

# **Gemfields PLC**

Interim Report

Six Months Ended

31 December 2012

Company Number 05129023

# Gemfields PLC

## Interim report for the six months ended 31 December 2012

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# Gemfields PLC

## Chairman's statement

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Dear Shareholder,

It is once again my pleasure to bring you this set of results and to share with you an insight into what the Gemfields team has been able to achieve thus far this year. While a cursory review of the key numbers indicates that the results are lower than what was achieved during the same period last year the auctions lined up for the second half of the financial year are expected to bring revenue for the full year back in line.

During this period Gemfields has:-

- completed the acquisition of Fabergé Limited;
- delivered increased carat production, lowered unit operating costs and continued our strong safety record;
- expanded its global operational footprint fairly extensively on each of the mining, marketing and distribution fronts;
- invested capital into each of its three core mining operations namely Kagem (emerald), Kariba (amethyst) and Montepuez (ruby); and
- entered into a provisional agreement to acquire an additional ruby area in northern Mozambique.

Bearing in mind that we held only one rough auction during the period under review as opposed to two emerald auctions held during the comparable six month period in the prior year, we were still able to achieve a healthy EBITDA of US\$19,539,633. This is supported by sound cash, and stock balances which provide the basis for our two further emerald auctions and a ruby auction yet to come in the second half of the 2013 financial year. I therefore trust that you will join me in once again congratulating our exceptional team for the sterling efforts they continue to deliver on behalf of Gemfields and its investors.

### **Key financial indicators for the half year:**

- Revenues from rough (a single auction held in November 2012) and finished emerald sales of US\$27,688,682 (2011: US\$45,732,943).
- EBITDA for the period of US\$19,539,633 (2011: US\$32,243,445).
- Net profit after tax for the period US\$4,740,518 (2011: US\$22,002,078).
- Cash in hand at 31 December 2012 of US\$27,887,811 (2011: US\$32,382,069).
- Estimated production cost of emerald and beryl inventory at hand of US\$37,451,292 (2011: US\$22,112,885).
- Revenues lower than comparative period FY11 due to less auctions occurring. Three auctions scheduled before FY12 year end.

### **Key operational developments during the half year:**

- Option to acquire a 75% stake in a second substantial ruby deposit in the Montepuez district of the Cabo Delgado province in Mozambique.
- Average production cost of US\$0.57 per carat of emerald and beryl (2011: US\$0.83 per carat).
- 14.5 million carats of emerald and beryl produced (2011: 8.8 million carats produced).
- Commencement of bulk sampling at Montepuez ruby deposit, Mozambique.
- In excess of 2.5 million injury-free shifts achieved to date.
- Completion of preliminary bio-diversity and socio-anthropological base line studies at the Kagem mine in conjunction with the World Land Trust.
- Official opening by the Permanent Secretary - Copperbelt Province of Zambia of one of the numerous schools being supported by Gemfields.
- Continued increase in achievable quality for quality per-carat prices and firm demand for consistently and ethically supplied coloured gemstones across all major markets.

# **Gemfields PLC**

## **Chairman's statement** *(Continued)*

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### **Key developments since the end of the period:**

- Completed the acquisition for 100% of the globally recognised Fabergé jewellery brand.
- Mila Kunis announced as Gemfields' global brand ambassador and the face of its rare coloured gemstones campaign.
- Two auctions of rough emerald and beryl and a ruby auction scheduled for the second half ending 30 June 2013. The next emerald auction will be held in Jaipur in March 2013.
- Awarded 'Best Basic Resources' company at the UK Stock Market Awards.

### **Strategic Review**

The words “consolidation, diversification and growth” may appear to be somewhat contradictory at times but are in fact a perfect fit with that which Gemfields has managed to achieve over the past six months. Taking into account the increasing level of emphasis that is being placed on “sustainability” across all markets and sectors alike, Gemfields' board continues to review all aspects within the Group and is driven by a desire to comply with and/or exceed generally recognised global best practices in each core area of operation. With this in mind, and despite our commendable track record to date, we are constantly looking to improve on our historic performance in areas including but not limited to:-

- Corporate governance;
- Shareholder communication and interaction;
- Health and safety management;
- Environmental impact assessment and management (including biodiversity and carbon footprinting); and
- The constant improvement of operational effectiveness and efficiencies, including efforts to support the achievement of the best possible outcomes for our efforts.

The exemplary injury-free track record that we continue to maintain at our mining operations is pleasing indeed, and so too is our continued ability to reduce our operating costs, while at the same time being able to continue to increase production outputs. However, all of this would be to little avail were we not confident of our ability to continue to grow global demand for our products well into the foreseeable future. This is where Fabergé fits in.

### **Operations**

- ***Mining – Kagem Mining Ltd (Kagem), 75% owned by Gemfields***

The Kagem emerald mine in Zambia is Gemfields' primary operating mine and serves as the major source of emeralds and beryl for our downstream business. Despite the slow recovery and lingering uncertainty in the global markets, Gemfields' clearly demonstrated track record, healthy cash balances, inventory positions and the growing demand for ethically sourced and transparently supplied emeralds and other coloured gemstones continues to validate our decision to escalate the scale of operations at the Kagem mine. The focus during the first half of this financial year has been directed at further accelerating the level of waste mining, with a view to constantly opening new areas for future ore production, and increasing the level of ore mined. These aims are further supported by our ongoing efforts to improving mining efficiencies and contain costs, as is clearly evidenced in the operational figures.

