the diamond(s), at an amount that the Group expects to be entitled in exchange for the diamond(s). Where the Group makes rough diamond sales to customers and retains a right to an interest in their future sale as polished diamonds, the Group records the sale of the rough diamonds but such contingent revenue on the onward sale is only recognised at the date when the polished diamonds are sold.

The following revenue streams are recognised:

- rough diamonds which are sold through a competitive tender process, partnership agreements and joint operation arrangements;
- polished diamonds and other products which are sold through direct sales channels;
- additional uplift (on the value from rough to polished) on partnership arrangements; and
- additional uplift (on the value from rough to polished) on joint operation arrangements.

The sale of rough diamonds is the core business of the Group, with other revenue streams contributing marginally to total revenue.

Revenue through joint operation arrangements is recognised for the sale of the rough diamond according to each party's percentage entitlement as per the joint operation arrangement. Contractual agreements are entered into between the Group and the joint operation partner whereby both parties control jointly the cutting and polishing activities relating to the diamond. All decisions pertaining to the cutting and polishing of the diamonds require unanimous consent from both parties. Once these activities are complete, the polished diamond is sold, after which the revenue on the remaining percentage of the rough diamond is recognised, together with additional uplift on the joint operation arrangement. The Group portion of inventories related to these transactions is included in the total inventories balance.

Revenue through partnership arrangements is recognised for the sale of the rough diamond, with an additional uplift based on the polished margin achieved. Management recognises the revenue on the sale of the rough diamond when it is sold to a third party, as there is no continuing involvement by management in the cutting and polishing process and control has passed to the third party. Revenue from additional uplift is considered to be a variable consideration. This variable consideration will generally be significantly constrained. This is on the basis that the ultimate additional uplift received will depend on a range of factors that are highly susceptible to factors outside the Group's influence. Management recognises revenue on the additional uplift when the polished diamond is sold by the third party and the additional uplift is guaranteed.

Rendering of service
Revenue from services relating to third-party diamond manufacturing is recognised in the accounting period in which the services are rendered, when the Group's performance obligations have been satisfied, at an amount that the Group expects to be entitled to in exchange for the services.

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group transfers goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. The Group does not have any contract assets as performance and a right to consideration occurs within a short period of time and all rights to consideration are unconditional.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract. The Group does not have any contract liabilities as the transfer of goods or services performance occurs within a short period of time of receiving the consideration.

1.2.24 Interest income
Interest income is recognised on a time proportion basis using the effective interest rate method.

1.2.25 Dividends
Dividends are recognised when the amount of the dividend can be reliably measured and the Group's right to receive payment is established.

1.2.26 Finance costs
Finance costs are recognised on a time proportion basis using the effective interest rate method.

1.2.27 Dividend distribution
Dividend distributions to the Group's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

1.2.28 Critical accounting estimates and judgements
The preparation of the consolidated financial statements requires management to make estimates and judgements and form assumptions that affect the reported amounts of the assets and liabilities, the reported revenue and costs during the periods presented therein, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the financial results or the financial position reported in future periods are discussed below.

Estimates
Ore reserves and associated life of mine (LoM)
There are numerous uncertainties inherent in estimating ore reserves and the associated LoM. Therefore, the Group must make a number of assumptions in making those estimations, including assumptions as to the prices of diamonds, exchange rates, production costs and recovery rates. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of diamonds, exchange rates, production costs or recovery rates may change the economic status of ore reserves and may, ultimately, result in the ore reserves being

restated. Where assumptions change the LoM estimates, the associated depreciation rates, residual values, waste stripping and amortisation ratios, and environmental provisions are reassessed to take into account the revised LoM estimate. Refer Note 9, Property, plant and equipment.

Exploration and evaluation expenditure
This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether economically viable extraction operations are viable where reserves have been discovered and whether indications of impairment exist. Any such estimates and assumptions may change as new information becomes available. Refer Note 9, Property, plant and equipment.

Provision for restoration and rehabilitation
Significant estimates and assumptions are made in determining the amount of the restoration and rehabilitation provisions. These deal with uncertainties such as changes to the legal and regulatory framework, magnitude of possible contamination, and the timing, extent and costs of required restoration and rehabilitation activity. Refer Note 22, Provisions, for further detail.

Judgement
Impairment reviews
The Group determines if goodwill is impaired at least on an annual basis, while all other significant operations are tested for impairment when there are potential indicators which may require impairment review. This requires an estimation of the recoverable amount of the relevant CGU under review. Recoverable amount is the higher of fair value less costs to sell and value in use. While conducting an impairment review of its assets using value-in-use impairment models, the Group exercises judgement in making assumptions about future rough diamond prices, exchange rates, volumes of production, ore reserves and resources included in the current LoM plans, production costs and macro-economic factors such as inflation and discount rates. Changes in estimates used can result in significant changes to the consolidated statement of profit or loss and consolidated statement of financial position. The results of the impairment testing performed did not indicate any impairments in the current year.

The key assumptions used in the recoverable amount calculations, determined on a value-in-use basis, are listed below:

Valuation basis
Discounted present value of future cash flows.

LoM and recoverable value of reserves and resources
Economically recoverable reserves and resources, carats recoverable and grades achievable are based on management's expectations of the availability of reserves and resources at mine sites and technical studies undertaken by in-house and third-party specialists. Reserves remaining after the current LoM plan have not been included in determining the value in use of the operations.

Cost and inflation rate
Operating costs for Letšeng are determined based on management's experience and the use of contractors over a period of time whose costs are fairly reasonably determinable. Mining and processing costs in the short to medium term have been based on the agreements with the relevant contractors. In the longer term, management has applied local inflation rates of 4% to 6% for operating costs in addition to a depth escalation factor for mining costs as a result of mining in deeper areas within both pits.

Capital costs in the short-term has been based on management's capital program after which a fixed percentage of operating costs have been applied to determine the capital costs necessary to maintain current levels of operations.

Exchange rates
Exchange rates are estimated based on an assessment at current market fundamentals and long-term expectations. The US dollar/Lesotho loti (LSL) exchange rate used was determined with reference to the closing rate at 31 December 2019 of LSL13.98.

Diamond prices
The diamond prices used in the impairment test have been set with reference to recent prices achieved, recent market trends and the Group's medium-term forecast. Long-term diamond price escalation reflects the Group's assessment of market supply/demand fundamentals.

Discount rate
The discount rate of 11.2% for revenue (2018: 12.2%) and 14.7% for costs (2018: 15.8%) used for Letšeng represents the before-tax risk-free rate adjusted for market risk, volatility and risks specific to the asset and its operating jurisdiction.

Market capitalisation
In the instance where the Group's asset carrying values exceed market capitalisation, this results in an indicator of impairment. The Group believes that this position does not represent an impairment as all significant operations were assessed for impairment during the year and no impairments were recognised.

Sensitivity
The value in use for Letšeng indicated sufficient headroom, and no reasonable change in the key assumptions will result in an impairment. Refer Note 12, Impairment testing, for further detail.

Capitalised stripping costs (deferred waste)
Waste removal costs (stripping costs) are incurred during the development and production phases at surface mining operations. Furthermore, during the production phase, stripping costs are incurred in the production of inventory as well as in the creation of future benefits by improving access and mining flexibility in respect of the ore to be mined, the latter being referred to as a 'stripping activity asset'. Judgement is required to distinguish between these two activities at Letšeng. The orebody needs to be identified in its various separately identifiable components. An identifiable component is a specific

volume of the orebody that is made more accessible by the stripping activity. Judgement is required to identify and define these components (referred to as 'cuts'), and also to determine the expected volumes (tonnes) of waste to be stripped and ore to be mined in each of these components. These assessments are based on a combination of information available in the mine plans, specific characteristics of the orebody and the milestones relating to major capital investment decisions.

Judgement is also required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and the stripping activity asset. The ratio of expected volume (tonnes) of waste to be stripped for an expected volume (tonnes) of ore to be mined for a specific component of the orebody, compared to the current period ratio of actual volume (tonnes) of waste to the volume (tonnes) of ore is considered to determine the most suitable production measure.

These judgements and estimates are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity asset(s). Furthermore, judgements and estimates are also used to apply the stripping ratio calculation in determining the amortisation of the stripping activity asset. Refer Note 9, Property, plant and equipment, for further detail.

