

21 May 2015

GEM DIAMONDS LIMITED

Sales and Operational Update for the Year to Date 2015

Gem Diamonds Limited (LSE: GEMD) is pleased to provide an update detailing the Company's operational performance for the period 1 January 2015 to 30 April 2015 (the Period) and sales performance for the period 1 January 2015 to 20 May 2015 (Year to Date).

Highlights:

Letšeng:

Continued strong performance at Letšeng

- An average of US\$ 2 146¹ per carat was achieved for the first three tenders of 2015 (US\$2 140¹ per carat in Q4 2014)
- A 314 carat Type IIa white diamond was recovered during the Period and was sold into a partnership arrangement in May 2015
- A further three high quality diamonds of over 100 carats each were recovered during the Year to Date
- Eight rough diamonds achieved a value of greater than US\$ 1.0 million each for the Year to Date
- Plant 2 Phase 1 upgrade was completed on time and on budget, increasing the plant capacity by 250 000 tonnes per annum and is anticipated to further reduce diamond damage

¹ Refer to Section 2.2 "Rough Diamond Sales and Diamonds Extracted for Manufacturing" for further details

Ghaghoo:

Ghaghoo development progressing well, first production area yielding encouraging diamond recoveries

- Production blasts have commenced on Level 1 in production area 1
- Decline is being developed down to Level 2, with development of production area 2 commencing later in 2015
- 67 330 tonnes of ore was treated during the Period, with 16 174 carats recovered at a grade of 24 cpht
- Average recovered grade of 29 cpht has been achieved in the month of May to date, above the reserve grade of 27.8 cpht
- Optimisation of the recovery plant has led to the recovery of diamonds in all size ranges
- Five diamonds of greater than 10 carats each have been recovered during the month of May to date, with the largest being 48 carats

Financial:

- The Group had US\$ 92.5 million cash on hand as at the date of this report
- The Group has drawn down US\$ 35.6 million of its available facilities resulting in a net cash position of US\$ 56.9 million at the date of this report
- The Board recommended a maiden dividend of 5 US cents per share (US\$6.9 million) to shareholders following the final results announcement in March 2015 with payment to be made on 9 June 2015 to holders of ordinary shares on the register at close of business on 8 May 2015

Gem Diamonds' CEO, Clifford Elphick, commented:

"It is pleasing to see that the prices achieved for the first three Letšeng tenders of 2015 are on a par with those of Q4 2014, despite a noticeably weaker overall market for Q1 2015 as reported by other diamond producers. Moreover, the recovery of a 314 carat white diamond, which was virtually undamaged, and three other diamonds of over 100 carats underscores the technical advances made in reducing diamond damage. The 19-day shutdown of Plant 2 to accommodate the upgrade of the plant was accomplished as planned.

The progress at Ghaghoo has also been satisfying with increasing tonnages achieved each month during the Period as planned, with an average grade of 29 cpht being achieved in recent weeks (in excess of the reserve grade of 27.8 cpht). The recovery of five diamonds greater than 10 carats each is also encouraging. The development is on track to achieve planned tonnages and grade for the second half of 2015."

1. Diamond Market

During the Period diamond traders continued the cautious approach they have adopted since Q3 2014. Increased liquidity constraints following the closure of the Antwerp Diamond Bank, together with tighter credit terms imposed by other diamond banks continued to put pressure on the rough diamond market. The Basel Watch and Jewellery Show which took place in March did not significantly improve sentiment in the polished market as traders wait for improved demand for polished diamonds. Notwithstanding this, prices achieved for Letšeng's high value, large rough diamond production remained resilient during the Period.

2. Lesotho

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

2.1 Production

	4 Months Jan – Apr 2015	4 Months Sep – Dec 2014	% Change
Waste stripped (tonnes)	7 292 295	6 804 007	7%
Ore treated (tonnes)	1 984 361	2 097 545	-5%
Carats recovered	31 369	34 205	-8%
Grade recovered (cpht)	1.58	1.63	-3%

The Plant 2 Phase 1 upgrade was completed on budget and on schedule, with the shutdown for the changeover being completed one day faster than planned. The 19 day shutdown of Plant 2 limited production days available during February and March and the production figures reflect this shutdown.

Following the upgrade, Plant 2 is operating well and is on track to achieve its increased head feed target of an additional 250 000 tonnes on an annualised basis going forward.

During the Period, 7.3 million tonnes of waste was mined, up 7% compared with the last four months of 2014. This was in line with the revised mine plan (published in March 2015), which will allow increased levels of higher grade ore from the Satellite pipe to be mined annually.