Kagem's key annual production parameters are summarised below:

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Chairman's statement (Continued)

KAGEM Annual Production Summary	Units	Year to 30 Jun 07	Year to 30 Jun 08	Year to 30 Jun 09	Year to 30 Jun 10	Year to 30 Jun 11	Year to 30 Jun 12	6 months to 31 Dec 12
Gemstone Production (Emerald + Beryl)	million carats	9.4	9.9	28.0	17.4	33.0	21.1	14.5
Ore Production (Reaction Zone)	'000 tonnes	29	42	80	61	69	103	54
Grade (Emerald + Beryl/Reaction Zone)	carats/tonne	325	233	349	286	478	205	271
Waste Mined (including TMS)*	million tonnes	2.8	5.1	4.0	2.5	3.7	8.7	4.8
Stripping Ratio		96	120	50	42	54	85	89

\*Includes contract mining

Kagem's unaudited total operating costs (excluding capitalised waste stripping costs) for the six months ending 31 December 2012 totalled US\$8.3 million, resulting in an average production cost during the period of US\$0.57 per carat of emerald and beryl (compared with US\$0.74 per carat for the year ending 30 June 2012). Overall operating costs per tonne of ore mined (known as "Reaction Zone") were US\$156 per tonne of ore, well below Kagem's historic average of US\$196 per tonne.

Waste stripping will continue to increase in the short to medium term as additional areas of overburden are mined in order to expand the levels of available ore and as Kagem continues to expand the scale of its operations. This will have a commensurate impact on total mining costs. However, the increased waste stripping has allowed for an increase in the volume of ore mined which, in association with an improvement in the grade, has resulted in a pleasing overall increase in the number of carats produced during the period (at 14.5 million carats, compared with 8.8 million carats produced in the six months to 31 December 2011).

Kagem's trial underground mining project continues to provide important feedback, all of which will be put to good use when we begin the planned underground development on a larger scale. The project achieved a total linear development for the six month period of 127.7 meters, with total underground development since the commencement of operations being 598.6 metres. A small 10 meter by 10 meter stope was blasted, with the stope and the six production drives together increasing the volume of ore mined and carats produced. Some 341,535 carats were produced from the trial underground project in the six months ending 31 December 2012, improving the project's grade to 95 carats per tonne (compared to 61 carats per tonne in the six months to 31 December 2011). This trial project has continued to provide Gemfields with a high degree of confidence that the planned larger scale underground mining project could be safely and effectively implemented within the Zambian emerald belts, and effectively increasing the projected life of mine by at least 20 years.

- **Sales and Inventories - Kagem**

Gemfields offers its rough production to selected market participants by way of sealed bid auctions where all gemstones tendered are certified by Gemfields as natural, untreated and of Zambian origin. Many of the world's top gem houses and emerald lapidaries are invited to attend these events.

During the period, Gemfields hosted only one auction of higher-quality rough emeralds, taking place in November 2012. Some 37 companies drawn from Germany, India, Israel and the USA attended this event, with 0.93 million carats of rough emerald offered in 19 separate lots. The sales from this auction totalled US\$26.8 million with 16 out of the 19 lots being sold. The results of the auctions held since July 2011 are summarised below.

**Gemfields PLC**  
Chairman's statement (Continued)

<b>AUCTION RESULTS</b>	<b>JULY '11</b>	<b>NOVEMBER '11</b>	<b>MARCH '12</b>	<b>JUNE '12</b>	<b>NOVEMBER '12</b>
<b>Dates</b>	11-15 Jul 2011	21-25 Nov 2011	19-23 Mar 2012	9-13 Jun 2012	29 Oct – 2 Nov 2012
<b>Location</b>	Singapore	Jaipur, India	Singapore	Jaipur, India	Singapore
<b>Type</b>	Higher Quality	Lower Quality	Higher Quality	Lower Quality	Higher Quality
<b>Carats offered</b>	1.07 million	10.83 million	0.77 million	10.85 million	0.93 million
<b>Carats sold</b>	0.74 million	9.82 million	0.69 million	3.47 million	0.90 million
<b>No. of companies placing bids</b>	38	27	29	20	35
<b>Average no. of bids per lot</b>	16	9	11	3	11
<b>No. of lots offered</b>	25	26	23	33	19
<b>No. of lots sold</b>	18	19	20	17	16
<b>Percentage of lots sold</b>	72%	73%	87%	52%	84%
<b>Percentage of lots sold by weight</b>	69%	91%	89%	32%	98%
<b>Percentage of lots sold by value</b>	91%	80%	94%	60%	90%
<b>Total sales realised at auction</b>	US\$31.6 million	US\$11.0 million	US\$26.2 million	US\$9.0 million	US\$26.8 million
<b>Average per carat sales value</b>	US\$42.71/carat	US\$1.12/carat	US\$38.25/carat	US\$2.61/carat	US\$29.71/carat

Significant interest from downstream stakeholders in attending the Gemfields' auctions provides sound evidence of ongoing healthy demand. This trend was further demonstrated by the fact that the Singapore auction yielded an overall average of USD 29.71 per carat for the lots sold, slightly lower than that which was achieved at the previous higher quality emerald auction held in March 2012 in Singapore (which achieved an overall average of USD 38.25 per carat for the lots sold). But, with the overall quality characteristics (or "product mix") of the gems placed on offer being somewhat different to those placed on offer at the earlier auction, the results reflect a pleasing increase in per carat prices when looking at the underlying lots on a quality-for-quality basis.

