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

12 March 2019

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 98 to 143, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 (ISA). 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 Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)*, the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants (IESBA Code)* and other independence requirements applicable to performing audits of the Group. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code, IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of the Group. 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	How the matter was addressed in the audit
Revenue recognition In the current year, the Group recognised revenue amounting to US$267.3 million (2017: US$214.3 million). IFRS 15 *Revenue from Contracts with Customers* became applicable to the Group from 1 January 2018. Management elected the modified retrospective approach for adoption. The Group has several different sales arrangements, consisting of selling rough diamonds through tenders, partnerships arrangements or joint operation arrangements, and also includes a proportionate share of the cutting and polishing margin uplift generated from the selling of polished diamonds from the partnership and joint operation arrangements. In the current year, revenue from the sale of rough diamonds amounted to US$266.8 million (2017: US$213.5 million), which comprise 99.8% (2017: 99.6%) of Group revenue. Revenue is driven by the nature of each sales type and the characteristics of each diamond being sold such as the colour, clarity, carat size, shape of the stone and delivery date of diamonds to the customer. The diversity of the sales arrangements increases the complexity and extent of audit effort required to assess and validate the occurrence, measurement and completeness of revenue recognised. Refer to the accounting policies (page 106) and Note 2 of the Annual Financial Statements (page 118).	**Our audit procedures included among others:** • We evaluated management's impact analysis of adopting IFRS 15 in the current year. • We evaluated the accounting treatment of each of the various revenue stream arrangements. • We assessed a sample of rough diamond sales in the current year to: – Underlying invoices – Payments from customers – Delivery notes or receipt confirmations from counterparties. • We evaluated the elimination of intercompany sales transactions upon consolidation. • We evaluated the completeness of current year revenues by analysing management's reconciliation of rough and polished diamonds that were produced and sold during the year as well as diamonds on hand at year end. We assessed the opening and closing inventory (carats), diamonds produced and purchased, boiling and tender losses and current year sales to supporting audit evidence. • We furthermore also considered the reasonableness of the Group's related disclosures in the financial statements by comparing that to the requirements of IFRS 15.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Key audit matter	How the matter was addressed in the audit
Impairment of goodwill In accordance with IAS 36 *Impairment of Assets*, management performs an annual impairment assessment for goodwill allocated to the Letšeng cash generating unit (CGU) by comparing the carrying amount of the CGU, including goodwill, to its value in use. Management used a discounted cash flow model to determine the value in use of the CGU. The key area of judgement relates to the Group's assessment of future cash flows. The future cash flows use forward looking estimates, which are inherently difficult to determine with precision and judgement is applied to determine key inputs. This determination is dependent on several assumptions, which include: • Inflation forecasts • Future diamond prices • Exchange rates • Operating costs • Capital expenditure • Production • Discount rates Due to the significant judgements involved in estimating the key inputs to calculate the value in use, additional audit effort, emphasis and executive involvement was required. During the year management recorded US$nil (2017: US$nil) impairment of PPE or goodwill. Refer to the accounting policies (page 106) and Note 11 of the Annual Financial Statements (page 125).	Our audit procedures included among others: • We considered and assessed management's approach to identifying indicators of impairment for completeness, focusing on changes in diamond prices and market capitalisation. • We tested the methodology applied in the value in use calculation relative to the requirements of IAS 36 *Impairment of Assets* and tested the mathematical accuracy of management's cash flow forecasts. • We involved EY internal valuations specialists to assist in evaluating management's key estimates and judgements, which included management's price, inflation rates, exchange rates and discount rates assumptions. • We evaluated the reasonability of management's estimate of the value in use and forecast cash flows by considering evidence available to support assumptions and the reliability of past forecasts. This included agreeing key cash flow inputs such as operating expenditure, future capital expenditure and reserve and resource-life data to the Group's latest approved plans and budgets. • We evaluated management sensitivity analysis for the impact that diamond prices and operating expenditure may have on the value in use. • We assessed the period over which the impairment test is performed, including the assumptions in the mine plan, and the current stage of the mining licence renewal process. • We considered the disclosures in relation to impairment review and estimates made in the financial statements to the requirements of IFRS.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report set out on pages 1 to 94, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information, except to the extent otherwise explicitly stated in this report, 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 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 on the other information obtained prior to the date of this auditor's report, 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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 ISA 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 ISA, 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.

Report on Other Legal and Regulatory Requirements
In terms of the IRBA Rule published in *Government Gazette Number 39475* dated 4 December 2015, we report that Ernst & Young LLP, incorporated in the UK, served as auditor of Gem Diamonds Limited from 2007 until 2017, which was 11 years. Ernst & Young Incorporated has been appointed as the auditor of Gem Diamonds Limited for the first time in respect of the year ended 31 December 2018, and accordingly has been the auditors of Gem Diamonds Limited for one year.

Ernst & Young Inc.
Ernest Adriaan Lodewyk Botha – Director
Chartered Accountant (CA)
Registered Auditor
Johannesburg, South Africa

12 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2018

	Notes	2018 US$'000 Total	2017 US$'000 Before exceptional items	2017 US$'000 Exceptional items[1]	2017 US$'000 Total
Revenue	2	**267 290**	214 296	–	214 296
Cost of sales		**(154 953)**	(146 177)	(3 605)	(149 782)
Gross profit		**112 337**	68 119	(3 605)	64 514
Other operating income and expenses	3	**(5 045)**	793	–	793
Royalties and selling costs		**(22 905)**	(18 828)	–	(18 828)
Corporate expenses		**(10 319)**	(9 496)	–	(9 496)
Share-based payments	26	**(1 437)**	(1 526)	–	(1 526)
Foreign exchange gain/(loss)	4	**2 205**	(1 347)	–	(1 347)
Operating profit/(loss)	4	**74 836**	37 715	(3 605)	34 110
Net finance costs	6	**(1 847)**	(3 801)	–	(3 801)
Finance income		**2 033**	630	–	630
Finance costs		**(3 880)**	(4 431)	–	(4 431)
Profit/(loss) before tax for the year		**72 989**	33 914	(3 605)	30 309
Income tax expense	7	**(26 348)**	(13 075)	–	(13 075)
Profit/(loss) for the year		**46 641**	20 839	(3 605)	17 234
Attributable to:					
Equity holders of parent		**26 017**	9 083	(3 605)	5 478
Non-controlling interests		**20 624**	11 756	–	11 756
Earnings per share (cents)	8				
– Basic earnings for the year attributable to ordinary equity holders of the parent		**18.8**	6.6	–	4.0
– Diluted earnings for the year attributable to ordinary equity holders of the parent		**18.3**	6.4	–	3.9

[1] *Refer to Note 5, Exceptional items.*

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

	2018 US$'000	2017 US$'000
Profit for the year	**46 641**	17 234
Other comprehensive income that could be reclassified to the statement of profit or loss in subsequent periods		
Exchange differences on translation of foreign operations	**(43 217)**	21 565
Other comprehensive (expense)/income for the year, net of tax	**(43 217)**	21 565
Total comprehensive income for the year, net of tax	**3 424**	38 799
Attributable to:		
Equity holders of the parent	**(3 638)**	23 640
Non-controlling interests	**7 062**	15 159

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Notes	2018 US$'000	2017 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**289 640**	305 542
Intangible assets	10	**13 272**	15 422
Receivables and other assets	12	**347**	22
		303 259	320 986
Current assets			
Inventories	13	**33 084**	34 065
Receivables and other assets	12	**5 433**	7 777
Cash and short-term deposits	14	**50 812**	47 704
		89 329	89 546
Assets held for sale	15	**859**	2 097
Total assets		**393 447**	412 629
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	16	**1 390**	1 387
Share premium		**885 648**	885 648
Other reserves	16	**(152 029)**	(123 811)
Accumulated losses[1]		**(578 834)**	(604 851)
		156 175	158 373
Non-controlling interests		**72 103**	85 783
Total equity		**228 278**	244 156
Non-current liabilities			
Interest-bearing loans and borrowings	17	**19 954**	33 279
Trade and other payables	18	**1 555**	1 609
Provisions	20	**17 876**	17 306
Deferred tax liabilities	21	**74 054**	78 579
		113 439	130 773
Current liabilities			
Interest-bearing loans and borrowings	17	**14 212**	13 064
Trade and other payables	18	**28 554**	23 360
Income tax payable	19	**8 964**	1 276
		51 730	37 700
Total liabilities		**165 169**	168 473
Total equity and liabilities		**393 447**	412 629

