

Fura Gems

This one is a gem

We initiate coverage of Fura Gems Inc (“Fura”) with a C\$1.10 price target implying 255% upside from the current share price.

A new player in gemstone mining

Fura is in the business of mining and selling coloured gemstones from two of the world’s pre-eminent gemstone mining districts located in Colombia and Mozambique. With a listing on the TSX-V and a stated intention to dual list on the LSE in Q3 2019, Fura is currently one of only two public coloured gemstones miners globally, together with Gemfields, which is listed on the JSE and was formerly listed in London. In our view, Fura is in a strong position to operate a profitable, sustainable gemstones mining and marketing business.

Ruby mining in the famous Montepuez belt in Mozambique

In Mozambique, Fura is following in the footsteps of Gemfields, the trailblazer in industrialised coloured gemstones mining. With the Montepuez ruby mine a success for Gemfields, Fura is putting the building blocks in place to ramp up and operate a low risk, high margin open strip operation. Fura is expecting first ruby production to commence before the end of H1 2019 from the Suni license. We forecast steady state production of just under 10m carats of rubies, generating cash flows of circa US\$52m annually. Fura is also working towards the purchases of further six Mozambique licenses from Mustang Resources, which is expected to close in Q2 2019.

High value emeralds in Colombia

In Colombia, Fura owns a 76% stake in the historic Coscuez emerald mine, which has been producing for over 400 years and has yielded some of the most expensive precious stones in history. The presence of very high value stones is what attracted Fura to the region, as the company is set to be the first miner to apply modern underground mechanised mining techniques to the extraction of Colombian green emeralds. Our model indicates steady state production of 500kct of emeralds, generating annual cash flows of circa US\$30m.

Management team

Fura has assembled a strong management team, led by ex-Gemfields COO Mr. Dev Shetty and key operational and sales and marketing staff drawn from Gemfields, a company with a proven track record of building and operating gemstone mines. On our site visits to the Company’s projects we noted highly capable and motivated site management teams, amongst the best we have seen in a junior miner and thus we have a high level of confidence in the Company’s ability to successfully ramp up the Coscuez and Mozambique operations and to maximise value through selling rough stones at auctions.

Fura growth strategy requires funding in the near term

According to our financial model, Fura requires US\$34m funding in 2019 in order to bring Coscuez and Mozambique assets into full production, with the assets set to become free cash flow generative from 2021 onwards according to our valuation. We assume the required funds are to be raised via equity, as debt financing has not been available to precious gemstones producers historically. Another potential source of funds could be auctions of gemstones extracted at Coscuez and Montepuez during the current exploration phase, which we believe could raise US\$10-15m, although visibility on this is somewhat limited.

Valuation implies upside to market cap, with multiple catalysts in 2019

Our provisional valuation of Fura is US\$244.3m, based on our DCF models for the Coscuez and Mozambique projects. We then apply NPV multiples to reflect the risks associated with the projects being in a pre-production phase and arrive at a risked valuation of C\$1.10 per share. Near-term share price catalysts include the release of a scoping study on Coscuez, expected in Q1’19, and a first emerald auction in Q2’19, as well as the release of a Technical Feasibility report on Mozambique in Q2 followed by a first ruby auction in Q3’19.

GICS Sector	Materials
Ticker	CN: FURA
Market cap 19-Mar-19 (US\$m)	31.3
Share price 19-Mar-19 (C\$)	0.31
Target price 31-Dec-19 (C\$)	1.10

+255%

Upside from current share price to our C\$1.10/sh risked NPV

7.0%

2021E FCF yield assuming ramp up of operations in Colombia & Mozambique



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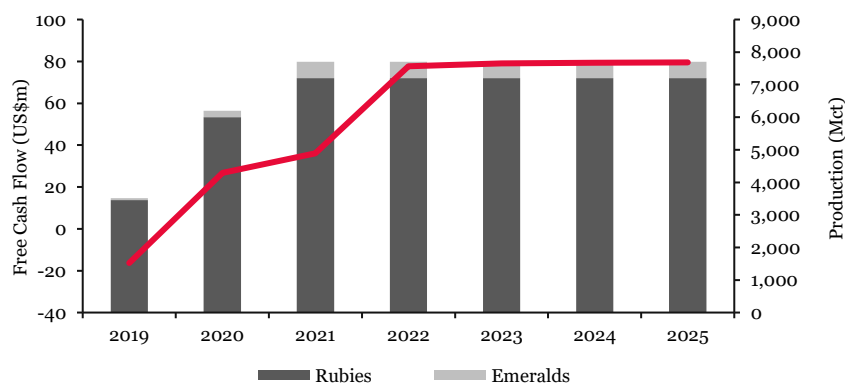
Building the next gemstone powerhouse

Fura is following in the footsteps of Gemfields, a company with operating mines in Zambia and Mozambique, which produces and sells around 10% of the total coloured gemstone market by revenue. Gemfields was acquired by Private Equity fund Pallinghurst in 2017, which led to a number of key Gemfields management leaving to join Fura. In the last 12 months, Fura has consolidated a number of ruby licenses in Mozambique as well as purchased the iconic Coscuez emerald mine in Colombia.

Fura's strategy is to ramp up production in Colombia and Mozambique through the application of modern mining techniques. Large scale mining is set to commence in 2019 at both the Colombian and Mozambican projects, with first sales from an auction in early 2020E. Based on our DCF model, we anticipate Fura will reach steady state annual revenues of US\$180m from 2024, generating an EBITDA of US\$127m at a margin of circa 70%.

Fura's aspirational target is to gain a 10% share of the total coloured gemstones market by 2024 and a 15% share by 2029, by when they expect this market to have grown to US\$5bn, up from a current size of US\$2bn, driven by demand from burgeoning middle- and upper-class consumers in emerging markets. This would imply revenues of US\$750m in that year, versus our current estimate of just under US\$200m. We therefore expect Fura to remain aggressive and opportunistic in their M&A strategy in order to further consolidate gemstone production assets, both in Mozambique and Colombia and beyond.

Fura production and Free Cash Flow 2019-2025



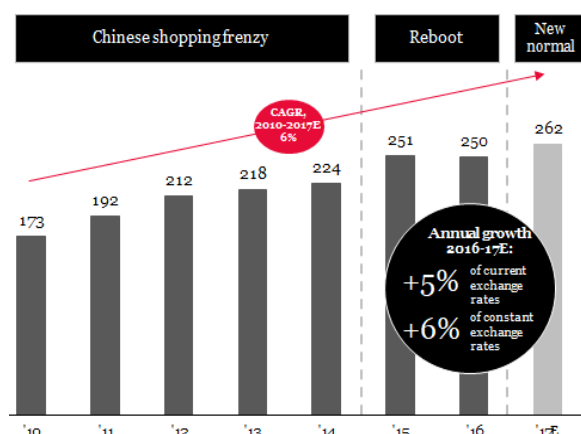
Source: H&P estimates.

Another way in which Fura is looking to follow in Gemfields footsteps is by exploring a potential dual listing on the London Stock Exchange, where there is an investor base familiar with the precious gemstone sector. In our view, UK investors should feel comfortable with Fura's management and its growth strategy due to the team's previous positions at Gemfields.

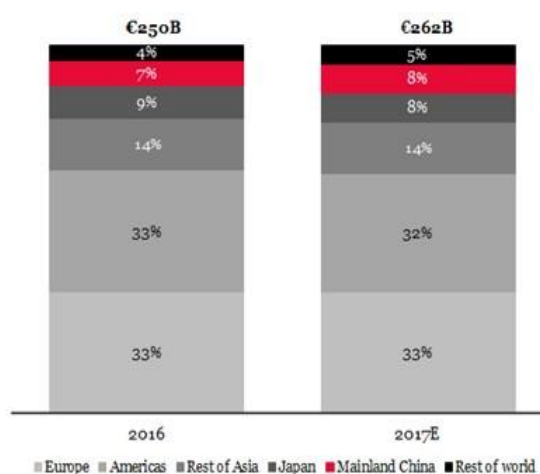
Mining sector exposure to luxury goods sector

Fura Gems is currently one of only two publicly-listed companies with exposure to mining, sales and marketing of coloured gemstones, a market which is predominantly made up of emeralds, rubies and sapphires. The Company is in a unique position to offer investors exposure to the luxury goods market as emeralds and rubies are used exclusively in the manufacture of jewellery. Consequently, Fura shares offer some diversification from the volatility of the wider mining and commodity sectors.

Personal luxury goods market 2010-2017



Personal luxury goods market 2016-2017 growth by region



Source: Bain & Company

Coloured gemstone prices have performed well over the past ten years, driven by growth in spending on jewellery by the middle and upper classes in emerging economies. In addition, demand has been stimulated by Gemfields' efforts in directly marketing to consumers over the past decade, together with an improvement in security of supply resulting out of an increased share of industrial scale production, which has allowed jewellery brands to launch a wider variety ranges featuring coloured gemstones.

Gemfields and Fura's strategy in coloured stones follows in the footsteps of the diamond giant De Beers, who drove the growth in diamond prices over several decades, by creating a stable supply of diamonds backed up by compelling branding and marketing to consumers. The gemstone industry is now undertaking similar marketing efforts to De Beers, whilst also providing consistency of supply to jewellery manufacturers. We expect the demand for coloured stones to remain strong for the foreseeable future aided by the rapid increase in middle class consumers in China and other emerging economies. According to Bain & Co, the personal luxury goods sector is set to continue growing at 4%-5% annually over the next decade. We also note that historically the luxury goods sector has shown strong resilience even during periods of global financial crisis.

Management team with a proven track-record

One of Fura's strengths lies in its strong management team, with many key staff having previously worked at Gemfields. Mr. Dev Shetty was Chief Operating Officer for Gemfields and is the driving force and a visionary behind Fura. However, we also note that Fura's technical team has considerable depth of experience, while Mr. Shetty and his marketing team have extensive experience in selling gemstones to all the key markets globally. We have full confidence in Fura team's ability to maximise sales value in the ever-changing coloured gemstone market.

