

HALF-YEAR REPORT 2021

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INTERIM BUSINESS REVIEW

OVERVIEW

Diamond market overview

Overall, the global diamond market¹ has continued to improve significantly since late 2020 – especially for the high-quality white diamonds produced at the Letšeng mine. This is highlighted by the highest dollar per carat achieved by Gem Diamonds for a top-quality white diamond during the Period of US\$40 139.

Increasing diamond prices can be attributed to supply shortages and renewed consumer demand, especially in the US and China. The US market has seen boosted consumer sentiment due to a successful COVID-19 vaccine rollout, US government stimulus checks and the recovery of its stock markets. China is currently the industry's strongest consumer market, led by strong domestic luxury consumption. Diamond sales in China's consumer market are expected to increase significantly in coming years, driven by two government economic policies – its Dual Circulation Strategy and 14th Five-Year Plan – designed to triple per-capita GDP to US\$30 000 by 2035².

COVID-19-related travel restrictions caused by the resurgence of the virus, saw the first Letšeng Diamonds (Letšeng) tender of 2021 postponed to March. Since then the Group has successfully concluded its scheduled H1 2021 tenders in Antwerp. All tenders held in H1 2021 were fully attended and a high number of bids per parcel were observed – reinforcing the fact that Letšeng's high-quality diamonds remain in strong demand. In order to further leverage its strong position in the large diamond market, Gem Diamonds is planning to host its first trial tender viewing for Letšeng's diamonds in Dubai in September 2021.

The Group continues to support the Gemological Institute of America's (GIA) blockchain technology to assure consumers about their diamonds' ethical and socially supportive footprint.

Performance overview

The Group's Letšeng operation has managed to operate in line with its normal operating activities during the Period, despite numerous challenges presented by the continuing impact of COVID-19 on the availability of spares and limited access to certain skills and services due to lockdowns and travel restrictions; as well as a high rainfall season which impacted both mining and treatment activities. Despite these challenges, waste tonnes mined during the Period were 10.2 million tonnes (H1 2020: 5.2 million), ore tonnes treated were 3.1 million tonnes (H1 2020: 2.4 million), 58 831 carats were recovered (H1 2020: 43 275) and the mine's 2021 production metrics remain on track.

The Group increased revenue by 50% to US\$104.5 million, compared to H1 2020, achieving an average of US\$1 886 per carat (H1 2020: US\$1 707 per carat). The underlying EBITDA from continuing operations improved by 207% to US\$34.7 million (H1 2020: US\$11.3 million), with attributable profit of US\$9.3 million (H1 2020: loss of US\$1.7 million) achieved.

The Group ended the Period in a strong cash position with a cash balance of US\$33.9 million (31 December 2020: US\$49.8 million) and drawn down facilities of US\$14.3 million (31 December 2020: US\$15.2 million), resulting in a net cash position of US\$19.6 million (31 December 2020: US\$34.6 million) and unutilised available facilities of US\$61.0 million (31 December 2020: US\$60.8 million).

In line with the Group's commitment to delivering sustainable shareholder returns, the Board proposed a dividend of 2.5 US cents per share (US\$3.5 million) which was approved at the Annual General Meeting on 2 June and paid to shareholders on 15 June.

¹ <https://www.rough-polished.com/en/analytcs/120639.html>.

² Supplied Zimmisky analyst report: July 2021.

INTERIM BUSINESS REVIEW CONTINUED

In a further positive development, and subsequent to the Period end, on 23 August 2021, Gem Diamonds entered into a binding share sale agreement for the sale of 100% of the share capital of Gem Diamonds Botswana Proprietary Limited, the owner of the Ghaghoo diamond mine in Botswana, with Okwa Diamonds. Okwa Diamonds, an SPV company registered in Botswana, is owned by Vast Resources PLC, a mining and resource development company listed on AIM, and by Botswana Diamonds PLC, a diamond exploration and project development company listed on AIM and the Botswana Stock Exchange. Vast Resources PLC and Botswana Diamonds PLC are both parties to the share sale agreement and guarantee the obligations of Okwa Diamonds. The transaction is subject to certain suspensive conditions, including final Government and Competition Commission approvals which are expected to be completed in Q4 2021.

STRATEGIC PROGRESS

Gem Diamonds' strategic priorities include extracting maximum value from its operations, maintaining its social licence to operate and preparing for the future. These priorities have helped Gem Diamonds improve efficiencies, optimise production, and entrench a culture of zero harm and sustainability throughout the Group.

Business Transformation (BT)

The BT programme remains on track to deliver the targeted US\$100 million in revenue, productivity and cost saving, measured against the 2017 base, by the end of 2021. Since its inception, the BT programme has delivered US\$95.4 million, net of fees and costs.

The reduced costs and improved efficiencies realised through the BT initiatives have been critical in maximising operational cash flows over the past three years.

Continuous Improvement (CI)

The transition from BT to CI at Letšeng is progressing well. CI focuses on behavioural strategies and the implementation of meaningful key performance indicators for effective visual management and problem solving at all levels. The CI methodology, supported by software solutions, enables the Group to continuously improve efficiencies by unlocking the inherent capabilities of employees at all levels to implement CI best practices, build effective teams and drive incremental improvements.

INTERIM BUSINESS REVIEW CONTINUED

Sustainability and maintaining a social licence to operate

The safety and welfare of employees, contractors and project-affected communities (PACs) is a priority for Gem Diamonds. The Group takes all necessary precautions to protect its workforce and surrounding communities while continuing to implement its COVID-19 response plan.

Health and safety

COVID-19 Detection and Management Protocol

Gem Diamonds implemented a Group-wide COVID-19 Detection and Management Protocol at the beginning of the global pandemic in H1 2020. This protocol was guided by medical experts, host country regulations and World Health Organization (WHO) recommendations, and remains in place to protect the Group's workforce and PACs.

The protocol includes COVID-19 screening and testing for all employees and contractors, compulsory mask-wearing, hand sanitising and enforced social distancing.

To date, 60 frontline Letšeng medical employees – doctors, nurses and paramedics employed in the Group's medical facility – have received their vaccinations. The workforce at Letšeng is classified as essential and therefore qualifies to receive priority vaccinations. The vaccine rollout at Letšeng started in mid-August with 885 vaccinations administered to date (approximately 62% of the workforce).

Since March 2020, the Group has incurred an estimated LSL15 100 per employee (total spend of LSL22.9 million) at Letšeng on COVID-19 management and prevention. Through Letšeng's advanced screening protocol, 109 COVID-19 cases have been identified and appropriately managed during the Period.

Safety management

The Group remains committed to promoting a culture of zero harm, and in support of this commitment an ISO 45001 accredited occupational safety system has been implemented. Zero work-related fatalities were recorded during the Period; however, the Group unfortunately recorded four lost time injuries (LTIs) at Letšeng. An all injury frequency rate (AIFR) of 1.29 (H1 2020: 0.33) was achieved during the Period.

	2017	2018	2019	2020	H1 2021
LTI frequency					
rate trend	0.04	0.15	0.28	0.04	0.32
AIFR trend	2.02	1.45	0.93	0.76	1.29

In striving to achieve the Group's priority of zero harm and responsible care, a day of safety focus and engagement was held at the Letšeng mine on 8 June 2021 to continue to promote the safety of all on site. The safety campaign focused on engagement with the workforce and reinforcing continuous safety protocols at the operation.

The feedback received from the engagement sessions has been captured and operation specific action plans aimed at addressing the matters raised by the workforce are being implemented, where appropriate. The operation has also established dedicated engagement platforms for management to provide feedback to the workforce on the close-out or advancement of actions.

Safeguarding and supporting communities

Gem Diamonds values the successful relationships it shares with its host countries to achieve shared goals. These relationships are important to ensure operational sustainability and preserve the Group's social licence to operate.

Letšeng partnered with the Government of the Kingdom of Lesotho and the Ministry of Health to increase preparedness for the impact of COVID-19 in PACs. The mine provided COVID-19-related training and support programmes, distributed personal protective equipment (PPE), hand sanitisers, food and subsistence farming parcels, and recently acquired 20 000 doses of the Johnson & Johnson vaccine for use by the Government of the Kingdom of Lesotho in its national vaccine rollout programme. It is pleasing to record that the Honourable Prime Minister of Lesotho addressed a letter to Letseng's management to thank and congratulate the company on this generous and important intervention – emphasising the strong partnership with the Lesotho Government.

In addition to providing these vaccine doses, Gem Diamonds donated 17 oxygen concentrator machines to ten hospitals and clinics throughout Lesotho, addressing a critical need for oxygen in the country.

Tailings and other storage facilities

An Independent Tailings Review Board (ITRB) was established to work with the Group's Tailings Governance Committee to assess the operational conformity to the new Global Industry Standard on Tailings Management (GISTM), released in August 2020, and to review the effectiveness of the tailings management at the Letšeng mine. The ITRB, comprising two independent senior reviewers who are recognised industry leaders in their field, has conducted independent technical reviews of the design, construction, operation, closure and management of Letšeng's tailings storage facilities in June 2021 and reported favourably on their findings.

INTERIM BUSINESS REVIEW CONTINUED

Letšeng's tailings and freshwater storage facilities undergo stringent structural safety inspections and audits at regular intervals throughout the year, which are conducted by competent internal and external experts. The safety and structural integrity of Letšeng's tailings and freshwater storage facilities is an ongoing focus area for the Group.

Inspections are done daily, weekly and monthly, surveying various factors such as water level, beach length, freeboard and overall structural stability. The findings and recommendations stemming from these inspections and additional audits are reported to the Sustainability subcommittee and, in turn, to the Board.

The Group also recognises its responsibility towards its PACs and safeguarding communities from any adverse impact related to the storage facilities. An early-warning system, together with continuous community training and awareness programmes, have been implemented to ensure communities' emergency readiness in the extremely unlikely event of a failure.

Climate change

Gem Diamonds recognises that climate change will significantly impact what responsible mining will look like in the future. The Group is continuously working to identify how climate change impacts its operational resilience in the short, medium and long term; as well as understanding the Group's own carbon footprint, climate impact and associated opportunities. To properly report on the financial and strategic considerations related to climate change, Gem Diamonds is integrating the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) into the Group's governance and risk management structures, strategy and reporting platforms.

The Group has established formal governance structures at management and Board level that deal with climate change matters. To bolster the body of knowledge available to management and the Board when making strategic decisions, Gem Diamonds has commissioned a series of climate change focused studies that will provide operation-specific data regarding mitigation and adaptation strategies.

Gem Diamonds acknowledges that climate change related challenges are a present-day management matter, as illustrated by multiple water management challenges recently faced at Letšeng; these include a three-year drought, followed by regional flash-flooding in February 2021. To mitigate against the impacts these events have had on the Group, an integrated water management plan was implemented in addition to the ISO 14001 accredited environmental management framework.

