

10 November 2016

GEM DIAMONDS LIMITED Q3 2016 Trading Update

Gem Diamonds Limited (LSE: GEMD) ("**Gem Diamonds**" or the "**Company**" or the "**Group**") is pleased to provide the following Trading Update detailing the Group's operational performance for the Period 1 July 2016 to 30 September 2016 ("**Q3 2016**" or the "**Period**") and sales performance to the date of this report (the "**Sales Period**").

Letseng:

Operational performance on track to achieve full year guidance

- Ore treated 1 612 728 tonnes (1 711 336 tonnes in Q2 2016) despite extreme weather disruption as reported on 10 August 2016.
- Recovered 24 388 carats during the Period (28 682 carats in Q2 2016).
- Fleet management system successfully commissioned.
- 12 diamonds achieving greater than US\$ 1.0 million each were sold in the Sales Period for a total of US\$ 24.5 million.
- Average price achieved for year to date of this report is US\$ 1 785 per carat, reflecting fewer than expected +100 carat diamonds recovered.

Ghaghoo:

Steady progress with focus remaining on reducing costs and increasing production

- 54 337 tonnes of ore were treated during the Period (up 21% from Q2 2016).
- Operating costs trending downwards.
- Encouraging recoveries of larger diamonds as mining moves into the undiluted portions of kimberlite ore.
- This demonstrates the fundamental potential of the mine, however given current market conditions for these types of diamonds, the on-going development of the mine in the near term, is under review.

Financial:

- The Group had US\$ 44.1 million cash on hand as at 30 September 2016, of which US\$ 39.6 million is attributable to Gem Diamonds Limited.

- US\$ 28.2 million of available facilities have been drawn down resulting in a net cash position of US\$ 15.9 million. No new draw down of any facilities took place during the Period. At Period end, the Group had US\$ 53.2 million worth of undrawn and available facilities.
- During the Period, Letšeng paid dividends of US\$ 25.7 million, which resulted in a net cash flow of US\$ 16.2 million to Gem Diamonds and a cash outflow from the Group as a result of withholding taxes of US\$ 1.8 million and payment of the Government of Lesotho's dividend portion of US\$ 7.7 million.

Gem Diamonds' CEO, Clifford Elphick commented:

“Letšeng remains on track to achieve all of its guided production targets for 2016. This is despite production interruptions during July and August due to the worst weather conditions experienced since the Letšeng mine opened. Prices achieved for Letšeng's high quality diamonds have remained robust, with twelve diamonds having been sold for more than \$1 million US dollars each during the Sales Period. However, the continued paucity of large high value diamonds during the Period has resulted in an average tender price year to date of US\$ 1 785 per carat. At Ghaghoo ramping up production levels and reducing costs has seen positive progress being made. There have been encouraging signs of larger diamonds being recovered as mining has progressed into the undiluted portions of the kimberlite ore.”

1. Diamond Market

Whilst the overall mood of the market remains cautious, the demand for Letšeng's high quality large white diamonds has continued as prices achieved for Letšeng's high quality goods remained firm during the Sales Period.

2. Letšeng

Gem Diamonds holds a 70% shareholding in Letšeng Diamonds (Pty) Ltd (“**Letšeng**”) in partnership with the Government of the Kingdom of Lesotho which owns the remaining 30%.

2.1. Production

	Q3 2016	Q2 2016	QoQ % Change	Q3 2015	YoY % Change
Waste stripped (tonnes)	6 626 385	8 231 594	-20%	6 244 432	6%
Ore treated (tonnes)	1 612 728	1 711 336	-6 %	1 758 295	-8%
Carats recovered	24 388	28 682	-15%	29 460	-17%
Grade recovered (cpht)	1.51	1.68	-10%	1.68	-10%

During the Period, 6.6 million tonnes of waste were mined. This reduced volume was a result of the extreme weather experienced in July and August. The mining fleet was not able to mine waste for a 10-day period during the poor weather.