Share-based payments
Judgement is applied by management in determining whether the share options relating to employees who resigned before the end of the service condition period have been cancelled or forfeited in light of their leaving status. Where employees do not meet the requirements of a good leaver as per the rules of the long-term incentive plan (LTIP), no award will vest and this will be treated as cancellation by forfeiture. The expenses relating to these charges previously recognised are then reversed. Where employees do meet the requirements of a good leaver as per the rules of the LTIP, some or all of an award will vest and this will be treated as a modification to the original award. The future expenses relating to these awards are accelerated and recognised as an expense immediately. Refer Note 28, Share-based payments, for further detail.

Identifying uncertainties over tax treatments
In December 2019, an amended tax assessment was issued to Letšeng by the Lesotho Revenue Authority (LRA), contradicting the application of certain tax treatments in the current Income Tax Act.

Management do not believe an uncertain tax position exists as:
- there is no ambiguity in the application of the Lesotho Income Tax Act;
- there has been no change in the application of the Income Tax Act and resulting tax; and
- senior counsel advice, which is legally privileged, has been obtained and reflects good prospects of success in setting aside the amended tax assessment.

Management has lodged a formal Objection to the amended tax assessment, which Objection is supported by the opinion of senior counsel. The LRA applies a "pay now argue later" principle, the application of which is subject to the discretion of the Commissioner General. An application for the suspension of any payment has been made to the Commissioner General together with the Objection. No provision or contingent liability, relating to the amended tax assessment in question, is therefore required to be raised in the 2019 Annual Financial Statements.

Equipment and service lease
The major components of Letšeng's ore-extraction mining activities are outsourced to a mining contractor. The mining contractor performs these functions using their own equipment. Management applied judgement when evaluating whether the contract between Letšeng and the mining contractor contained a lease. While it was concluded there was a lease, lease payments are variable in nature as the lease payment vary based on the tonnes of ore and waste mined and hence no right-of-use asset or liability could be measured. The lease payment is therefore expensed in the statement of profit or loss. Refer Note 25, Commitments and contingencies.

		2019 US$'000	2018* US$'000
2.	**REVENUE FROM CONTRACTS WITH CUSTOMERS**		
	Sale of goods	**182 046**	266 822
	Rendering of services	**1**	468
		182 047	267 290
	The revenue from the sale of goods represents the sale of rough diamonds, for which revenue is recognised at the point in time at which control transfers. The revenue from the rendering of services mainly represents the services rendered on third-party diamond analysis and manufacturing, for which the revenue is recognised over time as the services are rendered.		
	No revenue was generated from joint operation or partnership arrangements during the current year (2018: Nil).		
3.	**OTHER OPERATING INCOME**		
	Sundry income	**90**	300
	Sundry expenses	**(7)**	(521)
	Profit on disposal and scrapping of property, plant and equipment	**762**	695
		845	474
4.	**OPERATING PROFIT**		
	Operating profit includes the following:		
	Depreciation and amortisation		
	Depreciation and amortisation excluding waste stripping costs	**(12 400)**	(8 605)

Depreciation of right-of-use assets	**(2 526)**	–
Waste stripping costs amortised	**(43 129)**	(68 205)
	(58 055)	(76 810)
(Less): Depreciation and mining asset amortisation capitalised to inventory	**(151)**	(51)
	(58 206)	(76 861)
Inventories		
Cost of inventories recognised as an expense	**(114 678)**	(146 397)
Foreign exchange gain		
Foreign exchange gain	**3 550**	2 200
Lease expenses not included in lease liability		
Mine site property	**(146)**	(131)
Equipment and service lease	**(61 658)**	(68 174)
Contingent rental – Alluvial Ventures	**(9 472)**	(11 924)
Leased premises	**(152)**	(1 807)
	(71 428)	(82 036)
Auditor's remuneration – EY		
Group financial statements	**(296)**	(279)
Statutory	**(172)**	(153)
Other audit-related services[1]	**–**	(106)
	(468)	(538)
Auditor's remuneration – other audit firms		
Statutory	**(17)**	(20)
Other non-audit fees – EY		
Tax compliance	**(34)**	(8)
Tax services advisory and consultancy	**(9)**	(12)
Other services[2]	**(15)**	(3)
	(58)	(23)
Other non-audit fees – other audit firms		
Internal audit	**(2)**	(1)
Employee benefits expense		
Salaries and wages[3]	**(22 088)**	(20 123)
Underlying earnings before interest, tax, depreciation and mining asset amortisation (underlying EBITDA) before discontinued operation		
Underlying EBITDA is shown, as the Directors consider this measure to be a relevant guide to the operational performance of the Group and excludes such non-operating costs as listed below. The reconciliation from operating profit to underlying EBITDA is as follows:		
Operating profit	**29 858**	80 365
Other operating income	**(845)**	(474)
Foreign exchange gain	**(3 550)**	(2 200)
Share-based payments	**784**	1 422
Depreciation and amortisation (excluding waste stripping cost amortised)	**14 752**	8 567
Underlying EBITDA before discontinued operation	**40 999**	87 680

** Prior period figures have been restated for the reclassification impact of accounting for the discontinued operation (refer Note 16, Assets held for sale).*
[1] Other audit-related services by EY relate to the interim review on the half year results for the six months ended 30 June 2018. No interim review was performed on the 2019 half year results.
[2] Includes services related to the sale of assets.
[3] Includes contributions to defined contribution plan of US$0.5 million (31 December 2018: US$0.5 million). An average of 425 employees excluding contractors were employed during the period (2018: 401).

5. RECLASSIFICATION OF FOREIGN CURRENCY TRANSLATION RESERVE

During the year the Group abandoned Gem Diamonds Marketing Botswana (Proprietary) Limited, the sales and marketing office for Ghaghoo's diamonds and Gem Diamonds Technology DMCC, which owned an investment property in Dubai that was sold at the end of the prior year. As the operations are being closed and not sold the closure has been classified as an abandonment, which has resulted in the recycling of the foreign currency translation reserve. There was no profit or loss on the abandonment.

		2019 US$'000	2018* US$'000
6.	**NET FINANCE COSTS**		
	Finance income		
	Bank deposits	**668**	2 031
	Other	**–**	1
	Total finance income	**668**	2 032
	Finance costs		

Bank overdraft	**(459)**	(1 887)
Finance costs on borrowings	**(3 981)**	(916)
Finance costs on lease liabilities	**(1 087)**	–
Finance costs on unwinding of rehabilitation and decommissioning provision	**(949)**	(887)
Total finance costs	**(6 476)**	(3 690)
	(5 808)	(1 658)

7. INCOME TAX

Income tax expense		
Current		
– Overseas	**(1 805)**	(16 147)
Withholding tax		
– Overseas	**(143)**	(4 984)
Deferred		
– Overseas	**(7 072)**	(5 217)
	(9 020)	(26 348)
Profit before taxation from continuing operations	**24 050**	78 707

	%	%
Reconciliation of tax rate		
Applicable income tax rate	**25.0**	25.0
Permanent differences	**0.8**	1.1
Unrecognised deferred tax assets	**7.9**	1.9
Effect of overseas tax at different rates	**3.2**	1.3
Withholding tax	**0.6**	6.8
Effective income tax rate	**37.5**	36.1

The tax rate reconciles to the statutory Lesotho corporation tax rate of 25.0% rather than the statutory UK corporation tax rate of 19.0% as this is the jurisdiction in which the majority of the Group's taxes are incurred.

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

8. EARNINGS PER SHARE

	2019 US$'000	2018 US$'000
The following reflects the income and share data used in the basic and diluted earnings per share computations:		
Profit for the year:	**10 576**	46 641
Continuing operations	**15 030**	52 880
Discontinued operation	**(4 454)**	(6 239)
Less: Non-controlling interests	**(7 959)**	(20 624)
Net profit attributable to ordinary equity holders of the parent for basic and diluted earnings	**2 617**	26 017
Weighted average number of ordinary shares outstanding during the year ('000)	**138 964**	138 731

Earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year after taking into account future potential conversion and issue rights associated with the ordinary shares.