[1] *Included in profit or loss for the year and accumulated in equity are amounts relating to assets held for sale. Refer to Note 15, Assets held for sale.*

Approved by the Board of Directors on 12 March 2019 and signed on its behalf by:

CT Elphick
Director

M Michael
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Issued capital[1] US$'000	Share premium[1] US$'000	Own shares US$'000	Other reserves[1] US$'000 (Attributable to the equity holders of the parent)	Accumulated (losses)/ retained earnings US$'000 (Attributable to the equity holders of the parent)	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
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	**3**	**–**	**–**	**–**	**–**	**3**	**–**	**3**
Treasury shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Share-based payments (Note 26)	**–**	**–**	**–**	**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**
Balance at 1 January 2017	1 384	885 648	(1)	(143 498)	(610 329)	133 204	70 623	203 827
Total comprehensive income	–	–	–	18 161	5 478	23 639	15 160	38 799
Profit for the year	–	–	–	–	5 478	5 478	11 756	17 234
Other comprehensive income	–	–	–	18 161	–	18 161	3 404	21 565
Share capital issued	3	–	–	–	–	3	–	3
Treasury shares	–	–	1	–	–	1	–	1
Share-based payments (Note 26)	–	–	–	1 526	–	1 526	–	1 526
Balance at 31 December 2017	1 387	885 648	–	(123 811)	(604 851)	158 373	85 783	244 156

[1] Refer to Note 16, Issued capital and reserves, for further detail.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Notes	2018 US$'000	2017 US$'000
Cash flows from operating activities		**138 339**	97 395
Cash generated by operations	22.1	**149 755**	110 795
Working capital adjustments	22.2	**1 916**	(9 892)
		151 671	100 903
Interest received		**2 033**	630
Interest paid		**(2 742)**	(3 210)
Income tax paid		**(12 623)**	(928)
Cash flows used in investing activities		**(99 449)**	(101 158)
Purchase of property, plant and equipment		**(22 963)**	(17 787)
Waste stripping costs capitalised		**(79 294)**	(84 009)
Proceeds from sale of property, plant and equipment		**2 808**	638
Cash flows (used in)/generated by financing activities		**(30 766)**	17 469
Interest-bearing loans and borrowings (repaid)/raised	22.3	**(10 024)**	17 469
– Interest-bearing loans and borrowings repaid		**(12 937)**	(46 601)
– Interest-bearing loans and borrowings raised		**2 913**	64 070
Dividends paid to non-controlling interests		**(20 742)**	–
Net increase in cash and cash equivalents		**8 124**	13 706
Cash and cash equivalents at beginning of year		**47 704**	30 787
Foreign exchange differences		**(5 016)**	3 211
Cash and cash equivalents at end of year held at banks		**50 659**	47 531
Restricted cash at end of year		**153**	172
Cash and cash equivalents at end of year	14	**50 812**	47 704

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2018

1. NOTES TO THE 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 12 March 2019.

The Group is principally engaged in the exploration and development of diamond mines.

1.1.2 Operational information

The Company has the following investments directly and indirectly in subsidiaries at 31 December 2018:

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 Illovo 2196	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, 1% in Baobab Technologies BVBA and 0.1% in Gem Diamonds Marketing Botswana (Proprietary) Limited.
Letšeng Diamonds (Proprietary) Limited[2] Letšeng Diamonds House Corner Kingway 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] 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.
Gem Diamonds Investments Limited[2] 20 – 22 Bedford Row London WC1R 4JS United Kingdom	100%	US$17 531 316	UK	Investment holding company holding 100% in each of Gem Diamonds Technology DMCC, Calibrated Diamonds Investment Holdings (Proprietary) Limited and Gem Diamonds Innovation Solutions CY Limited[3]; 99.9% in Gem Diamonds Marketing Botswana (Proprietary) 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] *Gem Diamonds Innovation Solutions CY Limited was incorporated during the prior year as an intellectual property holding company.*

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.1 Corporate information (continued)

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 main geographical regions and the type of products and services from which each reporting segment derives its revenue from are:

- Lesotho (diamond mining activities);
- Botswana (diamond mining activities through Ghaghoo) and sales and marketing of diamonds through Gem Diamonds Marketing Botswana (Proprietary) Limited. Ghaghoo was placed on care and maintenance in February 2017;
- Belgium (sales, marketing and manufacturing of diamonds); and
- BVI, RSA, UK and Cyprus (technical and administrative services).

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

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.

During the prior year, the Ghaghoo mine, forming part of the Botswana segment, was placed on care and maintenance. .

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

Year ended 31 December 2018	Lesotho US$'000	Botswana US$'000	Belgium US$'000	BVI, RSA,[1] UK and Cyprus US$'000	Total US$'000
Revenue					
Total revenue	262 636	–	267 370	9 440	539 446
Intersegment	(262 636)	–	(432)	(9 088)	(272 156)
External customers	–	–	266 938	352	267 290
Depreciation and amortisation	76 537	43	204	120	76 904
– Depreciation and mining asset amortisation	8 332	43	204	120	8 699
– Waste stripping cost amortisation	68 205	–	–	–	68 205
Share-based equity transactions	317	15	6	1 099	1 437
Segment operating profit/(loss)	88 815	(5 529)	2 025	(10 475)	74 836
Net finance costs	743	(190)	–	(2 400)	(1 847)
Profit/(loss) before tax	89 558	(5 719)	2 025	(12 875)	72 989
Income tax expense					(26 348)
Profit for the year					46 641
Segment assets	358 646	4 000	3 249	27 552	393 447
Segment liabilities	62 753	4 036	689	23 637	91 115
Other segment information					
Capital expenditure					
– Property, plant and equipment[2]	22 628	–	1 880	899	25 407
– Waste cost capitalised	79 294	–	–	–	79 294
Total capital expenditure	101 922	–	1 880	899	104 701

[1] *No revenue was generated in BVI.*

[2] *Capital expenditure includes non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho segment.*

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.1 Corporate information (continued)

1.1.3 Segment information (continued)

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

Segment liabilities do not include net deferred tax liabilities of US$74.1 million.

Total revenue for the current year are higher than that of the prior year mainly as a result of the higher volume of exceptional large diamonds recovered at the Lesotho segment, specifically bolstered by the recovery and sale of the 910 carat Lesotho Legend.

Year ended 31 December 2017	Lesotho US$'000	Botswana US$'000	Belgium US$'000	BVI, RSA,[1] UK and Cyprus US$'000	Total US$'000
Revenue					
Total revenue	201 532	2 427	214 045	8 835	426 839
Intersegment	(201 177)	(2 427)	(592)	(8 347)	(212 543)
External customers	355	–	213 453	488	214 296
Depreciation and amortisation	75 439	38	701	279	76 457
– Depreciation and mining asset amortisation	7 538	38	701	279	8 556
– Waste stripping cost amortisation	67 901	–	–	–	67 901
Share-based equity transactions	375	62	3	1 086	1 526
Exceptional costs	–	(3 605)	–	–	(3 605)
Segment operating profit/(loss)	53 301	(7 944)	873	(12 120)	34 110
Net finance costs	(1 486)	(369)	–	(1 946)	(3 801)
Profit/(loss) before tax	51 815	(8 313)	873	(14 066)	30 309
Income tax expense					(13 075)
Profit for the year					17 234
Segment assets	394 886	5 635	2 843	9 265	412 629
Segment liabilities	51 658	4 530	303	33 403	89 894
Other segment information					
Capital expenditure					
– Property, plant and equipment[2]	15 499	227	25	533	16 284
– Waste cost capitalised	84 009	–	–	–	84 009
Total capital expenditure	99 508	227	25	533	100 293

[1] *No revenue was generated in BVI.*
[2] *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 2017 year is revenue from a single customer which amounted to US$29.0 million arising from sales reported in the Lesotho and Belgium segments.