- ***Geology and Exploration - Kagem***

In the Gemfields annual financial statements in June 2009, the Directors took the decision to write down the value of the Kagem mine to zero, driven largely by the prevailing uncertainty in the global economy, the then loss-making performance of the Kagem mine and the lack of reliable emerald prices, all of which made it difficult to justify forecasts showing positive cashflows with reasonable certainty. In 2012 a re-assessment was performed by SRK UK and they concluded that the current pit on the Fwaya-Fwaya belt of the Kagem licence contains, in accordance with the JORC Code, an Indicated Mineral Resource of 2.7 million tonnes of ore at an average grade of 73.1 grams of emerald and beryl per tonne. This equates to an emerald and beryl content of 200,687 kg or 1 billion carats. At an assumed production rate of 20 million carats per annum, this equates to a life of mine of 20 years.

Exploration drilling has continued with a total of 6,257 meters of drill core recovered from 66 boreholes from both the Fibolele and Libwente exploration areas. The results of the drilling have allowed the defining of a bulk sample pit in the Fibolele area. The bulk sampling commenced in September 2012 and forms part of the resource evaluation of the area.

**Gemfields PLC**  
**Chairman's statement** *(Continued)*

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- ***Security - Kagem***

The safety and security of the Group's assets, protecting its people and limiting the theft of gemstones remain key operational priorities. Security initiatives implemented to date continue to show positive results - as attested to by the continued reduction in the volume of material available in the informal markets. However, the reduction of theft and physically securing the mining licence area remain ongoing challenges.

The existing CCTV infrastructure was further upgraded at the Kagem sort-house and washing plant. CCTV was also installed in the newly completed sort-house extension and the digitalisation of the radio communication system, ensuring full compliance with prevailing Zambian legislation and extending the range of coverage, was also implemented during this period.

- ***Illegal mining activities within the Kagem licence area***

Kagem continues to experience organised illegal mining activity within the boundaries of the Kagem mining licence. While the matter is as yet not fully resolved, Gemfields continues to work in cooperation with all key Zambian ministries to seek an amicable and peaceful solution and that Kagem's legal rights are protected and respected.

- ***Sustainability - Kagem***

- Kagem has maintained its excellent accident-free health and safety record throughout the period. The number of injury-free shifts has now increased to 2,505,800, and is largely due to the ongoing health, safety and behaviour-based safety training that has been implemented across all aspects of the operation.
- Kagem remains fully environmentally compliant and has maintained its Category 1 classification in Zambia. Gemfields strives to achieve globally benchmarked environmental performance standards and full compliance with statutory legislation supported by the implementation of annual health, safety and environmental audits, with the most recent audits having been completed during the period.
- The Kagem emerald mine's corporate and social responsibility policy aims to align the company with the interests of the communities in which it operates and to have an overall positive impact on their lives. The projects focus on four key sectors including health, education, farming and cultural awareness. Well over US\$500,000 has thus far been spent on these projects. A further two year plan has recently been formalised to address some newly identified community needs and is likely to require funding in excess of US\$900,000 to complete.

- ***Mining – Montepuez Ruby Mine (“MRM”), 75% owned by Gemfields***

The newly acquired MRM mining licence covers an area of 34,000 hectares, and is believed to represent the most significant global ruby discovery in recent years. The mine is expected to boost the role of the gemstone sector in the Mozambican economy and is receiving a high degree of priority within Gemfields.

The focus during the past six months has been directed at setting up the mine camp within the mining licence area, acquiring the basic equipment required to operate the mine and carry out preliminary bulk sampling projects, identifying key areas of geological importance and the establishment of an effective and competent operating team. A trial wash plant, various jigs and assorted mining equipment and a basic sort-house have been procured and are on site and operational.

## **Gemfields PLC**

### **Chairman's statement (Continued)**

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Preliminary bulk sampling commenced in August 2012, with the washing of this material commencing in earnest in December 2012 post the installation and commissioning of a 50 tonne per hour wash plant. During this period approximately 30 000 tonnes were excavated and 166 tonnes of material washed. Washing was delayed due to the late arrival of the wash plant and assorted delays in full commissioning.

MRM's key ore assessment parameters are summarised below:

- A total of 30,648 tonnes excavated to 31 December 2012 from the "Maninge-nice" area. This includes 19,027 tonnes of top soil, mineralised overburden of 8,185 tonnes, alluvial gravel bed material of 1,734 tonnes, a mix of gravel bed and in-situ ore of 113 tonnes and exclusive in-situ ore of 1,409 tonnes.
- A total of 166 tonnes of excavated material was washed during the period and includes 49 tonnes of mineralised overburden, 113 tonnes of gravel bed material and a mix of gravel bed and in-situ ore of approximately 4 tonnes.
- A recovery of 35 carats per tonne was achieved from the mineralised overburden, 97 carats per tonne from the gravel bed, while 118 carats per tonne was achieved from the mix of gravel bed and in-situ ore. Post the reporting period this latter figure has since increased to 300 carats per tonne of ore. These figures will, however, continue to fluctuate over the coming months as the size of the bulk sample continues to increase and different areas are sampled, but they remain fairly pleasing.
- A total of 109,120 carats of ruby was recovered up to and including 31 December 2012.