Letšeng's Plants 1 and 2 treated a total of 1.72 million tonnes of ore during the Period, 67% of which was sourced from the Main pipe and 33% from the Satellite pipe. The balance of the ore (0.28 million tonnes) was treated through the Alluvial Ventures contractor plant, 80% of which was sourced from the Main pipe and 20% from stockpiles. Total treated tonnes were 6% down on the last four months of 2014 due to the aforementioned upgrade of Plant 2 during the Period.

2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

	First 3 tenders of 2015**	Q4 2014* (3 tenders)	% Change
Carats sold	35 940	31 614	14%
Total value (US\$ millions)	77.1	67.7	14%
Achieved US\$/ct	2 146	2 140	0%

In 2015, a revision to the number, composition and timing of tenders was made. The number of tenders has been revised to eight (instead of 10) tenders during the year. In line with this new sales and marketing strategy, the lower-value smaller commercial production will now be accumulated and carried over for larger volume sales once every quarter. This production from the second and third exports, valued at US\$ 7.3 million, has been carried over to be sold in the fourth tender in June and has been included at this value in determining the average US\$ per carat for the first 3 tenders of 2015. Letšeng held three tenders for the Year to Date, achieving an average price of US\$ 2 146** per carat (compared to three tenders in Q4 2014, which achieved US\$ 2 140* per carat). This brings the 12 month rolling average to US\$ 2 397** per carat.

For the Year to Date, 102 carats were extracted for manufacturing at a rough value of US\$ 1.0 million. US\$ 5.5 million (at rough value) remained in polished inventory at the end of the Period.

* Includes carats extracted at rough valuation for polishing.

** Includes (a) carats extracted at rough valuation for polishing and (b) lower-value smaller commercial production carried over at valuation.

2.3 Projects

The Coarse Recovery Plant remains on track for completion by the end of Q2 2015. The project is forecast to be completed within the budget of Maloti 140.0 million (approximately US\$ 12.5 million). All major equipment including the X-Ray Transmissive (XRT) sorters and the personnel X-ray scanner have been delivered to site. Construction is well advanced with commissioning having commenced during May.

The Plant 2 Phase 1 upgrade project was completed on time and on budget and management is confident that it will deliver the expected benefits.

3. Botswana

Gem Diamonds' wholly-owned subsidiary, Gem Diamonds Botswana, is currently developing the Ghaghoo mine (Ghaghoo) in Botswana.

Good progress has been made on developing production area 1 on Level 1, with the first long hole rings being blasted towards the end of April. Prior to these production blasts, ore availability had been confined to limited areas on Level 0 and in the development tunnels.

With more ore available, the plant has been increasingly able to treat more material and for the Period, 67 330 tonnes of ore had been treated, with 16 174 carats recovered. The tonnes treated include marginal ore from the contact zones in the pipe which contain high percentages of dilution. Following optimisation initiatives on the plant and the increased steady-state feed, the ore from the newly opened stopes has yielded grades above the reserve grade, with an average grade of 29cpht in the month of May to date.

As the production area expands and more production faces become available, together with the planned delivery of additional mining equipment scheduled for late May, the mine is on track to ramp up to full production in H2 2015 as planned.

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

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

For the Period, the Group-wide Lost Time Injury Frequency Rate (LTIFR) was 0.00 and the Group All Injury Frequency Rate (AIFR) was 3.08.

Gem Diamonds continues to work closely with its project affected communities to ensure that the social projects implemented continue to be sustainable.

Zero major or significant environmental incidents have occurred across the Group for the year to date.

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About Gem Diamonds:

Gem Diamonds is a leading global diamond producer of high value diamonds. The company owns 70% of the Letšeng mine in Lesotho and 100% of the Ghaghoo mine in Botswana. The Letšeng mine is famous for the production of large, top colour, exceptional white diamonds, making it the highest dollar per carat kimberlite diamond mine in the world. Since Gem Diamonds' acquisition of Letšeng in 2006, the mine has produced four of the twenty largest white gem quality diamonds ever recorded.

Gem Diamonds has a growth strategy based on the expansion of the Letšeng mine and bringing the Ghaghoo mine into production, while maintaining its strong balance sheet. The Company seeks to maximise revenue and margin from its rough diamond production by pursuing cutting, polishing and sales and marketing initiatives further along the diamond value chain. With favourable supply/demand dynamics expected to benefit the

industry over the medium to long term, particularly at the high end of the market supplied by Gem Diamonds, this strategy positions the Company well to generate attractive returns for shareholders in the coming years.

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