Segment liabilities do not include net deferred tax liabilities of US$78.6 million.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

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. 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. 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 judgement.

Changes in accounting policies and disclosures
New and amended standards and interpretations
The Group applied IFRS 15 for the first time from 1 January 2018. The nature and effect of the changes as a result of the adoption of this new standard is described below. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

Several other amendments and interpretations applied for the first time in 2018, but did not have an impact on the consolidated financial statements of the Group and, hence, have not been disclosed. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 *Revenue from Contracts with Customers*
The Group is required to apply IFRS 15 for annual reporting periods beginning on or after 1 January 2018. Management has assessed the core principle of IFRS 15, that the Group will recognise revenue to depict the transfer of promised diamond sales to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for the diamond sales. The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a relative standalone selling price basis, based on a five-step model.

The impacts of implementing IFRS 15 on the Group results are as follows:
- Under IFRS 15 the revenue recognition model changed from one based on the transfer of risk and reward of ownership to the transfer of control of ownership. The Group's revenue is predominantly derived from the sale of rough diamonds. Diamond sales are made through a competitive tender process and are recognised when the performance obligations have been satisfied, at the time the buyer obtains control of the diamond(s), costs can be reliably measured, and receipt of proceeds are probable. The Group has reviewed the terms and conditions of the current tender contracts entered into with each of the buyers and as the transfer of risks and rewards generally coincides with the transfer of control at a point in time, is satisfied that, based on the terms of the current contracts, there is no change to the timing of revenue recognition on tender sales under IFRS 15.
- IFRS 15 introduces the concept of performance obligations that are defined as a 'distinct' promised good or service. This will have an impact on the timing of revenue recognised where the Group enters into partnership arrangements, whereby there is rough diamond revenue and an additional uplift revenue recognised on polished margin received. Revenue from the sale of the rough diamond will be recorded when all performance obligations are met, being at the time of the sale of the rough diamond to the partner. Revenue from additional uplift is considered to be 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. The Group has reviewed the terms and conditions of its current contracts pertaining to such scenarios and are satisfied that there is no change to the timing of the additional uplift recognised on such sales under IFRS 15.

The modified retrospective approach was applied which had no impact on the Group results, had IAS 18 Revenue been applied, revenue of US$267.3 million would have been recognised in 2018. No expedients were utilised.

IFRS 9 *Financial Instruments*
IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments*: Recognition and measurement for annual periods beginning on or after 1 January 2018; bringing together all three aspects of the accounting for financial instruments: Classification and measurement impairment and hedge accounting.

The Group has assessed the impact of IFRS 9 and based on the nature of the financial instruments held, determined that IFRS 9 does not have an impact on the Group results.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.1 Basis of preparation (continued)

Standards issues but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's Financial Statements, that the Group reasonably expects will have an impact on its disclosures, financial position or performance when applied at a future date, are disclosed below. The Group intends to adopt these standards when they become effective.

The other standards and interpretations that are issued, but not yet effective, are not expected to impact the Group, and have therefore not been listed.

Standard, amendment or interpretation			Effective period commencing on or after
IFRS 16	*Leases*	The new standard requires lessees to recognise assets and liabilities on their balance sheets for most leases, many of which may have been off balance sheet in the past. The Group is currently in the process of quantifying the impact of the change as detailed below.	1 January 2019

IFRS 16 *Leases*

The standard is effective for years commencing on or after 1 January 2019. The standard will be adopted by the Group for the financial reporting period commencing 1 January 2019.

IFRS 16 requires a lessee to recognise a right of use asset and lease obligations for all leases except for short-term leases, or leases of low value assets. Leases where the exceptions are applicable may be treated similarly to operating leases under the current standard IAS 17 *Leases*.

A lessee measures its lease obligation at the present value of future lease payments, and recognises a right of use asset initially measured at the same amount as the lease obligation, adjusted for lease prepayments, lease incentives received, the lessee's initial direct costs and an estimate of restoration, removal and dismantling costs. Right of use assets are subsequently treated in a similar way to other assets such as property, plant and equipment or intangible assets dependent on the nature of the underlying item. The lease obligation is subsequently measured at amortised cost using the effective interest rate, giving rise to interest expense.

An assessment has been performed, on the Group's agreements, to determine whether the agreements are within the scope of IFRS 16 and whether they will be classified as a finance or operating lease in terms of the classification requirements.

The Group is currently in the process of determining the impact of the application of IFRS 16, however it is expected to have a significant impact on the Group's financial statements, particularly in relation to the recognition of right of use assets, lease liabilities, depreciation, operating expenses, finance expenses and EBITDA. It is expected that the most significant impact will be the change in accounting for the moveable equipment leases, with remaining lease terms of between one and seven years. The lease payments made during 2018 amounted to US$68.2 million (2017: US$60.0 million).

The Group will apply the modified retrospective approach and is currently considering the application of exceptions related to short-term and low-value asset leases.

Information on the undiscounted amount of the Group's operating lease commitments under IAS 17, the current leasing standard, is disclosed in Note 23, Commitments and contingencies.

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. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.2 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review on pages (1 to 44). The financial position of the Company, its cash flows and liquidity position are described in the Strategic Review on pages (21 to 26) in the Annual Report and Accounts. In addition, Note 25, 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 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.

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 income statement. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised 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 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 income statement. 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.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.5 Development expenditure

When proved reserves are determined and development is sanctioned, capitalised exploration and evaluation expenditure is reclassified within property, plant and equipment to development expenditure. As the asset is not available for use, during the development phase, it is not depreciated. On completion of the development, 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.

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, 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 income statement 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 lease
Decommissioning assets	Straight line	Lesser of life of mine or period of lease
Leasehold improvements	Straight line	Lesser of three years or period of 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, referred to as a 'stripping activity 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 stripping activity asset 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.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.7 Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale to equity holders of the parent if their carrying amounts will be recovered principally through a distribution 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 distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Property, plant, 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.

1.2.8 Goodwill and other intangible assets

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 exchange for 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.

1.2.9 Financial assets

Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. Currently the Group only has financial assets at amortised cost.

When financial assets are recognised initially, they are measured at fair value plus (in the case of investments not at fair value through profit or loss) directly attributable costs.

Financial assets at amortised cost

Loans and receivables 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, less any allowance for impairment, if the time value of money is significant. Gains and losses are recognised in the statement of profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at an appropriate interest rate. The amount of the provision is recognised in the income statement.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.10 Financial liabilities

Interest-bearing borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement, unless capitalised in accordance with Note 1.2.26, Finance costs, over the period of the borrowings, using the effective interest rate method.

Bank overdrafts are recognised at amortised cost.

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 income statement. 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

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.12 Impairments (continued)

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date, any subsequent reversal of an impairment loss is recognised in the income statement.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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 income statement 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 income statement transactions are detailed in Note 16, 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 income statement. 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. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

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. For cash-settled transactions, the liability is remeasured at each reporting date until settlement, with the changes in fair value recognised in the income statement.

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 income statement, 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.

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 income statement 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 in the income statement for the award are reversed and recognised in income immediately.

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 policy 1.2.28, Critical accounting estimates and judgements.

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. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

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 programme 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.

1.2.20 Taxation

Income tax for the period comprises current and deferred tax. Income tax is recognised in the income statement 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 income statement 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 income statement.

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. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

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

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfilment is dependent on a specific asset; or
(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease 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).

Group as a lessee

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

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 diamonds 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 partnership arrangements; and
- Additional uplift 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.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.23 Revenue from contracts with customers (continued)

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. For more detail on how these arrangements have been included in the financial statements refer to Note 3, Revenue. The Group portion of inventories related to these transactions is included in the total inventories balance, refer to Note 13, Inventories.

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 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.

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 performs by transferring 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 generally expensed as incurred, except where they relate to the financing of construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use. Finance costs are capitalised up to the date when the asset is ready for its intended use.

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.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.28 Critical accounting estimates and judgements (continued)

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 commodities, 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 commodities, 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 to Note 9, Property, plant and equipment.