Letšeng treated a total of 1.4 million tonnes of ore during the Period, 77% of which was sourced from the Main pipe, and 23% from the Satellite pipe. The balance of the ore was treated through the Alluvial Ventures contractor plant. The impact of the poor weather was partially mitigated by the ore being sourced from strategic stockpiles on surface, as access to the pits were unattainable, which led to a reduction in the grade recovered. These stockpiles are planned to be replenished before next winter.

2.2. Rough Diamond Sales

Three tenders were held during the Sales Period with 37 990 carats sold for a total value of US\$ 61.5 million, achieving an average price of US\$ 1 619 per carat. It should be noted that included in these sales figures are the small diamonds from Export 7 that have been included at valuation and will be sold in the final sale to be held in December 2016. The lower average dollar per carat achieved during the Sales Period is a consequence of a continued deficiency of high quality large diamonds rather than a decrease in demand for these diamonds or a weakening of the market in terms of price. Overall, prices of the production sold during the Sales Period remained firm.

3. Ghaghoo

Gem Diamonds' wholly-owned subsidiary, Gem Diamonds Botswana (Pty) Ltd, is currently developing the Ghaghoo Mine ("Ghaghoo") in Botswana.

	Q3 2016	Q2 2016	QoQ % Change	Q3 2015	YoY % Change
Ore treated (tonnes)	54 337	45 055	21%	109 751	-50%
Carats recovered	7 720	9 847	-22%	31 922	-76%
Grade recovered (cpht)	14.2	21.9	-35%	29.1	-51%

There were no sales of Ghaghoo goods during the Sales Period.

The actions required to reduce tonnage have been completed and at the same time the costs are on a downward trend. Development of Level 2 is continuing. The extension of the water bearing fissure has been encountered on Level 2, as expected. The water has been contained by adopting practices implemented on Level 1 and there has been no impact on production during the Period. Sand ingress into the operational areas is monitored and controlled through strict draw control practices.

Ore treated increased by 21% QoQ to 54 337 tonnes in the Period. Planned changes to the mill configuration have been finalised and will be implemented in late November, during a planned three day shut down. The expected improvements will have a positive impact upon throughput, liberation and mill retention time.

The grade recovered during the Period was 14.2 cpht. The lower than forecast grade was impacted by several issues. Firstly, owing to the lower than expected tonnes treated, the mining mix was not what was planned, therefore, lower grade material was treated. Dilution was also a factor - the main source of the basalt dilution is from internal waste that has previously not been mapped. The amount of diluted material was significantly higher than anticipated but recently has seen a notable reduction in basalt dilution.

4. Health, Safety, Social and Environment (HSSE):

The Group continues to strive toward its goal of zero harm to its people and environment and to operate within the Group's sustainable development framework.

There were no Lost Time Injuries (LTI's) during the Period. One LTI was reported at Ghaghoo during October. This has resulted in a Group Lost Time Injury Frequency Rate (LTIFR) of 0.13 and a Group All Injury Frequency Rate (AIFR) of 2.11.

The Group continues to focus on the proactive prevention of injuries and the implementation of its Behaviour Based Care Campaign.

Gem Diamonds continues to work closely with its project affected communities to ensure that the social projects implemented continue to benefit the communities and are sustainable. This included providing accommodation and food to approximately 250 local residents who were at risk during the severe weather experienced at Letšeng in July and August 2016.

No significant community or environmental incidents have occurred across the Group in 2016.

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This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

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, high quality, exceptional white diamonds, making it the highest dollar per carat kimberlite diamond mine in the world.

Gem Diamonds has a growth strategy based on the expansion of the Letšeng mine and bringing the Ghaghoo mine into production, while maintaining its strong balance sheet. The Company seeks to maximise revenue and margin from its rough diamond production by pursuing cutting, polishing and sales and marketing initiatives further along the diamond value chain. With favourable supply/demand dynamics expected to benefit the industry over the medium to long term, particularly at the high end of the market supplied by Gem Diamonds, this strategy positions the Company well to generate attractive returns for shareholders in the coming years.

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