MRM's unaudited total operating costs (excluding capitalised infrastructure costs) for the six months ending 31 December 2012 totalled US\$ 1.8 million. Capital cost for this period totalled US\$1.2 million.

- ***Geology and Exploration - MRM***

The Montepuez Complex forms a wedge-shaped unit of strongly deformed paragneisses and orthogneisses between Montepuez, Chiúre and Namuno. The Montepuez Complex comprises orthogneisses, ranging from granitic to amphibolitic in composition, and paragneisses, comprising mainly quartzites, meta-arkoses, marbles, quartz-feldspar, gneisses and biotite gneisses. The rocks of the Montepuez Complex are strongly folded into tight and isoclinal folds on all scales, and have later been cut by a number of mainly NE-SW-trending shear zones. The strong deformation makes the lithological succession very complex, with large variations on all scales, both within and between the lithologies.

The rubies are hosted by eluvial material and primary underlying amphibolite. The latter is part of the Montepuez Complex, a suite of metamorphosed sedimentary rocks (amphibolite-grade schists and gneisses) that are intruded by granite, granodiorite, and tonalite. In the deeply weathered area, the eluvium appeared to lie directly on Montepuez gneisses, which were cross-cut by light-colored veins mostly weathered to clay. These veins extend up to 20 cm in thickness and most probably originally consisted of syenitic (silica-deficient) pegmatites and aplites.

The core area includes an east-west striking low-magnetic highly-folded signature which correlates with the amphibolite as intersected in the "Central Area". Also associated with this are several radiogenic (high potassium) signatures which correlate with the known mineralised areas in the "core area" and at the "Toro occurrence". These high potassium signatures may represent intrusive lithologies, potassium rich alteration due to fluids, or possible potassic pegmatites. Similar signatures are also present at the ruby mineralized Namahaca occurrence.

Core drills have been ordered and are likely to reach the mine site by March 2013. In the interim, pitting is in progress in selected localities to obtain accurate and reliable geological information.

- ***Sustainability - MRM***

A safety improvement plan is under implementation, which includes the implementation of safety standards, personal protective equipment, training and best practice reviews. Regular monitoring occurs, with an emphasis on safety supervision to establish safe working practices for all key activities throughout the operation. A local doctor has also been engaged to carry out regular health checks on all employees.



## **Gemfields PLC**

### **Chairman's statement** *(Continued)*

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MRM continues to be committed to the implementation of environmental management plans as outlined at a Group level and as directed by contracted local experts and approved by the regulatory authorities in the country, and adopting mining methods that limit the company's overall impact on the environment, local biodiversity and preservation of ecology in the surrounding areas.

Demonstrating a strong commitment to corporate social responsibility, MRM has been engaged in implementing various community development programs in the villages surrounding the exploration area, specifically at the villages of Namanhumbhir and Seweh. These projects are being carried out in close association with the respective village heads through the formation of the Joint Committee on Community Development ("JCCD") in each village. A wide spread of community development programs have already been undertaken by MRM and have thus far been focused on the provision of healthcare, education, the development of local infrastructure, water supply and the promotion of sport.

- ***Security - MRM***

Three basic elements including architectural (barriers, locks, lighting, etc.), operational (guarding, quick reaction teams, local police support and interaction where appropriate and a comprehensive set of security policies and procedures) and infrastructural (CCTV system, communications and access control) have been implemented to date. The combination of these systems appears to have resulted in a considerable reduction in the number of illegal miners encountered within the mining licence area since operations first began in early 2012.

- ***Mining - Kariba Amethyst Mine (Kariba), 50% owned by Gemfields***

The Government of the United Republic of Zambia has elected to transfer its 50% stake in Kariba Minerals Ltd (of which Gemfields owns the remaining 50%) to the state-owned resources holding company, ZCCM-IH. While the transfer of these shares remains underway, Gemfields and ZCCM-IH have agreed to recapitalise the Kariba operations to an initial sum of US\$2.5 million (with each party contributing \$1.25m). This is the largest single cash injection that this operation has received and is likely to aid the growth and success of Kariba's operations.

- ***Mining - Oriental Mining S. a. r. l., 100% owned by Gemfields***

In 2008, Gemfields exercised its option to acquire the entire issued share capital of Oriental Mining s.a.r.l. ("Oriental"), a company incorporated in Madagascar. Gemfields was granted the option by Rox Limited (a company controlled by Pallinghurst Resources) ("Rox") pursuant to an agreement between Gemfields and Rox dated 18 December 2007.

Oriental has a total of 15 exploration licences covering emeralds, rubies, sapphires, tourmalines and garnets in the Antananarivo, Fianarantsoa and Toliara provinces of Madagascar, and the right to an additional five exploration licences that are pending approval from the Madagascan Ministry of Energy and Mines.