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 cash-generating unit 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 income statement and consolidated statement of financial position. The results of the impairment testing performed did not indicate any impairments.

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

These 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 costs have been based on the mining contract. Costs of extracting and processing which are reasonably determinable are based on management's experience. Long-term local inflation rates of 4% to 6% were used for operating costs and capital cost escalators.

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 2018 of LSL14.39.

Diamond prices

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

Discount rate

The discount rate of 12.2% for revenue (2017: 11.9%) and 15.8% for costs (2017: 16.0%) 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 to Note 11, Impairment testing, for further detail.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.28 Critical accounting estimates and judgements (continued)

Judgements

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 to Note 9, Property, plant and equipment, for further detail.

1.2.29 Exceptional items

The Group presents, as exceptional items on the face of the statement of profit or loss, those material items of income and expenses which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to better understand the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance. Refer to Note 5, Exceptional items, for further detail.

2. REVENUE

	2018 US$'000	2017 US$'000
Sale of goods	**266 822**	213 517
Rendering of services	**468**	779
	267 290	214 296

No revenue was generated through joint operation arrangements in the year (2017: US$0.4 million).

3. OTHER INCOME AND EXPENSES BEFORE EXCEPTIONAL ITEMS

	2018 US$'000	2017 US$'000
Sundry income	**602**	155
Sundry expenses[1]	**(6 342)**	–
Profit on disposal of property, plant and equipment	**695**	638
	(5 045)	793

[1] *Included in the 2018 sundry expenses are care and maintenance costs incurred at the Ghaghoo mine. In 2017 these costs were reflected in cost of sales.*

4. OPERATING PROFIT/(LOSS) BEFORE EXCEPTIONAL ITEMS

Operating profit includes the following:

	2018 US$'000	2017 US$'000
Depreciation and amortisation		
Depreciation and mining asset amortisation	**(8 648)**	(8 813)
Waste stripping costs amortised	**(68 205)**	(67 901)
	(76 853)	(76 714)
(Less)/add: Depreciation and mining asset amortisation capitalised to inventory	**(51)**	307
	(76 904)	(76 407)
Amortisation of intangible assets	**–**	(52)
	(76 904)	(76 459)
Inventories		
Cost of inventories recognised as an expense	**(146 396)**	(136 847)
	(146 396)	(136 847)
Foreign exchange gain/(loss)		
Foreign exchange gain/(loss)	**2 205**	(1 347)
	2 205	(1 347)
Operating lease expenses as a lessee		
Mine site property	**(131)**	(137)
Equipment and service leases	**(68 174)**	(59 932)
Contingent rental – Alluvial Ventures	**(11 924)**	(7 421)
Leased premises	**(1 807)**	(2 168)
	(82 036)	(69 658)
Auditor's remuneration – EY		
Group financial statements	**(279)**	(386)
Statutory	**(175)**	(161)
Other audit-related services[1]	**(106)**	(107)
	(560)	(654)
Auditor's remuneration – other audit firms		
Statutory	**(20)**	(15)
	(20)	(15)

	2018 US$'000	2017 US$'000
4. OPERATING PROFIT/(LOSS) BEFORE EXCEPTIONAL ITEMS (continued)		
Other non-audit fees – EY		
Tax services advisory and consultancy	**(20)**	(31)
Other services	**(3)**	–
	(23)	(31)
Other non-audit fees – other audit firms		
Internal audit	**(1)**	(1)
Tax services advisory and consultancy	**–**	(9)
	(1)	(10)
Employee benefits expense		
Salaries and wages[2]	**(20 123)**	(17 732)
Underlying earnings before interest, tax, depreciation and mining asset amortisation (underlying EBITDA) before exceptional items		
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 before exceptional items	**74 836**	37 715
Other operating income/(expense)[3]	**(421)**	(793)
Foreign exchange (gain)/loss	**(2 205)**	1 347
Share-based payments	**1 437**	1 526
Depreciation and mining asset amortisation (excluding waste stripping cost amortised)	**8 611**	8 783
Underlying EBITDA before exceptional items	**82 258**	48 578

[1] *Other audit-related services by EY relate to the interim review on the half-year results for the six months ended 30 June.*

[2] *Includes contributions to defined contribution plan of US$0.5 million (31 December 2017: US$0.4 million). An average of 401 employees excluding contractors were employed during the period (2017: 412).*

[3] *Other operating income/(expenses) in the statement of profit or loss has been adjusted for costs associated with Ghaghoo. These costs are considered to be operating costs for the Group and therefore are included in underlying EBITDA.*

	2018 US$'000	2017 US$'000
5. EXCEPTIONAL ITEMS		
Ghaghoo	**–**	(3 605)
	–	(3 605)

The Ghaghoo mine was placed on care and maintenance on 31 March 2017. Cost incurred during the prior year which were not costs under normal care and maintenance status or were once-off in nature, were classified as exceptional items. These included development costs, retrenchment costs and once-off costs to renegotiate contracts on a care and maintenance basis and once-off costs associated with the additional dewatering and sealing of the fissure as a result of an earthquake during the year.

	2018 US$'000	2017 US$'000
6. NET FINANCE COSTS		
Finance income		
Bank deposits	**2 032**	630
Other	**1**	–
Total finance income	**2 033**	630
Finance costs		
Bank overdraft	**(1 886)**	(1 247)
Finance costs on borrowings	**(916)**	(1 963)
Finance costs on unwinding of rehabilitation and decommissioning provision	**(1 078)**	(1 221)
Total finance costs	**(3 880)**	(4 431)
	(1 847)	(3 801)
7. INCOME TAX		
Income tax expense		
Income statement		
Current		
– Overseas	**(16 147)**	(6 032)
Withholding tax		
– Overseas	**(4 984)**	(140)
Deferred		
– Overseas	**(5 217)**	(6 903)
	(26 348)	(13 075)
Profit before taxation	**72 989**	30 309

	2018 %	2017 %
Reconciliation of tax rate		
Applicable income tax rate	**25.0**	25.0
Permanent differences	**1.1**	10.9
Unrecognised deferred tax assets	**1.9**	10.5
Effect of overseas tax at different rates	**1.3**	(3.8)
Withholding tax	**6.8**	0.5
Effective income tax rate	**36.1**	43.1

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, following the Ghaghoo mine being placed on care and maintenance.

	2018 US$'000	2017 US$'000
8. EARNINGS PER SHARE		
The following reflects the income and share data used in the basic and diluted earnings per share computations:		
Profit for the year after exceptional items	**46 641**	17 234
Less: Non-controlling interests	**(20 624)**	(11 756)
Net profit attributable to equity holders of the parent for basic and diluted earnings	**26 017**	5 478
The weighted average number of shares takes into account the treasury shares at year end.		
Weighted average number of ordinary shares outstanding during the year ('000)	**138 731**	138 482

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.

	2018 Number of shares	2017 Number of shares
Weighted average number of ordinary shares outstanding during the year	**138 731**	138 482
Effect of dilution:		
– Future share awards under the Employee Share Option Plan	**3 265**	2 860
Weighted average number of ordinary shares outstanding during the year adjusted for the effect of dilution	**141 996**	141 342

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 development assets US$'000	De-commis-sioning assets US$'000	Lease-hold improve-ment[1] US$'000	Plant and equip-ment US$'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 15)	–	–	–	–	–	–	(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								
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 15)	–	–	–	–	–	–	(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 to Note 17, 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.*

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	Stripping activity asset US$'000	Mining asset US$'000	Exploration and development assets US$'000	Decommissioning assets US$'000	Leasehold[1] improvement US$'000	Plant and equipment US$'000	Other assets[2] US$'000	Total US$'000
As at 31 December 2017								
Cost								
Balance at 1 January 2017	339 404	119 146	148 034	6 009	35 404	86 149	23 133	757 279
Additions	84 009	–	1 547	–	51	15 499	690	101 796
Net movement in rehabilitation provision	–	–	–	(2 157)	–	–	–	(2 157)
Disposals	–	–	–	–	–	–	(2)	(2)
Reclassifications	–	226	–	–	3 104	(3 593)	263	–
Assets held for sale (Note 15)	–	–	–	–	–	–	(1 962)	(1 962)
Foreign exchange differences	41 793	4 641	12 152	495	3 748	10 110	2 251	75 190
Balance at 31 December 2017	465 206	124 013	161 733	4 347	42 307	108 165	24 373	930 144
Accumulated depreciation/ amortisation								
Balance at 1 January 2017	199 389	48 089	148 034	3 573	19 614	62 517	18 864	500 080
Charge for the year	67 901	2 080	–	305	3 192	2 102	1 134	76 714
Disposals	–	–	–	–	–	–	(2)	(2)
Assets held for sale (Note 15)	–	–	–	–	–	–	(480)	(480)
Foreign exchange differences	24 246	915	12 073	424	2 122	6 674	1 836	48 290
Balance at 31 December 2017	291 536	51 084	160 107	4 302	24 928	71 293	21 352	624 602
Net book value at 31 December 2017	173 670	72 929	1 626	45	17 379	36 872	3 021	305 542

[1] Borrowing costs of US$1.3 million incurred in respect of the LSL215.0 million facility at Letšeng (refer to Note 17, 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 12.11%.