The Group is awaiting the outcome of its climate change scenario analysis and decarbonisation studies to inform further appropriate steps to improve its resilience to future climate change risks and impacts and minimise its carbon footprint to contribute to global carbon reduction goals.

Preparing for the future

The Group continues to advance two key technologies to identify locked diamonds within kimberlite and to liberate diamonds using a non-mechanical process. While the enhancements and troubleshooting of the pilot plant operation were hindered by COVID-19-related travel restrictions, the Group has made steady progress through collaboration with its technical partners to advance the detection technology. The Group remains steadfast in its view that detection of diamonds within kimberlite will greatly reduce diamond damage and reduce operating costs whilst adding significant value for its shareholders.

Good corporate governance

Gem Diamonds embraces governance excellence at every level. The Board leads by example and has oversight of Group performance and activities.

The Group welcomed Rosalind Kainyah to the Board during the Period. Rosalind has 30 years of combined international, senior management, executive and board-level experience. The Group believes her experience across a range of stakeholders from government, corporate, civil society organisations and media will contribute meaningfully to Board debates and add fresh insight. Following her appointment, the gender and ethnic minority diversity of the Board has increased to 29%.

INTERIM BUSINESS REVIEW CONTINUED

LOOKING AHEAD

The Group will continue to focus on the health and safety of its workforce. It will also continue to support surrounding communities and assist the Government of the Kingdom of Lesotho to manage the impact of the pandemic.

Supporting the UN SDG's remains a priority for the Group and the Group is working to integrate the recommendations of the TCFD into its existing UN SDG framework. The Group has also appointed independent external subject matter experts to provide input into the climate change considerations that will inform governance, risk management and strategy decisions as well as climate related targets for the Group.

At an operational level, the Group will continue to realise the benefits from the BT programme to drive efficiencies and cost-reduction initiatives to maximise cash flows and maintain its status as a responsible, safe and low-cost operation. The Group believes this focus helps it achieve its strategic objectives and will continue to unlock value for its shareholders.



OPERATING REVIEW: LETŠENG

H1 2021 IN REVIEW

- Zero fatalities and four LTIs
- Zero significant environmental or social incidents
- Recovered three diamonds greater than 100 carats (H1 2020: Seven)
- Achieved an average price of US\$1 886 per carat (H1 2020: US\$1 707 per carat)
- The highest price achieved was US\$119 886 per carat for a 3.35 carat pink diamond
- The highest price achieved for a Type IIa white diamond was for a 254 carat diamond that sold for US\$40 139 per carat

PRODUCTION OVERVIEW

Gem Diamonds owns 70% of Letšeng in partnership with the Government of the Kingdom of Lesotho, which owns the remaining 30%.

	Unit	H1 2021	H1 2020	H1 2019	% variance to H1 2020
Waste mined	tonnes	10 167 526	5 167 305	13 150 417	97%
Ore mined	tonnes	3 175 880	2 489 655	3 181 762	28%
Ore treated	tonnes	3 139 719	2 353 991	3 339 620	33%
Carats recovered	carats	58 831	43 275	56 668	36%
Recovered grade	cpht ¹	1.87	1.84	1.70	2%

¹ Carats per hundred tonnes.

Waste mining increased to 10.2 million tonnes (H1 2020: 5.2 million), following the normalisation of operations post the imposed lockdown order in H1 2020. 3.1 million ore tonnes were treated, of which the two Letšeng plants treated 2.6 million tonnes (H1 2020: 2.0 million tonnes), with the remaining 0.5 million tonnes (H1 2020: 0.4 million tonnes) treated by Alluvial Ventures, the third-party processing contractor.

The Group recovered 58 831 carats (H1 2020: 43 275 carats), an increase of 36% from H1 2020. H1 2020 was significantly impacted by the operational 30-day shutdown and further ramp-up period to bring the operation to full capacity due to COVID-19. Carats recovered increased by 4% when compared to H1 2019, which was a more comparable period, mainly due to the higher contribution from Satellite pipe material.

The BT initiative to re-treat historic and current recovery tailings through the mobile X-ray sorting machine recovered 592 carats (H1 2020: 456). An additional 43 carats were recovered by the new mobile fines X-ray sorting machine that was commissioned at the end of May.

The overall grade for H1 2021 was 1.87 cpht (H1 2020: 1.84 cpht), representing an increase of 2% from H1 2020, mainly driven by a slightly higher contribution from Satellite pipe material which accounted for 53% of all material treated during the Period (H1 2020: 50%). The grade recovered is in line with the expected reserve grade.

OPERATING REVIEW: LETŠENG CONTINUED

Plant stabilisation

Creating and sustaining process stability is the cornerstone of good operational management. A multi-disciplinary technical team embarked on a process to develop a dynamic simulation model of the processing plants to gain greater insight on the impact of internal and external variables on the performance of the processing plants. The model used empirical data as input to ensure an accurate replication of the plants. A baseline was established to ensure the model logic mimicked the current plant performance. This simulation verified pre-defined hypotheses, with the outcomes being analysed and used to drive positive adjustments.

A simulated environment helped the team to ascertain how to stabilise, improve and optimise plant performance. The model assisted the team to identify bottlenecks and test associated improvement initiatives such as:

- Blasting and fragmentation impact on performance;
- The potential value-add of Advance Process Control;
- Equipment upgrade and debottlenecking options;
- Improved overall time utilisation; and
- Flowsheet changes or reconfiguration of splits and mass balance to debottleneck the process.

The evaluated scenarios allowed for decisions and actions based on factual information rather than assumptions. This enables improved plant stabilisation and debottlenecking, with focused and appropriate capital expenditure and insightful decision-making to drive continuous improvement. This model is currently being expanded to include the mining operations to offer a complete value chain solution. In time, the model will form part of the planning process, actively testing initiatives before they are implemented to predict future performance.

Frequency of large diamond recoveries

Number of diamonds	H1 2021	H1 2020	H1 2019	FY average 2008 – 2020
>100 carats	3	7	3	8
60 – 100 carats	9	21	9	19
30 – 60 carats	43	47	36	76
20 – 30 carats	59	57	72	114
10 – 20 carats	317	180	155	433
Total diamonds >10 carats	431	312	275	650

The noticeable increase in the number of diamonds recovered in the 10 to 20 carat size category, as shown in the table above, is mainly a result of the material treated during the Period, a part of which had an expected smaller diamond size.

DIAMOND SALES

The average price achieved during the Period was US\$1 886 per carat (H1 2020: US\$1 707 per carat) for 55 123 carats generating revenue of US\$104.0 million (H1 2020: 43 384 carats at a value of US\$74.1 million).

The highest price achieved was for a 3.35 carat pink diamond that sold for US\$119 886 per carat. The highest price achieved for a white diamond was for a 254 carat diamond that sold for US\$40 139 per carat.

10 diamonds sold for more than US\$1.0 million each, generating revenue of US\$36.1 million (H1 2020: 16 diamonds sold for more than US\$1.0 million each, generating revenue of US\$29.4 million).

GROUP FINANCIAL PERFORMANCE

H1 2021 IN REVIEW

- Revenue generation increased to US\$104.5 million (H1 2020: US\$69.5 million)
- Underlying EBITDA¹ increased to US\$34.7 million (H1 2020: US\$11.3 million)
- Attributable profit from continuing operations increased to US\$10.6 million (H1 2020: US\$0.2 million)
- Basic earnings per share from continuing operations increased to 7.6 US cents (H1 2020: 0.1 US cents)
- Loss from discontinued operations reduced to US\$1.3 million relating to Ghaghoo (H1 2020: US\$1.9 million)

PROFITABILITY AND LIQUIDITY

US\$ million	H1 2021	H1 2020	H1 2019
Revenue	104.5	69.5	91.3
Royalty and selling costs	(11.0)	(7.6)	(8.4)
Cost of sales ²	(53.6)	(43.7)	(52.5)
COVID-19 costs/standing costs	(0.4)	(3.3)	–
Corporate expenses	(4.8)	(3.6)	(5.1)
Underlying EBITDA¹ from continuing operations	34.7	11.3	25.3
Depreciation and mining asset amortisation	(4.2)	(6.2)	(7.1)
Share-based payments	(0.3)	(0.3)	(0.6)
Other income	–	–	1.4
Foreign exchange (loss)/gain	(0.1)	0.3	2.4
Net finance costs	(1.8)	(2.6)	(2.7)
Profit before tax from continuing operations	28.3	2.5	18.7
Income tax expense	(10.0)	(0.7)	(6.6)
Profit for the Period from continuing operations	18.3	1.8	12.1
Non-controlling interests	(7.7)	(1.6)	(5.5)
Attributable profit from continuing operations	10.6	0.2	6.6
Loss from discontinued operations	(1.3)	(1.9)	(2.4)
Attributable net profit/(loss)	9.3	(1.7)	4.2
Earnings per share from continuing operations (US cents)	7.6	0.1	4.8
Loss per share from discontinued operations (US cents)	(1.0)	(1.4)	(1.8)

The Group generated an underlying EBITDA¹ of US\$34.7 million (H1 2020: US\$11.3 million). The profit attributable to shareholders from continuing operations was US\$10.6 million (H1 2020: US\$0.2 million), equating to earnings per share from continuing operations of 7.6 US cents (H1 2020: 0.1 US cents) on a weighted average number of shares in issue of 139.8 million (H1 2020: 139.0 million shares). After including the loss of US\$1.3 million from Ghaghoo, which remains classified as a discontinued operation, the Group's attributable profit was US\$9.3 million, resulting in earnings per share after discontinued operations of 6.6 US cents (H1 2020: loss of 1.3 US cents per share).

¹ Underlying earnings before interest, tax, depreciation and mining asset amortisation (EBITDA) as defined in Note 6 of the condensed notes to the consolidated interim financial statements.

² Including waste stripping costs amortisation but excluding depreciation and mining asset amortisation.

GROUP FINANCIAL PERFORMANCE CONTINUED

Revenue

US\$ million	H1 2021	H1 2020	H1 2019
Sales – rough	104.0	74.0	94.5
Sales – polished margin	0.2	–	–
Impact of carry over rough diamonds	0.3	(4.5)	(3.2)
Group revenue	104.5	69.5	91.3

The Group's increased revenue of US\$104.5 million was mainly driven by increased sales volumes and higher prices per carat achieved compared to H1 2020, which was impacted by COVID-19. The higher sales volumes were a direct result of the increased production since being able to operate at normal capacity during the Period. The recovery of the diamond market also had a positive impact on the prices achieved for Letšeng's rough diamonds.

