

7 February 2019

GEM DIAMONDS LIMITED

Q4 2018 Trading Update

Gem Diamonds Limited (LSE: GEMD) (“**Gem Diamonds**” or the “**Company**” or the “**Group**”) provides the following Trading Update detailing the Group’s operational and sales performance for the Period from 1 October 2018 to 31 December 2018 (“**Q4 2018**” or the “**Period**”).

Letšeng:

- Recovered three greater than 100 carat diamonds during the Period, bringing the number of diamonds greater than 100 carats recovered during 2018 to fifteen, a record for the Company.
- Carats recovered during 2018 increased by 13% to 126 875 carats (2017: 111 811 carats).
- Sold 33 140 carats during the Period, up 9% from Q3 2018.
- Sold nine diamonds for more than US\$ 1.0 million each, generating revenue of US\$ 14.6 million during the Period. This resulted in 44 diamonds being sold for more than US\$ 1.0 million each during 2018, generating revenue of US\$ 137.2 million.
- Achieved an average price of US\$ 2 131 per carat for 2018, up 10% from US\$ 1 930 per carat in 2017.
- Subsequent to Period end, strong pricing was achieved at the first tender of 2019, with an average price of US\$2 004 per carat*.
- No Lost Time Injuries (LTI’s) occurred during Q4 2018.

Innovation:

- The manufacturing of the pilot plant has commenced, and the project remains on target to be commissioned at the end of Q2 2019. This project employs innovative technology to identify diamonds within kimberlite, in line with the continuing strategy of early detection of large diamonds and diamond damage reduction.

Business Transformation:

- The Company remains on track to achieve its cumulative target of US\$ 100 million in incremental revenue, productivity improvements and cost savings for the 4-year period to end 2021. Initiatives that have been implemented to date, are expected to deliver US\$ 60 million of the targeted US\$ 100 million. Further details will be released at the Full Year Results, on 13 March 2019.

Financial:

- At the end of the Period, the Group had US\$ 50.8 million of cash on hand of which US\$ 43.3 million is attributable to Gem Diamonds. The Group's net cash position was US\$ 17.5 million (of which US\$ 14.0 million was attributable to Gem Diamonds). At Period end, US\$ 33.3 million of available facilities had been drawn down, with undrawn and available facilities of US\$ 57.8 million.
- During the Period, Letšeng paid dividends of US\$ 17.4 million, resulting in a net cash flow of US\$ 11.0 million to Gem Diamonds and a cash outflow from the Group for withholding taxes of US\$ 1.2 million and payment of the Government of Lesotho's share of dividend of US\$ 5.2 million.

Gem Diamonds' CEO, Clifford Elphick, commented:

"The large diamond recoveries continued during the Period with three diamonds greater than 100 carats being recovered, resulting in the highest number of these recoveries in a single calendar year. Production in 2018 also included a record number of diamonds greater than 20 carats being recovered in a single year.

The revised mine plan results in a significant reduction in Letšeng's overall stripping ratio due to steeper slope angles, which is expected to result in a significantly improved NPV of the mine.

Good progress has been made on the business transformation process which remains on track to achieve its cumulative 4-year target of US\$ 100 million, with already implemented initiatives expected to deliver US\$ 60 million over the 4-year target period."

1. Diamond Market

The demand and prices for Letšeng’s large high-quality white rough diamonds have remained firm.

2. Letšeng

2.1. Production

	Q4 2018	Q3 2018	% Change	FY 2018	FY 2017	% Change
Waste tonnes stripped	5 622 965	6 693 245	-16%	25 809 076	29 718 985	-13%
Ore tonnes treated	1 734 156	1 806 638	-4%	6 532 596	6 439 299	1%
Carats recovered*	29 523	35 755	-17%	126 875	111 811	13%
Grade recovered (cpht)*	1.70	1.98	-14%	1.94	1.74	11%

* Includes carats recovered through the mobile XRT sorting machine.

Waste stripping continued in line with the requirements of the long-term mine plan. Letšeng treated a total of 1.4 million tonnes of ore during the Period, 71% of which was sourced from the Main pipe and 29% from the Satellite pipe. The remaining balance of the ore was treated through the Alluvial Ventures contractor plant. Although tonnes treated for the Period was slightly lower than the previous period due to planned maintenance and repairs undertaken in the Plants, tonnes treated for H2 2018 was 3.5 million tonnes, significantly up from H1 2018 of 3.0 million tonnes.