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

10. INTANGIBLE ASSETS

	Intangibles US$'000	Goodwill US$'000	Total US$'000
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**
As at 31 December 2017			
Cost			
Cost			
Balance at 1 January 2017	783	13 970	14 753
Foreign exchange difference	8	1 452	1 460
Balance at 31 December 2017	791	15 422	16 213
Accumulated amortisation			
Balance at 1 January 2017	739	–	739
Amortisation	52	–	52
Balance at 31 December 2017	791	–	791
Net book value at 31 December 2017	–	15 422	15 422

11. 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 2018. 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 2018, the recoverable amount for Letšeng Diamonds has been determined based on a value-in-use model, similar to that adopted in the past.

	2018 US$'000	2017 US$'000
Goodwill		
Letšeng Diamonds	**13 272**	15 422
Balance at end of year	**13 272**	15 422

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.

	2018 %	2017 %
Discount rate – applied to revenue		
Letšeng Diamonds	**12.2**	11.9
Discount rate – applied to costs		
Letšeng Diamonds	**15.8**	16.0

11. IMPAIRMENT TESTING (continued)

Value in use

Cash flows are projected for a period up to the date that the open pit mining is expected to cease, based on the optimised life of mine plan implemented during the year. This mine plan takes into account the available reserves based on 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 and may, in future, record additional impairment charges or reverse any impairment charges to the extent that market conditions improve and to the extent permitted by accounting standards.

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

12. RECEIVABLES AND OTHER ASSETS

	2018 US$'000	2017 US$'000
Non-current		
Other receivables	–	22
Prepayments[1]	347	–
	347	22
Current		
Trade receivables	184	91
Prepayments[1]	1 038	2 537
Deposits	97	151
Other receivables	329	973
VAT receivable	3 785	4 025
	5 433	7 777
The carrying amounts above approximate their fair value.		
Terms and conditions of the receivables:		
Analysis of trade receivables		
Neither past due nor impaired	135	57
Past due but not impaired:		
Less than 30 days	49	34
30 to 60 days	–	–
60 to 90 days	–	–
90 to 120 days	–	–
	184	91

[1] Following the restructuring of the Company's US$35.0 million facility to an increased facility of US$45.0 million during 2017, the facility was reassessed as required by IFRS 9 Financial Instruments. The costs incurred to restructure the facility were reclassified to prepayments and amortised over the term of the facility. Refer to Note 17, interest-bearing loan and borrowings. Included in prepayments are facility restructuring costs of US$0.7 million (2017: US$1.0 million).

	2018 US$'000	2017 US$'000
13. INVENTORIES		
Diamonds on hand	**18 531**	16 190
Ore stockpiles	**2 585**	5 149
Consumable stores	**11 968**	12 726
	33 084	34 065
Inventory is carried at the lower of cost and net realisable value. No net realisable value adjustments were recorded.		
14. CASH AND SHORT-TERM DEPOSITS		
Cash on hand	**1**	2
Bank balances	**16 093**	24 423
Short-term bank deposits	**34 718**	23 279
	50 812	47 704

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 2018, the Group had restricted cash of US$0.2 million (31 December 2017: 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 2018, the Group had US$57.8 million (31 December 2017: US$36.2 million) of undrawn facilities, representing the LSL500.0 million (US$34.8 million) three-year unsecured revolving working capital facility at Letšeng and US$23.0 million from Tranche 2 of the Company's US$45.0 million three-year unsecured revolving credit facility.

For further details on these facilities, refer to Note 17, Interest-bearing loans and borrowings.

	2018 US$'000	2017 US$'000
15. ASSETS HELD FOR SALE		
Investment property[1]	**–**	615
Property, plant and equipment[2]	**859**	1 482
	859	2 097

[1] In the prior year, the directors of the Company resolved to dispose of the investment property in Dubai. The property was sold on 4 November 2018 for US$0.7 million resulting in a profit on disposal of US$0.1 million.

[2] In the prior year, the Directors of the Company resolved to dispose of the aircraft which serviced the Ghaghoo mine. The aircraft was sold on 10 January 2018 for US$1.7 million resulting in a profit on disposal of US$0.2 million.

On 20 December 2018, the Directors of the Company resolved to dispose of the aircraft which serviced the Letšeng mine. An agreement of sale was entered into with an interested party on 20 December 2018 and the aircraft was sold on 30 January 2019. Included in profit for the year and accumulated in equity is revenue from external charters of US$0.3 million and cost of sales of US$0.3 million relating to the aircraft.

16. ISSUED CAPITAL AND RESERVES

Issued capital

	31 December 2018 Number of shares '000	31 December 2018 US$'000	31 December 2017 Number of shares '000	31 December 2017 US$'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	**138 620**	**1 387**	138 361	1 384
Allotments during the year	**276**	**3**	259	3
Balance at end of year	**138 896**	**1 390**	138 620	1 387

Share premium

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

	Foreign currency translation reserve US$'000	Share-based equity reserve US$'000	Total US$'000
Other reserves			
Balance at 1 January 2018	**(177 984)**	**54 173**	**(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)**
Balance at 1 January 2017	(196 145)	52 647	(143 498)
Other comprehensive expense	18 161	–	18 161
Total comprehensive expense	18 161	–	18 161
Share-based payments	–	1 526	1 526
Balance at 31 December 2017	(177 984)	54 173	(123 811)

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 Emirate 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	2018	2017
Average rate	ZAR/LSL to US$1	**13.25**	13.31
Year end	ZAR/LSL to US$1	**14.39**	12.38
Average rate	Pula to US$1	**10.20**	10.34
Year end	Pula to US$1	**10.73**	9.83
Average rate	Dirham to US$1	**3.67**	3.67
Year end	Dirham to US$1	**3.67**	3.67

16. ISSUED CAPITAL AND RESERVES (continued)

Share-based equity reserves

For details on the share-based equity reserve, refer to Note 26, Share-based payments.

Capital management

For details on capital management, refer to Note 25, Financial risk management.

17. INTEREST-BEARING LOANS AND BORROWINGS

	Effective interest rate (%)	Maturity	2018 US$'000	2017 US$'000
Non-current				
LSL215.0 million bank loan facility[1]				
Tranche 1	South African JIBAR + 3.15%	31 March 2022	**7 508**	12 391
Tranche 2	South African JIBAR + 6.75%	30 September 2022	**1 784**	888
US$45.0 million bank loan facility[2]				
Tranche 1	London US$ three-month LIBOR + 4.5%	31 December 2020	**10 000**	20 000
Asset based finance facility[3]	South African Prime Lending Rate	1 January 2024	**662**	–
			19 954	33 279
Current				
LSL215.0 million bank loan facility[1]				
Tranche 1	South African JIBAR + 3.15%	31 March 2022	**3 337**	1 939
Tranche 2	South African JIBAR + 6.75%	30 September 2022	**649**	–
US$45.0 million bank loan facility[2]				
Tranche 1	London US$ three-month LIBOR + 4.5%	31 December 2020	**10 000**	5 000
Tranche 2	London US$ three-month LIBOR + 4.5%	31 December 2020	**–**	6 125
Asset based finance facility[3]	South African Prime Lending Rate	1 January 2024	**226**	–
			14 212	13 064

[1] LSL215.0 million (US$15.0 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$12.5 million) debt facility supported by the Export Credit Insurance Corporation (ECIC) (five years tenure); and*
- *Tranche 2: Lesotho loti denominated LSL35.0 million (US$2.4 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 commencing in September 2018. At year end LSL191.0 million (US$13.3 million) remains outstanding, with LSLnil (US$nil) available to be drawn down under this facility. The South African rand-based interest rates for the facility at 31 December 2018 are:
- *Tranche 1: 10.30%; and*
- *Tranche 2: 13.90%.*

Total interest for the year on this interest-bearing loan was US$1.6 million and has been capitalised to leasehold improvements. Refer to Note 9, property, plant and equipment.