Exchange rates	H1 2021	H1 2020	% change
LSL per US\$1.00			
Average exchange rate for the Period	14.54	16.66	(13%)
Period end exchange rate	14.28	17.38	(18%)
BWP per US\$1.00			
Average exchange rate for the Period	10.87	11.53	(6%)
Period end exchange rate	10.92	11.81	(8%)
US\$ per GBP1.00			
Average exchange rate for the Period	1.39	1.26	10%
Period end exchange rate	1.38	1.24	11%

Costs

The Group continues to closely manage its costs and preserve cash resources to maintain strong margins and appropriate liquidity.

Exchange rate impacts

While revenue is generated in US dollars, the majority of operational expenses are incurred in the relevant local currency in the operational jurisdictions. Local currency rates for the Lesotho loti (LSL) (pegged to the South African rand) and Botswana pula (BWP) were stronger against the US dollar (compared to H1 2020) which increased the Group's US dollar reported costs and decreased local currency cash flow generation.

COVID-19 impact on operational costs

The Group continued its effective management of COVID-19 protocols with US\$0.4 million spent during the Period (H1 2020: US\$0.3 million) to help prevent the spread of COVID-19 on site. The previously reported COVID-19 standing costs in H1 2020 included US\$3.0 million of fixed mining costs which were incurred for the 30-day operational shutdown. An estimated LSL15 100 per employee has been spent at Letšeng on PPE and testing to date.

Letšeng's total direct cash costs¹ increased by 24% to LSL580.7 million (H1 2020: LSL468.4 million). The increase is mainly due to the reduced costs in H1 2020 due to the 30-day operational shutdown and subsequent ramp-up period.

Notwithstanding the increase in total costs, the unit cost per tonne decreased due to Letšeng operating at normal capacity during the Period. Tonnes treated were 33% higher and waste tonnes mined were 97% higher compared to H1 2020 due to the impact of COVID-19 on production volumes in H1 2020. In local currency, total operating costs² increased by 7% to LSL782.7 million in H1 2021 (H1 2020: LSL734.0 million), resulting in total operating costs per tonne treated of LSL249.29, a decrease of 20% from LSL311.81 per tonne treated in H1 2020.

This reduced unit cost was driven by the increased tonnes treated and the lower non-cash accounting charges during the Period, which was mainly due to the impact of inventory movement during the Period compared to the movement in H1 2020.

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

² Operating costs before waste costs and after adding non-cash accounting charges.

GROUP FINANCIAL PERFORMANCE CONTINUED

Letšeng Unit Cost Analysis

Unit cost per tonne treated	Direct cash costs ¹	Third plant operator costs	Total direct cash operating costs ¹	Non-cash accounting charges ²	Total operating cost	Waste cash costs per waste tonne mined
H1 2021 (LSL)	172.43	12.52	184.95	64.34	249.29	44.52
H1 2020 (LSL)	186.49	12.51	199.00	112.81	311.81	43.31
% change			(7)		(20)	3
H1 2021 (US\$)	11.86	0.86	12.72	4.43	17.15	3.06
H1 2020 (US\$)	11.2	0.75	11.95	6.77	18.72	2.60
% change			6		(8)	18

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

² Non-cash accounting charges include waste stripping cost amortised, inventory and ore stockpile adjustments, and the impact of adopting IFRS 16 Leases, and exclude depreciation and mining asset amortisation.

- **Direct cash costs** are LSL172.43 per tonne treated, representing an 8% decrease from H1 2020. Waste cost per waste tonne mined increased by 3% to LSL44.52 (H1 2020: LSL43.31). The decrease in the direct cash unit cost per tonne treated is a direct result of the higher volumes treated and mined during the Period.
- **Third plant operator costs** per tonne treated in local currency remained consistent with H1 2020. This cost is a function of the revenue generated by the sales from diamonds recovered through the contractor plant during the Period.
- **Non-cash accounting changes:** The contribution of the Satellite pipe to the mining mix was 53% of all material treated during the Period (H1 2020: 50%). Total waste amortisation costs increased to LSL322.9 million (H1 2020: LSL288.4 million), impacting the cost by LSL102.8 per tonne. This increase was offset by the timing differences of the inventory movements during the Period.

Corporate expenses

Corporate office costs are incurred to provide expertise in all areas of the business to realise maximum value from the Group's assets. These costs are incurred by the Group through its technical and administrative offices in South Africa (in South African rand) and head office in the UK (in British pounds).

General corporate costs were US\$4.8 million (H1 2020: US\$3.6 million), impacted significantly by the stronger South African Rand and British Pound, against the US Dollar.

The share-based payment charge for the Period was US\$0.3 million (H1 2020: US\$0.3 million). On 2 June, shareholders approved the 2021 Remuneration Policy which included the introduction of a post-termination shareholding, a workforce pension alignment plan as well as the new Gem Diamonds Incentive Plan (GDIP) for Executive Directors. No awards in line with the new GDIP or the existing Long Term Incentive Plan (LTIP) were made during the Period.

Cost reductions to preserve cash – Ghaghoo (discontinued operation)

The operation, currently on care and maintenance, continues to be classified as a discontinued operation per IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Care and maintenance costs reduced to US\$1.3 million (H1 2020: US\$1.9 million) and have been recognised and disclosed separately in the Interim Consolidated Statement of Profit or Loss.

Subsequent to Period end, on 23 August 2021, Gem Diamonds entered into a binding share sale agreement for the sale of 100% of the share capital of Gem Diamonds Botswana Proprietary Limited, the owner of the Ghaghoo diamond mine in Botswana. The completion of the transaction is subject to certain suspensive conditions, including the relevant regulatory and competition authority approvals within Botswana. It is expected that these will be fulfilled, and the transaction completed in Q4 2021.

Under the share sale agreement, the purchaser will pay a total consideration of US\$4.0 million, payable in two instalments of US\$2.0 million each, the first of which is payable five days after the date on which the last suspensive condition has been fulfilled or waived. The second payment is payable on or before 23 December 2021, provided the first payment has been made prior thereto. In the event the last suspensive condition is fulfilled or waived after 23 December 2021, the full amount of US\$4.0 million will be payable five days after such fulfilment or waiver. The Group will use the sale proceeds for general corporate purposes.

GROUP FINANCIAL PERFORMANCE CONTINUED

FINANCIAL POSITION

The LSL closed 3% stronger against the US dollar at the end of the Period compared to 31 December 2020. This resulted in an increase in the US dollar reported values in the Interim Consolidated Statement of Financial Position. The changes to and key drivers of selected totals of the Interim Consolidated Statement of Financial Position are detailed below.

US\$ million	H1 2021	FY 2020	% variance
Non-current assets	347.5	304.0	
Current assets	71.5	26.7	
Assets associated with discontinued operation	3.5	3.5	
Total assets	422.5	414.2	2%
Equity attributable to parent company	173.5	163.1	
Non-controlling interest	93.9	84.4	
Total equity	267.4	247.5	8%
Non-current liabilities	112.0	105.5	
Current liabilities	38.8	57.0	
Liabilities associated with discontinued operation	4.3	4.2	
Total liabilities	155.1	166.7	(7%)

Key asset drivers

US\$ million	H1 2021	H1 2020	% variance
Waste cost capitalised	35.7	15.5	130%
Waste stripping cost amortised	23.0	18.0	28%
Depreciation and mining asset amortisation	4.2	6.2	(32%)
Capital expenditure	1.9	0.9	111%

Waste cost capitalised and amortised increased in line with the higher volumes of waste mined and ore treated respectively. Depreciation and mining asset amortisation decreased to US\$4.2 million (H1 2020: US\$6.2 million).

During the Period, the majority of capital spent related to three capital projects:

- The completion of an additional, single-occupancy employee housing block at Letšeng for US\$0.4 million. The additional accommodation will help ease congestion and aid social distancing.
- An X-ray sorting machine was purchased and commissioned to aid the recovery of finer diamonds for a total project cost of US\$0.7 million.
- An amount of US\$0.2 million was spent on reviewing the replacement of Letšeng's primary crushing area (PCA). The commencement of the PCA capital project has been delayed following the completion of remedial work and several options are currently being considered to ultimately replace the PCA in a phased approach.

GROUP FINANCIAL PERFORMANCE CONTINUED

Liquidity and solvency

The Group ended the Period with cash on hand of US\$33.9 million (31 December 2020: US\$49.8 million) of which US\$24.9 million is attributable to Gem Diamonds. The Group generated cash from operating activities of US\$29.9 million (30 June 2020: US\$21.8 million).

At Period end, the Group had utilised facilities of US\$14.3 million, resulting in a net cash position of US\$19.6 million and available facilities of US\$61.0 million, comprising US\$19.0 million at Gem Diamonds and US\$42.0 million at Letšeng.

The decrease of the Group's cash balances was mainly due to corporate income tax paid in Lesotho for the 2020 year of assessment and first provisional payment for the 2021 tax year of US\$15.9 million and dividends to Gem Diamonds' shareholders and the Government of Lesotho's dividend portion from Letšeng of US\$6.3 million.

The Group has an LSL500.0 million and a US\$30.0 million credit facility expiring in December 2021. The Group's debt refinancing of these existing facilities with Nedbank Corporate and Investment Banking as the lead arranger has commenced and is expected to be concluded before the end of 2021. The Group engages regularly with lenders and credit providers to ensure continued access to funding and to manage the Group's cash flow requirements.

Summary of loan facilities as at 30 June 2021:

Group	Term/ description	Lender	Expiry	Interest rate	Amount US\$ million	Drawn down US\$ million	Available US\$ million
Gem Diamonds Limited	Three-year rolling credit facility (RCF)	Nedbank	December 2021	London US\$ three-month Interbank Offered Rate (LIBOR) plus 5.0%	30.0	11.0	19.0
Letšeng Diamonds	Three-year RCF	Standard Lesotho Bank and Nedbank Lesotho	December 2021	Lesotho prime rate minus 1.5%	35.0	–	35.0
Letšeng Diamonds	5.5-year project facility	Nedbank/Export Credit Insurance Corporation	September 2022	Tranche A (LSL35 million) South African JIBAR + 6.75%	2.5	0.8	–
			March 2022	Tranche B (R180 million) South African Johannesburg Interbank Average Rate (JIBAR) + 3.15%	12.6	2.5	–
Letšeng Diamonds	Overdraft facility	Nedbank	Annual review in March	South African prime rate minus 0.7%	7.0	–	7.0
Total					87.1	14.3	61.0

GROUP FINANCIAL PERFORMANCE CONTINUED

Tax matters

The forecast effective tax rate for the full year is 35.2% and has been applied to the actual results for the Period. This rate is the result of profits generated by Letšeng being taxed at 25.0% and deferred tax assets not recognised on losses incurred in non-trading operations.