Madagascar is recognised as one of the most exciting colour gemstone countries in the world today, with several key discoveries having been made there during the last decade. Gemfields believes that, in the medium to long term, gemstone-related activity in the country has the potential to become a valuable part of Gemfields' asset portfolio. Given Madagascar's improving political and security environment, a preliminary geological and geotechnical assessment of these areas, carried out by Mineralogical and Petrological Services ("M.A.P.S.") has classified the various licences into four groups ranging from 'highly prospective' to 'limited or no potential'. A total of nine licences have been identified to fall into the 'prospective' and 'highly prospective' categories and will be undergoing additional investigation in the coming year.

**Gemfields PLC**  
**Chairman's statement** (*Continued*)

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- ***Mozambique growth opportunities - Megaruma Mining Lda (“MML”)***

Gemfields entered into a conditional agreement to acquire a controlling interest in an additional ruby deposit located adjacent to the company’s MRM property, in the Montepuez district of the Cabo Delgado province in Mozambique (the “Project”) during the period. The Project, initially targeting one specific exploration licence area, includes the option to acquire a second licence, both of which are currently owned by EME Investimentos S.A. (“EME”), and cover approximately 18,400 and 14,900 hectares respectively. Small scale and informal mining within the targeted licences has already taken place and EME is now, by way of this agreement, seeking to expand operations. The mining title areas both share boundaries with the mining concessions of MRM, in which Gemfields has a 75% shareholding.

Limited mining within the targeted licences has thus far taken place, on a small and informal scale. A senior and highly reputed Mozambican geologist has been engaged by Gemfields as part of the obligation to prepare a feasibility report covering both of the mining title areas. This work will include exploratory pitting, sampling, washing of the pit samples, environmental studies, resource estimation and economic evaluation. The exploratory pitting work is already underway, though slowed down by exceptionally heavy rains received in the area this year. The first set of pits has exposed a gravel bed in the central part of the licence at 1.5 meters to 2 meters below surface. Collection and washing of samples from different lithological units will be carried out following a strict sampling procedure in order to get accurate ore grade estimation while ensuring confidentiality of the information.

- ***Fabergé Limited, 100% owned by Gemfields***

Fabergé is one of the world’s most recognised luxury brand names, underscored by a well-documented and globally recognised heritage. Having announced the conditional acquisition of Fabergé Limited (Fabergé ) by Gemfields on 21 November 2012, the transaction was formally completed on 28 January 2013. After issuing 214 million new Gemfields shares as consideration (representing approximately 39% of Gemfields’ fully diluted enlarged share capital), Gemfields now owns 100% of Fabergé. At the time of writing, the integration of Fabergé into the Gemfields family is well underway.

The transaction creates the opportunity for Gemfields to establish itself as the world’s leading coloured gemstone company, operating at both critical ends of the value chain. Gemfields can now take its vision for coloured gemstones to the next level, harnessing the Fabergé name to boost the international presence and perception of coloured gemstones and advance the Groups’ stated “mine and market” vision. Fabergé will be positioned as the obvious consumer choice for high-end, ethically supplied coloured gemstone jewellery, filling a perceived gap in the market and underpinned by Gemfields’ well-established credentials. Fabergé also provides Gemfields with entry to the global luxury market, estimated to be worth US\$ 244 billion in 2011 and is forecast to grow to some US\$ 305 billion by 2014.

The transaction is expected to broaden Gemfields’ investor and institutional appeal over time, beyond the traditional mining investment community and potentially allow the Company to gain exposure to luxury sector multiples.

The transaction also creates marketing, communication, management and supply synergies to deliver operational efficiency, creating a platform to further increase Gemfields’ market share within the coloured gemstone sector and providing greater influence over product positioning and consumer awareness.

Prior to the transaction, the largest single shareholder on the register was Rox Limited, with a holding of 59.1%. As a condition to the transaction, Rox Limited’s holding in the Company was unbundled to its underlying shareholders. The result is that, after issuance of the consideration shares in respect of the acquisition of Fabergé, the single largest shareholder is Pallinghurst Resources Fund L.P. (“Pallinghurst”), with a combined direct and indirect interest of 48.0%. A new relationship agreement has been entered into with Pallinghurst in respect of its holding, replacing the erstwhile agreement with Rox Limited.

# **Gemfields PLC**

## **Chairman's statement** *(Continued)*

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- ***Marketing and Promotion***

Gemfields' marketing and communications aptitude has grown markedly. With the Josephine Skriver 'Rare Coloured Gemstone' campaign running through 2012, the marketing team have since signed a new Gemfields "face" and brand ambassador, Mila Kunis. She will feature in Gemfields' 2013 campaign endorsing Gemfields as the world's leading coloured gemstone company and further building the aspiration for Gemfields' rare coloured gemstones. The campaign was photographed by renowned photographer Mario Sorrenti. Mila will also be wearing Gemfields coloured gemstones on the red carpet in her upcoming premieres. The long-term Gemfields and Mila Kunis partnership was announced in Los Angeles on 19 February 2013. The Campaign will launch in April 2013 in publications around the world. The marketing initiative surrounding the brand ambassador will cover the UK, Europe, Africa, USA, China and India. Public relations efforts have also been made in Zambia to promote Gemfields' principal present asset, the Kagem emerald mine and a Lusaka-based public relations company has been appointed in this regard.