[2] US$45.0 million bank loan facility at Gem Diamonds Limited

This facility is a three-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 were rescheduled and 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$20.0 million had been drawn down relating to Tranche 1 and US$nil million relating to Tranche 2. This resulted in US$23.0 million remaining undrawn under Tranche 2. The US$-based interest rate for this facility at 31 December 2018 is 7.30%.

[3] Asset Based Finance Facility

The Group, through its subsidiary, Gem Diamond Technical Services, entered into a US$0.9 million Asset Based Finance Facility with Nedbank Limited for the purchase of a mobile X-Ray transmission machine to be leased to Letšeng Diamonds . The facility is for five years and bears interest at the South African Prime Lending rate which was 10.25% at 31 December 2018. The facility is repayable in equal monthly payments, commencing in February 2019.

Other facilities

In addition, at 31 December 2018, the Group through its subsidiary Letšeng Diamonds, has a LSL500.0 million (US$34.8 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2018

	2018 US$'000	2017 US$'000
18. TRADE AND OTHER PAYABLES		
Non-current		
Severance pay benefits[1]	**1 555**	1 609
	1 555	1 609
Current		
Trade payables[2]	**12 672**	14 764
Accrued expenses[2]	**11 019**	5 580
Leave benefits	**499**	672
Royalties and withholding taxes[2]	**2 572**	376
Operating lease	**1 538**	1 668
Other	**254**	300
	28 554	23 360
Total trade and other payables	**30 109**	24 969

Terms and conditions of the trade and other payables:

[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.

The carrying amounts above approximate fair value.

	2018 US$'000	2017 US$'000
19. INCOME TAX PAYABLE		
Reconciliation of movement in income tax payable		
Balance at 1 January 2018	**1 276**	(3 932)
Payments made during the year	**(12 623)**	(928)
Tax charge per income statement	**21 131**	6 162
Foreign exchange differences	**(820)**	(26)
Balance at 31 December 2018	**8 964**	1 276
20. PROVISIONS		
Rehabilitation provisions	**17 876**	17 306
Reconciliation of movement in rehabilitation provisions		
Balance at beginning of year	**17 306**	16 630
Increase/(decrease) during the year	**1 944**	(2 157)
Unwinding of discount rate	**1 078**	1 221
Foreign exchange differences	**(2 452)**	1 612
Balance at end of year	**17 876**	17 306

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 life of mine 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 6.6% (31 December 2017: 6.9%), estimated rehabilitation timing of seven years (31 December 2017: eight years) and an inflation rate of 5.3% (31 December 2017: 5.2%). At the Botswana mining area, management used the latest 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 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.

21. DEFERRED TAXATION

	2018 US$'000	2017 US$'000
Deferred tax assets		
Accrued leave	**253**	581
Operating lease liability	**2**	382
Provisions	**5 491**	4 188
	5 746	5 151
Deferred tax liabilities		
Property, plant and equipment	**(75 470)**	(79 323)
Prepayments	**(292)**	(369)
Unremitted earnings	**(4 038)**	(4 038)
	(79 800)	(83 730)
Net deferred tax liability	**(74 054)**	(78 579)
Reconciliation of deferred tax liability		
Balance at beginning of year	**(78 579)**	(65 676)
Movement in current period:		
– Accelerated depreciation for tax purposes	**(6 667)**	(6 348)
– Accrued leave	**(1)**	(181)
– Operating lease liability	**26**	61
– Prepayments	**44**	35
– Provisions	**1 381**	(170)
– Tax losses utilised in the year	**–**	(35)
– Foreign exchange differences	**9 742**	(6 265)
Balance at end of year	**(74 054)**	(78 579)

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$43.2 million (31 December 2017: US$87.9 million).

The Group has estimated tax losses of US$211.1 million (31 December 2017: US$207.6 million). All tax losses are generated in jurisdictions where tax losses do not expire. No deferred tax asset was recognised.

	Notes	2018 US$'000	2017 US$'000
22. CASH FLOW NOTES			
22.1 Cash generated by operations			
Profit before tax for the year		**72 989**	30 309
Adjustments for:			
Depreciation and amortisation on property, plant and equipment		**8 699**	8 558
Waste stripping cost amortised	4	**68 205**	67 901
Finance income	6	**(2 033)**	(630)
Finance costs	6	**3 880**	4 431
Unrealised foreign exchange differences		**(8 201)**	(1 773)
Profit on disposal of property, plant and equipment		**(695)**	(638)
Movement in prepayment		**426**	(116)
Other non-cash movements		**5 048**	1 227
Share-based equity transaction		**1 437**	1 526
		149 755	110 795
22.2 Working capital adjustment			
(Increase)/decrease in inventory		**(3 660)**	97
(Increase) in receivables		**(261)**	(369)
Increase/(decrease) in trade and other payables		**5 837**	(9 620)
		1 916	(9 892)
22.3 Cash flows from financing activities			
Balance at beginning of year		**46 343**	27 757
Net cash (used in)/generated by financing activities		**(10 024)**	17 469
– financial liabilities repaid		**(12 937)**	(46 601)
– financial liabilities raised		**2 913**	64 070
Non-cash movement – FCTR		**(2 212)**	1 117
Interest accrued		**59**	–
Balance at year end	17	**34 166**	46 343

23. COMMITMENTS AND CONTINGENCIES

Commitments

Operating lease commitments – Group as lessee

The Group has entered into commercial lease arrangements for rental of office premises. These leases have remaining periods of between one and seven years with an option of renewal at the end of the period. The terms will be negotiated during the extension option periods catered for in the agreements. There are no restrictions placed upon the lessee by entering into these leases.

	2018 US$'000	2017 US$'000
Future minimum rentals payable under non-cancellable operating leases:		
– Within one year	**1 150**	1 548
– After one year but not more than five years	**4 980**	5 667
– More than five years	**2 631**	4 680
	8 761	11 895

23. COMMITMENTS AND CONTINGENCIES (continued)

	2018 US$'000	2017 US$'000
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.		
The period of these commitments is determined as the lesser of the term of the agreement, including renewable periods, or the life of the mine. The estimated lease obligation regarding the future lease period, accepting stable inflation and exchange rates, is as follows:		
– Within one year	**139**	163
– After one year but not more than five years	**652**	788
– More than five years	**825**	940
	1 616	1 891
Moveable equipment lease		
The Group has entered into commercial lease arrangements which include 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 a fixed monthly fee. The terms will be negotiated during the extension option periods catered for in the agreements or at any time sooner if agreed by both parties.		
– Within one year	**45 234**	47 475
– After one year but not more than five years	**80 813**	146 460
– More than five years	**–**	–
	126 047	193 935
Capital expenditure		
Approved but not contracted for	**3 618**	14 760
Approved and contracted for	**6 228**	6 438

The main capital expenditure approved but not contracted for relates to the extension of the footprint of the Patiseng tailings storage facility of US$3.2 million (2017: US$13.7 million) which will provide deposition space until 2024 as well as the construction of a pilot diamond detection plant at Letšeng of US$2.8 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.

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. The amount of the funding provided for the current year was US$0.1 million (31 December 2017: US$0.1 million).