As disclosed in the 2019 and 2020 Annual Report and Accounts, an amended tax assessment was issued to Letšeng by the Lesotho Revenue Authority (LRA), contradicting the application of certain tax treatments in the current Lesotho Income Tax Act, 1993. An objection to the amended tax assessment was lodged with the LRA in March 2020, which was supported by the opinion of senior counsel, together with an application for the suspension of any payment deemed due. The application for suspension of payment was accepted. The LRA has subsequently lodged an application for the review and setting aside of the applicable regulations to the Lesotho High Court pertaining to this matter, which Letšeng is opposing, and a court date will be determined in February 2022. The previous court date of 3 August 2021 was postponed due to COVID-19.

Going concern

The projections of the Group's current and expected profitability, considering reasonable possible changes in operations, key assumptions and inputs, such as the renewal of the facilities, indicate that the Group will be able to operate as a going concern for the foreseeable future. See the financial statements on page 18.



PRINCIPAL RISKS AND UNCERTAINTIES

The Group's principal risks and uncertainties, both current and emerging, that could have a material financial, operational and compliance impact on its performance and long-term growth are presented in the Business Overview of the Annual Report and Accounts for 2020 (pages 25 to 30). The Group's principal risks as presented in the Annual Report and Accounts for 2020 remain unchanged in the medium to long term and takes into consideration current market and operational conditions of the Group's operations and world markets. The Group's risk management strategy aims to manage Group risk in such a way to minimise threats and maximise opportunities.

The Group continues to monitor areas of unpredictability, in particular the evolving impact of the COVID-19 pandemic on all Group risks. All requisite staffing, facilities and equipment, as well as communication and education mechanisms, as developed and implemented in response to the COVID-19 risk, remain in place to ensure the safety of all our people and the achievement of the Group's objectives. The controls implemented was effective in mitigating the risk associated with COVID-19 during the third wave of infections experienced during July and August 2021.

The assessment of emerging risks is embedded within the risk Framework of the Group. Any emerging risks identified are reported to and considered by the Board.

Insurers have continued to decrease their exposure to the mining industry due to the risk perception created by the COVID-19 pandemic, as well as recent claims within the industry due to the looting experienced in South Africa. As a result, the renewal of appropriate insurance has become challenging, leading to additional exclusions, reduced cover, increasing deductibles or excesses payable and increasing premiums. In response to the current insurance market challenges, the Group has decided to adopt a new risk transfer strategy to address the substantial changes in the insurance market by developing a sustainable insurance solution for the Group in the medium to long term.

Climate change is one of the most significant risks facing organisations. The Financial Conduct Authority (FCA) has published new proposals on climate-related disclosure rules for premium listed companies to promote climate and wider sustainability-related financial disclosures. The aim of these is for investors and consumers to better understand the impact of climate change and make more informed decisions. The Group has commenced integrating the recommendations of the TCFD into its governance and risk management structures, strategy and reporting platforms to adequately report on the financial and strategic considerations related to climate change as required by the FCA proposals.

Current health and safety statistics, production trends and sales results demonstrate the Group's resilience and the maturity of the risk management process to enable quick response and adaptability in difficult conditions.

Clifford Elphick

Chief Executive Officer

1 September 2021

HALF YEAR FINANCIAL STATEMENTS

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RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE HALF YEAR REPORT AND FINANCIAL STATEMENTS

PURSUANT TO DISCLOSURE AND TRANSPARENCY RULES (DTR) 4.2.10

The Directors confirm that, to the best of their knowledge, this condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting and that the Half year Report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- (a) an indication of important events that have occurred during the first six months of the financial year and their impact on this condensed set of financial statements
- (b) material related-party transactions in the first six months of the year and any material changes in the related-party transactions described in the Gem Diamonds Limited Annual Report 2020.

The names and functions of the Directors of Gem Diamonds Limited are listed in the Annual Report for the year ended 31 December 2020.

On 1 May, Johnny Velloza, a Non-Executive Director stepped down from the Board and was replaced by Rosalind Kainyah, who joined the Board as an Independent non-Executive Director.

For and on behalf of the Board

Michael Michael
Chief Financial Officer

1 September 2021

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2021

Notes	30 June 2021¹ US\$'000	30 June 2020 ¹ US\$'000	
CONTINUING OPERATIONS			
Revenue from contracts with customers	4	104 525	69 543
Cost of sales		(57 757)	(49 931)
<hr/>			
Gross profit		46 768	19 612
Other operating expense	5	(340)	(3 301) ²
Royalties and selling costs		(11 038)	(7 640)
Corporate expenses		(4 813)	(3 566)
Share-based payments	17	(295)	(301)
Foreign exchange (loss)/gain		(122)	312
<hr/>			
Operating profit		30 160	5 116
Net finance costs		(1 848)	(2 565)
– Finance income		88	240
– Finance costs		(1 936)	(2 805)
<hr/>			
Profit before tax for the Period from continuing operations		28 312	2 551
Income tax expense	8	(9 953)	(739)
<hr/>			
Profit after tax for the Period from continuing operations		18 359	1 812
<hr/>			
DISCONTINUED OPERATION			
Loss after tax for the Period from discontinued operation	15	(1 329)	(1 925)
<hr/>			
Profit/(loss) for the Period		17 030	(113)
<hr/>			
Attributable to:			
Equity holders of parent		9 288	(1 736)
Non-controlling interests		7 742	1 623
<hr/>			
Earnings/(loss) per share (cents)			
– Basic earnings/(loss) for the Period attributable to ordinary equity holders of the parent		6.64	(1.25)
– Diluted earnings/(loss) for the Period attributable to ordinary equity holders of the parent		6.53	(1.23)
<hr/>			
Earnings per share (cents) for continuing operations			
– Basic earnings for the Period attributable to ordinary equity holders of the parent		7.59	0.13
– Diluted earnings for the Period attributable to ordinary equity holders of the parent		7.47	0.13

¹ Unaudited

² During the current Period, the Company reclassified COVID-19 standing costs of US\$3.3 million which were presented separately in the prior period, to Other operating expenses. The reclassification had no impact on the totals in the Interim Consolidated Statement of Profit or Loss.

INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE
INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2021

	30 June 2021¹ US\$'000	30 June 2020 ¹ US\$'000
Profit/(loss) for the Period	17 030	(113)
<i>Other comprehensive income that will be reclassified to the Interim Consolidated Statement of Profit or Loss in subsequent periods</i>		
Exchange differences on translation of foreign operations, net of tax	6 142	(48 833)
Other comprehensive income/(loss) for the Period, net of tax	6 142	(48 833)
Total comprehensive income/(loss) for the Period, net of tax	23 172	(48 946)
<i>Attributable to:</i>		
Equity holders of parent	13 686	(65 232)
Non-controlling interests	9 486	16 286

¹ Unaudited

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Notes	30 June 2021¹ US\$'000	31 December 2020 ² US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	323 896	304 005
Right-of-use assets	11	3 877	4 823
Intangible assets	12	13 370	12 997
Receivables and other assets	13	141	153
Deferred tax assets		6 201	6 346
		347 485	328 324
Current assets			
Inventories		30 744	26 741
Receivables and other assets	13	6 726	5 686
Income tax receivable		106	106
Cash and short-term deposits	14	33 929	49 820
		71 505	82 353
Asset held for sale	15	3 534	3 528
Total assets		422 524	414 205
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	16	1 405	1 397
Share premium		885 648	885 648
Other reserves		(207 478)	(212 164)
Accumulated losses		(506 029)	(511 808)
		173 546	163 073
Non-controlling interests		93 908	84 422
Total equity		267 454	247 495
Non-current liabilities			
Interest-bearing loans and borrowings	18	487	1 702
Lease liabilities	19	4 682	4 902
Trade and other payables		2 237	2 029
Provisions		13 299	12 331
Deferred tax liabilities		91 275	84 538
		111 980	105 502
Current liabilities			
Interest-bearing loans and borrowings	18	14 217	14 385
Lease liabilities	19	1 116	1 836
Trade and other payables		22 277	28 823
Income tax payable		1 182	11 940
		38 792	56 984
Liabilities directly associated with the asset held for sale	15	4 298	4 224
Total liabilities		155 070	166 710
Total equity and liabilities		422 524	414 205

¹ Unaudited² Audited

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Attributable to the equity holders of the parent						
	Issued capital US\$'000	Share premium US\$'000	Other reserves ¹ US\$'000	Accumu- lated (losses)/ retained earnings US\$'000	Total US\$'000	Non- controlling interests US\$'000	Total equity US\$'000
Balance at 1 January 2021	1 397	885 648	(212 164)	(511 808)	163 073	84 422	247 495
Profit for the Period	–	–	–	9 288	9 288	7 742	17 030
Other comprehensive income	–	–	4 398	–	4 398	1 744	6 142
Total comprehensive income	–	–	4 398	9 288	13 686	9 486	23 172
Share capital issued (Note 16)	8	–	(8)	–	–	–	–
Share-based payments (Note 17)	–	–	296	–	296	–	296
Dividends paid (Note 9)	–	–	–	(3 509)	(3 509)	–	(3 509)
Balance at 30 June 2021²	1 405	885 648	(207 478)	(506 029)	173 546	93 908	267 454
Attributable to discontinued operation (Note 15)	–	–	(53 027)	(193 581)	(246 608)	–	(246 608)
Balance at 1 January 2020	1 391	885 648	(202 857)	(525 449)	158 733	85 424	244 157
(Loss)/profit for the Period	–	–	–	(1 736)	(1 736)	1 623	(113)
Other comprehensive (loss)/income	–	–	(63 496)	–	(63 496)	14 663	(48 833)
Total comprehensive (loss)/income	–	–	(63 496)	(1 736)	(65 232)	16 286	(48 946)
Share capital issued (Note 16)	3	–	(3)	–	–	–	–
Share-based payments (Note 17)	–	–	307	–	307	–	307
Balance at 30 June 2020²	1 394	885 648	(266 049)	(527 185)	93 808	101 710	195 518
Attributable to discontinued operation (Note 15)	–	–	(51 868)	(192 029)	(243 897)	–	(243 897)

¹ Other reserves relate to Foreign currency translation reserves and Share based equity reserves

² Unaudited

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Notes	30 June 2021¹ US\$'000	30 June 2020 ¹ US\$'000
Cash flows from operating activities		29 905	21 814
Cash generated by operations	20.1	57 438	32 028
Working capital adjustments	20.2	(10 501)	(7 955)
Interest received		88	240
Interest paid		(1 182)	(2 193)
Income tax paid		(15 937)	(306)
Cash flows used in investing activities		(37 576)	(16 317)
Purchase of property, plant and equipment	10	(1 898)	(864)
Waste stripping costs capitalised	10	(35 683)	(15 453)
Proceeds from sale of property, plant and equipment		5	–
Cash flows from financing activities		(9 038)	2 310
Lease liabilities repaid		(1 067)	(900)
Net financial liabilities (repaid)/raised	20.3	(1 667)	3 210
– Financial liabilities raised		1 000	32 513
– Financial liabilities repaid		(2 667)	(29 303)
Dividends paid to holders of the parent		(3 509)	–
Dividends paid to non-controlling interests		(2 795)	–
Net (decrease)/increase in cash and cash equivalents		(16 709)	7 807
Cash and cash equivalents at beginning of Period		49 827	11 443
Foreign exchange differences		868	(1 733)
Cash and cash equivalents		33 987	17 517
Cash and cash equivalents at end of Period – continuing operations	14	33 929	17 285
Cash and cash equivalents held at banks		33 929	17 239
Restricted cash		–	46
Cash and cash equivalents at end of Period – discontinued operation	15	58	232
Cash and cash equivalents held at banks		58	181
Restricted cash		–	51

¹ Unaudited

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

1. CORPORATE INFORMATION

1.1 Incorporation and authorisation

The holding company, Gem Diamonds Limited (the Company), was incorporated on 29 July 2005 in the British Virgin Islands (BVI). The Company's registration number is 669758.