	2019 Number of shares	2018 Number of shares
Weighted average number of ordinary shares outstanding during the year	**138 964**	138 731
Effect of dilution:		
– Future share awards under the Employee Share Option Plan	**2 640**	3 265
Weighted average number of ordinary shares outstanding during the year adjusted for the effect of dilution	**141 604**	141 996

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

9. PROPERTY, PLANT AND EQUIPMENT

	Stripping activity asset US$'000	Mining asset US$'000	Exploration and develop-ment assets US$'000	De-commis-sioning assets US$'000	Lease-hold improve-ment US$'000	Plant and equipment US$'000	Other assets[1] US$'000	Total US$'000
As at 31 December 2019								
Cost								
Balance at 1 January 2019	**473 395**	**117 913**	**148 890**	**5 494**	**55 197**	**95 365**	**19 899**	**916 153**
Additions	**73 175**	**434**	**–**	**–**	**19**	**8 727**	**506**	**82 861**
Net movement in rehabilitation provision	**–**	**–**	**–**	**157**	**–**	**–**	**–**	**157**
Disposals	**–**	**–**	**–**	**–**	**–**	**(292)**	**(343)**	**(635)**
Reclassifications	**–**	**2 634**	**–**	**–**	**8 085**	**(11 328)**	**609**	**–**
Assets held for sale (Note 16)	**–**	**–**	**(141 531)**	**–**	**(6 821)**	**(10 195)**	**(14 683)**	**(173 230)**
Foreign exchange differences	**16 013**	**1 080**	**2 021**	**171**	**1 739**	**2 480**	**1 011**	**24 515**
Balance at 31 December 2019	**562 583**	**122 061**	**9 380**	**5 822**	**58 219**	**84 757**	**6 999**	**849 821**
Accumulated depreciation/amortisation/ impairment								
Balance at 1 January 2019	**316 412**	**51 652**	**147 441**	**3 669**	**24 639**	**64 233**	**18 467**	**626 513**
Charge for the year	**43 129**	**1 963**	**–**	**310**	**5 279**	**4 223**	**625**	**55 529**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**(320)**	**(320)**
Assets held for sale (Note 16)	**–**	**–**	**(139 962)**	**–**	**(6 821)**	**(10 195)**	**(14 683)**	**(171 661)**
Foreign exchange differences	**9 847**	**321**	**2 000**	**123**	**768**	**1 867**	**981**	**15 907**
Balance at 31 December 2019	**369 388**	**53 936**	**9 380**	**4 102**	**23 901**	**60 128**	**5 133**	**525 968**
Net book value at 31 December 2019	**193 195**	**68 125**	**–**	**1 720**	**34 318**	**24 629**	**1 866**	**323 853**

[1] Other assets comprise motor vehicles, computer equipment, furniture and fittings, and office equipment.

	Stripping activity asset US$'000	Mining asset US$'000	Exploration and develop-ment assets US$'000	De-commis-sioning assets US$'000	Lease-[1] hold improve-ment US$'000	Plant and equipment US$'000	Other assets[2] US$'000	Total US$'000
As at 31 December 2018								
Cost								
Balance at 1 January 2018	465 206	124 013	161 733	4 347	42 307	108 165	24 373	930 144
Additions	79 294	220	–	–	23	22 530	171	102 238
Net movement in rehabilitation provision	–	–	–	1 944	–	–	–	1 944
Disposals	–	–	(44)	–	(3)	–	(411)	(458)
Reclassifications	–	–	–	–	19 846	(20 282)	436	–
Assets held for sale (Note 16)	–	–	–	–	–	–	(2 124)	(2 124)
Foreign exchange differences	(71 105)	(6 320)	(12 799)	(797)	(6 976)	(15 048)	(2 546)	(115 591)
Balance at 31 December 2018	473 395	117 913	148 890	5 494	55 197	95 365	19 899	916 153
Accumulated depreciation/ amortisation/impairment								
Balance at 1 January 2018	291 536	51 084	160 107	4 302	24 928	71 293	21 352	624 602
Charge for the year	68 205	2 056	–	4	2 937	2 674	977	76 853
Disposals	–	–	–	–	(1)	–	(370)	(371)
Assets held for sale (Note 16)	–	–	–	–	–	–	(1 267)	(1 267)
Foreign exchange differences	(43 329)	(1 488)	(12 666)	(637)	(3 225)	(9 734)	(2 225)	(73 304)
Balance at 31 December 2018	316 412	51 652	147 441	3 669	24 639	64 233	18 467	626 513
Net book value at 31 December 2018	156 983	66 261	1 449	1 825	30 558	31 132	1 432	289 640

[1] Borrowing costs of US$1.6 million incurred in respect of the LSL215.0 million facility at Letšeng (refer Note 18, Interest-bearing loans and borrowings) were capitalised to the leasehold improvements. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 10.49%
[2] Other assets comprise motor vehicles, computer equipment, furniture and fittings, and office equipment.

	Right-of-use assets			
	Plant and equipment US$'000	Motor vehicles US$'000	Buildings US$'000	Total US$'000
10. RIGHT-OF-USE ASSETS				
As at 1 January 2019	**1 350**	**1 620**	**6 642**	**9 612**
Additions	**616**	**–**	**540**	**1 156**
Depreciation charge for the year	**(977)**	**(360)**	**(1 189)**	**(2 526)**
Foreign exchange differences	**43**	**35**	**134**	**212**
As at 31 December 2019	**1 032**	**1 295**	**6 127**	**8 454**

Right-of-use assets is a new category of assets that was recognised on adoption of *IFRS 16 Leases*. Refer Note 1.2.1, Changes in accounting policy.

Plant and equipment mainly comprise back-up power generating equipment utilised at Letšeng. Motor vehicles mainly comprise vehicles utilised by contractors at Letšeng. Buildings comprise office buildings in Maseru, Antwerp, London and Johannesburg.

During the year the Group recognised income from sub-leasing of office buildings in Maseru of US$0.6 million.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

	Intangibles US$'000	Goodwill* US$'000	Total US$'000
11. INTANGIBLE ASSETS			
As at 31 December 2019			
Cost			
Balance at 1 January 2019	**791**	**13 272**	**14 063**
Foreign exchange difference	**–**	**381**	**381**
Balance at 31 December 2019	**791**	**13 653**	**14 444**
Accumulated amortisation			
Balance at 1 January 2019	**791**	**–**	**791**
Amortisation	**–**	**–**	**–**
Balance at 31 December 2019	**791**	**–**	**791**
Net book value at 31 December 2019	**–**	**13 653**	**13 653**
As at 31 December 2018			
Cost			
Balance at 1 January 2018	791	15 422	16 213
Foreign exchange difference	–	(2 150)	(2 150)
Balance at 31 December 2018	791	13 272	14 063
Accumulated amortisation			
Balance at 1 January 2018	791	–	791
Amortisation	–	–	–
Balance at 31 December 2018	791	–	791
Net book value at 31 December 2018	–	13 272	13 272

* *Goodwill allocated to Letšeng Diamonds. Refer Note 12, Impairment for impairment testing.*

	2019 US$'000	2018 US$'000
12. IMPAIRMENT TESTING		
Impairment testing		
Goodwill impairment testing is undertaken on Letšeng Diamonds annually and when there are indications of impairment. The most recent test was undertaken at 31 December 2019. In assessing whether goodwill has been impaired, the carrying amount of Letšeng Diamonds is compared with its recoverable amount. For the purpose of goodwill impairment testing in 2019, the recoverable amount for Letšeng Diamonds has been determined based on a value-in-use model, similar to that adopted in the past.		
Goodwill		
Letšeng Diamonds	**13 653**	13 272
Balance at end of year	**13 653**	13 272

Movement in goodwill relates to foreign exchange translation from functional to presentation currency.

The discount rate is outlined below and represents the nominal pre-tax rate. This rate is based on the weighted average cost of capital (WACC) of the Group and adjusted accordingly at a risk premium for Letšeng Diamonds, taking into account risks associated therein.

	2019 %	2018 %
Discount rate – Letšeng Diamonds		
Applied to revenue	**11.2**	12.2
Applied to costs	**14.7**	15.8

Value in use
Cash flows are projected for a period up to the date that the open pit mining is expected to cease in 2036. This is based on the latest available mine plan and is shorter than the mining lease period. During the year, the Letšeng mining lease was extended for 10 years, expiring on 2 October 2029, with an exclusive option to renew for a further 10 years to 2039. This mine plan takes into account the available reserves and other relevant inputs such as diamond pricing, costs and geotechnical parameters.

Sensitivity to changes in assumptions
It was assessed that no reasonable possible change in any of the key assumptions would cause Letšeng's carrying amount to exceed its recoverable amount.

The Group will continue to test its assets for impairment where indications are identified.

Refer Note 1.2.28, Critical accounting estimates and judgements, for further details on impairment testing policies.