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$0.1 million (December 2017: US$0.5 million) and tax claims within the various jurisdictions in which the Group operates approximating US$1.3 million (December 2017: US$0.7 million). There are no possible disputes relating to Ghaghoo's care and maintenance status included in these contingencies.

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.

24. RELATED PARTIES

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

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

Refer to the Directors' Report for information regarding the Directors.

	2018 US$'000	2017 US$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	**872**	1 099
Short-term employee benefits	**2 652**	3 066
	3 524	4 165
Fees paid to related parties		
Jemax Management (Proprietary) Limited	**(111)**	(102)
Royalties paid to related parties		
Government of Lesotho	**(20 850)**	(16 200)
Lease and licence payments to related parties		
Government of Lesotho	**(131)**	(137)
Sales to/(purchases from) related parties		
Jemax Management (Proprietary) Limited	**–**	(8)
Amount included in trade payables owing to related parties		
Jemax Management (Proprietary) Limited	**(8)**	(10)
Amounts owing to related party		
Government of Lesotho	**(275)**	(325)
Dividends paid		
Government of Lesotho	**(20 742)**	–

Jemax Management (Proprietary) Limited provided administrative services with regard to the mining activities undertaken by the Group. The above transactions were made on terms agreed between the parties and were made on terms that prevail in arm's length transactions.

25. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

- market risk (including commodity price risk and foreign exchange 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.

25. FINANCIAL RISK MANAGEMENT (continued)

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 2018, the Group had US$57.8 million (31 December 2017: US$36.2 million) debt facilities available 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$34.8 million)

The Group, through its subsidiary, Letšeng Diamonds, has an LSL500.0 million (US$34.8 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 is 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$15.0 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$12.5 million) debt facility supported ECIC (five years' tenure); and
- Tranche 2: Lesotho loti denominated LSL35.0 million (US$2.4 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 LSL191.0 million (US$13.3 million) remains outstanding, with no available balance to be drawn down under this facility.

Secured – Nedbank Capital (a division of Nedbank Limited) – three years and six months' secured debt facility – US$45.0 million

This facility is a three-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$20.0 million had been drawn down relating to Tranche 1 and US$nil million relating to Tranche 2. This resulted in US$23.0 million remaining undrawn under Tranche 2.

Asset Based Finance Facility

The Group, through its subsidiary, Gem Diamond Technical Services, entered into an Asset Based Finance Facility with Nedbank Limited for the purchase of an X-Ray transmission machine. The facility is for five years and bears interest at the South African Prime Lending rate which was 10.25% at 31 December 2018. The facility is repayable in equal monthly payments, commencing in February 2019.

At year end US$0.9 million had been drawn down on this facility.

25. FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

(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 2018. 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 2018, income before taxation would not have been materially impacted. There would be no effect on equity reserves other than those directly related to income statement 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 2018, the Group had no forward exchange contracts outstanding (31 December 2017: 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 2017: US$0.3 million). The assumed movement in basis points is based on the currently observable market environment, which remained consistent with the prior year.

25. FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

(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 the 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$57.8 million at year end.

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

	2018 US$'000	2017 US$'000
Floating interest rates		
Interest-bearing loans and borrowings		
– Within one year	**16 626**	16 835
– After one year but not more than five years	**22 008**	40 374
Total	**38 634**	57 209
Trade and other payables		
– Within one year	**28 554**	23 360
– After one year but not more than five years	**1 555**	1 609
Total	**30 109**	24 969

26. SHARE-BASED PAYMENTS

The expense recognised for employee services received during the year is shown in the following table:

	2018 US$'000	2017 US$'000
Equity-settled share-based payment transactions charged to the income statement	**1 437**	1 526
	1 437	1 526

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.

26. SHARE-BASED PAYMENTS (continued)

LTIP 2007 Award – September 2012

In September 2012, 936 000 nil-cost options were granted to certain key employees (excluding Executive Directors) under the LTIP of the Company. Of the total number of shares, 312 000 were nil value options and 624 000 were market value options. The exercise price of the market value options is £1.78 (US$2.85), which was equal to the market price of the shares on the date of grant. The awards which vest over a three-year period in tranches of a third of the award each year, dependent on the performance targets for the 2013, 2014 and 2015 financial years being met, are exercisable between 1 January 2016 and 31 December 2023. This award became exercisable on 1 January 2016. Of the 936 000 options originally granted, 18 544 are still outstanding following the resignation of a number of employees and the exercising of these options.

LTIP 2007 Award – March 2014

In March 2014, 625 000 nil-cost options were granted to certain key employees under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options which vest over a three-year period in tranches of a third of the award each year are exercisable between 19 March 2017 and 18 March 2024. If the performance or service conditions are not met, the options lapse. As the performance conditions are non-market-based they 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 £1.74 (US$2.87). This award became exercisable on 19 March 2017. Of the 625 000 options originally granted, 30 000 are still outstanding following the resignation of a number of employees and the exercising of these options.

LTIP 2007 Award – June 2014

In June 2014, 609 000 nil-cost options were granted to the Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. Of the 609 000 nil-cost options, 152 250 relates to market conditions with the remaining 456 750 relating to non-market conditions. The options which vest are exercisable between 10 June 2017 and 9 June 2024. 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. At each financial year end, the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required. The fair value of the nil-cost options relating to non-market conditions is £1.61 (US$2.70). The fair value of the options granted, relating to the market conditions, is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the options in years and the weighted average share price of the Company. This award became exercisable on 10 June 2017. Of the 609 000 options originally granted, 89 857 are still outstanding following the resignation of an Executive Director during the previous year and the exercising of these options.

LTIP 2007 Award – April 2015

In April 2015, 660 000 nil-cost options were granted to certain key employees under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options which vest after a three-year period are exercisable between 1 April 2018 and 31 March 2025. If the performance or service conditions are not met, the options lapse. As the performance conditions are non-market-based they 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 £1.33 (US$1.97). Of the 660 000 options originally granted, 69 379 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.

In addition, 740 000 nil-cost options were granted to the Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. Of the 740 000 nil-cost options, 185 000 relate to market conditions with the remaining 555 000 relating to non-market conditions. The options which vest are exercisable between 1 April 2018 and 31 March 2025. 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. At each financial year end, the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required. The fair value of the nil cost options relating to the market conditions is £1.33 (US$1.97). The fair value of these options is estimated in a similar manner as the June 2014 LTIP. Of the 740 000 options originally granted, 58 128 are still outstanding following the resignation of an Executive Director during the previous year and the lapsing of awards due to certain conditions not having been met..

26. SHARE-BASED PAYMENTS (continued)

LTIP 2007 Award – March 2016

In March 2016, 1 400 000 nil-cost options were approved to be granted to certain key employees and Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. The satisfaction of certain performance as well as service conditions are classified as non-market conditions. A total of 185 000 of the options granted relate to market conditions. The options vest after a three-year period and are exercisable between 15 March 2019 and 14 March 2026. 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 £0.99 (US$1.40). The fair value of the options relating to market conditions is estimated in a similar manner as the June 2014 and April 2015 LTIP. Of the total options originally granted, 937 938 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.

LTIP 2017 Award – July 2017

In July 2017, 595 000 nil-cost options were granted to certain key employees under the renewed LTIP 2017 rules of the Company. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options which vest after a three-year period are exercisable between 4 July 2020 and 3 July 2027. If the performance or service conditions are not met, the options lapse. As the performance conditions are non-market-based they 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 £0.86 (US$1.11). Of the 595 000 options originally granted, 437 418 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.

In addition, 740 000 nil-cost options were granted to the Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. Of the 740 000 nil-cost options, 185 000 relate to market conditions with the remaining 555 000 relating to non-market conditions. The options which vest are exercisable between 4 July 2020 and 3 July 2027. 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. At each financial year end, the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required. The fair value of the nil-cost options relating to the market conditions is £0.86 (US$1.11). The fair value of these options is estimated in a similar manner as the June 2014, April 2015 and March 2016 LTIP. Of the 740 000 options originally granted, 638 000 are still outstanding following the resignation of an Executive Director.