The financial information shown in this report relating to Gem Diamonds Limited and its subsidiaries (the Group) was approved by the Board of Directors on 1 September 2021, is unaudited and does not constitute statutory financial statements. The report of the auditor on the Group's 2020 Annual Report and Accounts was unqualified.

The Group is principally engaged in operating diamond mines.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of presentation

The condensed consolidated interim financial statements for the six months ended 30 June 2021 (the Period) have been prepared in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's Annual Financial Statements for the year ended 31 December 2020. The Condensed financial statements are unaudited and do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The financial information for the year to 31 December 2020 included in this report was derived from the statutory accounts for the year ended 31 December 2020, a copy of which has been delivered to the Registrar of Companies. The auditor's report on these accounts was unqualified, did not include a reference to any matters to which the auditor drew attention by way of an emphasis of matter and did not contain a statement under sections 498 (2) or (3) of the Companies Act 2006.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 2 to 17. The financial position of the Group, its cash flows and liquidity position are described in the Group Financial Performance on pages 10 to 15. The Group's net cash at 30 June 2021 was US\$19.6 million (31 December 2020: net cash of US\$34.6 million) and with its undrawn facilities of US\$61.0 million (31 December 2020: US\$60.8 million), its liquidity (defined as net cash and undrawn facilities) of US\$80.6 million (31 December 2020: US\$95.4 million) remains strong. The Group's Revolving Credit facilities, which total US\$65.0 million when fully unutilised, mature on 31 December 2021. The Letšeng Diamonds LSL500.0 million (US\$35.0 million) debt facility, which remained unutilised at Period end, held jointly with Standard Lesotho Bank and Nedbank Capital, which expired in July, was extended to 31 December 2021 while the Group's wider debt refinancing with Nedbank Corporate and Investment Banking ("Nedbank"), as the lead arranger, progresses. This debt refinancing will involve the refinancing of the Group's current key credit facilities for an initial 3-year period, by securing additional funder(s) who are able to share the exposure equally with Nedbank. Management is confident that the refinancing will be completed before 31 December 2021 to the value of the current Revolving Credit facility values and has applied this judgement in assessing the going concern. Letšeng Diamonds' ZAR100.0 million (US\$7.0 million) overdraft facility will not form part of the refinancing and will be reviewed, in line with its annual review, for renewal by the funders in March 2022. It is anticipated this facility will be renewed successfully in line with previous renewals. (Refer Note 18, Interest-bearing loans and borrowings).

Nedbank has undertaken that, should an additional funder not be secured, and subject to all standard necessary internal approvals, they will extend a 3-year revolving credit facility to Letšeng of c. LSL350.0 million (US\$25.0 million) in addition to the existing ZAR100.0 million overdraft facility and a 3-year revolving credit facility to Gem Diamonds Limited to the amount of US\$15.0 million.

The successful refinancing of these facilities is therefore a material judgement which has been included in the going concern assessment.

After making enquiries which include reviews of forecasts and budgets, timing of cash flows, the maturity and status of the Group debt refinancing and sensitivity analyses, and considering the continued impact of the COVID-19 pandemic on both the wider macro-economic environment (including demand for the Group's products and realised prices) and the Group's operations and production levels, the Directors have a reasonable expectation that the Group and the Company have adequate financial resources without the use of mitigating actions to continue in operational existence for the foreseeable future. This is the case even in the event that Nedbank remain the sole lenders and extend the reduced facility values. For this reason, the Directors continue to adopt the going concern basis in preparing this half year report and accounts of the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's Annual Financial Statements for the year ended 31 December 2020. Minor amendments to existing standards, also became effective on 1 January 2021 and have been adopted by the Group. The adoption of these amendments has not had a significant impact on the accounting policies, methods of computation or presentation applied by the Group.

Amendments to standards

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest rate benchmark reform

The amendment addresses issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative benchmark interest rate. In the prior year, the Group and its funders commenced a comprehensive debt refinancing programme of the Group's facilities. The refinancing programme incorporates the consideration of any risk posed to the Group by phase two of the IBOR reform, which was effective from 1 January 2021. The IBOR reform may potentially have an impact on the JIBAR, and LIBOR linked interest-bearing loans and borrowings, which includes the LSL215.0 million unsecured project debt facility between Letšeng Diamonds and Nedbank Limited and the Export Credit Insurance Corporation (ECIC) and the US\$30.0 million revolving credit facility between Gem Diamonds Limited and Nedbank Capital. Refer Note 18, Interest-bearing loans and borrowings for more information regarding the maturities and the related benchmark rates subject to the IBOR reform on these loans. At Period end, it is not possible to estimate the potential impact of the amendment as no alternative rates have been published by the regulatory bodies or negotiated with the funders. The Group will continue to assess the impact of the interest rate benchmark reform as the revised benchmark rates are published.

Standards issued but not yet effective

The standards, amendments and improvements that are issued, but not yet effective, up to the date of issuance of the Group's consolidated interim financial statements are listed in the table below. The standards, amendments and improvements have not been early adopted and it is expected that, where applicable, these standards and amendments will be adopted on each respective effective date. The impact of the adoption of these standards cannot be reasonably assessed at this stage.

Standards, amendments, and improvements

	Description	Effective date*
IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 37	Onerous contracts – cost of fulfilling a contract	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16	Property, plant and equipment proceeds before intended use	1 January 2022
Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Pending
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Improvement IFRS 1	Subsidiary as a first-time adopter	1 January 2022
Improvement IFRS 9	Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
Improvement IAS 41	Agriculture – Taxation in fair value measurements	1 January 2022

* Annual periods beginning on or after

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021 continued

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 Significant accounting matters

During the six months ended 30 June 2021, the significant accounting matters addressed by management focused on the assessment of any continued COVID-19 impacts.

COVID-19 continued impact

The critical judgements and sources of estimation uncertainty affecting the results for the six months ended 30 June 2021 are consistent with those disclosed in the Group's Annual Report and Accounts for the year ended 31 December 2020. The Group has considered the continued impact of COVID-19 during the Period on its significant accounting judgements and estimates. The material judgement applied in the Going concern assessment has been disclosed above in the section on *Basis of preparation and accounting policies*. The pandemic continues to affect the level of uncertainty in future cash flow forecasts. This level of uncertainty has been reduced due to numerous factors, such as (a) the classification of Letšeng as an essential service provider in Lesotho by the Lesotho Government which has reduced the risk of a COVID-19 related operation shut-down, (b) the vaccination rollout to the workforce at Letšeng and across the Group's operations, and (c) the continued improvement in the diamond market and demand for Letšeng's high-value diamonds experienced during the Period when compared to the previous year. Another estimation uncertainty are the assumptions used for the assessment of impairment and impairment reversal of assets where indicators of impairment or impairment reversal are identified. The diamond price and foreign exchange rate assumptions used to forecast future cash flows for impairment assessment purposes have been reviewed to consider both the short-term observable impact of COVID-19 and the forecast medium and longer-term impact on commodity prices. These inputs continue to support the conclusion that no impairment indicators existed at Period end. As a result, no impairment charge has been recognised during the Period.

3. SEGMENT INFORMATION

For management purposes, the Group is organised into geographical units as its risks and required rates of return are affected predominantly by differences in the geographical regions of the mines and areas in which the Group operates or areas in which operations are managed. The below measures of profit or loss, assets and liabilities are reviewed by the Chief Operating Decision-Maker, i.e., Board of Directors. The main geographical regions and the type of products and services from which each reporting segment derives its revenue from are:

- Lesotho (diamond mining activities);
- Belgium (sales, marketing and manufacturing of diamonds);
- BVI, RSA, UK and Cyprus (technical and administrative services); and
- Botswana (diamond mining activities), classified as a discontinued operation since 30 June 2019.

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

3. SEGMENT INFORMATION (continued)

Gem Diamonds Botswana (Ghaghoo Diamond Mine), which was classified as a discontinued operation held for sale and disclosed separately in 2019, continues to be classified as such at Period end. The Company entered into a binding share sale agreement post Period end on, 23 August 2021. Refer Note 23, Events after the reporting Period.

During the prior year Gem Equity Group Limited, a dormant investment company, was abandoned. Following the sale of its investments the Board of Directors of Gem Equity Group Limited resolved to voluntarily liquidate the operation. The liquidation was finalised on 2 July 2021. Gem Equity Group Limited is classified as part of the BVI, RSA, UK and Cyprus segment and had no impact on the financial results in the current Period.

Segment performance is evaluated based on operating profit or loss. Intersegment transactions are entered into under normal arm's length terms in a manner similar to transactions with third parties. Segment revenue, segment expenses and segment results include transactions between segments. Those transactions are eliminated on consolidation.

Segment revenue is derived from mining activities, polished diamond manufacturing margins and Group services.