		2019 US$'000	2018 US$'000
13.	**RECEIVABLES AND OTHER ASSETS**		
	Non-current		
	Prepayments[1]	**–**	347
	Current		
	Trade receivables	**89**	184
	Prepayments[1]	**1 087**	1 038
	Deposits	**94**	97
	Other receivables	**797**	329
	VAT receivable	**4 270**	3 785
		6 337	5 433
	The carrying amounts above approximate their fair value.		
	Terms and conditions of the receivables:		
	Analysis of trade receivables		
	Neither past due nor impaired	**39**	135
	Past due but not impaired:		
	Less than 30 days	**50**	49
	30 to 60 days	**–**	–
	60 to 90 days	**–**	–
	90 to 120 days	**–**	–
		89	184

[1] Included in current prepayments are facility restructuring costs of US$0.4 million (2018: non-current US$0.3, current US$0.4).

Based on the nature of the Group's client base, the expected credit loss has no impact on the Group.

		2019 US$'000	2018 US$'000
14.	**INVENTORIES**		
	Diamonds on hand	**21 743**	18 531
	Ore stockpiles	**1 816**	2 585
	Consumable stores	**8 958**	11 968
		32 517	33 084

Inventory is carried at the lower of cost or net realisable value. During the year a write-down to net realisable value adjustment of US$1.1 million was recorded.

		2019 US$'000	2018 US$'000
15.	**CASH AND SHORT-TERM DEPOSITS**		
	Cash on hand	**1**	1
	Bank balances	**10 971**	16 093
	Short-term bank deposit	**331**	34 718
		11 303	50 812

The amounts reflected in the financial statements approximate fair value.

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are generally call deposit accounts and earn interest at the respective short-term deposit rates.

At 31 December 2019, the Group had restricted cash of US$0.1 million (31 December 2018: US$0.2 million). The Group's cash surpluses are deposited with major financial institutions of high-quality credit standing predominantly within Lesotho and the United Kingdom.

At 31 December 2019, the Group had US$69.9 million (31 December 2018: US$57.8 million) of undrawn facilities, representing the LSL500.0 million (US$35.8 million) three-year unsecured revolving working capital facility at Letšeng, the Letšeng ZAR100.0 million (US$7.2 million) working capital facility and US$27.0 million from Tranche 2 of the Company's US$45.0 million three-and-a-half-year unsecured revolving credit facility.

For further details on these facilities, refer Note 18, Interest-bearing loans and borrowings.

		2019 US$'000	2018 US$'000
16.	**ASSETS HELD FOR SALE**		
	Property, plant and equipment	**–**	859[1]
	Discontinued operation assets	**3 943**	–
		3 943	859

[1] On 30 January 2019, the aircraft which serviced the Letšeng mine was sold for US$2.1 million. This was disclosed as an asset held for sale at 31 December 2018.

The non-recurring fair value measurement is included in level 3 of the fair value hierarchy. The fair value is based on the purchase price of the transaction.

Discontinued operation held for sale

The Ghaghoo mine was placed on care and maintenance on 31 March 2017. In June 2019 the Company entered into a binding agreement for the sale of 100% of the share capital of Gem Diamonds Botswana Proprietary Limited, which owns the Ghaghoo Diamond Mine, for US$5.4 million. The sale, subject to regulatory approvals in Botswana and other conditions precedent, is expected to be concluded in 2020. The assets held for sale are carried at carrying value which is lower than fair value less costs to sell. The trading results of the operation have been classified as a discontinued operation held for sale and are presented as follows:

	2019 US$'000	2018 US$'000
Gross profit	**–**	–
Other operating costs	**(4 389)**	(5 519)
Share-based payments	**(10)**	(15)
Foreign exchange gain	**125**	6
Operating loss	**(4 274)**	(5 528)
Net finance costs	**(180)**	(190)
Loss before tax from discontinued operation	**(4 454)**	(5 718)
Income tax expense	**–**	–
Loss after tax from discontinued operation	**(4 454)**	(5 718)
Loss per share from discontinued operation (cents)		
Basic	**(3.20)**	(4.1)
Diluted	**(3.14)**	(4.1)

The assets and liabilities attributable to the discontinued operation held for sale are as follows:	
ASSETS	
Non-current assets	
Property, plant and equipment	**1 568**
Current assets	
Inventories	**2 136**
Receivables and other assets	**99**
Cash and short-term deposits	**140**
	2 375
Total assets	**3 943**
LIABILITIES	
Non-current liabilities	
Provisions	**3 613**
Current liabilities	
Trade and other payables	**608**
Total liabilities	**4 221**

	2019 US$'000	2018 US$'000
The net cash flows attributable to the discontinued operation held for sale are as follows:		
Operating	**(4 323)**	(6 251)
Investing	**–**	313
Financing	**4 384**	5 845
Foreign exchange gain/(loss) on translation of cash balance	**2**	(11)
Cash inflow/(outflow)	**63**	(104)

17. ISSUED SHARE CAPITAL AND RESERVES

Share capital

	31 December 2019		31 December 2018	
	Number of shares '000	**US$'000**	Number of shares '000	US$'000
Authorised – ordinary shares of US$0.01 each				
As at year end	**200 000**	**2 000**	200 000	2 000
Issued and fully paid balance at beginning of year	**138 896**	**1 390**	138 620	1 387
Allotments during the year	**88**	**1**	276	3
Balance at end of year	**138 984**	**1 391**	138 896	1 390

Share premium

Share premium comprises the excess value recognised from the issue of ordinary shares at par value.

Other reserves

	Foreign currency translation reserve US$'000	Share-based equity reserve US$'000	Total US$'000
Balance at 1 January 2019	**(207 639)**	**55 610**	**(152 029)**
Other comprehensive income	**(854)**	**–**	**(854)**
Total comprehensive income	**(854)**	**–**	**(854)**
Share-based payments	**–**	**794**	**794**
Transfer between reserves[1]	**–**	**(50 768)**	**(50 768)**
Balance at 31 December 2019	**(202 493)**	**5 636**	**(202 857)**
Balance at 1 January 2018	(177 984)	54 713	(123 811)
Other comprehensive expense	(29 655)	–	(29 655)
Total comprehensive expense	(29 655)	–	(29 655)
Share-based payments	–	1 437	1 437
Balance at 31 December 2018	(207 639)	55 610	(152 029)

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

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of foreign entities. The South African, Lesotho, Botswana and United Arab Emirates (abandoned during the year) subsidiaries' functional currencies are different to the Group's functional currency of US dollar. The rates used to convert the operating functional currency into US dollar are as follows:

	Currency	**2019**	2018
Average rate	ZAR/LSL to US$1	**14.45**	13.25
Year end	ZAR/LSL to US$1	**13.98**	14.39
Average rate	Pula to US$1	**10.76**	10.20
Year end	Pula to US$1	**10.58**	10.73
Average rate	Dirham to US$1	**3.67**	3.67
Year end	Dirham to US$1	**3.67**	3.67

Share-based equity reserves

For details on the share-based equity reserve, refer Note 28, Share-based payments.

Capital management

For details on capital management, refer Note 27, Financial risk management.

18. INTEREST-BEARING LOANS AND BORROWINGS

	Effective interest rate	Maturity	**2019 US$'000**	2018 US$'000
Non-current				
LSL215.0 million bank loan facility				
Tranche 1	South African JIBAR + 3.15%	31 March 2022	**4 291**	7 508
Tranche 2	South African JIBAR + 6.75%	30 September 2022	**1 168**	1 784
US$45.0 million bank loan facility				
Tranche 1	London US$ three-month LIBOR + 4.5%	31 December 2020	**–**	10 000
ZAR12.8 million asset-based finance facility	South African Prime Lending Rate	1 January 2024	**550**	662
			6 009	19 954
Current				
LSL215.0 million bank loan facility				
Tranche 1	South African JIBAR + 3.15%	31 March 2022	**3 433**	3 337
Tranche 2	South African JIBAR + 6.75%	30 September 2022	**667**	649
US$45.0 million bank loan facility				
Tranche 1	London US$ three-month LIBOR + 4.5%	31 December 2020	**10 000**	10 000
Tranche 2	London US$ three-month LIBOR +4.5%	31 December 2020	**2 000**	–
ZAR12.8 million asset-based finance facility	South African Prime Lending Rate	1 January 2024	**232**	226
			16 332	14 212

LSL215.0 million (US$15.4 million) bank loan facility at Letšeng Diamonds
This loan comprises two tranches of debt as follows:

- Tranche 1: South African rand denominated ZAR180.0 million (US$12.9 million) debt facility supported by the Export Credit Insurance Corporation (ECIC) (five years tenure); and
- Tranche 2: Lesotho loti denominated LSL35.0 million (US$2.5 million) term loan facility without ECIC support (five years and six months tenure).