Grade recovered for the Period decreased to 1.70cpht compared to the previous Period mainly driven by the lower contribution of Satellite pipe tonnes treated. Overall grade for 2018 was 1.94cpht, due in part to the Business Transformation initiative to re-treat tailings material through a mobile XRT sorting machine. This machine recovered 11 905 carats in 2018 of which 6 233 related to historical (pre-2018) tailings material.

The statutory negotiation process relating to the renewal of the Letseng Mining Lease is progressing well and updates will be provided in due course.

Frequency of recovery of large diamonds

The recovery of large diamonds improved markedly during 2018. The table below shows the frequency of large diamonds recovered during 2018 when compared to prior years.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of diamonds											
>100 carats	7	6	7	6	3	6	9	11	5	7	15
60-100 carats	18	11	11	22	17	17	21	15	21	19	22
30-60 carats	96	79	66	66	77	60	74	65	70	74	83
20-30 carats	108	111	101	121	121	82	123	126	83	113	137
Total diamonds > 20 carats	229	207	185	215	218	165	227	217	179	213	257

2.2. Rough diamond sales

	Q4 2018	Q3 2018	% Change	FY 2018	FY 2017	% Change
Carats sold	33 140	30 275	9%	125 111	107 152	17%
Total value (US\$ millions)	41.7	55.7	-25%	266.6	206.8	29%
Achieved US\$/ct	1 259	1 841	-32%	2 131	1 930	10%

During the Period, the highest diamond price achieved was US\$ 64 067 per carat for a 4.06 carat, pink diamond, which is also the highest price per carat achieved during 2018. The reduction in average US\$ per carat compared to Q3 2018 is a result of lower quality recoveries during the Period.

With improved quality in production, strong pricing was achieved at the first tender of 2019, with an average price of US\$2 004 per carat*.

2.3. Costs

Letšeng has managed to maintain its costs within the expected targets, with the approximate figures below:

Costs	Maloti	Guidance
Direct cash costs (before waste) per tonne treated ^{1,3}	169	165 - 170
Operating costs per tonne treated ^{2,3}	282	280 - 290
Mining waste cash costs per tonne of waste mined	36	34 - 36

¹ Direct cash costs represent all operating costs, excluding royalty and selling costs

² Operating costs include waste stripping costs amortised, inventory and ore stockpile adjustments, and excludes depreciation

³ Costs excludes costs associated with the implementation of Business Transformation initiatives, consultancy fees and employee recognition and reward scheme related thereto and approximates LSL14 per tonne treated.

*It should be noted that included in these sales figures are the carry-over diamonds from Export 1 that have been included at valuation and will be sold with the sale to be held in March 2019.

2.4. 2019 Mine Plan and Guidance

2019 Mine Plan

The improvement in drilling and blasting practises resulted in the revised mine plan incorporating various Business Transformation initiatives, most notably the steeper inter-ramp slope angles, resulting in significantly lower stripping ratios while increasing the overall contribution from the higher-grade higher-value Satellite pipe. Mining in line with this plan has commenced and is expected to significantly increase the mine's Life-of-Mine NPV. Further details will be released with the Full Year Results presentation on 13 March 2019.

2019 Guidance

	FY 2019
Waste tonnes mined (Mt)	25 - 27
Ore treated (Mt)	6.5 - 6.7
Satellite pipe ore contribution (Mt)	1.8
Carats recovered (Kct)	114 - 118
Carats sold (Kct)	115 - 119
Direct cash costs (before waste) per tonne treated (Maloti) ²	175 - 185
Operating costs per tonne treated ^{1,2} (Maloti)	250 - 260
Mining waste cash costs per tonne of waste mined (Maloti)	36 - 38
Total capital (US\$ million)	18 - 20

1. Operating costs per tonne excludes royalty, selling costs, depreciation and mine amortisation, but includes inventory, waste and ore stockpile adjustments.
2. Guidance excludes costs associated with the implementation of Business Transformation initiatives, consultancy fees and employee recognition and reward scheme related thereto. These costs are expected to range between LSL7 – LSL8 per tonne treated.

3. Health, Safety, Social and Environment (HSSE)

The Group-wide Lost Time Injury Frequency Rate stands at 0.15 for 2018. The Group-wide All Injury Frequency Rate is 1.45, an improvement over the 2017 rate of 2.02.

No major or significant community or environmental incidents occurred across the Group during the Period.

FOR FURTHER INFORMATION:

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ABOUT GEM DIAMONDS:

Gem Diamonds is a leading global diamond producer of high value diamonds. The Company owns 70% of the Letšeng mine in Lesotho and 100% of the Ghaghoo mine in Botswana. The Letšeng mine is famous for the production of large, top colour, exceptional white diamonds, making it the highest dollar per carat kimberlite diamond mine in the world. www.gemdiamonds.com