The following tables present revenue from contracts with customers, profit/(loss) for the Period, EBITDA and asset and liability information from operations regarding the Group's geographical segments:

Six months ended 30 June 2021 ¹	Lesotho	Belgium	BVI, RSA, UK and Cyprus ²	Total continuing operations	Discontinued operations	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue from contracts with customers						
Total revenue	102 949	104 659	3 388	210 996	–	210 996
Intersegment	(102 714)	(369)	(3 388)	(106 471)	–	(106 471)
External customers	235	104 290	–	104 525	–	104 525
Segment operating profit/(loss)	35 235	720	(5 795)	30 160	(1 216)	28 944
Net finance costs	(1 190)	(2)	(656)	(1 848)	(113)	(1 961)
Profit/(loss) before tax	34 045	718	(6 451)	28 312	(1 329)	26 983
Income tax expense	(8 237)	(94)	(1 622) ³	(9 953)	–	(9 953)
Profit/(loss) for the Period	25 808	624	(8 073)	18 359	(1 329)	17 030
EBITDA	38 379	915	(4 616)	34 678	(1 184)	33 494

¹ Unaudited

² No revenue was generated in BVI and Cyprus

³ This includes the adjustment to align the forecast effective tax rate for the full year, to the actual results for the Period. Refer Note 8, Income tax expense.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021 continued

3. SEGMENT INFORMATION (continued)

Six months ended 30 June 2020 ¹	Lesotho US\$'000	Belgium US\$'000	BVI, RSA, UK and Cyprus ² US\$'000	Total continuing operations US\$'000	Discontinued operations US\$'000	Total US\$'000
Revenue from contracts with customers						
Total revenue	68 500	69 861	2 947	141 308	–	141 308
Intersegment	(68 500)	(318)	(2 947)	(71 765)	–	(71 765)
External customers	–	69 543	–	69 543	–	69 543
Segment operating profit/(loss)	8 751	316	(3 951)	5 116	(1 825)	3 291
Net finance costs	(1 677)	(3)	(885)	(2 565)	(100)	(2 665)
Profit/(loss) before tax	7 074	313	(4 836)	2 551	(1 925)	626
Income tax expense	(1 661)	(3)	925	(739)	–	(739)
Profit/(loss) for the Period	5 413	311	(3 912)	1 812	(1 925)	(113)
EBITDA	13 863	531	(3 058)	11 336	(1 720)	9 616

¹ Unaudited

² No revenue was generated in BVI and Cyprus

³ This includes the adjustment to align the forecast effective tax rate for the full year, to the actual results for the Period. Refer Note 8, Income tax expense.

	Lesotho US\$'000	Belgium US\$'000	BVI, RSA, UK and Cyprus US\$'000	Total continuing operations US\$'000	Discontinued operations US\$'000	Total US\$'000
Segment assets						
30 June 2021 ¹	406 047	2 310	4 432	412 789	3 534	416 323
31 December 2020 ²	396 040	1 694	6 597	404 331	3 528	407 859
Net cash/(debt) and short-term deposits³						
30 June 2021 ¹	27 164	1 382	(8 956)	19 590	58	19 648
31 December 2020 ²	40 311	877	(6 565)	34 623	7	34 630
Segment liabilities						
30 June 2021 ¹	45 411	479	13 607	59 497	4 298	63 795
31 December 2020 ²	63 733	496	13 719	77 948	4 224	82 172

¹ Unaudited

² Audited

³ Calculated as cash and short-term deposits less drawn down bank facilities (excluding the asset-based finance facility). Refer Note 18, Interest bearing loans and borrowings.

Included in revenue for the Period is revenue from two customers which amounted to US\$38.0 million (30 June 2020: US\$37.9 million from three customers) from the sale of diamonds reported in the Lesotho and Belgium segments.

Segment assets and liabilities do not include deferred tax assets and liabilities of US\$6.2 million and US\$91.3 million respectively (31 December 2020: deferred tax asset US\$6.3 million, deferred tax liabilities US\$84.5 million).

Total revenue for the Period is higher than that of the prior period mainly due to the negative impact which COVID-19 had on production and sales volumes, and sales prices achieved in the prior period.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

	30 June 2021¹ US\$'000	30 June 2020 ¹ US\$'000
Sale of goods	104 277	69 543
Partnership arrangements	235	–
Rendering of services	13	–
	104 525	69 543

¹ Unaudited

The revenue from the sale of goods represents the sale of rough diamonds, for which revenue is recognised at the point in time at which control transfers.

The revenue from partnership arrangements of US\$0.2 million represents the additional uplift from partnership arrangements for which revenue is recognised when the amount is guaranteed (2020: Nil).

The revenue from the rendering of services represents revenue from the marketing and sale of rough diamonds for customers external to the Group, for which revenue is recognised when the Group's performance obligations have been satisfied (2020: Nil).

No revenue was generated from joint operation arrangements during the current or prior periods.

5. OTHER OPERATING EXPENSES

	30 June 2021¹ US\$'000	30 June 2020 ¹ US\$'000
Sundry income	85	163
Sundry expenses	(12)	(150)
Loss on disposal and scrapping of property, plant and equipment	(4)	–
Other operating net income	69	13
COVID-19 costs/standing costs	(409)	(3 314)
Other operating expenses	(340)	(3 301)

¹ Unaudited

COVID-19 costs/standing costs

During the prior period, COVID-19 standing costs consisted of US\$3.0 million which related to certain standing fixed mining contract and ore stockpile movement costs which were incurred during the brief period that the mine suspended operations in compliance with the Lesotho lockdown order and was placed on care and maintenance, and were recognised as abnormal costs and expensed immediately in the Interim Consolidated Statement of Profit or Loss, and US\$0.3 million which related to costs incurred to implement protocols throughout the Group to address the risk and curb the spread of COVID-19. In the current Period, there were no abnormal standing costs incurred. Costs of US\$0.4 million were incurred relating to continued protocols for curbing the spread of the virus.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021 continued

6. UNDERLYING EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND MINING ASSET AMORTISATION (UNDERLYING EBITDA) BEFORE DISCONTINUED OPERATION

Underlying EBITDA is shown, as the Directors consider this measure to be a relevant guide to the operational performance of the Group and excludes such non-operating costs and income as listed below. The reconciliation from operating profit to underlying EBITDA is as follows:

	30 June 2021¹ US\$'000	30 June 2020 ¹ US\$'000
Operating profit	30 160	5 116
Other operating income ²	(69)	(13)
Foreign exchange loss/(gain)	122	(312)
Share-based payments	295	301
Depreciation and amortisation (excluding waste stripping cost amortised)	4 170	6 244
Underlying EBITDA before discontinued operation	34 678	11 336

¹ Unaudited

² Excludes COVID-19 costs/standing costs which are considered operating costs.

7. SEASONALITY OF OPERATIONS

The Group's sales environment with regard to its diamond sales is not materially impacted by seasonal and cyclical fluctuations. The mining operations may be impacted by seasonal weather conditions. Appropriate mine planning and ore stockpile build-up ensures that mining can continue during adverse weather conditions.

8. INCOME TAX EXPENSE

	30 June 2021¹ US\$'000	30 June 2020 ¹ US\$'000
Current		
– Foreign	(4 958)	(3 802)
Withholding tax		
– Foreign	(90)	(73)
Deferred		
– Foreign	(4 905)	3 136
	(9 953)	(739)

¹ Unaudited

The forecast effective tax rate for the full year from continuing operations is 35.2% (31 December 2020: 28.0%) and has been applied to the actual results from continuing operations for the Period. The asset held for sale (refer to Note 15, Asset held for sale), has been excluded from the forecast effective tax rate for the full year and taxed separately. There is no tax effect on the loss from the asset held for sale.

The effective tax rate is above the Lesotho statutory tax rate of 25% primarily as a result of deferred tax assets not recognised on losses incurred in non-trading operations.

9. DIVIDENDS PAID

	30 June 2021¹ US\$'000	30 June 2020 ¹ US\$'000
Dividends on ordinary shares declared and paid		
Final ordinary dividend for 2020: 2.5 US cents per share (2019: Nil)	(3 509)	–

¹ Unaudited

The 2020 proposed dividend based on the 2020 full-year results was approved at the Annual General Meeting on 2 June 2021 and a final cash dividend of US\$3.5 million was paid on 15 June 2021.

The Directors intend on applying a similar dividend policy in the current year on the 2021 full year results as has been adopted previously. The dividend policy is dependent on the results of the Group's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at that time.

10. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group invested US\$1.9 million (30 June 2020: US\$0.9 million) into property, plant and equipment, of which US\$1.8 million (30 June 2020: US\$0.8 million) related to Letšeng.

Letšeng's capital spend was incurred mainly on the purchase of an X-ray sorting machine of US\$0.7 million (30 June 2020: Nil), the completion of an additional single-occupancy employee housing block of US\$0.4 million (30 June 2020: Nil) and the design and planning work relating to the replacement of the current primary crushing area of US\$0.2 million (30 June 2020: US\$0.2 million).

Letšeng further invested US\$35.7 million (30 June 2020: US\$15.5 million) in deferred stripping costs which were capitalised. Amortisation of the deferred stripping asset (waste stripping cost amortisation) of US\$23.0 million (30 June 2020: US\$18.0 million) was charged to the Interim Consolidated Statement of Profit or Loss during the Period. The amortisation is directly related to the areas that were mined during the Period and their associated waste to ore strip ratios.

Depreciation and amortisation of US\$3.1 million (30 June 2020: US\$4.9 million) was charged to the Interim Consolidated Statement of Profit or Loss during the Period.

In addition to the above, foreign exchange movements on translation affecting property, plant and equipment increased the asset balances by US\$8.4 million (30 June 2020: US\$55.1 million).

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021 continued

11. RIGHT-OF-USE ASSETS

	Right-of-use assets			
	Plant and equipment	Motor vehicles	Buildings	Total
As at 30 June 2021				
Cost				
Balance at 1 January 2021	2 217	364	6 444	9 025
Additions	–	–	225	225
Derecognition of lease	(2 037)	–	(579)	(2 616)
Foreign exchange differences	27	10	151	188
Balance at 30 June 2021	207	374	6 241	6 822
Accumulated depreciation				
Balance at 1 January 2021	1 737	255	2 210	4 202
Charge for the year	438	65	607	1 110
Derecognition of lease	(2 037)	–	(411)	(2 448)
Foreign exchange differences	21	9	51	81
Balance at 30 June 2021	159	329	2 457	2 945
Net book value at 30 June 2021	48	45	3 784	3 877
As at 31 December 2020				
Cost				
Balance at 1 January 2020	2 012	1 656	7 318	10 986
Additions	821	–	354	1 175
Derecognition of lease	(585)	(1 019)	(988)	(2 592)
Foreign exchange differences	(31)	(273)	(240)	(544)
Balance at 31 December 2020	2 217	364	6 444	9 025
Accumulated depreciation				
Balance at 1 January 2020	980	361	1 191	2 532
Charge for the year	793	114	1 136	2 043
Derecognition of lease	(115)	(175)	(196)	(486)
Foreign exchange differences	79	(45)	79	113
Balance at 31 December 2020	1 737	255	2 210	4 202
Net book value at 31 December 2020	480	109	4 234	4 823

Plant and equipment mainly comprise printing equipment utilised at Gem Diamond Technical Services. Motor vehicles mainly comprise vehicles utilised by contractors at Letšeng. Buildings comprise office buildings in Maseru, Antwerp, London and Johannesburg.

Right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term.

During the Period, the lease contract for back-up power generating equipment at Letšeng came to an end. The assets and liabilities associated with the lease have been derecognised. A new lease for back-up power generating equipment is in the process of being negotiated. In the interim, Letšeng is renting existing back-up power generating equipment on a month-to-month basis. Furthermore, Gem Diamonds Limited entered into a new contract for the rental of its office space in London, resulting in the recognition of the new associated assets and liabilities and the derecognition of the previous associated assets and liabilities. Total gains of US\$0.1 million relating to the derecognition of leases in the Group have been recognised in the Consolidated Statement of Profit or Loss. Refer Note 19, Lease Liabilities and Note 20.1, Cash generated by operations.