The loan is an unsecured project debt facility which was signed jointly with Nedbank and the ECIC on 22 March 2017 for the total funding of the construction of the Letšeng mining support services complex. The loan is repayable in equal quarterly payments which commenced in September 2018. At year end LSL133.7 million (US$9.6 million) (31 December 2018: LSL191.0 million (US$13.3 million)) remains outstanding. The South African rand-based interest rates for the facility at 31 December 2019 are:

- Tranche 1: 9.95% (2018: 10.30%); and
- Tranche 2: 13.55% (2018: 13.90%).

Total interest for the year on this interest-bearing loan was US$2.2 million (2018: US$1.6 million).

US$45.0 million bank loan facility at Gem Diamonds Limited
This facility is a three-and-a-half-year revolving credit facility (RCF) with Nedbank Capital and consists of two tranches:

- Tranche 1: relates to the Ghaghoo US$25.0 million debt whereby capital repayments commenced in September 2018 with a final repayment due on 31 December 2020; and
- Tranche 2: this tranche of US$20.0 million relates to an RCF and includes an upsize mechanism whereby this tranche will increase by a ratio of 0.6:1 for every repayment made under Tranche 1. This will result in the available facility increasing to US$35.0 million once Tranche 1 is fully repaid.

At year end US$10.0 million (31 December 2018: US$20.0 million) had been drawn down relating to Tranche 1 and US$2.0 million (31 December 2018: US$nil) relating to Tranche 2. This resulted in US$27.0 million remaining undrawn under Tranche 2. The US dollar-based interest rate for this facility at 31 December 2019 is 6.44% (2018: 7.30%).

Total interest for the year on this interest-bearing RCF was US$1.7 million (2018: US$1.6 million).

ZAR12.8 million Asset-Based Finance facility
The Group, through its subsidiary, Gem Diamond Technical Services, entered into a ZAR12.8 million (US$0.9 million) Asset Based Finance (ABF) facility with Nedbank Limited for the purchase of a mobile X-Ray transmission machine (the asset). The asset serves as security for the facility. At year end ZAR10.9 million (US$0.8 million) remains outstanding. The facility is repayable over five years and bears interest at the South African Prime Lending rate, which was 10.00% at 31 December 2019 (2018: 10.25%).

Total interest for the year on this interest-bearing ABF was US$0.1 million (2018: US$0.1 million).

Other facilities

In addition, at 31 December 2019, the Group through its subsidiary Letšeng Diamonds, has a LSL500.0 million (US$35.8 million) three-year unsecured revolving working capital facility jointly with Standard Lesotho Bank and Nedbank Capital, which was renewed in July 2018. There was no draw down of this facility at year end.

The Group, through its subsidiary, Letšeng Diamonds, entered into a ZAR100.0 million (US$7.2 million) 12-month working capital facility during the year with Nedbank Limited (acting through its Nedbank Corporate and Investment Banking division). There was no draw down of this facility at year end and it expires in December 2020.

		2019 US$'000	2018 US$'000
19.	**LEASE LIABILITIES**		
	Non-current	**8 539**	–
	Current	**1 940**	–
	Total lease liabilities	**10 479**	–

Lease liabilities is a new category of liabilities that was recognised on adoption of *IFRS 16 Leases*. Refer Note 1.2.1, Changes in accounting policies and disclosures.

	31 December 2019 US$'000
Reconciliation of movement in lease liabilities	
As at 1 January 2019	**11 043**
Additions	**1 156**
Interest expense	**1 087**
Lease payments	**(2 988)**
Foreign exchange differences	**181**
As at 31 December 2019	**10 479**

The Group recognised rent expense from short-term leases of US$1.7 million and variable lease payments of US$61.7 million for the year ended 31 December 2019.

Residual value guarantees of US$0.1 million exist on leases for backup power generating equipment at Letšeng, which represents the cost to decommission and return the power generating equipment to the supplier at the end of the lease term.

		2019 US$'000	2018 US$'000
20.	**TRADE AND OTHER PAYABLES**		
	Non-current		
	Severance pay benefits[1]	**1 936**	1 555
	Current		
	Trade payables[2]	**13 368**	12 672
	Accrued expenses[2]	**8 817**	11 019
	Leave benefits	**615**	499
	Royalties and withholding taxes[2]	**3 573**	2 572
	Operating lease[3]	**–**	1 538
	Other	**17**	254
		26 390	28 554

[1] The severance pay benefits arise due to legislation within the Lesotho jurisdiction, requiring that two weeks of severance pay be provided for every completed year of service, payable on retirement.
[2] These amounts are mainly non-interest bearing and are settled in accordance with terms agreed between the parties.
[3] In line with the adoption requirements of IFRS 16 Leases, accrued lease agreements relating to operating leases were allocated against the right-of-use assets recognised. Refer Note 1.2.1, Changes in accounting policies and Note 10, Right-of-use assets.

Included in accrued expenses is US$0.5 million relating to employee taxes on fringe benefits not withheld on mileage reimbursements. This was disclosed as a contingent liability in the prior year. Refer Note 25, Commitments and contingencies.

Royalties consist of a levy paid to the Government of the Kingdom of Lesotho on the value of diamonds sold by Letšeng. This levy increased from 8% to 10% in October 2019 in line with the terms of the renewed Letšeng mining lease.

The carrying amounts above approximate fair value.

21.	**INCOME TAX (RECEIVABLE)/PAYABLE**		
	Reconciliation of movement in income tax payable		
	Balance at 1 January	**8 964**	1 276
	Payments made during the year	**(18 787)**	(12 623)

Tax charge per statement of profit or loss	**1 948**	21 131
Foreign exchange differences	**(301)**	(820)
Balance at 31 December	**(8 176)**	8 964
Split as follows		
Income tax receivable	**(8 189)**	–
Income tax payable	**13**	8 964

22. PROVISIONS

Rehabilitation provisions	**15 588**	17 876
Reconciliation of movement in rehabilitation provisions		
Balance at 1 January	**17 876**	17 306
(Decrease)/increase during the year	**(295)**	1 944
Unwinding of discount rate	**1 130**	1 078
Discontinued operation (Note 16)	**(3 613)**	–
Foreign exchange differences	**490**	(2 452)
Balance at 31 December	**15 588**	17 876

Rehabilitation provisions

The provisions have been recognised as the Group has an obligation for rehabilitation of the mining areas. The provisions have been calculated based on total estimated rehabilitation costs, discounted back to their present values over the LoM at the mining operations. The pre-tax discount rates are adjusted annually and reflect current market assessments.

In determining the amounts attributable to the rehabilitation provision at the Lesotho mining area, management used a discount rate of 6.7% (31 December 2018: 6.6%), estimated rehabilitation timing of 17 years (31 December 2018: seven years) and an inflation rate of 5.0% (31 December 2018: 5.3%). At the Botswana mining area, management used the available estimated costs to rehabilitate, considering its care and maintenance state. In addition to the changes in the discount rates, inflation and rehabilitation timing, the increase in the provision (including Ghaghoo) is attributable to the annual reassessment of the estimated closure costs performed at the operations together with the ongoing rehabilitation spend during the year at Letšeng.

23. DEFERRED TAXATION

	2019 US$'000	2018 US$'000
Deferred tax assets		
Lease liabilities	**2 705**	–
Accrued leave	**52**	56
Operating lease liability	**–**	2
Provisions	**5 114**	5 688
	7 871	5 746
Deferred tax liabilities		
Property, plant and equipment	**(84 532)**	(75 470)
Right-of-use assets	**(2 174)**	–
Prepayments	**(251)**	(292)
Unremitted earnings	**(4 038)**	(4 038)
	(90 995)	(79 800)
Net deferred tax liability	**(83 124)**	(74 054)
Reconciliation of deferred tax liability		
Balance at beginning of year	**(74 054)**	(78 579)
Movement in current period:		
– Accelerated depreciation for tax purposes	**(6 914)**	(6 667)
– Accrued leave	**(4)**	(1)
– Operating lease liability	**(351)**	26
– Prepayments	**41**	44
– Provisions	**(351)**	1 381
– Lease liabilities	**2 626**	–
– Right-of-use assets	**(2 112)**	–
– Foreign exchange differences	**(2 005)**	9 742
Balance at end of year	**(83 124)**	(74 054)

The Group has not recognised a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries because it is able to control the timing of dividends and only part of the temporary difference is expected to reverse in the foreseeable future. The gross temporary difference in respect of the undistributable reserves of the Group's subsidiaries for which a deferred tax liability has not been recognised is US$92.8 million (31 December 2018: US$70.5 million).