### **Objectives and outlook for the remainder of the year**

#### **Objectives:**

- Two auctions of rough emerald and beryl and a ruby auction scheduled for the second half ending 30 June 2013. The next emerald auction will be held in Jaipur in March 2013;
- Bring MRM into production by the end of the 2013 calendar year, with positive cash inflows expected to commence towards the middle of the year;
- Move towards finalising the preliminary large scale underground mine plan for Kagem;
- Continue to increase the level of marketing and promotions being carried out in relation to each of our current range of core products, including emeralds, rubies, amethyst and Fabergé';
- Complete the process required to finalise the acquisition of MML;
- Initiate a review and transformation process within Fabergé, ensuring our ability to position it as the recognised "go-to" jeweller for fine to high-end jewellery and coloured gemstones;
- Build on the sound management team and competencies that are now well entrenched within the Group; and
- Leverage Gemfields' clear strategic advantages within the coloured gemstone sector and look to use these to drive additional organic and acquisition-driven growth to position Gemfields as the world's leader in the mining, marketing and supply of 'Precious Coloured Gemstones'.

#### **Outlook:**

With an exceptional team at hand, solid stakeholder relations in place in all key sectors and demand for our product continuing to grow, we have every reason to believe that the next six months will continue to deliver according to expectation.

Our ongoing efforts to increase the production levels at each of our operating mines and to finalise the acquisition of targeted sites, should serve to reduce any operating risks and support continued growth. Sales throughout the period are expected to be well supported by the expansion of our existing and proven marketing initiatives across a broader target market. While the long term opportunities provided via the acquisition of a global brand as exceptional as Fabergé certainly serve to underpin the confidence we have in Gemfields continued growth and delivery against shareholder expectations.

**Graham Mascal**

1 March 2013

# Gemfields PLC

## Consolidated statement of comprehensive income for the six months ended 31 December 2012

	Note	6 months ended 31 December 2012 (Unaudited) US\$'000	6 months ended 31 December 2011 (Unaudited) US\$'000	Year ended 30 June 2012 (Audited) US\$'000
<b>Revenue</b>		<b>27,689</b>	45,733	<b>83,715</b>
Increase in inventory		<b>10,851</b>	3,432	<b>7,936</b>
Purchases		<b>(1,097)</b>	(3,425)	<b>(5,683)</b>
Mining and production costs		<b>(9,829)</b>	(8,530)	<b>(17,668)</b>
Depreciation and amortisation		<b>(9,563)</b>	(1,268)	<b>(6,624)</b>
<b>Total cost of sales</b>		<b>(9,638)</b>	(9,791)	<b>(22,039)</b>
<b>Gross profit</b>		<b>18,051</b>	35,942	<b>61,676</b>
Other income		<b>135</b>	89	<b>316</b>
<b>Administrative expenses</b>				
Other administrative expenses		<b>(8,209)</b>	(5,056)	<b>(14,193)</b>
Impairment reversal of evaluated mining properties		-	-	<b>201,115</b>
Impairment (charge) of available-for-sale investments		<b>(545)</b>	(181)	<b>(158)</b>
<b>Total Administrative expenses</b>		<b>(8,754)</b>	(5,237)	<b>186,764</b>
<b>Profit from operations</b>		<b>9,432</b>	30,794	<b>248,756</b>
Finance income		<b>110</b>	384	<b>246</b>
Finance expenses		<b>(136)</b>	(88)	<b>(76)</b>
<b>Profit before taxation</b>		<b>9,406</b>	31,090	<b>248,926</b>
Tax (charge)	<b>3</b>	<b>(4,665)</b>	(9,088)	<b>(87,460)</b>
<b>Profit after taxation</b>		<b>4,741</b>	22,002	<b>161,466</b>
Profit for the year attributable to:				
Owners of the parent		<b>2,260</b>	16,551	<b>120,228</b>
Non-controlling interests		<b>2,481</b>	5,451	<b>41,238</b>
		<b>4,741</b>	22,002	<b>161,466</b>
<b>Earnings per share for profit attributable to the owners of the parent during the year</b>				
Basic	<b>4</b>	<b>US\$0.01</b>	US\$0.05	<b>US\$0.37</b>
Diluted	<b>4</b>	<b>US\$0.01</b>	US\$0.05	<b>US\$0.36</b>

All amounts relate to continuing activities.

# Gemfields PLC

## Consolidated statement of comprehensive income *(Continued)* for the six months ended 31 December 2012

	Note	6 months ended 31 December 2012 (Unaudited) US\$'000	6 months ended 31 December 2011 (Unaudited) US\$'000	Year ended 30 June 2012 (Audited) US\$'000
<b>Profit after taxation</b>		4,741	22,002	161,466
<b>Other comprehensive income</b>				
Exchange gains arising on translation of foreign operations		98	-	307
<b>Total comprehensive income</b>		4,839	22,002	161,773
Total comprehensive income attributable to:				
Owners of the parent		2,358	16,551	120,535
Non-controlling interests		2,481	5,451	41,238
		4,839	22,002	161,773