During the Period, the Group recognised income of US\$0.2 million (30 June 2020: US\$0.2 million) from the sub-leasing of office buildings in Maseru.

11. RIGHT-OF-USE ASSETS (continued)

The Group expects to receive the following income from its sub-leasing activities:

	US\$'000
July 2021 – June 2022	357
July 2022 – June 2023	381
July 2023 – June 2024	405
July 2024 – June 2025	431
July 2025 – June 2026	34

12. INTANGIBLE ASSETS

	Intangibles US\$'000	Goodwill ¹ US\$'000	Total US\$'000
As at 30 June 2021			
Cost			
Balance at 1 January 2021	791	12 997	13 788
Foreign exchange differences	–	373	373
Balance as at 30 June 2021	791	13 370	14 161
Accumulated depreciation			
Balance at 1 January 2021	791	–	791
Amortisation/impairment charge for the Period	–	–	–
Balance as at 30 June 2021	791	–	791
Net book value as at 30 June 2021	–	13 370	13 370
As at 31 December 2020			
Cost			
Balance at 1 January 2020	791	13 653	14 444
Foreign exchange differences	–	(656)	(656)
Balance as at 31 December 2020	791	12 997	13 788
Accumulated depreciation			
Balance at 1 January 2020	791	–	791
Amortisation/impairment charge for the year	–	–	–
Balance as at 31 December 2020	791	–	791
Net book value as at 31 December 2020	–	12 997	12 997

¹ Goodwill is allocated to Letšeng Diamonds

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021 continued

13. RECEIVABLES AND OTHER ASSETS

	30 June 2021¹ US\$'000	31 December 2020 ² US\$'000
Non-current		
Deposits	141	153
Current		
Trade receivables	23	22
Prepayments	284	1 349
Other receivables	770	135
VAT receivable	5 649	4 180
Total current	6 726	5 686
	6 867	5 839

¹ Unaudited

² Audited

Based on the nature of the Group's client base, other financial assets and the negligible exposure to credit risk, the expected credit loss is insignificant and has no impact on the Group.

14. CASH AND SHORT-TERM DEPOSITS

	30 June 2021¹ US\$'000	31 December 2020 ² US\$'000
Cash on hand	4	4
Bank balances	30 821	35 456
Short-term bank deposits	3 104	14 360
	33 929	49 820

¹ Unaudited

² Audited

The amounts reflected in the financial statements approximate fair value due to the short-term maturity and nature of cash and short-term deposits.

Finance income relates to interest earned on cash and short-term deposits.

Finance costs include interest incurred on bank overdraft and borrowings, finance lease liabilities and the unwinding of rehabilitation provisions.

At 30 June 2021, the Group had US\$61.0 million (31 December 2020: US\$60.8 million) of undrawn facilities, representing the LSL500.0 million (US\$35.0 million) unsecured revolving working capital facility and the ZAR100.0 million (US\$7.0 million) overdraft facility, both at Letšeng, and the US\$19.0 million unsecured revolving credit facility at the Company. Refer Note 18, Interest-bearing loans and borrowings.

15. ASSET HELD FOR SALE

In line with the strategic objective to dispose of non-core assets, the Company entered into a binding share sale agreement for the sale of Gem Diamonds Botswana (Pty) Ltd, which owns the Ghaghoo diamond mine, post Period end. Refer Note 23, Events after the reporting Period. The asset was held for sale at Period end.

During the Period, some consumable inventory items were written off relating to expired explosives.

The asset held for sale is carried at carrying value which is lower than fair value less costs to sell. The fair value is based on unobservable market offers from potential buyers for the disposal group, accordingly the non-recurring fair value measurement is included in level 3 of the fair value hierarchy.

The trading results of the operation continue to be classified as a discontinued operation held for sale and are presented as follows:

	30 June 2021¹ US\$'000	30 June 2020 ¹ US\$'000
Gross profit	–	–
Other costs	(1 198)	(1 677)
Inventory write-down	(16)	(142)
Share-based payments	(1)	(6)
Foreign exchange loss	(1)	–
Operating loss	(1 216)	(1 825)
Net finance costs	(113)	(100)
Loss for the Period before tax from discontinued operation	(1 329)	(1 925)
Income tax	–	–
Loss for the Period after tax from discontinued operation attributable to Equity holders of the parent	(1 329)	(1 925)
Loss per share from discontinued operation		
Basic	(0.95)	(1.38)
Diluted	(0.93)	(1.36)

¹ Unaudited

Gem Diamonds Botswana incurred rental expenses on short-term leases of US\$0.3 million (30 June 2020: US\$0.5 million) during the Period.

Gem Diamonds Botswana has estimated tax losses of US\$184.3 million (30 June 2020: US\$159.3 million) for which no deferred tax asset has been recognised. Deferred tax assets of US\$0.3 million (30 June 2020: US\$0.3 million) were recognised to the extent of the deferred tax liabilities. These have been offset in the table below.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021 continued

15. ASSET HELD FOR SALE (continued)

The assets and liabilities attributable to the discontinued operation are shown in the table below.

	30 June 2021¹ US\$'000	31 December 2020 ² US\$'000
ASSETS		
Non-current assets		
Property, plant and equipment	1 517	1 533
Current assets		
Inventories	1 747	1 774
Receivables and other assets	212	214
Cash and cash short-term deposits	58	7
	2 017	1 995
Total assets	3 534	3 528
LIABILITIES		
Non-current liabilities		
Provisions	3 825	3 753
Current liabilities		
Trade and other payables	473	471
Total liabilities	4 298	4 224

¹ Unaudited

² Audited

The net cash flows attributable to the discontinued operation held for sale are as follows:

	30 June 2021¹ US\$'000	30 June 2020 ¹ US\$'000
Operating cash outflows	(1 229)	(1 638)
Investing	–	–
Financing cash inflows ²	1 280	1 747
Foreign exchange loss on translation of cash balance	–	(17)
Cash inflow	51	92

¹ Unaudited

² Financing provided by Gem Diamonds Limited, the holding company of the held for sale asset, to fund care and maintenance costs.

16. ISSUED CAPITAL

	30 June 2021 ¹		31 December 2020 ²	
	Number of shares '000	US\$'000	Number of shares '000	US\$'000
Authorised – ordinary shares of US\$0.01 each as at Period/Year	200 000	2 000	200 000	2 000
Issued and fully paid balance at beginning of Period/Year	139 612	1 397	138 984	1 391
Allotments during the Period/Year	825	8	628	6
Balance at end of Period/Year	140 437	1 405	139 612	1 397

¹ Unaudited² Audited

17. SHARE-BASED PAYMENTS

There were no new awards granted during the Period in terms of the Long-term Incentive Plan.

The expense disclosed in the Interim Consolidated Statement of Profit or Loss is made up as follows:

	30 June 2021 ¹ US\$'000	30 June 2020 ¹ US\$'000
Equity-settled share-based payment transactions – charged to the Statement of Profit or Loss – continuing operations	295	301
Equity-settled share-based payment transactions – charged to the Statement of Profit or Loss – discontinued operation	1	6
	296	307

¹ Unaudited

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021 continued

18. INTEREST-BEARING LOANS AND BORROWINGS

	Effective interest rate	Maturity	30 June 2021 ¹ US\$'000	31 December 2020 ² US\$'000
Non-current				
LSL215.0 million bank loan facility				
Tranche A	South African JIBAR + 6.75%	30 September 2022	163	477
Tranche B	South African JIBAR + 3.15%	31 March 2022	–	817
ZAR12.8 million asset-based finance facility				
	South African Prime Lending Rate	1 January 2024	324	408
			487	1 702
Current				
LSL215.0 million bank loan facility				
Tranche A	South African JIBAR + 6.75%	30 September 2022	654	635
Tranche B	South African JIBAR + 3.15%	31 March 2022	2 521	3 268
LSL14.5 million insurance premium finance				
	2.95% fixed interest	3 July 2021	5	542
US\$30.0 million bank loan facility				
	London US\$ three-month LIBOR + 5.0%	31 December 2021	10 850	9 700
ZAR12.8 million asset-based finance facility				
	South African Prime Lending Rate	1 January 2024	187	176
ZAR1.8 million insurance premium finance				
	2.5% fixed interest	1 May 2021	–	64
			14 217	14 385

¹ Unaudited

² Audited

18. INTEREST-BEARING LOANS AND BORROWINGS (continued)

L\$215.0 million (US\$15.1 million) bank loan facility at Letšeng Diamonds

This loan comprises two tranches of debt as follows:

- Tranche A: Lesotho loti denominated L\$35.0 million (US\$2.5 million) term loan facility without ECIC support (five years and six months tenure); and
- Tranche B: South African Rand denominated ZAR180.0 million (US\$12.6 million) debt facility supported by the Export Credit Insurance Corporation (ECIC) (five years tenure).

The loan is an unsecured project debt facility which was signed jointly with Nedbank and the ECIC on 22 March 2017 to fund the construction of the Letšeng mining support services complex. The loan is repayable in equal quarterly payments, which commenced in September 2018. At Period end L\$47.7 million (US\$3.3 million) (31 December 2020: L\$76.3 million, US\$5.2 million) remains outstanding.

The South African Rand based interest rates for the facility at 30 June 2021 are:

- Tranche A: 10.44% (30 June 2020: 10.66%)
- Tranche B: 6.84% (30 June 2020: 7.06%)

Total interest charge for the Period on this interest-bearing loan was US\$0.2 million (30 June 2020: US\$0.2 million).

ZAR14.5 million (US\$1.0 million) insurance premium finance

The insurance premium finance entered into in August 2020 by Letšeng Diamonds, was fully repaid on 3 July 2021. Total interest charge for the Period on this interest-bearing loan was US\$30.1 thousand (30 June 2020: Nil).

US\$30.0 million bank loan facility at Gem Diamonds Limited

This facility is a 12 month revolving credit facility (RCF) with Nedbank Capital.

At Period end, US\$11.0 million (31 December 2020: US\$10.0 million) had been drawn down resulting in US\$19.0 million (31 December 2020: US\$20.0 million) remaining undrawn. In 2020, facility rolling fees of US\$0.3 million were capitalised to the loan balance, which are amortised and accounted for as finance costs within profit or loss over the period of the facility (30 June 2021: US\$0.1 million, 31 December 2020: Nil) resulting in a net US\$10.9 million loan balance. The US\$-based interest rate for this facility at 30 June 2021 was 5.15% (30 June 2020: 4.81%).

Total interest charge for the Period on this interest-bearing loan was US\$0.5 million (30 June 2020: US\$0.4 million).