LTIP 2017 Award – March 2018

In March, 1 450 000 nil-cost options were granted to certain key employees and Executive Directors under the LTIP 2017 of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. The satisfaction of certain performance as well as service conditions are classified as non-market conditions. 185 000 of the options granted relate to market conditions. The options vest after a three-year period and are exercisable between 20 March 2021 and 19 March 2028. 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 £0.96 (US$1.34) and the option grants are settled by issuing shares. Of the 1 450 000 options originally granted, 1 258 352 are still outstanding following the resignation of a number of employees.

26. SHARE-BASED PAYMENTS (continued)

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). All shares remain outstanding at the end of the year

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

	2018 '000	2017 '000
Outstanding at beginning of year	**47**	6
Granted during the year	**–**	47
Exercised during the year	**–**	(6)
Balance at end of year	**47**	47
Exercisable at end of year	**–**	–

ESOP for March 2018, July 2017, March 2016, April 2015, June 2014, March 2014 and September 2012 (LTIP)

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

	2018 '000	2017 '000
Outstanding at beginning of year	**3 612**	3 529
Granted during the year	**1 450**	1 335
Exercised during the year[1]	**(241)**	(246)
Forfeited	**(1 283)**	(1 006)
Balance at end of year	**3 538**	3 612
Exercisable at end of year	**266**	311

The following table lists the inputs to the model used for the market conditions awards granted during the current and prior year:

	LTIP March 2018	LTIP July 2017	LTIP March 2016	LTIP April 2015	LTIP June 2014	LTIP September 2012
Dividend yield (%)	**–**	2.00	2.00	2.00	–	–
Expected volatility (%)	**40.00**	40.21	39.71	37.18	37.25	42.10
Risk-free interest rate (%)	**1.2**	0.67	0.97	1.16	1.94	0.33
Expected life of option (years)	**3.00**	3.00	3.00	3.00	3.00	3.00
Weighted average share price (US$)	**1.35**	1.24	1.56	2.10	2.70	2.85
Fair value of nil value options (US$)	**1.34**	1.11	1.40	1.97	1.83	2.85
Fair value of market value options (US$)	**0.74**	–	–	–	–	1.66
Model used	**Monte Carlo**	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo

The fair value of share options granted is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the option in years and the weighted average share price of the Company. The expected volatility was based on the annual historic volatility over the past three years.

[1] *Options were exercised regularly throughout the year. The weighted average share price during the year was £0.92 (US$1.23).*

27. 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 12, Receivables and other assets, which do not meet the criteria of a financial asset. These prepayments are carried at amortised cost.

	Notes	2018 US$'000	2017 US$'000
Financial assets at amortised cost			
Cash (net of overdraft)	14	**50 812**	47 704
Receivables and other assets		**4 395**	5 889
Total		**55 207**	53 593
Total non-current		**–**	22
Total current		**55 207**	53 571
Financial liabilities at amortised cost			
Interest-bearing loans and borrowings	17	**34 166**	46 343
Trade and other payables	18	**30 109**	24 969
Total		**64 275**	71 312
Total non-current		**21 509**	34 888
Total current		**42 766**	36 424

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

There were no open hedges at year end.

Fair value hierarchy

All financial instruments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

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.

There were no transfers between Level 1 and Level 2 fair value measurements or any transfers into or out of Level 3 fair value measurements during the period.

Other risk management activities

The Group is exposed to foreign currency risk on future sales of diamonds at Letšeng Diamonds. In order to reduce this risk, the Group enters into forward exchange contracts to hedge this exposure. The Group performs no hedge accounting.

28. DIVIDENDS PAID AND PROPOSED

There were no dividends proposed for the 2018 or 2017 financial years.

29. MATERIAL PARTLY OWNED SUBSIDIARY

Financial information of Letšeng Diamonds, a subsidiary which has a material non-controlling interest, is provided below.

Proportion of equity interest held by non-controlling interests

Name	Country of incorporation and operation	2018 US$'000	2017 US$'000
Letšeng Diamonds (Proprietary) Limited	Lesotho		
Accumulated balances of material non-controlling interest		**67 692**	80 842
Profit allocated to material non-controlling interest		**20 985**	11 599
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		**262 636**	203 924
Cost of sales		**(152 360)**	(133 608)
Gross profit		**110 276**	70 316
Royalties and selling costs		**(21 159)**	(16 374)
Other income/(costs)		**1 262**	(1 438)
Operating profit		**90 379**	52 504
Net finance income		**743**	(1 486)
Profit before tax		**91 122**	51 018
Income tax expense		**(21 172)**	(12 354)
Profit for the year		**69 950**	38 664
Total comprehensive income		**69 950**	38 664
Attributable to non-controlling interest		**20 985**	11 599
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		**298 565**	317 002
Current assets			
Inventories, receivables and other assets, and cash and short-term deposits		**60 092**	78 408
Total assets		**358 657**	395 410
Non-current liabilities			
Trade and other payables, provisions and deferred tax liabilities		**95 371**	102 850
Current liabilities			
Interest-bearing loans and borrowings and trade and other payables		**37 649**	23 088
Total liabilities		**133 020**	125 938
Total equity		**225 638**	269 472
Attributable to:			
Equity holders of parent		**157 946**	188 630
Non-controlling interest		**67 692**	80 842
Summarised cash flow information for the year ended 31 December			
Operating		**82 718**	121 334
Investing		**(99 931)**	(99 508)
Financing		**195**	12 054
Net (decrease)/increase in cash and cash equivalents		**(17 018)**	33 880

30. EVENTS AFTER THE REPORTING PERIOD

On 30 January 2019, the aircraft which has been disclosed as an asset held for sale, was sold for US$2.1 million. Refer to Note 15, Assets held for sale. No other 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.

ABBREVIATIONS AND DEFINITIONS

AGM	Annual general meeting
AIFR	All injury frequency rate
Basotho	Lesotho nationals
BCP	Business continuity plan
BT	Business Transformation
BVI	British Virgin Islands
BWP	Botswana pula
CAGR	Compound annual growth rate
CEO	Chief Executive Officer
CGU	Cash-generating unit
CO_2e	Carbon dioxide equivalent
cpht	Carats per hundred tonnes
CSI	Corporate social investment
DTR	Disclosure Guidance and Transparency Rules
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECIC	Export Credit Insurance Corporation
EPS	Earnings per share
ESOP	Employee Share Option Plan
EU	European Union
EY	Ernst & Young
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FTSE	Financial Times Stock Exchange
GDP	Gross domestic product
GHG	Greenhouse gas
GIA	Gemological Institute of America
GJ	Gigajoules
GRI	Global Reporting Initiative
ha	Hectare
HSSE	Health, safety, social and environment
IAS	International Accounting Standards
ICAEW	Institute of Chartered Accountants in England and Wales
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
ISO	International Organisation for Standardisation
JIBAR	Johannesburg Interbank Agreed Rate
KPI	Key performance indicator
LIBOR	London Interbank Offered Rate
LoM	Life of mine
LSL	Lesotho loti
LTI	Lost time injury
LTIFR	Lost time injury frequency rate
LTIP	Long-term incentive plan
MCF	Mine call factor
Net cash/ (debt)	The sum of cash and cash equivalents less drawn down bank facilities (excluding asset-based finance facility)
OHI	Organisational health index
OHSAS	Organisational Health and Safety Assessment Series
PAC	Project affected community
PBT	Profit before tax
PET	Positron emission tomography
RCF	Revolving credit facility
ROACE	Return on average capital employed
RSA	Republic of South Africa
SAMREC	South African Mineral Resource Committee
Scope 1 emissions	Direct greenhouse gas emissions
Scope 2 emissions	Energy-indirect greenhouse gas emissions from the generation of purchased energy
Scope 3 emissions	Energy-indirect greenhouse gas emissions (not included in Scope 2)
SEIAs	Social and environmental impact assessments
SID	Senior Independent Director
STIBS	Short-term incentive bonus scheme
The Board	The Gem Diamonds Board of Directors
The Group	The Gem Diamonds Company and its subsidiaries
TSR	Total shareholder return
UK	United Kingdom
US$	United States dollar
USA/US	United Stated of America
VAT	Value added tax
WACC	Weighted average cost of capital
WF	Water footprint

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