# Gemfields PLC

## Consolidated statement of changes in equity for the six months ended 31 December 2012

	Attributable to equity holders of the parent								
	Share Capital \$000s	Share Premium \$000s	Merger Reserve \$000s	Option Reserve \$000s	Cumulative Translation Reserve \$000s	Retained Deficit \$000s	Total \$000s	Non- controlling Interest \$000s	Equity \$000s
<b>Balance at 31 December 2011</b>	<b>6,168</b>	<b>96,894</b>	<b>121,005</b>	<b>764</b>	<b>(109)</b>	<b>(169,791)</b>	<b>54,931</b>	<b>10,366</b>	<b>65,297</b>
Profit for the six months						103,677	103,677	35,787	139,464
Other comprehensive income for the six months	-	-	-	-	409	-	409	-	409
Issue of shares	1	7	-	-	-	-	8	-	8
Share based payments	-	-	-	574	-	-	574	-	574
<b>Balance at 30 June 2012</b>	<b>6,169</b>	<b>96,901</b>	<b>121,005</b>	<b>1,338</b>	<b>300</b>	<b>(66,114)</b>	<b>159,599</b>	<b>46,153</b>	<b>205,752</b>
Profit for the six months						2,260	2,260	2,481	4,741
Other comprehensive income for the six months	-	-	-	-	98	-	98	-	98
Issue of shares	2	10	-	-	-	-	12	-	12
Share based payments	-	-	-	327	-	-	327	-	327
<b>Balance at 31 December 2012</b>	<b>6,171</b>	<b>96,911</b>	<b>121,005</b>	<b>1,665</b>	<b>398</b>	<b>(63,854)</b>	<b>162,296</b>	<b>48,634</b>	<b>210,930</b>

The nature and purpose of each reserve within Shareholders' equity is described as follows:

Reserve	Description and purpose
Share capital	Amount subscribed for share capital at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	The difference between the fair value of the shares issued as consideration for acquisition of subsidiaries in excess of the nominal value of the shares, where 90% or more of shares are acquired.
Option reserve	Cumulative fair value of options charged to the statement of comprehensive income net of transfers to the profit and loss reserve on exercised and cancelled/lapsed options.
Cumulative translation reserve	Cumulative gains and losses on translating the net assets of overseas operations to the presentation currency.
Retained deficit	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.
Non-controlling interest	Amounts attributable to non-controlling shareholders.

# Gemfields PLC

## Consolidated statement of financial position at 31 December 2012

	31 December 2012 (Unaudited) US\$'000	31 December 2011 (Unaudited) US\$'000	30 June 2012 (Audited) US\$'000
<b>Non-current assets</b>			
Property, plant and equipment	229,932	14,821	224,865
Available-for-sale Investments	940	1,544	1,567
Intangible asset	2,883	-	2,634
	<u>233,755</u>	<u>16,365</u>	<u>229,066</u>
<b>Current assets</b>			
Inventory	38,796	23,338	27,979
Trade and other receivables	7,236	4,640	4,309
Cash and cash equivalents	27,888	32,382	36,737
	<u>73,920</u>	<u>60,360</u>	<u>69,025</u>
<b>Total current assets</b>	<u>73,920</u>	<u>60,360</u>	<u>69,025</u>
<b>Total assets</b>	<u>307,675</u>	<u>76,725</u>	<u>298,091</u>
<b>Non-current liabilities</b>			
Deferred tax liability	(77,056)	(1,471)	(76,400)
Borrowings	(4,778)	-	(1,917)
Non-current provisions	(2,093)	(1,132)	(1,353)
	<u>(83,927)</u>	<u>(2,603)</u>	<u>(79,670)</u>
<b>Current liabilities</b>			
Trade and other payables	(5,895)	(3,032)	(8,102)
Current tax	(3,238)	(5,026)	(2,720)
Borrowings	(3,092)	-	(1,000)
Other current liabilities	(593)	(767)	(847)
	<u>(12,818)</u>	<u>(8,825)</u>	<u>(12,669)</u>
<b>Total liabilities</b>	<u>(96,745)</u>	<u>(11,428)</u>	<u>(92,339)</u>
<b>Total net assets</b>	<u>210,930</u>	<u>65,297</u>	<u>205,752</u>
<b>Capital and reserves attributable to equity holders of the parent</b>			
Share capital	6,171	6,168	6,169
Share premium	96,911	96,894	96,901
Merger reserve	121,005	121,005	121,005
Option reserve	1,665	764	1,338
Cumulative translation reserve	398	(109)	300
Retained deficit	(63,854)	(169,791)	(66,114)
	<u>162,296</u>	<u>54,931</u>	<u>159,599</u>
Non-controlling interests	48,634	10,366	46,153
<b>Total equity</b>	<u>210,930</u>	<u>65,297</u>	<u>205,752</u>

The interim financial information was approved by the Board of Directors and authorised for issue on 1 March 2013.