Fura's technical team is led by Mr. Ashim Roy, who was the general manager at Gemfield's highly successful Montepuez mine, located in the same ruby belt as Fura's Mozambican assets. On our site visit to Fura's Mozambique project, we noted a large number of former Montepuez employees, which in our view significantly de-risks Fura's operations, due the team's familiarity with the geology and the technical aspects of ramping up a ruby mine in Mozambique.

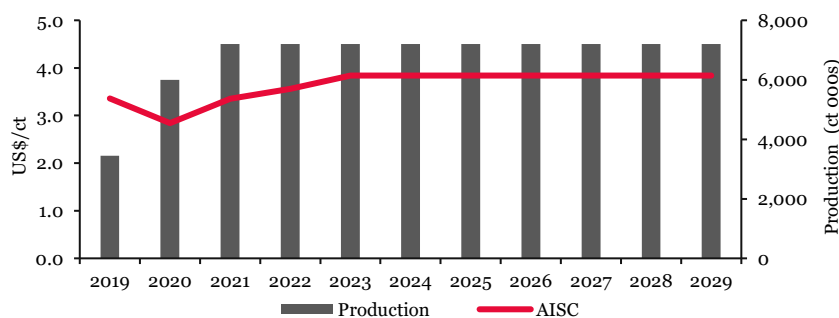
We also observed a high-calibre, motivated team at the Coscuez project in Colombia, with a number of highly-experienced underground mining engineers and CSR professionals with a track-record in the most challenging resource projects in the country. The Coscuez project is more challenging than Mozambique both from a technical and social point of view and thus this team will be crucial in ensuring the success of Fura's operation in Colombia going forward.

Treading a familiar path in Mozambique

Fura Gems has consolidated a number of licenses in the world-renowned Mozambique ruby belt and are set to become the second major ruby producer in the country after Gemfields, with first production commencing in Q2 2019. Near surface secondary alluvial and primary ruby mineralisation allows for simple and cheap open-strip mining over the life of mine. The processing flowsheet is also very simple and uses a conventional physical separation wash plant and hand sorting. With the Montepuez mine proving to be a major success for Gemfields, Fura is in a strong position to ramp up and operate a low-risk, high-margin operation.

We estimate further construction capital commitments of US\$27m with the operation ramping up to steady state production of around 8.5Mct annually, based on company guidance as well as our knowledge of the history of the Montepuez Ruby mine, operated by Gemfields in the same ruby belt. We model an 11-year mine life, however, with a large land holding in the Ruby Belt, in our view there is potential to operate the mine for substantially longer. Our DCF model estimates an NPV of US\$196.6m at an average annual all in sustaining cash cost of US\$3.6/ct, generating an average of circa. US\$49m of FCF per year once in operation.

ROM production and AISC cash costs



Source: H&P estimates.

Coscuez - the exposure to Colombian high value emeralds

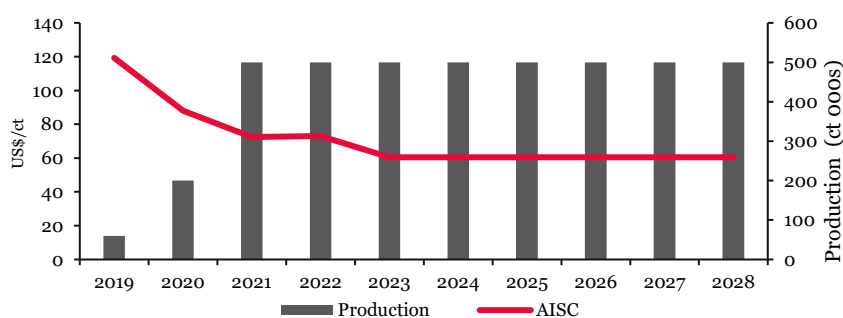
Fura Gems is the first public company with a project in the world-famous Colombian Green Emerald Belt in the Boyaca region of the country. Colombia provides the global gemstone market with the highest value emeralds, known for their high quality and vivid colour. Colombia has historically been the most significant global producer of emeralds; however, its exports have trended downwards over the last 15 years due to ore depletion at the largest mines in the country in Muzo and Chivor, and outdated, highly rudimentary, small-scale underground mining techniques.

Fura operates the country's third major emerald mine in Coscuez, which has been in production for over 400 years. Over the past 12 months, since taking control of Coscuez, Fura has been making huge progress in gaining the technical

understanding required to modernise the underground mine with the maiden 43-101 resource released in January 2018, and work ongoing on a scoping study, expected to be completed by the end of Q1 2019. We expect Fura to mine Coscuez using a cut-and-fill mining method with the high value of mined emeralds more than compensating for higher operating costs associated with selective underground mining.

We model a 10-year underground operation ramping up to 250ktpa producing 500kct annually, generating an average of US\$25m free cash flow for the life of mine. Our model is based on our provisional estimates based on our Coscuez site visit as well as company guidance.

Coscuez ROM production and AISC cash costs



Source: H&P estimates

Expertise in the gemstone auction process

Fura's sales strategy will involve selling the rough rubies and emeralds on a business-to-business basis via an auction process, without direct involvement in the downstream business of rough stone cutting and polishing. The reason for this is that cutting, and polishing is a relatively low margin link in the value chain between rough gemstone miners and jewellery retailers, that also requires significant specialist credit exposure.

One of the keys behind running a successful rough gemstone auction process is to understand the requirements for different gemstones from different clients and to provide the right volumes of different grade mixes. Fura's sales and marketing team has extensive experience of running such auctions during their time at Gemfields with over US\$650m worth of stones sold. We therefore have the uttermost confidence in Fura to successfully manage the sales auction process.

Fura is also pioneering the use of Blockchain technology to improve transparency in the coloured gemstone supply chain. Alongside the Gubelin Gem Lab, in Feb'19 Fura launched the "Provenance Proof Blockchain", a pilot scheme to provide a shared, tamper-proof ledger of transactions through the supply-chain, accessible by all relevant stakeholders. Fura has provided rough emeralds from Coscuez to test the technology.

The company believes this ledger can be combined with the existing "Emerald Paternity Test" technology, developed by Gubelin and Gemfields, which uses DNA based nanoparticles applied directly at the mine to act as physical tracers of emeralds all the way to the end consumer.

The advantage for Fura and other large players able to employ these technologies, in our view, should be the raising of industry standards and improvement in consumer confidence in the traceability of their gems, allowing them to select

suppliers whose core values align with their own. This in turn should boost pricing and/or demand for rough goods from miners, such as Fura, with high standards of sustainability and stakeholder engagement.

Low Capital, high returns business

Fura requires relatively little capital investment to develop both its Colombia and Mozambique mines to steady state production. Our construction capital cost estimates for Coscuez and the Mozambique projects are just US\$35m and US\$27m respectively, with the two mines generating an average of US\$79m per year of free cash flow attributable to Fura from 2020 to 2029 according to our valuation. This makes Fura an attractive investment proposition in what is a capital-intensive industry. These low capex estimates are a function of the simplicity of the ore-processing technology required at both projects, pre-existing infrastructure in the case of Coscuez, and very simple mining in the case of Mozambique.

Valuation – DCF approach implies significant upside

Valuation of Fura Gems is challenging due to a very limited publicly-listed peer group, lack of a resource statement in Mozambique and only an inferred resource at the Coscuez mine. We have built DCF models for both projects based on information gathered on our site visits, conversations with industry experts and our knowledge of the Gemfields' Montepuez project, located in the same ruby belt as the Fura Gems' ruby licenses.

Using a long-term emerald price of US\$150/ct for Coscuez, a long-term ruby price of US\$12/ct for the Mozambican assets, and a 10% discount rate for both projects, we arrive at an NPV value for Fura's assets of US\$244.3m.

C\$1.10 target based on risked NPV, 255% above current share price

Our C\$1.10 price target is built up by applying risk weightings to our DCF valuations for Fura assets. We apply this discount to NPV to compensate for the risks associated with pre-production projects. We apply a conservative 0.5x multiple to Coscuez (despite its lengthy production history and a presence of a 43-101 inferred resource) and a 0.5x NPV multiple for the Mozambique operation.

Using a 0.5x NPV multiple for Coscuez and Mozambique assets, we arrive at a risked valuation for Fura of US\$111.1m, or C\$1.10 per share. This implies a very significant 255% upside from the current Fura share price.

Fura Gems valuation

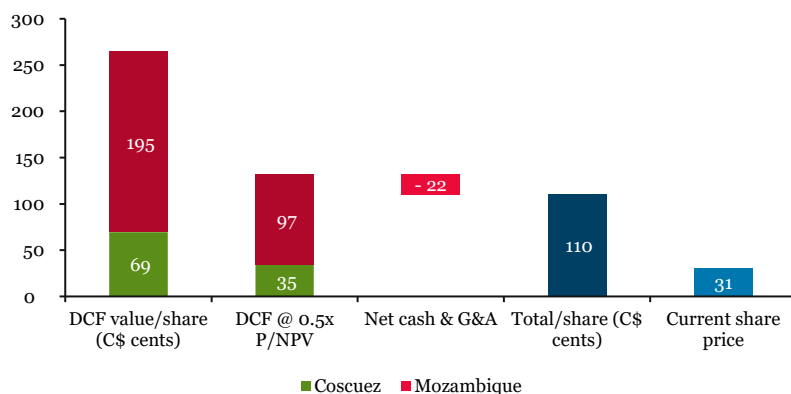
	US\$m	P/NPV	US\$m	US¢/sh	C¢/sh
Coscuez	69.9	0.5x	35.0	26.0	34.7
Mozambique	196.6	0.5x	98.3	73.1	97.5
Total NPV (10%)	266.5		133.3	99.1	132.2
Working capital + Cash	(2.3)	1.0x	(2.3)	(1.7)	(2.3)
Total Debt	-	1.0x	-	-	-
Corporate G&A (after-tax)	(19.9)	1.0x	(19.9)	(14.8)	(19.7)
Total NPV (10%)	244.3		111.1	82.6	110.2

Source: H&P estimates

Whilst we recognise some uncertainties with regards to our DCF, our high valuation illustrates the tremendous potential of the assets to generate strong, consistent cash flows at relatively low capital investment levels. The release of technical studies at both Coscuez and Mozambique is set to be a significant de-

risking milestone for Fura and has potential to increase our valuation through a usage of higher P/NPV multiples.