The Group has estimated tax losses of US$211.2 million (31 December 2018: US$194.5 million). All tax losses are generated in jurisdictions where tax losses do not expire. No deferred tax assets were recognised on these losses.

		Notes	**2019 US$'000**	2018 US$'000
24.	**CASH FLOW NOTES**			
	24.1 Cash generated by operations			
	Profit before tax for the year – continuing operations		**24 050**	78 708
	Loss for the year – discontinued operation		**(4 454)**	(5 719)
	Adjustments for:			
	Depreciation and amortisation excluding waste stripping	4	**12 551**	8 699
	Depreciation on right-of-use assets	10	**2 526**	–
	Waste stripping cost amortised	4	**43 129**	68 205
	Finance income	6	**(668)**	(2 033)
	Finance costs	6, 16	**6 656**	3 880
	Unrealised foreign exchange differences		**(4 184)**	(8 201)
	Profit on disposal and scrapping of property, plant and equipment		**(762)**	(695)
	Reclassification of foreign currency translation reserve		**(4)**	–
	Movement in prepayment		**(647)**	426
	Other non-cash movements		**2 657**	5 048
	Share-based equity transaction		**794**	1 437
			81 644	149 755
	24.2 Working capital adjustment			
	Increase in inventory		**(851)**	(3 660)
	Decrease/(increase) in receivables		**1 596**	(261)
	(Decrease)/increase in payables		**(3 599)**	5 837
			(2 854)	1 916
	24.3 Cash flows from financing activities excluding lease liabilities			
	Balance at beginning of year		**34 166**	46 343
	Net cash used in financing activities		**(12 175)**	(10 024)
	– Financial liabilities repaid		**(47 056)**	(12 937)
	– Financial liabilities raised		**34 881**	2 913
	Non-cash movement – FCTR		**350**	(2 212)
	Interest accrued		**–**	59
	Balance at year end	18	**22 341**	34 166

		2019 US$'000	2018 US$'000
25.	**COMMITMENTS AND CONTINGENCIES**		

Commitments

Mining leases

Mining lease commitments represent the Group's future obligation arising from agreements entered into with local authorities in the mining areas that the Group operates.

During the year, the Letšeng mining lease was extended for 10 years, expiring on 2 October 2029, with an exclusive option to renew for a further 10 years to 2039.

The period of these commitments is determined as the lesser of the term of the agreement, including renewable periods, or the LoM. The estimated lease obligation regarding the future lease period, accepting stable inflation and exchange rates, is as follows:

	2019 US$'000	2018 US$'000
– Within one year	**149**	139
– After one year but not more than five years	**862**	652
– More than five years	**1 821**	825
	2 832	1 616

Equipment and service lease

The Group has entered into lease arrangements for the provision of loading, hauling and other transportation services payable at a fixed rate per tonne of ore and waste mined; power generator equipment payable based on a consumption basis; and rental agreements for various mining equipment based on the fleet utilised. All lease payments relating to this lease are variable in nature and have therefore been recognised in the statement of profit or loss. Refer Note 1.2.28, Critical accounting estimates. The terms of this lease are negotiated during the extension option periods catered for in the agreements or at any time sooner if agreed by both parties.

During the year the mining contractor lease was extended for four years, expiring on 31 October 2024.

	2019 US$'000	2018 US$'000
– Within one year	**59 267**	45 234
– After one year but not more than five years	**254 218**	80 813
– More than five years	**–**	–

	313 485	126 047
Letšeng Diamonds Educational Fund		
In terms of the mining agreement entered into between the Group and the Government of the Kingdom of Lesotho, the Group has an obligation to provide funding for education and training scholarships. The quantum of such funding is at the discretion of the Letšeng Diamonds Education Fund Committee.		
– Within one year	**39**	47
– After one year but not more than five years	**69**	–
– More than five years	**–**	–
	108	47
Capital expenditure		
Approved but not contracted for	**3 299**	3 618
Approved and contracted for	**1 490**	6 228
	4 789	9 846

The main capital expenditure approved but not contracted for relates to the construction of a new accommodation block of US$0.7 million, continued tailings storage extension investment of US$0.6 million, information technology (IT) and security equipment upgrades of US$0.6 million and further mineral resource and reserve studies of US$0.5 million. The expenditure will be incurred over the next two years.

Contingent rentals – Alluvial Ventures
The contingent rentals represent the Group's obligation to a third party (Alluvial Ventures) for operating a third plant on the Group's mining property at Letšeng Diamonds. The rental is determined when the actual diamonds mined by Alluvial Ventures are sold. The rental agreement is based on 40% to 60% of the value (after costs) of the diamonds recovered by Alluvial Ventures and is limited to US$1.5 million per individual diamond. As at the reporting date, such future sales cannot be determined.

Contingencies
The Group has conducted its operations in the ordinary course of business in accordance with its understanding and interpretation of commercial arrangements and applicable legislation in the countries where the Group has operations. In certain specific transactions, however, the relevant third party or authorities could have a different interpretation of those laws and regulations that could lead to contingencies or additional liabilities for the Group. Having consulted professional advisers, the Group has identified possible disputes approximating US$0.2 million (December 2018: US$0.1 million).

The Group monitors possible tax claims within the various jurisdictions in which the Group operates. Possible tax claims of US$1.3 million were disclosed in the prior year, of which, US$0.8 million were resolved during the current year without requiring the recognition of a liability. The remaining balance of US$0.5 million related to employee taxes on fringe benefits which has been recognised in accrued expenses. Refer Note 20, Trade and other payables. Management applies judgement in identifying uncertainties over tax treatments and concluded that there were no uncertain tax treatments relating to the current year. Refer Note 1.2.28, Critical accounting estimates and judgements. There remains a risk that further tax liabilities may potentially arise. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's results, financial position or liquidity.

26. RELATED PARTIES

Related party	Relationship
Jemax Management (Proprietary) Limited	Common director
Gem Diamond Holdings Limited	Common director
Government of the Kingdom of Lesotho	Non-controlling interest

Refer Note 1.1.2, Operational information, for information regarding shareholding in subsidiaries.

	2019 US$'000	2018 US$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	**440**	872
Short-term employee benefits	**3 063**	2 652
	3 503	3 524
Fees paid to related parties		
Jemax Management (Proprietary) Limited	**(83)**	(111)
Royalties paid to related parties		
Government of the Kingdom of Lesotho	**(15 459)**	(20 850)
Lease and licence payments to related parties		
Government of the Kingdom of Lesotho	**(146)**	(131)
Sales to/(purchases from) related parties		
Jemax Management (Proprietary) Limited	**(5)**	–
Amount included in trade payables owing to related parties		
Jemax Management (Proprietary) Limited	**(9)**	(8)
Amounts owing to related party		
Government of the Kingdom of Lesotho	**(3 537)**	(2 568)

Dividends paid		
Government of the Kingdom of Lesotho	–	(20 742)

Jemax Management (Proprietary) Limited provided administrative services with regard to the mining activities undertaken by the Group. A controlling interest is held by an Executive Director of the Company.

The above transactions were made on terms agreed between the parties and were made on terms that prevail in arm's length transactions.

27. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks:

- market risk (including commodity price risk, foreign exchange risk and interest rate risk);
- credit risk; and
- liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

There have been no changes to the financial risk management policy since the prior year.

Capital management

For the purpose of the Group's capital management, capital includes the issued share capital, share premium and liabilities on the Group's statement of financial position. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares or restructure its debt facilities. The management of the Group's capital is performed by the Board.

The Group's capital management, among other things, aims to ensure that it meets financial covenants attached to its interest-bearing loans and borrowings. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants in the current year.

At 31 December 2019, the Group had US$69.9 million (31 December 2018: US$57.8 million) of undrawn debt facilities and continues to have the flexibility to manage the capital structure more efficiently by the use of these debt facilities, thus ensuring that an appropriate gearing ratio is achieved.

The debt facilities in the Group are as follows:

Unsecured – Standard Lesotho Bank and Nedbank Capital (a division of Nedbank Limited) – three-year unsecured revolving credit facility – LSL500.0 million (US$35.8 million)

The Group, through its subsidiary, Letšeng Diamonds, has an LSL500.0 million (US$35.8 million), three-year unsecured revolving working capital facility which was renewed in July 2018. The facility bears interest at the Lesotho prime rate minus 1.5%.

At year end, there was no drawdown on this facility.