This facility expires in December 2021 and will form part of the wider Group debt refinancing referenced below.

ZAR12.8 million (US\$0.9 million) Asset-Based Finance facility

In January 2019, the Group, through its subsidiary, Gem Diamond Technical Services, entered into a ZAR12.8 million (US\$0.9 million) Asset Based Finance facility (ABF) with Nedbank Limited for the purchase of an X-Ray transmission machine (the asset). The asset serves as security for the facility. At Period end ZAR7.3 million (US\$0.5 million) remains outstanding (31 December 2020: ZAR8.6 million, US\$0.6 million). The facility is repayable over five years and bears interest at the South African Prime Lending rate, which was 7.00% at 30 June 2021 (30 June 2020: 7.25%).

Total interest charge for the Period on this interest-bearing loan was US\$18.6 thousand (30 June 2020: US\$26.6 thousand).

ZAR1.8 million (US\$0.1 million) insurance premium finance

The insurance premium financing entered into in November 2020 by the Group's subsidiary Gem Diamond Technical Services, was fully repaid on 1 May 2021.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021 continued

18. INTEREST-BEARING LOANS AND BORROWINGS (continued)

Other facilities

The Group through its subsidiary Letšeng Diamonds, has a LSL500.0 million (US\$35.0 million) three-year unsecured revolving working capital facility jointly with Standard Lesotho Bank and Nedbank Capital, which was renewed before its expiry date of July 2021. The expiry date was extended to 31 December 2021 to allow for the wider Group debt refinancing to be concluded. There was no draw down of this facility at Period end (31 December 2020: no draw down). Refer Group debt refinancing below.

The Group, through its subsidiary, Letšeng Diamonds, has a ZAR100.0 million (US\$7.0 million) overdraft facility with Nedbank Limited (acting through its Nedbank Corporate and Investment Banking division) which is reviewed for renewal annually in March. There was no draw down of this facility at Period end (31 December 2020: no draw down).

Group debt refinancing

During the Period, the Group commenced its consolidated debt refinancing of all its key credit facilities and has appointed Nedbank Corporate and Investment Banking as the sole mandated lead arranger to drive this process on its behalf. The refinanced facilities are expected to be in place before the expiry of the existing facilities on 31 December 2021.

19. LEASE LIABILITIES

	30 June 2021¹ US\$'000	30 June 2020 ² US\$'000
Non-current	4 682	4 902
Current	1 116	1 836
Total lease liabilities	5 798	6 738
Reconciliation of movement in lease liabilities		
As at 1 January	6 738	10 479
Additions	225	1 175
Interest expense	285	608
Lease payments	(1 352)	(2 522)
Derecognition of lease	(260)	(2 296)
Foreign exchange differences	162	(706)
As at 30 June/31 December	5 798	6 738

¹ Unaudited

² Audited

Lease payments comprise payments in principle of US\$1.1 million (31 December 2020: US\$1.9 million) and repayments of interest of US\$0.3 million (31 December 2019: US\$0.6 million).

During the Period the Group recognised variable lease payments, for which no lease liability can be recognised, of US\$25.9 million (30 June 2020: US\$13.9 million). These payments consist of mining activities outsourced to a mining contractor of which US\$22.0 million (30 June 2020: US\$11.4 million) has been capitalised to the Stripping Asset within Property, Plant and Equipment.

During the Period the lease containing a residual value guarantee relating to backup power generating equipment at Letšeng was derecognised. A new lease for back-up power generating equipment is in the process of being negotiated. In the interim, Letšeng is renting existing back-up power generating equipment on a month-to-month basis. There are no residual value guarantees on leases at 30 June 2021 (31 December 2020: US\$0.1 million).

20. CASH FLOW NOTES

	Notes	30 June 2021¹ US\$'000	30 June 2020 ¹ US\$'000
20.1 Cash generated by operations			
Profit before tax for the Period – continuing operations		28 312	2 551
Loss before tax for the Period – discontinued operation		(1 329)	(1 925)
Adjustments for:			
Depreciation and amortisation excluding waste stripping		3 060	4 996 ²
Depreciation on right-of-use assets		1 110	1 000
Waste stripping cost amortised		22 988	17 968
Finance income		(88)	(240)
Finance costs		2 049	2 905
Unrealised foreign exchange differences		(1 766)	2 541 ²
Loss on disposal of property, plant and equipment		4	–
Gain on derecognition of leases		(92)	(151)
Inventory write down		16	142
Bonus, leave and severance provisions raised		2 878	1 934 ²
Share-based equity transaction		296	307
		57 438	32 028
20.2 Working capital adjustment			
(Increase)/decrease in inventories		(2 892)	1 545
Increase in receivables		(652)	(3 192)
Decrease in trade and other payables		(6 957)	(6 308)
		(10 501)	(7 955)
20.3 Cash flows from financing activities (excluding lease liabilities)			
Balance at beginning of Period		16 086	22 341
Net cash (used)/raised in financing activities		(1 667)	3 210
– financial liabilities raised		1 000	32 513
– financial liabilities repaid		(2 667)	(29 303)
Interest paid		(896)	(1 280)
Non-cash movements		1 181	664
– Interest accrued		896	1 280
– Amortisation of capitalised facility fees ³		150	–
– Foreign exchange differences		135	(1 944)
Balance at Period end		14 704	23 607

¹ Unaudited

² These amounts have been disaggregated and reclassified in the prior Period for comparative purposes. The amounts were previously grouped and disclosed as other non-cash movements. The reclassification has not had an impact on the total cash generated by operations in the Consolidated Statement of Cashflows.

³ Refer Note 18, Interest bearing loans and borrowings.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021 continued

21. COMMITMENTS AND CONTINGENCIES

The Board has approved capital projects of US\$6.3 million (31 December 2020: US\$1.5 million) of which US\$1.6 million (31 December 2020: US\$0.4 million) has been contracted at 30 June 2021. The main capital expenditure approved relates to further mineral resource studies of US\$2.2 million (31 December 2020: US\$Nil), continued tailings storage extension investment of US\$1.0 million (31 December 2020: US\$1.0 million), construction of a recreation centre, as a benefit of the successful Business Transformation achievements of US\$0.9 million (31 December 2020: US\$Nil), replacement of equipment in the diamond sorting plant of US\$0.5 million (31 December 2020: US\$Nil) and investment at the mining fleet maintenance workshop of US\$0.3 million (31 December 2021: US\$0.3 million). This expenditure is expected to be incurred over the next 12 months.

The Group has conducted its operations in the ordinary course of business in accordance with its understanding and interpretation of commercial arrangements and applicable legislation in the countries where the Group has operations. In certain specific transactions, however, the relevant third party or authorities could have a different interpretation of those laws and regulations that could lead to contingencies or additional liabilities for the Group. Having consulted professional advisers, the Group has identified possible disputes relating to ongoing employee-related legal costs approximating US\$0.3 million (31 December 2020: US\$0.2 million).

The Group monitors possible tax claims within the various jurisdictions in which the Group operates. Management applies judgement in identifying uncertainties over tax treatments and concluded that there were no uncertain tax treatments during the Period. There remains a risk that further tax liabilities may potentially arise. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's results, financial position or liquidity.

As disclosed in the 2020 Annual Report and Accounts, an amended tax assessment was issued to Letšeng by the Lesotho Revenue Authority (LRA) in December 2019, contradicting the application of certain tax treatments in the current Lesotho Income Tax Act 1993. An objection to the amended tax assessment was lodged with the LRA in March 2020, which was supported by the opinion of senior counsel, together with an application for the suspension of any payment deemed due. The application for suspension of payment was accepted. The LRA has subsequently lodged an application for the review and setting aside of the applicable regulations to the Lesotho High Court pertaining to this matter, which Letšeng is opposing and a court date will be determined in February 2022. The previous court date of 3 August 2021 was postponed due to COVID-19. There has therefore been no change in the judgement applied and the accounting treatment for this matter.

22. RELATED PARTIES

	Relationship	
Jemax Management (Proprietary) Limited	Common director	
Government of the Kingdom of Lesotho	Non-controlling interest	
	30 June 2021¹ US\$'000	30 June 2020 ¹ US\$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	126	158
Short-term employee benefits	2 957	2 158
	3 083	2 316
Fees paid to related parties		
Jemax Management (Proprietary) Limited	(47)	(41)
Royalties paid to related parties		
Government of Lesotho	(10 226)	(6 953)
Lease and licence payments to related parties		
Government of Lesotho	(54)	(26)
Purchases from related parties		
Jemax Management (Proprietary) Limited	(2)	(2)
Amount included in trade payables owing to related parties		
Jemax Management (Proprietary) Limited	(8)	(7)
Amounts owing to related party		
Government of Lesotho	(4 476)	(152)
Dividends paid		
Government of the Kingdom of Lesotho	(2 795)	–

¹ Unaudited

Jemax Management (Proprietary) Limited provided administrative services with regard to the mining activities undertaken by the Group. A controlling interest is held by an Executive Director of the Company.

The above transactions were made on terms agreed between the parties and were made on terms that prevail in arm's length transactions.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021 continued

23. EVENTS AFTER THE REPORTING PERIOD

Subsequent to Period end, on 23 August 2021, the Company entered into a binding share sale agreement for the sale of 100% of the share capital of Gem Diamonds Botswana Proprietary Limited, the owner of the Ghaghoo diamond mine in Botswana with Okwa Diamonds. Okwa Diamonds, an SPV company registered in Botswana, is owned by Vast Resources PLC, a mining and resource development company listed on AIM, and by Botswana Diamonds PLC, a diamond exploration and project development company listed on AIM and the Botswana Stock Exchange. Vast Resources PLC and Botswana Diamonds PLC are both parties to the share sale agreement and guarantee the obligations of Okwa Diamonds. The transaction is subject to certain suspensive conditions, including final Government and Competition Commission approvals which is expected to be completed in Q4 2021.

The completion of the transaction is subject to certain Suspensive Conditions including final Government and Competition Commission approvals. It is expected that these will be fulfilled, and the transaction completed in the last quarter of 2021. As a result of the agreement and the Suspensive Conditions which arose after the end of the reporting Period, the event is classified as a non-adjusting event and therefore no adjustment has been made to the results as reported at Period end.

Under the share sale agreement, the purchaser will pay a total consideration of US\$4.0 million, payable in two instalments of US\$2.0 million each, the first of which is payable 5 (five) days after the date on which the last Suspensive Condition has been fulfilled or waived. The second payment is payable on or before 23 December 2021, provided the first payment has been made prior thereto. In the event the last Suspensive Condition is fulfilled or waived after 23 December 2021 the full amount of US\$4.0 million will be payable 5 (five) days after such fulfilment or waiver.

No other fact or circumstance has taken place between the Period end and the approval of the financial statements which, in our opinion, is of significance in assessing the state of the Group's affairs.

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