Fura Gems price target derivation waterfall – C¢/share



Source: H&P estimates

2019 a Year Full of Milestones

Fura Gems has developed rapidly as a business during its short two-year history, with 2019 set to be a truly transformational year with large scale production commencing at both Coscuez and Mozambique projects. As a result, this year is full of potential positive catalysts to drive re-rating of Fura Gems stock.

Fura Gems 2019 Milestones

Milestone	
Q1 2019	Coscuez scoping study
Q2 2019	Mozambique Technical Feasibility Report
Q2 2019	First emeralds auction
Q2 2019	First production from large scale mining in Mozambique
Q3 2019	Intention to list on the LSE
Q3 2019	First production from large scale mining in Coscuez
Q3 2019	First ruby auction

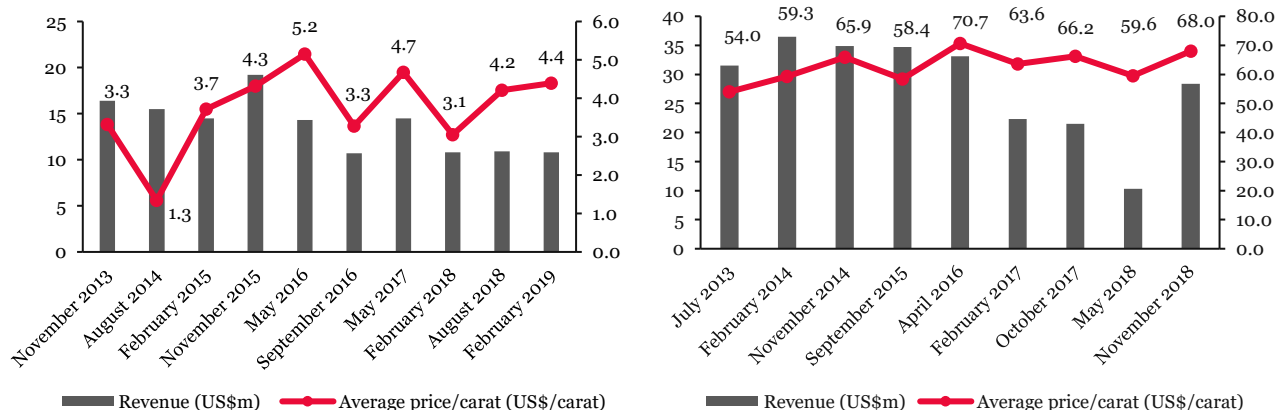
Source: Fura Gems

Historical Gemstone Pricing

Historically, the precious coloured gemstone market has been very opaque with regards to pricing. However, with Gemfields becoming the first publicly-listed gemstone producer, information on gemstone auction pricing became available, which showed that emerald and ruby pricing has been strong over recent years. The first pricing information on rough emerald auctions became public following Gemfields' November 2013 auction. As the charts show, the average auction price for Emeralds from Kagem has increased 33% for lower-quality commercial emeralds and 25% for high-quality emeralds since 2013, indicating healthy supply-demand dynamics for Kagem's output. We note that Colombian emeralds are, on average, much more highly valued in the market than Zambian goods.

Rough Emerald Auction (Commercial Quality)

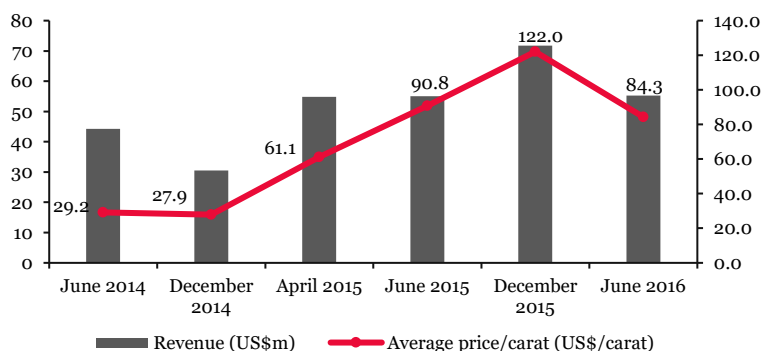
Rough Emerald Auction (High Quality)



Source: Gemfields

With respect to ruby auctions from Gemfields’ Montepuez mine, we have tracked the auction results from June 2016. As shown, the auction prices have increased by a very significant 189% in the past 3 years, even as Gemfields increased production, indicating strong growing demand for Mozambique rubies.

Selection of Rubies Recovered from the Current Sampling Program



Source: Gemfields

Near term funding required to fund production growth

According to our Fura financial model, the Company is facing a US\$34m funding gap in 2019 in order to bring Coscuez and the Mozambique assets into full production. Our model assumes Fura raising money 100% from equity at current share price levels, however we recognise that this is a challenge, considering Fura’s current market cap is US\$32m and due to debt financing not being available in the past to precious gemstones producers.

Despite the currently challenging equity markets, we see Fura as an attractive proposition to a strategic investor with interest in the precious stones space, and thus have confidence in Fura’s strong management team being able to raise the required equity. Fura also is considering holding an auction of bulk sample inventory stones in 2019, which could raise between US\$10m and US\$15m and which would lower some of the funding gap that the company is facing.

Risks

Upside/downside risks to our valuation include:

- **Operational risk - grades:** Gemstone mining comes with a number of technical risks. In our view, one of the main risks is the correct gemstone grade estimation, which is the key driver for the mine economics and is challenging due to the variability of mineralisation in gemstone orebodies. As a result, grades can be volatile and resource estimates can be more challenging than for other minerals. With respect to Fura, the emerald grade at Coscuez has been estimated by an independent consultant and thus our modelled emerald grade carries a lower degree of risk than our estimation of the ruby grade at the Mozambique operations, where we still see a degree of risk.
- **Operational risk – mining method:** We see open strip mining in Mozambique as low risk; however, planned mechanised cut and fill mining at Coscuez in challenging geotechnical conditions does bring risks with respect to cost control, productivity and ore dilution.
- **Market risk:** Both the emerald and ruby markets lack transparency and understanding price drivers for these gemstones is relatively complex. Gemstone pricing is somewhat dependent on the key luxury good markets of China, South East Asia, Russia and Europe. An economic recession in these markets has potential to put downward pressure on gemstone demand and pricing.
- **Gemstone prices assumptions:** Our Fura Gems valuation and the company's overall profitability is highly dependent on the emerald and ruby prices. We assume long term emerald pricing on US\$150/ct and ruby pricing of US\$14/ct. Given the strong price appreciation of gemstones over the past 10 years and the expected success of Fura's and Gemfields' ongoing marketing strategies, we believe this is a very conservative assumption. However, a softening of the emerald and ruby prices would put our valuation and the financial wellbeing of Fura at risk.
- **Social risks:** Community support is absolutely critical in both the jurisdictions in which Fura operates. Colombia has had cases of communities opposing some mining projects, and whilst this is not the case in the emerald mining district where Coscuez is located, social risks are always present in Colombia. In addition, artisanal miners are quite active both in Colombia and Mozambique, and whilst they have not posed a great security risk up to this point, there is a risk that this can impact the social licence to operate if community issues are not managed properly.
- **Political risks:** Whilst Colombia is a well-established destination for international mining investment, there have been a number of projects that were unable to get government support for their development. Coscuez is at less risk than other politically sensitive mining projects, in our view, but some political risks do remain. Despite a recent high-profile case involving the misuse of proceeds from sovereign-debt issuances, Mozambique has been a stable mining investment jurisdiction for well over a decade and is of lower political risk at this juncture in our view.
- **Valuation risks:** Fura Gems are yet to complete Feasibility Studies on Coscuez and Mozambique projects, thus our assumptions for the key

project parameters are by definition subject to a wide margin for error. Key assumptions which could have a material impact on our valuation include: capital costs, operating costs, ore throughput rates and grades.

- **Mustang transaction risk:** While difficult to quantify ahead of a feasibility study, a delay or failure to complete the Mustang transaction and thereby secure additional licences in proximity to Fura's existing assets could be materially negative for our valuation of the Mozambique project.

Overview of assets

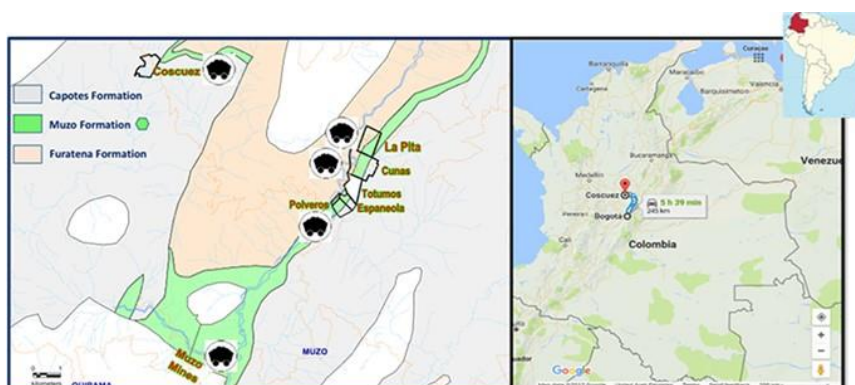
Coscuez Emeralds

Coscuez Emerald Mine (license 122-95M) is currently the most advanced asset within the Fura portfolio. The asset, 76%-owned by Fura, is located in a world-famous emerald corridor, the largest emerald producing region globally. The Coscuez emerald mine has produced some very renowned pieces such as the 1,759 carat Guinness Emerald, as well as pieces found in the Spanish crown jewels and collections from India and the Ottoman Empire.

Location and infrastructure

Coscuez is a fully permitted underground mine, located in the San Pablo de Borbur Municipality of the Boyacá District of Colombia, 245km north from the capital city (Bogota). The area around the project is composed of river valleys flanked by low to medium-sized mountains. Typical elevations do not exceed 2,000m above sea-level. The project is accessed via a paved road from Bogotá to Muzo stretching for 182km, with the remainder of the journey via a combination of dirt and paved roads. The entire journey from Bogotá takes around 6 hours by a 4x4 car.