Unsecured – Nedbank Limited (acting through its Nedbank Corporate and Investment Banking division) – 12-month unsecured working capital facility – LSL100.0 million (US$7.2 million)

The Group, through its subsidiary, Letšeng Diamonds, has an LSL100.0 million (US$7.2 million), 12-month unsecured working capital facility which was entered into in December 2019. The facility bears interest at the South African prime rate minus 0.7%.

At year end, there was no drawdown on this facility.

Unsecured – Nedbank Limited and Export Credit Insurance Corporation (ECIC) – five years and six months project debt facility – LSL215.0 million (US$15.4 million)

The Group, through its subsidiary, Letšeng Diamonds, has an unsecured project debt loan facility consisting of two tranches as follows:

- Tranche 1: South African rand denominated ZAR180.0 million (US$12.9 million) debt facility supported ECIC (five years' tenure); and
- Tranche 2: Lesotho loti denominated LSL35.0 million (US$2.5 million) term loan facility without ECIC support (five years and six months' tenure).

The facility is repayable in equal quarterly payments, which commenced in September 2018 and bears interest as follows:

- Tranche 1: Johannesburg ZAR interbank three-month JIBAR + 3.15%; and
- Tranche 2: Johannesburg ZAR interbank three-month JIBAR + 6.75%.

At year end LSL133.7 million (US$9.6 million) remains outstanding, with no available balance to be drawn down under this facility.

Unsecured – Nedbank Capital (a division of Nedbank Limited) – three-and-a-half-year unsecured debt facility – US$45.0 million

This facility is a three-and-a-half-year revolving credit facility (RCF) with Nedbank Capital and consists of two tranches:

- Tranche 1: relates to the Ghaghoo US$25.0 million debt whereby capital repayments commenced in September 2018 with a final repayment due on 31 December 2020; and
- Tranche 2: this tranche of US$20.0 million is a RCF and includes an upsize mechanism whereby it will increase by a ratio of 0.6:1 for every repayment made under Tranche 1. This will result in the available facility increasing to US$35.0 million once Tranche 1 is fully repaid.

This RCF bears interest at London USD Interbank three-month LIBOR + 4.5%.

At year end US$10.0 million was drawn down relating to Tranche 1 and US$2.0 million relating to Tranche 2. This resulted in US$27.0 million available to be drawn under Tranche 2.

ZAR12.8 million Asset Based Finance facility
The Group, through its subsidiary, Gem Diamond Technical Services, entered into an ABF facility with Nedbank Limited for the purchase of an X-Ray transmission machine. The facility is repayable over five years and bears interest at the South African Prime Lending rate, which was 10.00% at 31 December 2019. The facility is repayable in equal monthly payments which commenced in February 2019.

At year end US$0.8 million had been drawn down on this facility.

(a) Market risk

(i) Commodity price risk
The Group is subject to diamond price risk. Diamonds are not homogeneous products and the price of rough diamonds is not monitored on a public index system. The fluctuation of prices is related to certain features of diamonds such as quality and size. Diamond prices are marketed in US dollar and long-term US dollar per carat prices are based on external market consensus forecasts and contracted sales arrangements adjusted for the Group's specific operations. The Group does not have any financial instruments that may fluctuate as a result of commodity price movements.

(ii) Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Lesotho loti, South African rand and Botswana pula. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.
The Group's sales are denominated in US dollar which is the functional currency of the Company, but not the functional currency of the operations.

The currency sensitivity analysis below is based on the following assumptions:

Differences resulting from the translation of the financial statements of the subsidiaries into the Group's presentation currency of US dollar, are not taken into consideration.

The major currency exposures for the Group relate to the US dollar and local currencies of subsidiaries. Foreign currency exposures between two currencies where one is not the US dollar are deemed insignificant to the Group and have therefore been excluded from the sensitivity analysis.

The analysis of the currency risk arises because of financial instruments denominated in a currency that is not the functional currency of the relevant Group entity. The sensitivity has been based on financial assets and liabilities at 31 December 2019. There has been no change in the assumptions or method applied from the prior year.

Sensitivity analysis
There were no material financial assets or financial liabilities denominated in a currency that is not the functional currency of the relevant Group entity, and therefore if the US dollar had appreciated/(depreciated) by 10% against currencies significant to the Group at 31 December 2019, income before taxation would not have been materially impacted. There would be no effect on equity reserves other than those directly related to statement of profit or loss and foreign currency translation reserve movements.

(iii) Forward exchange contracts
The Group enters into forward exchange contracts to hedge the exposure to changes in foreign currency of future sales of diamonds at Letšeng Diamonds. The Group performs no hedge accounting. At 31 December 2019, the Group had no forward exchange contracts outstanding (31 December 2018: US$nil).

(iv) Interest rate risk
The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's cash flow interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. At the time of taking new loans or borrowings, management uses its judgement to decide whether it believes that a fixed or variable rate borrowing would be more favourable to the Group over the expected period until maturity.

Sensitivity analysis
If the interest rates on the interest-bearing loans and borrowings (increased)/decreased by 60 basis points during the year, profit before tax would have been US$0.2 million (lower)/higher (31 December 2018: US$0.2 million). The assumed movement in basis points is based on the currently observable market environment, which remained consistent with the prior year.

(b) Credit risk
The Group's potential concentration of credit risk consists mainly of cash deposits with banks, trade receivables and other receivables. The Group's short-term cash surpluses are placed with banks that have investment grade ratings. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the reporting dates.

The Group considers the credit standing of counterparties when making deposits to manage the credit risk.
Considering the nature of the Group's ultimate customers and the relevant terms and conditions entered into with such customers, the Group believes that credit risk is limited as customers pay on receipt of goods.

No other financial assets are impaired or past due and accordingly, no additional analysis has been provided.

No collateral is held in respect of any impaired receivables or receivables that are past due but not impaired.

(c) Liquidity risk

Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments including the inability to sell a financial asset quickly at a price close to its fair value. Management manages the risk by maintaining sufficient cash, marketable securities and ensuring access to financial institutions and shareholding funding. This ensures flexibility in maintaining business operations and maximises opportunities. The Group has available debt facilities of US$69.9 million at year end (2018: US$57.8 million)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments, excluding discontinued operation:

	2019 US$'000	2018 US$'000
Floating interest rates		
Interest-bearing loans and borrowings		
– Within one year	**17 734**	16 626
– After one year but not more than five years	**6 636**	22 008
Total	**24 370**	38 634
Lease liabilities		
– Within one year	**2 895**	–
– After one year but not more than five years	**10 416**	–
Total	**13 311**	–
Trade and other payables		
– Within one year	**26 390**	28 554
– After one year but not more than five years	**1 936**	1 555
Total	**28 326**	30 109

28. SHARE-BASED PAYMENTS

	2019 US$'000	2018 US$'000
The expense recognised for employee services received during the year is shown in the following table:		
Equity-settled share-based payment transactions charged to the statement of profit or loss – continuing operation	**784**	1 422
Equity-settled share-based payment transactions charged to the statement of profit or loss discontinued operation	**10**	15
	794	1 437

The long-term incentive plans are described below:

Long-term incentive plan (LTIP)

Certain key employees are entitled to a grant of options, under the LTIP of the Company. The vesting of the options is dependent on employees remaining in service for a prescribed period (normally three years) from the date of grant. The fair value of share options granted is estimated at the date of the grant using an appropriate simulation model, taking into account the terms and conditions upon which the options were granted. It takes into account projected dividends and share price fluctuation co-variances of the Company.

There is a nil or nominal exercise price for the options granted. The contractual life of the options is 10 years and there are no cash settlement alternatives. The Company has no past practice of cash settlement.

The Company's LTIP policy is reviewed every 10 years.

LTIP 2007 Award

Under the 2007 LTIP rules, there are five awards where options are still outstanding.

All five awards were awarded on the following basis:

To key employees (excluding Executive Directors):

- the awards vest over a three-year period in tranches of a third of the award each year;
- the vesting of the award is dependent on service conditions and certain performance targets being met for the same three-year period financial years (classified as non-market conditions);
- if the performance or service conditions are not met, the options lapse;
- the performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date;
- once the awards vest, they are exercisable for seven years (ie. contractual term is 10 years); and
- equity settled.

To Executive Directors:

- the awards vest over a three-year period;

- the vesting of the award is dependent on service conditions and both market and non-market performance conditions;
- 75% of the awards granted are subject to non-market conditions and 25% to market conditions by reference to the Company's total shareholder return (TSR) as compared to a group of principal competitors;
- if the performance or service conditions are not met, the options lapse;
- the performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date;
- once the awards vest, they are exercisable for seven years (ie. contractual term is 10 years); and
- equity settled.