**Devidas Shetty**  
Director

Company Registration Number 05129023

# Gemfields PLC

## Consolidated statement of cash flows for the six months ended 31 December 2012

	At 31 December 2012 (Unaudited) US\$'000	At 31 December 2011 (Unaudited) US\$'000	At 30 June 2012 (Audited) US\$'000
<b>Cash flows from operating activities</b>			
<b>Profit for the year after tax</b>	<b>4,741</b>	22,002	<b>161,466</b>
Depreciation and amortisation	9,563	1,268	6,624
Tax charge	4,665	3,677	87,460
Impairment reversal of evaluated mining properties	-	-	(201,115)
Share-based payments	327	322	896
Finance income	(110)	(384)	(246)
Finance expense	136	88	76
Profit on sale of property, plant and equipment	(98)	(144)	(144)
Impairment charge of available for sale investments	545	181	158
(Increase) in trade and other receivables	(2,927)	(1,058)	(727)
(Decrease)/increase in trade and other payables	(1,357)	3,508	3,445
Increase in other provisions	485	188	489
(Increase) in inventory	(10,817)	(3,284)	(7,925)
<b>Net cash flow from operating activities</b>	<b>5,153</b>	26,364	<b>50,457</b>
<b>Taxation paid</b>	<b>(3,490)</b>	-	<b>(6,878)</b>
<b>Cash flows from investing activities</b>			
Purchase of Mozambican ruby licence	(1,100)	-	(1,784)
Sale of available for sale investments	83	-	-
Interest received	110	110	246
Purchase of property, plant and equipment	(6,731)	(1,045)	(7,811)
Overburden removal costs	(7,899)	(6,969)	(14,490)
Sale of property, plant and equipment	98	144	147
<b>Net cash flow from investing activities</b>	<b>(15,439)</b>	(7,760)	<b>(23,692)</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary shares	12	45	53
Repayment of borrowings	(1,322)	-	(83)
Receipt of loans	6,275	-	3,000
Finance expense	(136)	(88)	(76)
<b>Net cash flow from financing activities</b>	<b>4,829</b>	(43)	<b>2,894</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(8,947)</b>	18,561	<b>22,781</b>
Cash and cash equivalents at start of period	36,737	13,649	13,649
Exchange differences on translation	98	172	307
<b>Cash and cash equivalents at end of period</b>	<b>27,888</b>	32,382	<b>36,737</b>



# Gemfields PLC

## Notes forming part of the interim report for the six months ended 31 December 2012

### 1 Accounting policies

The interim financial information has been prepared using policies based on international Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board (“IASB”) as adopted for use in the EU. The interim financial information has been prepared using the accounting policies which are consistent with those applied by the group in the financial statements to 30 June 2012 and will be applied in the Group’s statutory financial information for the year ended 30 June 2013.

The Directors are in the process of assessing the impact of the new standards, amendments to existing standards and interpretations in order to determine their impact on the Group. Based on the Directors assessment so far, the effect of the changes is considered likely to affect disclosure only.

Following the acquisition of Fabergé Limited the group is considering the accounting treatment for this acquisition. This will be reflected in the year-end report and will be done in accordance with IFRS 3 (Revised).

### 2 Financial reporting period

The interim financial information for the period 1 July 2012 to 31 December 2012 is unaudited. In the opinion of the Directors the interim financial information for the period presents fairly the financial position, and results from operations and cash flows for the period in conformity with the generally accepted accounting principles consistently applied. The interim financial information incorporates unaudited comparative figures for the interim period 1 July 2011 to 31 December 2011 and the audited financial year to 30 June 2012.

The financial information contained in this interim report does not constitute statutory accounts as defined by Section 435 of the Companies Act 2006.

The comparatives for the full year ended 30 June 2012 are not the Company’s full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors’ report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under Section 498 (2)-(3) of the Companies Act 2006.

### 3 Taxation of profit for the period

	<b>6 months ended 31 December 2012 (Unaudited) US\$'000</b>	6 months ended 31 December 2011 (Unaudited) US\$'000	<b>Year ended 30 June 2012 (Audited) US\$'000</b>
Current tax charge	<b>(4,008)</b>	(5,411)	<b>(8,855)</b>
Deferred tax charge	<b>(657)</b>	(3,677)	<b>(78,605)</b>
Tax charge	<b><u>(4,665)</u></b>	<u>(9,088)</u>	<b><u>(87,460)</u></b>

# Gemfields PLC

## Notes forming part of the interim report for the six months ended 31 December 2012 *(Continued)*

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### **4 Earnings per share**

Earnings per ordinary share have been calculated using the weighted average number of shares in issue during the period. The weighted average number of shares is 325,236,966 (31 December 2011 – 324,389,883; 30 June 2012 – 324,556,550) and the profit, being profit after tax attributable to equity holders of the parent is US\$2,259,500 (31 December 2011 – US\$16,550,897; 30 June 2012 – \$120,227,816).

Diluted earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of shares that would be issued on the conversion of dilutive potential ordinary shares into ordinary shares. The calculation, of the dilutive potential ordinary shares related to employee and director share option plans, includes only those options with exercise prices below the average share trading price for each period. The diluted weighted average number of shares is 336,728,631 (31 December 2011 – 332,564,883; 30 June 2012 – 336,134,882).

### **5 Events after the reporting date**

Gemfields formally completed the acquisition of Fabergé Limited on 28 January 2013 by issuing 214 million new Gemfields shares as consideration. Gemfields now owns 100% of Fabergé Limited.

Prior to the transaction, the largest single shareholder on the register was Rox Limited, with a holding of 59.1%. As a condition to the transaction, Rox Limited's holding in the Company was unbundled to its underlying shareholders. The result is that, after issuance of the consideration shares in respect of the acquisition of Fabergé Limited, the single largest shareholder is Pallinghurst Resources Fund L.P. ("Pallinghurst"), with a combined direct and indirect interest of 48.0%. A new relationship agreement has been entered into with Pallinghurst in respect of its holding, replacing the erstwhile agreement with Rox Limited.