Coscuez location and geology

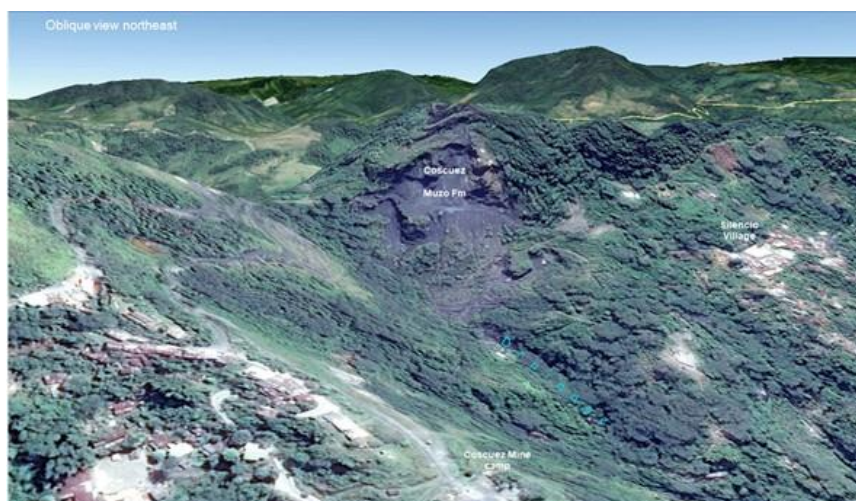


Source: Company presentation

The main economic activity in the region is the mining of emeralds, as well as livestock and basic agricultural activity. The regional infrastructure in general is quite rudimentary. The roads around the project can pose a challenge to vehicular access, especially during the rainy seasons, of which there are two: the first between April and June, and a second between October and November, with an average of 1,000mm³ of rainfall per year. Surface rights are held by the government, and are sufficient for potential mining purposes, subject to appropriate permits, which Fura has already acquired.

Several villages occur within the immediate vicinity of the Project, where inhabitants have a history of small-scale artisanal mining at Coscuez. These villages already supply a significant proportion of the workers for Coscuez and the surrounding mines, suggesting that the local areas should be sufficient for most future mining operations.

Coscuez oblique view, showing exposed Muzo formation (black) and local villages



Source: Fura Gems

The Coscuez Mine is served by the electricity network of Boyacá which supplies energy to the mine. The Boyacá network supplies electricity to a substation where it is distributed from underground substations to satisfy mine lighting, hoist operations, ventilation, mine camps, and other activities.

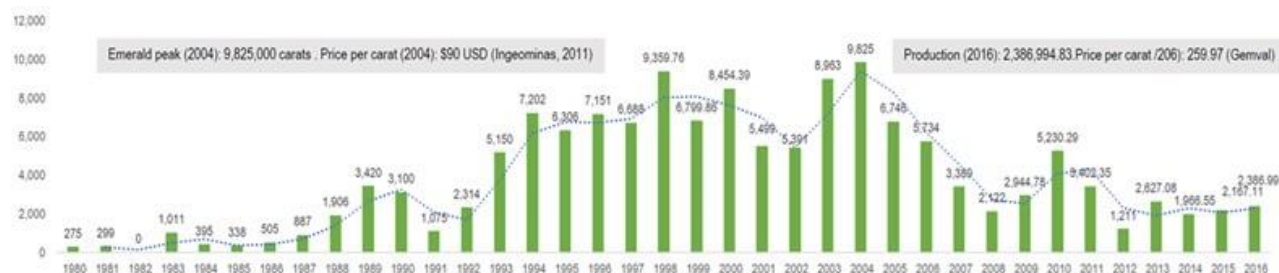
Project History

The first historical records of emerald mining at Coscuez date back to 1646, following the discovery of emerald mineralisation by the Spanish Crown. For over 400 years, the mine has produced some of the finest emeralds in the world and was one of the 3 most important mines in the Boyaca emerald corridor along with the Muzo and Chivor mines.

A decade long civil war started in Colombia in the mid-1950s which touched the Boyaca region. The 1960s saw the start of the first 'green war' with armed fighting for the control of the emerald production and trade by mercenary armies employed by the local barons. The second 'green war' took place throughout the 70s and the 80s with the Muzo faction pitted up against the Coscuez faction. The two opposing groups met for talks in 1990 and signed a peace agreement facilitated by the Bishop of Chinguinquirá.

In the 1990s and 2000s conflict between families was limited to localised skirmishes. With relative peace maintained, emerald production rose significantly in the region. However, limited investment in the sector and a lack of modern exploration and mining technologies led to a sharp decline in emerald production in the 2000s.

Boyaca region Emerald production (thousands of carats)

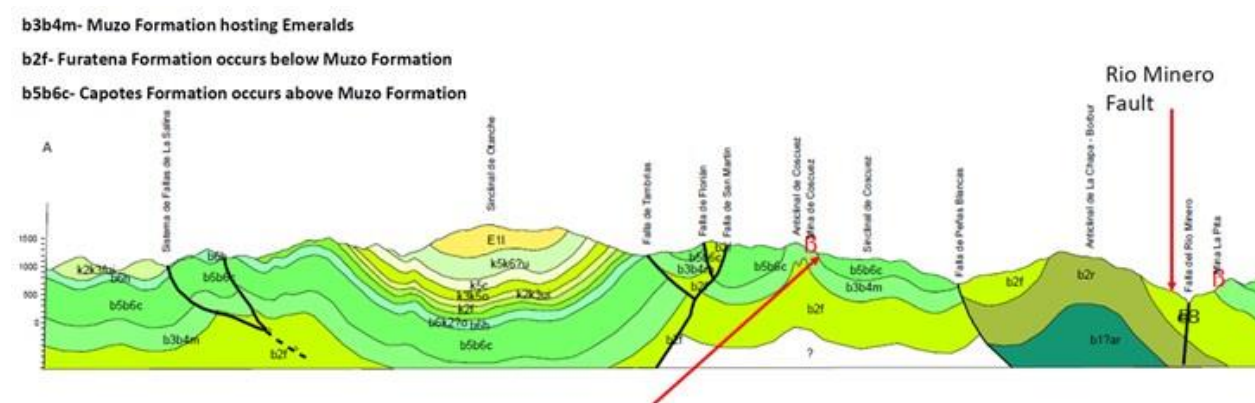


Source: Company presentation

Regional Geology

The Coscuez license has an area of 0.47km² and is located on the Western side of the Eastern Cordillera in Central Colombia. Three main geological formations are present on the license area, with all the emerald mineralisation located in the Muzo formation, which also hosts other well-known emerald mines. Regional tectonics are seen to play a key role in the formation of emeralds. Previous geologists identified a NNE-SSW main and several E-W secondary system perpendicular to the main system. The interaction of these two systems created several tectonic zones called ternary systems to which the emerald zones appear to be related. This appears to be responsible for both the circulation of hydrothermal fluids as well as the tectonic traps with favourable porosity where the emeralds finally formed.

Regional geological section

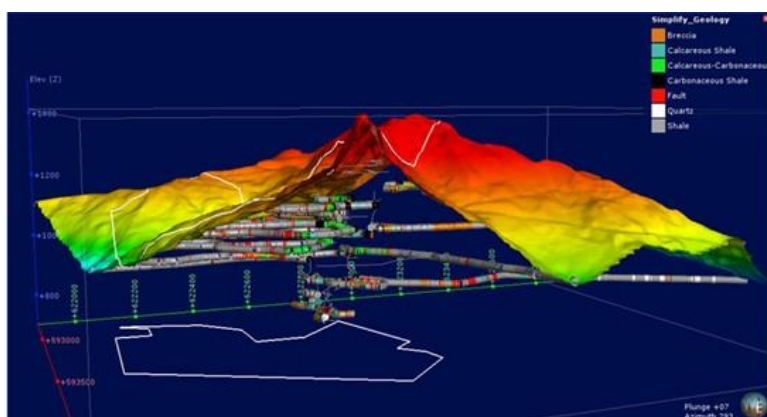


Source: Company presentation

Project Geology

Exploration work conducted at the different mines in the area has shown that the best emerald zones are related to highly tectonic carbon-rich calcareous shales and calcirudites (locally identified as lutites of different composition), immediately after a zone of “kaolinitization”. In the specific case of Coscuez, the productive zone is hosted by a very bituminous-rich limestone.

Coscuez 3D section



Source: Company reports.

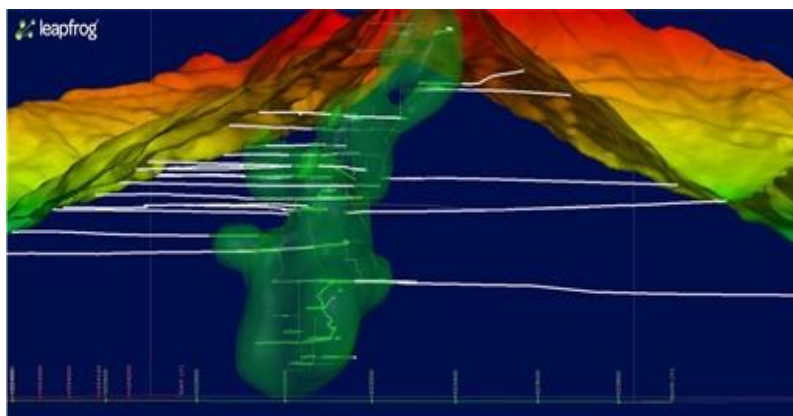
Identification of Emerald Ore Zones

Due to a lack of systematic geological work in the region, the controls behind the emerald mineralisation in the Muzo formation were not particularly well understood prior to Fura taking ownership. Therefore, identification of emerald rich mineralised zones is not a straight-forward task. All the previous exploration was done by the miners intuitively based on previous experience and following the known mineralised zones.

Fura has been working to identify the best way to scientifically detect areas of emerald mineralisation. Geochemistry provides a useful tool, as emerald rich zones are associated with a number of elements and particularly high enrichment levels of calcium (around 8% wt). In addition, several lithologies are related to emerald ore zones through a combination of the below features in fluctuating proportions.