The following table reflects details of all the awards within the 2007 LTIP that remain outstanding:

	LTIP March 2016	LTIP April 2015	LTIP June 2014	LTIP March 2014	LTIP September 2012
Number of options granted – nil value	1 215 000	1 215 000	456 750	625 000	312 000
Number of options granted – market value	185 000	185 000	152 250	–	624 000
Date exercisable	15 March 2019	1 April 2018	10 June 2017	19 March 2017	1 January 2016
Options outstanding	326 439	102 508	89 857	15 000	18 544
Dividend yield (%)	2.00	2.00	–	–	–
Expected volatility[1] (%)	39.71	37.18	37.25	–	42.10
Risk-free interest rate (%)	0.97	1.16	1.94	–	0.33
Expected life of option (years)	3.00	3.00	3.00	3.00	3.00
Exercise price (US$)	nil	nil	nil	nil	2.85
Exercise price (GBP)	nil	nil	nil	nil	1.78
Weighted average share price (US$)	1.56	2.10	2.70	2.87	2.85
Fair value of nil value options (US$)	1.40	1.97	2.70	2.87	2.85
Fair value of nil value options (GBP)	0.99	1.33	1.61	1.74	1.78
Fair value of market value options (US$)	0.69	1.18	1.83	–	1.66
Fair value of market value options (GBP)	0.49	0.80	1.09	–	1.04
Model used	Monte Carlo	Monte Carlo	Monte Carlo	–	Monte Carlo

[1] Expected volatility was based on the average annual historic volatility over the previous three years.

LTIP 2017 Award
Under the 2017 LTIP rules, there are three awards where options are still outstanding.

All the awards were issued on the same basis as the 2007 LTIP.

During the current year, one new award was made as follows:

LTIP 2017 Award – March 2019
On 20 March, 1 303 000 nil-cost options were granted to certain key employees and Executive Directors. 142 500 of the options granted relate to market conditions. The options vest after a three-year period and are exercisable between 20 March 2022 and 19 March 2029. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £0.90 (US$1.20) and the option grants are settled by issuing shares. Of the 1 303 000 options originally granted, 1 258 359 are still outstanding following the resignation of a number of employees and the lapsing of awards due to certain performance conditions not having been met.

The following table reflects details of all the awards within the 2017 LTIP that remain outstanding:

	LTIP March 2019	LTIP March 2018	LTIP July 2017
Number of options granted – nil value	**1 160 500**	1 265 000	1 150 000
Number of options granted – market value	**142 500**	185 000	185 000
Date exercisable	**20 March 2022**	20 March 2021	4 July 2020
Options outstanding	1 258 359	1 198 018	993 679
Dividend yield (%)	**–**	–	2.00
Expected volatility[1] (%)	**43.00**	40.00	40.21
Risk-free interest rate (%)	**1.2**	1.2	0.67
Expected life of option (years)	**3.00**	3.00	3.00
Exercise price (US$)	**nil**	nil	nil
Exercise price (GBP)	**nil**	nil	nil
Weighted average share price (US$)	**1.20**	1.35	1.24
Fair value of nil value options (US$)	**1.20**	1.35	1.11
Fair value of nil value options (GBP)	**0.90**	0.96	0.86
Fair value of market value options (US$)	**0.58**	0.74	0.72

Fair value of market value options (GBP)	**0.44**	0.53	0.56
Model used	**Monte Carlo**	Monte Carlo	Monte Carlo

The following table illustrates the number ('000) and movement in the outstanding share options during the year:

	2019 '000	2018 '000
Outstanding at beginning of year	**3 538**	3 612
Granted during the year	**1 303**	1 450
Exercised during the year[2]	**(81)**	(241)
Forfeited	**(758)**	(1 283)
Balance at end of year	**4 002**	3 538
Exercisable at end of year	**613**	266

[1] Expected volatility was based on the average annual historic volatility over the previous three years.
[2] Options were exercised regularly throughout the year. The weighted average share price during the year was £0.80 (US$1.02).

The weighted average remaining contractual life for the share options outstanding as at 31 December 2019 was 8.0 years (2018: 8.2 years).

The range of exercise prices for options outstanding at the end of the year was US$0.00 to $2.85 (2018: US$0.00 to $2.85).

ESOP

In September 2017, 47 200 shares which were previously held in the Company Employee Share Trust were granted to certain key employees involved in the Business Transformation of the Group. The fair value of the award was valued at the share price of the Company at the date of the award of £0.71 (US$0.96). These shares vested on 18 March 2019 and became immediately exercisable. All shares remain outstanding at the end of the year as follows:

	2019 '000	2018 '000
Outstanding at beginning of year	**47**	47
Granted during the year	**–**	–
Exercised during the year	**–**	–
Balance at end of year	**47**	47
Exercisable at end of year	**47**	–

29. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than the non-current and current portions of the prepayment disclosed in Note 13, Receivables and other assets, which do not meet the criteria of a financial asset. These prepayments are carried at amortised cost.

	Notes	**2019 US$'000**	2018 US$'000
Financial assets at amortised cost			
Cash (net of overdraft) – continuing operations	15	**11 303**	50 812
Cash – discontinued operation	16	**140**	–
Receivables and other assets – continuing operations	13	**4 735**	4 395
Receivables and other assets – discontinued operation	16	**99**	–
Total		**16 277**	55 207
Total non-current		**–**	–
Total current		**16 277**	55 207
Financial liabilities at amortised cost			
Interest-bearing loans and borrowings	18	**22 341**	34 166
Finance lease liabilities	19	**10 479**	–
Trade and other payables – continuing operations	20	**28 325**	30 109
Trade and other payables – discontinued operation	16	**608**	–
Total		**61 753**	64 275
Total non-current		**16 484**	21 509
Total current		**45 269**	42 766

The carrying amounts of the Group's financial instruments held approximate their fair value.

There were no open hedges at year end (2018: nil).

30. DIVIDENDS PAID AND PROPOSED

There were no dividends proposed for the 2019 or 2018 financial years.

31. EVENTS AFTER THE REPORTING PERIOD

No fact or circumstance has taken place between the end of the reporting period and the approval of the financial statements which, in our opinion, is of significance in assessing the state of the Group's affairs or require adjustments or disclosures.

32. MATERIAL PARTLY OWNED SUBSIDIARY

Financial information of Letšeng Diamonds, a 70% held subsidiary which has a material non-controlling interest, with the remaining 30% being held by the Government of the Kingdom of Lesotho, is provided below.

Name	Country of incorporation and operation	**2019 US$'000**	2018 US$'000
Letšeng Diamonds (Proprietary) Limited	Lesotho		
Accumulated balances of material non-controlling interest		**76 427**	67 692
Profit allocated to material non-controlling interest		**8 319**	20 985
The summarised financial information of this subsidiary is provided below. This information is based on amounts before intercompany eliminations.			
Summarised statement of profit or loss for the year ended 31 December			
Revenue		**179 785**	262 636
Cost of sales		**(127 244)**	(152 360)
Gross profit		**52 541**	110 276
Royalties and selling costs		**(15 715)**	(21 159)
Other income		**3 333**	1 262
Operating profit		**40 159**	90 379
Net finance (costs)/income		**(3 792)**	743
Profit before tax		**36 367**	91 122
Income tax expense		**(8 637)**	(21 172)
Profit for the year		**27 730**	69 950
Total comprehensive income		**27 730**	69 950
Attributable to non-controlling interest		**8 319**	20 985
Dividends paid to non-controlling interest		**–**	20 742
Summarised statement of financial position as at 31 December			
Assets			
Non-current assets			
Property, plant and equipment and intangible assets		**340 646**	298 565
Current assets			
Inventories, receivables and other assets, and cash and short-term deposits		**53 476**	60 092
Total assets		**394 122**	358 657
Non-current liabilities			
Interest-bearing loans and borrowings, trade and other payables, provisions and deferred tax liabilities		**109 385**	95 371
Current liabilities			
Interest-bearing loans and borrowings and trade and other payables		**29 981**	37 649
Total liabilities		**139 366**	133 020
Total equity		**254 756**	225 638
Attributable to:			
Equity holders of parent		**178 329**	157 946
Non-controlling interest		**76 427**	67 692
Summarised cash flow information for the year ended 31 December			
Operating		**70 093**	82 718
Investing		**(81 314)**	(99 931)
Financing		**(6 701)**	195
Net decrease in cash and cash equivalents		**(17 922)**	(17 018)