- Calcite veins/pockets
- Pyrite as veins/lenses/pods/stringers
- Carbonaceous calcite shales
- Calcite breccia
- Kaolin breccia

Coscuez 3D interpretation

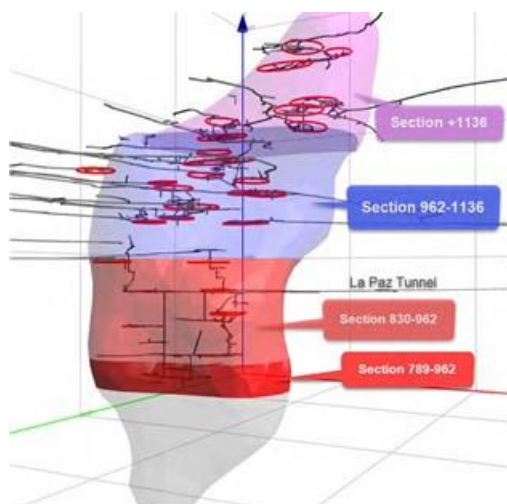


Source: Company presentation

Fura has significantly improved the understanding of emerald mineralisation and its formation in the last 12 months. Calcite veins and calcite cemented breccias host the emeralds within the carbonaceous shales of the Muzo Formation. The emerald hosting calcite veins are associated with structures formed during sediment accumulation and consequent deformation. The black carbonaceous shales of the emerald hosting Muzo Formation are relatively easily deformed, compared to the surrounding rocks, which likely focusses faults, folds, late-stage veins and brecciation within Muzo. These structures can provide the space for growing emeralds of substantial size.

As a result, emerald mineralisation is restricted to late-stage calcite veins and breccias. Distribution of these calcite veins and breccias is structurally controlled. Evidence from previous mining activities suggests that the vertical calcite veins' sets are more likely to carry emeralds than the horizontal veins. Intersections between the vertical and horizontal sets are seen as the best locations to find emeralds.

3D model of Coscuez Muzo formation



Source: Fura Gems

Fura Geologic Work Program

Coscuez mine has been mined for centuries without any investment in geological works, infrastructure and with no consideration for long term planning. Since taking over Coscuez in January 2018, Fura has undertaken an extensive program of systematic geological works to gain an understanding of Coscuez's ore and emerald mineralisation. Key works undertaken by Fura to date are:

- Reinterpretation of the current geological data
- Detailed geological mapping of available tunnels recording lithology, structures and contacts treating the tunnels like the horizontal drill cores
- Establishment of geological controls in existing producing areas
- Bulk sampling to aid in definition of grade and ore body, with 28,000 tonnes of material grading 6 cts/t treated as of 31st January 2019
- 1,700m diamond drilling program to establish the continuity of the Muzo Formation and favourable calcite veins and breccias below the level of historic mining
- Calculation of the maiden 43-101 resources

To date, around 50 tunnels to a total length of around 40km have been identified, although around 80% of the tunnels are currently inaccessible due to unsafe ground conditions.

Fura geologists have identified more than 20 general areas of significant mineralisation spread within the tunnels of Coscuez, based on verbal historical reports from the local artisanal miners as well as more quantifiable emerald mineralisation that occurs within the areas of Fura's bulk sampling program. Two main areas have been identified as of November 2018, with Inco-2, where a grade of 7.9 ct/t was observed from a 1.7kt bulk sample and Bonanza, where a 471t sample resulted in an emerald grade of 1.6 ct/t.

The bulk sampling program will continue at Coscuez throughout 2019, with quantities of sampled material to increase once Fura has installed a new wash plant at the end of Q1 2019. This will significantly increase confidence in the emerald grade at Coscuez, as bulk sampling is the only widely accepted method available to calculate the grade of gemstone ore bodies.

H1 2019 will also see Fura commencing the process of mechanisation of the underground operation at Coscuez, including commissioning of an electric mini scoop (loader) and six new three-tonne trucks replacing the manual carts currently in use. A reputable Australian mining consultant Mining One have completed a design of a new decline, with the intention to commence development in Q3 2019.

43-101 Resource

Watts, Griff and McQuat (WGT) consulting produced the maiden 43-101 resource at Coscuez in January 2019. The tonnage is controlled by the extents of the Muzo Formation in the license area. The contacts are reasonably well mapped in the tunnels, outcrop and drill holes to provide the overall tonnage of the body, which remains open at depth. The grade estimate is based on a broad range of emerald vein grades observed from bulk sampling ranging from 0.5 ct/t up to 4.5 ct/t. The estimated value per carat of US\$200/t is based on the 9,000 carats of emeralds produced at Coscuez in 2018.

Coscuez Maiden Mineral Resource Estimate (as of January 2019)

Resource Category	Tonnage (Mt)	Grade (ct/t)	Value per carat (\$/t)	Carats
Inferred	50	2.0	200	6,000,000

Source: Watts, Griff and McQuat

Confidence in the estimates for these variables ranges from reasonably good for the ore tonnage and the value of emeralds, but low for the grade, which is entirely dependent on results from the ongoing bulk sample operated by Fura.

Mining and Processing

The orebody is currently accessed through a significant number of horizontal drives of varying sizes, which total more than 40km of measured tunnels. A number of vertical shafts have been developed to delineate the extraction blocks for the operation. The miners at Coscuez are blind mining the emerald ore zones using picks, chisels and small electric drills.

Fura aims to bring modern underground mining methods to the Colombian emerald industry for the first time. In our view, modernising the underground mine at Coscuez will have a significant positive effect on safety and productivity.

Mining One have come up with a conceptual mine plan for Coscuez utilising a well-established, selective cut and fill mining method, and includes the development of a 1.2km tunnel decline and an associated ventilation network. The key consideration in using cut and fill is to overcome the poor geotechnical conditions with prevalence of weak, shale like material in host rock. Cut and fill is a mining method used extensively in steep, narrow ore body mining throughout the world. Waste disposal is partially solved through backfilling with the waste at the end of the extraction process on a lift by lift basis.

Currently the bulk sample mined at Coscuez is being hand-washed and sorted. Fura will install a wash plant at the mine using a simple crush, screen, convey and sort flow sheet that is typical for gemstone production. The recovery method will remain visual identification and extraction of emeralds seen by hand.

Coscuez mine green emeralds



Source: Fura Gems

Community and Social Issues

With the history of armed conflict for the control of the emerald mines in the Boyaca region, managing the community relations and the social licence to operate in the region is crucial to a sustainable mining operation at Coscuez. Operating a project in this part of Colombia would not be possible without community support. Following 3 months undertaking an extensive social baseline study, Fura launched their CSR program in May 2018. Key elements of the program are summarised below:

- **Income generation opportunities:** This is to be achieved both through provision of paid employment and local mine procurement opportunities, as well as the provision of training to locals for economic alternatives.

- **Community development support:** This is done through Fura-led community initiatives on health, education and recreation and sporting activities.
- **Community and institutional strengthening:** Currently Fura is undertaking community training courses in English, baking and soccer to support overcoming identified gaps. The Company has supported more than 10 initiatives and events organized by communities in 2018. This helps in fostering strong community ties.
- **Communication and social contingency:** Fura sees maintaining transparent and continuous communication and dialogue as the basis for maintaining mutual trust with the community. As an example, one of the initiatives involved implementation of a free SMS communications platform for local community that allows direct interaction with the Company.

The breadth and depth of Fura’s CSR program is the most impressive we have seen in a junior miner. The Company has also assembled a very high-quality team to manage the social issues at the project, and thus we have utmost confidence in the successful delivery of the CSR plan at Coscuez.

Valuation

Our Coscuez valuation is based on the “Mining One Coscuez Concept Study” (optimisation study) as well as information gathered from our site visit in June 2018. The key input parameters in our Coscuez model are summarised in the table below:

Coscuez key parameters

Parameter	
LoM production (ct 000)	4,260
Mine life (yrs)	10
Tonnes mined LoM (kt)	2,138
Average grade LoM (g/t)	2.00
Maximum throughput (Ktpa)	250
Mining cost LOM average (US\$/t ore)	85.4
Processing cost (US\$/t milled)	17.5
G&A cost (US\$m pa)	5.0
Expansion Capital Cost (US\$m)	35
Corporate tax	33.0%
Emerald royalty	3.5%
% of emeralds sold the following year	50%

Source: H&P Valuation

The 43-101 report by Watts, Griff and McQuat outlines an emerald value at Coscuez of US\$200/ct; however, in our model we assume a flat emerald sales price of US\$150/ct. We use such an estimate as we note that current average sales price of Colombian emeralds is around US\$90/ct, and thus are more conservative in our valuation.

We assume a mining cost of US\$150/t in 2019, gradually falling to US\$75/t in 2023 as the mine enters steady state production. We keep our mining cost

estimates quite high by global standards in the first few years as Fura's operational team gets to grips with the challenging geotechnical conditions and geological uncertainty. Our long-term estimate is based on a global benchmark for highly challenging cut-and-fill operations. Our capital cost estimate is based on conversations with industry experts and site personnel. We also assumed 50% of production sold into the following year, in-line with industry norms.

Coscuez DCF Model variables and outputs

Year	2019	2020	2021	2022	2023
Ore mined (Mt)	30,000	100,000	250,000	250,000	250,000
Emerald price (US\$/ct)	150	150	150	150	150
Emerald grade (ct/t)	2.0	2.0	2.0	2.0	2.0
Total Emerald production (ct) 000	60	160	350	500	500
Total Emerald Sales (ct) 000	30	160	350	500	500
All in sustaining cash cost (US\$/ct)	119.3	88.0	72.4	73.0	60.5
Capital expenditures ('000 US\$)	12,000	15,000	8,000	2,000	2,000

Source: H&P Valuation

Coscuez DCF Model variables and outputs

Year	2019	2020	2021	2022	2023
Revenue (US\$000)	4,500	24,000	52,500	75,000	75,000
EBITDA (US\$000)	-2,658	6,410	16,288	40,500	46,750
EBITDA margin	-59.1%	26.7%	31.0%	54.0%	62.3%
Free Cash Flow	-14,815	-10,196	2,869	24,144	28,023

Source: H&P Valuation

Calculating the NPV at a 10% discount rate, we value Coscuez at US\$69.6m. We note that the scaling up and mechanisation of the traditionally low-tech underground operation does carry some risk; however, we see significant upside in our valuation through the high likelihood of mine-life extensions and the potential for higher than modelled emerald grades.

Mozambique Ruby Project

Fura's other focus is on rubies from the world-renowned producing district of Montepuez, Mozambique, which produces 50% of the world's rubies. Fura currently owns 80% of four exploration licenses in Montepuez and, following the announcement of the acquisition of the licenses held by Mustang, are set to control around 20% of the Montepuez ruby belt. A key advantage of the production in Montepuez is the shallow nature of the deposits providing for simple, low-cost open cut mining.

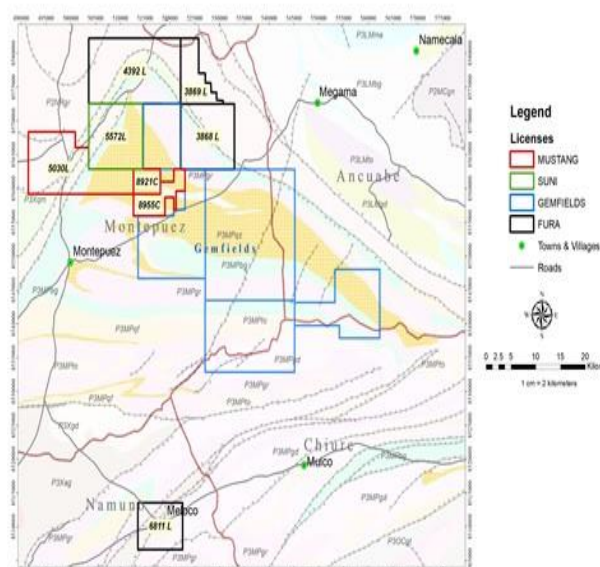
Location and Infrastructure

Fura's licenses are located in the Montepuez district of the Cabo Delgado province in Mozambique, East Africa. The figure below shows the location of the four licenses (4392L, 3868L, 3869L, 6811L) owned since November 2017 as well as six licenses (9307C, 6106, 8188L, 5030L, 8955C, 8921C) to be potentially acquired from Mustang. The other major landholder in the region is privately owned Gemfields, who are the world's biggest producer of rubies.

Cabo Delgado province location



Fura Gems licenses



Source: Fura Gems

The topography is generally flat with the vegetation predominantly light forest and grassland. The licenses are located close to the city of Montepuez with a 200km good standard paved road to the province capital city of Pemba, where the nearest airport and port is located.

Project History

Mozambique is a relatively recent entrant to ruby production, with first reports surfacing in 2005 of Mozambican rubies sold at auctions in South East Asia. Artisanal ruby mining in the Montepuez region ramped up rapidly. By 2010 Mozambican rubies dominated the important Thai market, with stones sourced mainly from unlicensed miners and merchants. UK-listed Gemfields purchased the Montepuez ruby deposit, signalling the start of larger scale industrial gemstone production in the region.

Regional Geology

Fura's licenses are located in the Montepuez Complex, a strongly metamorphosed terrane, consisting of rocks ranging from granitic to amphibolite with three generations of folding having taken place. These metamorphosed sedimentary rocks have been intruded by granite, granodiorite, and tonalite.

The current understanding is that the ruby rich amphibolite bodies at the Montepuez complex formed in two phases of metamorphism. Quarzitic gneiss lithology appears to be particularly conjunctive to rubies, however there are some occurrences outside. Ruby mineralisation appears to be particularly prevalent in NE faults and NEE shears. As a result, geophysics makes for a good tool to identify ruby mineralisation by identifying intrusions and specified structures. In general, the Montepuez Complex geology is trustworthy in that if the right geological conditions are witnessed, ruby mineralisation is found.

Project Geology

The Montepuez complex has two main types of ruby mineralisation referred to as primary and secondary mineralisation. All of Fura's licenses feature both types of mineralisation.

The primary mineralisation is of both igneous and metamorphic origin and comprises of amphibolitic and greenstone or ultramafic horizons, which are intruded by felsic veins where the rubies are found. These intrusions result in elevated grades (~160ct/t) near the intrusions. However, ruby values are low on average due to the stones tending to be small and highly fractured. This type of mineralisation typically occurs at depths of 10 metres and is on average 15-30m thick.

Secondary mineralisation is formed as a result of weathering of primary ores where gravel beds have been deposited by river systems forming paleo channels, sandwiched between the lateritic soils and basement rocks. The weathering process causes a reduced grade relative to the primary ore but with higher stone quality, as larger, higher-quality stones are favourably preserved.

Primary Mineralisation



Source: Fura Gems

Secondary Mineralisation



Economics of secondary versus primary ore

Due to the reasons described above, secondary ore has higher revenue per tonne versus primary by a factor of 8 to 1 but has lower consistency with respect to ruby grade and mineralisation uniformity. The geology of Fura's licenses allows for high volumes of primary ore to be mined, so there is potential for primary ores to

provide a consistent feed to supplement the higher value, but more inconsistent secondary ores. Lack of clay in the primary ore is another consideration with lower associated processing costs for primary ore as a result. Fura is currently deciding on their future strategy with respect to how much secondary and primary ore to process, with consideration to future project economics.

Permitting

The license where Fura plans to commence mining in the near term is the Suni license, which had an exploration permit recently extended for an additional 3 years. Fura can commence bulk sampling according to the terms of the license. The conversion of exploration to mining licenses in Mozambique is a relatively simple process, well understood by Fura management, who have previous experience of the permitting process in Mozambique with Gemfields. The licenses to be acquired from Mustang have 25-year mining permits.

Mining

The shallow nature of mineralisation at the Fura Mozambique licenses allows for cheap and simple open pit mining. Currently, Fura is running a bulk sampling operation at the licenses, with plans to commence ramp up to a full-fledged mine at the start of Q2 2019 at the northern 5572L (Suni) license. The increase in production in 2020 will come from the Mustang licenses.

The soft nature of both secondary and primary ore is conducive to low-cost, free-dig mining without the use of explosives. Strip ratios are low due to secondary ore paleo channels typically occurring just 2-5 metres below surface. Mining takes the form of a conventional open-pit gravel operation with excavators, loaders and trucks. Loaded trucks will haul ore to the stockpiles at the wash plant while waste is backfilled into the mined-out areas. A small percentage of the material that may not be suitable to free digging will be ripped by a bulldozer.

Selection of Rubies Recovered from the Current Sampling Program



Source: Fura Gems

Processing

Due to the relatively high specific gravity of rubies, processing of rubies lends itself to simple physical separation using a wash plant. The principle behind the process is taking a mixture of gravels (secondary ore) and harder primary material and sorting them to produce a clean product for sorting in the manual picking house.

The flowsheet is simple and uses basic physical separation. The ore goes through a grizzly, a hopper, a scrubber to separate the clays, and a rotating pan with water spray. The final step involves hand-sorting of rubies as the final step. Currently there is a 3000tpd plant on the Suni license, which was acquired together with the license and will be fully commissioned by the end of Q2 2019.

Valuation

Our Mozambique valuation is based on the information gathered from our site visit in June 2018 as well as our understanding of the Gemfields Montepuez Ruby operation, which has years of operation for us to draw upon. The key parameters in our Mozambique model are shown in the table below:

Mozambique key parameters

Parameter	
LoM production (ct 000)	74,250
Mine life (yrs)	11
Tonnes mined LoM (kt)	6,088
Average grade LoM (g/t)	12.3
Maximum throughput (Ktpa)	600
Mining cost LOM average (US\$/t ore)	21.1
Processing cost (US\$/t milled)	5.0
G&A cost (US\$m pa)	5.0
Expansion Capital Cost (US\$m)	27
Corporate tax	22.0%
Ruby royalty	6.0%
% of rubies sold the following year	50.0%

Source: H&P Valuation

Our cost estimates are primarily based on our knowledge of the costs at the Gemfields Montepuez operation. Our capital cost estimate is based on conversations with industry experts and site personnel. As with Coscuez, we also assume 50% of production sold in the following year, in-line with industry norms.

Mozambique DCF Model variables

Year	2019	2020	2021	2022	2023
Ore mined (Mt)	230,000	400,000	600,000	600,000	600,000
Strip Ratio (t:t)	10.00	5.00	5.00	5.00	5.00
Ruby price (UZS\$/ct)	12	12	14	14	14
Ruby grade (ct/t)	15	15	12	12	12
Total Ruby production (ct) 000	3,450	6,000	7,200	7,200	7,200
Total Ruby Sales (ct) 000	1,725	6,450	6,600	7,200	7,200
All in sustaining cash cost (US\$/ct)	3.4	2.8	3.4	3.6	3.8
Capital expenditures ('000 US\$)	8,415	6,000	15,000	1,000	3,000

Source: H&P Valuation

Calculating the NPV at 10% discount rate, we value Fura's Mozambique assets at US\$196.6m. We note the technical simplicity and low execution risk associated with the project gives us confidence in the realistic nature of our valuation.

Mozambique DCF Model outputs

Year	2019	2020	2021	2022	2023
Revenue (US\$000)	20,700	77,400	92,400	100,800	100,800
EBITDA (US\$000)	11,523	60,356	68,256	76,152	76,152
EBITDA margin	55.7%	78.0%	73.9%	75.5%	75.5%
Free Cash Flow	-1,512	36,917	33,190	53,571	50,980

Source: H&P Valuation

Financial Summary

Fura Gems

Income statement					
Year end December		2018E	2019E	2020E	2021E
Revenue	US\$m	-	26.0	104.3	148.7
Cost of Sales	US\$m	-	(16.7)	(35.4)	(61.6)
Depreciation	US\$m	-	(2.8)	(5.7)	(7.8)
Other	US\$m	-	-	-	-
Gross profit	US\$m	-	6.4	63.2	79.2
Administrative Expenses	US\$m	(2.6)	(9.3)	(10.7)	(10.7)
Exploration and Evaluation expenses	US\$m	(10.0)	(2.7)	(2.7)	(2.7)
Impairments	US\$m	(1.7)	-	-	-
Profit / (Loss) from Operations	US\$m	(17.2)	(5.6)	49.9	65.9
Finance Costs	US\$m	(0.7)	-	-	-
Finance income	US\$m	-	0.1	0.1	0.1
Pre-tax profit	US\$m	(18.2)	(5.6)	50.0	66.0
Tax credit/(paid)	US\$m	-	-	0.8	3.6
Profit after tax	US\$m	(18.2)	(9.0)	36.0	47.3
FX gains/losses	US\$m	(0.3)	-	-	-
Minority Interest	US\$m	(1.6)	(6.9)	27.6	36.3
Owners Net Profit	US\$m	(16.6)	(2.1)	8.4	11.0
EBITDA		(17.2)	(2.8)	55.5	73.7

Ratios and per share data					
Year end December		2018E	2019E	2020E	2021E
Yr end shares in issued	m	134.4	134.4	134.4	134.4
Revenue growth	%	0.0%	0.0%	301.9%	42.6%
EBITDA margin	%	NM	(10.7%)	53.2%	49.6%
Pre-tax ROIC	%	(71.5%)	(8.8%)	72.9%	62.5%
ROE	%	(8.2%)	(13.4%)	45.8%	50.9%
EPS	US\$/sh	(12.3)	(1.6)	6.2	8.2
Free cash flow	US\$m	(12.3)	(28.0)	(3.1)	26.0
FCF/share	US\$/sh	(9.1)	(20.9)	(2.3)	19.4
FCF yield	%	(3.6%)	(8.2%)	(0.9%)	7.6%
Net debt/equity	%	(27.3%)	(22.0%)	(13.8%)	(48.1%)
P/E	x	NM	NM	0.0x	0.0x
EV/EBITDA	x	NM	NM	0.5x	NM
EV/Sales	x	NM	0.9x	0.2x	NM
Net Debt/(Cash)	US\$m	(5.5)	(11.4)	(8.3)	(34.3)
EV	US\$m	28.8	22.8	26.0	(0.0)
Market Cap (Yr end)	US\$m	34.3	34.3	34.3	34.3

Production volumes					
		2018E	2019E	2020E	2021E
Coscuez	Mct	-	60	200	500
Mozambique	Mct	-	3,450	6,000	7,200

Cash Costs - Coscuez					
		2018E	2019E	2020E	2021E
Total Cash Cost	\$/ct		119	88	72
All in Sustaining Cost	\$/ct		119	88	72
Cost per tonne	\$/tonne		238.6	175.9	144.9

Cash Costs - Mozambique					
		2018E	2019E	2020E	2021E
Total Cash Cost	\$/ct		2.7	2.8	3.4
All in Sustaining Cost	\$/ct		3.4	2.8	3.4
Cost per tonne	\$/tonne		39.9	42.6	40.2

Cash flow statement					
Year end December		2018E	2019E	2020E	2021E
Operating profit	US\$m	(18.2)	(9.0)	36.0	47.3
Depreciation	US\$m	-	2.8	5.7	7.8
Working capital change	US\$m	5.2	(1.0)	(23.4)	(5.5)
Other	US\$m	-	-	-	-
CFO	US\$m	(12.3)	(7.2)	18.3	49.6
Purchase of PPE	US\$m	-	(20.9)	(21.4)	(23.6)
Other	US\$m	-	-	-	-
CFI	US\$m	-	(20.9)	(21.4)	(23.6)
Net Borrowings	US\$m	-	-	-	-
New equity issued	US\$m	5.2	34.0	-	-
Other	US\$m	-	-	-	-
CFE	US\$m	5.2	34.0	-	-
Net change in cash	US\$m	(7.0)	6.0	(3.1)	26.0
Beginning Cash	US\$m	-	5.5	11.4	8.3
Ending Cash	US\$m	5.5	11.4	8.3	34.3

Balance sheet					
Year end December		2018E	2019E	2020E	2021E
Cash	US\$m	5.5	11.4	8.3	34.3
Receivables	US\$m	6.1	5.3	21.4	30.6
Inventory	US\$m	0.3	4.6	4.9	8.4
Other	US\$m	0.5	0.5	0.5	0.5
Current Assets	US\$m	12.4	21.9	35.1	73.8
PPE	US\$m	0.6	18.6	34.4	50.2
Other	US\$m	30.2	30.2	30.2	30.2
Fixed Assets	US\$m	30.8	48.8	64.6	80.3
Payables	US\$m	14.2	16.7	9.7	16.9
Short Term Debt	US\$m	-	-	-	-
Other	US\$m	-	-	-	-
Current Liabilities	US\$m	14.2	16.7	9.7	16.9
Long term debt	US\$m	-	-	-	-
Other	US\$m	5.5	5.5	5.5	5.5
Non Current Liabilities	US\$m	5.5	5.5	5.5	5.5
Total Equity	US\$m	20.0	51.9	60.3	71.3

Price assumptions					
		2018E	2019E	2020E	2021E
Emeralds	\$/ct	150	150	150	150
Rubies	\$/ct	12	12	14	14

	\$ m	US\$/sh	C\$/sh
Coscuez	69.9	26.0	34.7
Mozambique	196.6	73.1	97.5
Total Operating	266.5	99.1	132.2
Working capital + Cash	-2.3	1.0	-2.3
Total Debt	0.0	1.0	0.0
Corporate G&A (after-tax)	-19.9	1.0	-19.9
NAV at 10%	244.3	82.6	110.2

Current P/NAV 0.31x

Appendices

Fura Gems PLC - History

Fura Gems is a relatively young business, starting in its current form in January 2017, with the CEO and President Mr. Dev Shetty as the key driving force. September 2017 saw the announcement of the acquisition of the Mozambique Ruby licenses, followed by the announcement of a game-changing acquisition of the Coscuez emerald operation in Colombia in October. Since then, the Company has continued to evolve at a rapid pace, with significant progress as outlined by the following milestones:

- **November 2017:** Important Director and management appointments made, with Mr. Joe Carrabba announced as a Non-Executive Chairman, Mr. Rupak Sen as Vice President of Marketing and Sales and Mr. Armando Diaz as Project Manager at Coscuez project in Colombia
- **November 2017:** Completion of acquisition of an 80% interest in four Ruby licences in the Montepuez District of Cabo Delgado province in Mozambique
- **January 2018:** Completion of an acquisition of 76% of the outstanding shares of Esmeracol S.A. (“Esmeracol”), which owns a 100% interest in the Coscuez License
- **March 2018:** Commencement on an initial phase of bulk sampling at Coscuez, with a total of 1,720 carats of emeralds mined during the phase and reported as initial production at the project
- **June 2018:** Commencement of a 2,500m diamond core drilling program at Coscuez with the aim of establishing a maiden mineral resource and a better understanding of grade control as the project moves toward production
- **July 2018:** Announcement of an acquisition of nine ruby assets in Montepuez District of Cabo Delgado province in Mozambique from ASX listed Mustang Resources and Regius Resources Group for a total consideration of A\$15m as well as purchase of an additional ruby prospecting license in the same district of Mozambique
- **December 2018:** Announcement of a maiden mineral resource at Coscuez, which was a first in the Colombian emerald industry
- **February 2019:** Announcement of the termination of the agreement with Reguis Resources and continuation of advancement of the acquisition of the Mustang Resources licenses

In our view, the progress at Fura Gems since the start of 2017 has been exceptional, which is indicative of the highly motivated, high-quality management team that Fura has assembled.

Fura is a part of the Forbes & Manhattan Group, a Toronto based Merchant Banking group which specialises in the resource sector. Forbes & Manhattan typically finances junior companies and provides management services as well as access to capital and investor and marketing support.

Management Profiles

Fura Gems is led by Mr. Dev Shetty, who is a key driving force and a visionary behind the Company and its growth in both Colombia and Mozambique. We observed during the Coscuez site visit in Colombia, that the quality of Fura's operational team is amongst the best we have seen in a junior mining company. In our view, this also speaks volumes for the upper management and from our experience, quality of the top management is often reflected in the quality of operational appointments.

Key Management and Directors

Name	Title	Profile
Dev Shetty	President and CEO	<ul style="list-style-type: none"> • Prior to joining FURA, from 2009 to 2016, Mr. Shetty was the group Chief Operating Officer and a Director of Gemfields, an AIM listed gemstone producer • He was one of the key people in Gemfields becoming the world's largest colour gemstone company • Mr. Shetty played a vital role in developing the world's largest producing emerald mine in Zambia and the greenfield ruby project in Mozambique, which is believed to be the largest ruby deposit in the world • He graduated from Mumbai University and is a qualified chartered accountant
Ashim Roy	Vice President - Operations	<ul style="list-style-type: none"> • Mr. Roy has been at FURA since November 2017 as Vice President of operations and is responsible for the company's global mining and exploration operations • Previously, Mr. Roy served as general manager for Gemfields, overseeing the Montepuez ruby mine in Mozambique, and as head of geology at the Kagem emerald mine in Zambia • He is a professional geoscientist and holds a Master in Applied Geology and Master in Business Administration from India
Joe Carabba	Non-Executive Chairman	<ul style="list-style-type: none"> • Mr. Carrabba is a former Chairman and President & CEO of Cliffs Natural Resources Inc., formerly Cleveland-Cliffs Inc., where he served in executive capacities from 2005 to 2013 • He has served for over 20 years in a variety of management positions at Rio Tinto, including as President and Chief Operating Officer of Rio Tinto's Diavik Diamond Mines, Inc. in the Northwest Territories • Mr. Carrabba is also a Director of Newmont Mining Corporation, Aecon Group Inc., Timken Steel and NioCorp Developments Ltd
Jamie Lalinde	Director	<ul style="list-style-type: none"> • Mr. Lalinde has been instrumental in originating and executing the transaction involving the purchase of the Coscuez emerald mine in Colombia • Mr. Lalinde is a Colombian national who has spent 20 years in the banking industry, working for Chase Manhattan Bank, Merrill Lynch and at Citibank N.A. in New York • At Citibank N.A., he served as team leader and country manager for the company's Mexican and Colombian interests
Ryan Ptolemy	Chief Financial Officer	<ul style="list-style-type: none"> • Mr. Ptolemy has been FURA's Chief Financial Officer since April 2017. • Mr. Ptolemy has served as CFO of several F&M public and private mining companies, with a particular focus on the exploration and development stages in South America • He is a certified public accountant and certified financial analyst charter holder. He is also part of Forbes and Manhattan Group ('F&M')
Rupak Sen	Vice President - Marketing and Sales	<ul style="list-style-type: none"> • Mr. Sen's responsibilities include global marketing, communications and sales of rough gemstones • Prior to joining FURA, Mr. Sen was acting global Director of marketing and polished sales and marketing and sales Director for Asia for Gemfields • Prior to working with Gemfields, Mr Sen has worked for companies such as De Beers (Diamond Promotion Service) and Swatch Group • He has a Bachelors in Business Administration and Economics from India

Source: Company reports

Gemstone Industry

Overview

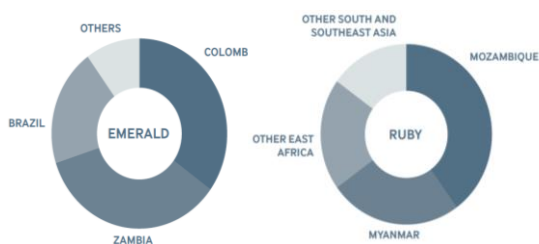
Gems are crystals formed by the cooling of hot gases, solutions and melts deep inside the earth. The natural laws that create gems are the same as those that create snowflakes and salt, except that tremendous pressures and temperatures are needed¹.

Gems are classified as precious, semiprecious and ornamental stones. The quality of a gemstone is assessed based on the “four C’s” referring to colour, clarity, cut and carat weight. The size and weight of many gems is measured in carats. Carat is 1/142 of an ounce, 1/5 of a gram, or 200 milligrams. The value of a gem is often determined more by the quality of the stone and lack of imperfections than by size. Cut is a term that describes the quality as well as shape of a gem. The variability across the four C’s results in a large range in pricing of the stones per carat.

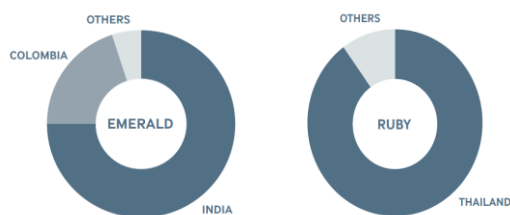
The coloured gem market is highly fragmented, with stones usually coming from small scale artisanal mines, and many being unorganised and unregulated sectors. Only around 10% of coloured gemstone production comes from the organised sector, with 90% coming from artisanal mines. This is a constraint and an opportunity as well. In 2015, the overall size of the global market for rough gemstone industry was conservatively estimated to have been worth between US\$17bn and US\$23bn².

The gemstone sector is led by Gemfields with operating mines in Zambia and Mozambique³. Unlike Diamonds, the highly unorganized and fragmented sector provides a huge opportunity. North American and European consumers disproportionately buy sapphire, while Chinese buyers account for a relatively greater percentage of ruby sales and virtually the entire jade market⁴.

Production by type and geography



Cutting and polishing markets by type and geography



Source: Natural Resource Governance Institute

Emeralds

Emerald is a green gemstone and a variety of the mineral beryl. Emerald production is centered around the countries of Colombia, Zambia and Brazil with some smaller scale mining in Australia, Afghanistan and Madagascar. As noted previously in this report, Fura’s Coscuez mine, Muzo and Chivor have historically been the key Colombian emerald mines; the other emerald mine of significance globally is the Kagem mine in Zambia operated by Gemfields. Colombia produces

¹ [EMERALDS: THEIR HISTORY, MINING AND VIOLENCE](#)

² [Governing the Gemstone Sector](#)

³ [Fura Gems: Corporate Presentation](#)

⁴ [Governing the Gemstone Sector](#)

around 70% of the world’s emeralds, which are also viewed as the highest quality stones on the market. Zambian emeralds, which tend to be more bluish and darker in colour make up around 20% of the market with some of the stones from the country now rivalling Colombian emeralds for quality and price. Brazilian emeralds are generally of a lower quality because of weaker colouring. Most mined emeralds are sold as rough stones into cutting houses in India and then exported globally.

Rubies

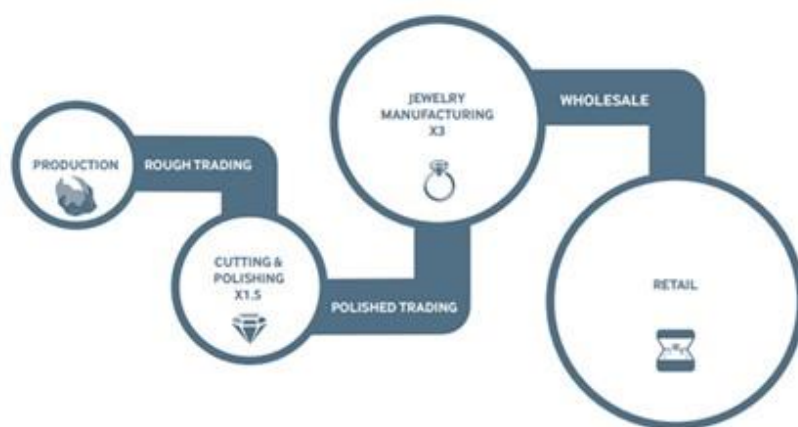
A ruby is a pink to blood-red coloured gemstone, a variety of the mineral corundum. Most of the world’s rubies are produced in Burma, Thailand and Mozambique, where production has been growing rapidly in recent years.

The key market for rough rubies is Thailand, where cutting and polishing then takes place. Gemfields’ marketing efforts have also increased the demand from India, an important cutting and polishing market in other gemstones.

Gemstones Value Chain⁵

The value chain begins at mine production, followed by value-add processes of stone cutting/polishing and jewellery manufacturing and ends with the polished gemstones sold to retail consumers at the end in the chain, where the end product is sold at many times the original rough stone value.

Gemstones Value Chain



Source: Natural Resource Governance Institute

The number and type of actors involved in the gems business largely determine the transparency of the value chain. A sapphire unearthed in Madagascar, for example, may pass from citizen miners to independent buyers known as “ladies in hats,” that reside in towns or camps proximate to artisanal mining areas, and then to “men with cars,” who transport gemstones from the town or camp to a major city. The gemstone would likely change hands multiple times between local and international traders before being exported for processing, likely in Thailand or Sri Lanka, and then for retail sale.

A high degree of specialized knowledge is needed to process and polish gems prior to their sale as jewellery. A feature of the midstream value chain is not who processes gemstones but where this processing occurs. Low-cost Asian manufacturing hubs increasingly dominate the lapidary and jewellery

⁵ [Governing the Gemstone Sector](#)

manufacturing industry, with India handling as much as 90% of global diamond supply by weight (though less in terms of value), mostly in the city of Surat. Coloured gemstones tend to undergo processing in Thailand, China (often Guangzhou), India (often Jaipur) and Sri Lanka. The competitiveness of these countries has increased pressure on historic centres (such as Belgium, Israel and the United States for diamonds) and heightened barriers to entry for gemstone-producing countries looking to grow their domestic beneficiation industries.

Challenges

Countries that primarily produce coloured gemstones face acute challenges. While the dominance of international mining companies and significant attention from the international community has driven a degree of formalization and policy development in the diamond sector, the coloured gemstone industry remains decentralized and de-emphasized by comparison. Less extensive research and engagement by government, private sector, academic and civil society stakeholders has led to limited public knowledge regarding the wide range of coloured gemstone resources and their equally diverse markets. The industry remains marked by:

- **Widespread illegal activity:** Many miners and traders operate outside of the formal sector, slowing the diffusion of appropriate environmental, social, and labor practices, and perpetuating linkages between the gemstone business and organized crime, internal conflict and corrupt regimes in certain countries
- **Low revenue collection:** The gemstone industry's contribution to public spending remains constrained in many cases by the underreporting and undervaluation of production, or by government failure to negotiate a fair deal
- **Minimal value addition:** While the cutting, polishing and processing of gemstones, and their manufacture into jewellery, represents a relatively sustainable source of skilled employment and economic growth, only a small fraction of these activities is conducted in countries where gemstones are extracted
- **Weak oversight:** Inadequate regulation, weak traceability mechanisms, and only occasional disclosure of contracts, payments and other crucial information have limited accountability of actors throughout the gems and jewellery supply chain

Use of blockchain to improve supply chain transparency

As noted above, Fura is leading the way in the gemstone industry by pioneering the use of blockchain technology to improve industry transparency across the coloured gemstone supply chain. Over the 20th Century, the precious stones industry, which includes diamonds and coloured gemstones, has gathered a poor reputation with the proliferation of unethically sourced stones as well as conflict stones (referred to as blood diamonds in the diamond space).

The Kimberly Process Certification Scheme was introduced in 2003 for diamonds as a way to prevent "blood diamonds" from entering the mainstream rough diamond market. In addition, De Beers, the world's largest rough diamond producer by value, recently announced plans to invest in a blockchain-based platform to enable greater tracking of its stones. The platform, which will be open for those in the industry, will allow tracing each diamond throughout the entire value chain. The blockchain is a platform that creates a database of transactions via a shared ledger all the way down the supply chain, with no single organisation controlling that database. The process starts on the mine site with the data about the miner, location, a simple description of the stone, and a time stamp recorded in the ledger. That information is forwarded to the buyer by way of a digital key, which allows them to write the next chapter in this ledger. In our view, the application of blockchain technology to the coloured gemstone space will lead to the industry raising its standards by promoting transparency and ensuring that only ethically sourced gemstones reach the end users.

De Beers has recently launched a pilot program in Sierra Leone that will help trace the route of gems dug up there by small miners. As part of this GemFair initiative, the company will train artisanal and small-scale miners, providing them with tablets as well as a diamond "toolkit" to digitally track their diamonds throughout the supply chain. The coloured gemstone industry has been slower to utilise blockchain due to lack of large players in the industry, however this is now starting to change as coloured gemstones industry is starting to consolidate with Gemfields and Fura Gems leading the way.

In the last few years, the coloured gemstone industry has seen a major shift with mid to large sized companies showing interest in coloured gemstone mining and marketing. With new players emerging, the industry is likely to see structural changes to policies and reforms with stricter governance practices, in our view. This, in turn, should ensure ethical practices of sourcing gemstones and will pressurise the players to move towards developing sustainable supply chains. Technology might also pave way to legitimise the sourcing of these gemstones similar to the way De Beers is using Blockchain to track its suppliers.

Increased transparency through reporting of grading standards and increased documentation should help legitimise the image of the gemstones in the market, thereby creating a sustainable demand for the industry.

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