

11 November 2015

GEM DIAMONDS LIMITED

Trading update for Q3 2015

Gem Diamonds Limited (LSE: GEMD) (“Gem Diamonds” or the “Company” or the “Group”) is pleased to report a Trading Update detailing the Company’s operational and sales performance for the Period 1 July 2015 to 30 September 2015 (“**Q3 2015**”) or (“**the Period**”).

Letšeng:

Prices firm, costs down and production up

- Revised 2015 production and cost guidance following strong operational performance and cost discipline
- Average price of US\$ 2 578 per carat was achieved in Q3 2015
- 13 rough diamonds achieved a value of greater than US\$ 1.0 million each , including an exceptional quality 357 carat Type IIa white diamond which achieved US\$ 19.3 million on tender
- A total of three diamonds of over 100 carats each were sold in the Period
- Zero Lost Time Injuries (LTIs) at Letšeng for the past 365 days

Ghaghoo:

Grade remains higher than reserve and carat production up

- Average recovered grade of 29.1 cpht (compared to the average reserve grade of 27.8 cpht)
- Five development tunnels being mined, with a further four tunnels being developed
- 115 diamonds greater than 4.8 carats each were recovered during the Period, including 13 diamonds larger than 10.8 carats
- 31 923 carats recovered during the Period, including two blue rough diamonds weighing 2.2 carats and 1.5 carats
- Second parcel sold in July achieving an average price of US\$ 165 per carat, bringing the total average US\$ per carat achieved for the year to date to US\$ 176 per carat
- Zero LTIs at Ghaghoo for the past 365 days

Financial:

- Group cash on hand of US\$ 86.1 million cash as at 30 September 2015, of which US\$ 72.0 million attributable to Gem Diamonds
- Group has drawn down US\$ 32.1 million of its available facilities, resulting in net cash position of US\$ 54.0 million
- During the Period, Letšeng paid dividends of US\$ 20.2 million, which resulted in a net cash flow of US\$ 12.7 million to Gem Diamonds and a cash outflow from the Group as a result of withholding taxes of US\$ 1.4 million and payment of the Government of Lesotho’s dividend portion of US\$ 6.1 million.

Gem Diamonds’ CEO, Clifford Elphick commented:

“It is pleasing to see that the prices achieved for Letšeng’s diamonds during the third quarter have remained robust despite the challenging market conditions experienced throughout this Period. The large high quality diamonds, for which Letšeng is renowned, have contributed to a strong Q3 2015 average price of US\$ 2 578 per carat.

Letšeng has also delivered a strong operational performance, with ore treated, grade and carat recoveries ahead of those of the previous quarter and expected to exceed original full year guidance.

Ghaghoo continues its ramp up, with ore treated and carats recovered up over 30% on the previous quarter. The Ghaghoo production faces a very challenging market at present.”

1. Diamond Market

Prices for the large, high value rough production from Letšeng remained robust during the Period, achieving an average of US\$ 2 578 per carat, amid continued liquidity constraints, high inventory levels and the slowdown of the Chinese economy. The general sentiment in the diamond market remained cautious, and with continuing global macro-economic uncertainty, has placed further downward pressure on both rough and polished diamond prices. Following the Hong Kong Diamond and Jewellery Show in September 2015, focus has now turned to the US market and the approaching year-end holiday sales as diamantaires look to sell down polished diamond inventories.

2. Letšeng

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

2.1 Production

	Q3 2015	H1 2015	9 months to 30 September 2015
Waste stripped (tonnes)	6 244 432	11 364 784	17 609 216
Ore treated (tonnes)	1 758 295	3 110 351	4 868 646
Carats recovered	29 460	50 019	79 479
Grade recovered (cpht)	1.68	1.61	1.63

During the Period, 6.24 million tonnes of waste were mined, in line with the revised life of mine plan which will allow increased levels of higher grade ore from the Satellite pipe to be mined annually.

Following the Plant 2 Phase 1 upgrade, ore processed through the plant is currently achieving the planned head feed tonnage which will increase throughput by 250 000 tonnes on an annualised basis.

Letšeng’s Plants 1 and 2 treated a total of 1.47 million tonnes of ore during the Period, of which 55% was sourced from the Main Pipe and 45% from the Satellite pipe. The balance of the ore (0.29 million tonnes) was treated through the Alluvial Ventures contractor plant, of which 70% was sourced from the Main pipe and 30% from stockpiles.

Following on from the good progress made in the Satellite pipe waste stripping, the year to date contribution of ore from the Satellite pipe has already reached 1.58 million tonnes against the initial full year target of 1.65 million tonnes and is now expected to reach 1.8 million tonnes by year end.

2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

	Q3 2015*	H1 2015*	9 months to 30 September 2015*
Carats sold	25 460	46 961	72 421
Total value (US\$ millions)	65.6	106 .3	171.9
Achieved US\$/ct	2 578	2 264	2 374

*Includes carats extracted at rough value for polishing.

Two Letšeng tenders were held in the Period, achieving an average price of US\$ 2 578* per carat, bringing the 12 month rolling average at 30 September 2015 to US\$ 2 303* per carat.

33 carats were extracted for own manufacturing during the Period at a rough value of US\$ 1.0 million.

2.3 Letšeng revised guidance for 2015

Guidance has been revised from that previously reported in March 2015.

	FY 2015	FY 2015
	Revised Guidance September 2015	Previous Guidance March 2015
Waste tonnes mined (Mt)	23.5 – 24.5	22 – 24
Ore treated (Mt)	6.5 – 6.7	6.3 – 6.5
Carats recovered (Kct)	105 – 108	102 – 107
Carats sold (Kct)	103 – 105	102 – 107
Direct cash costs (before waste) per tonne treated (Maloti)	140 – 150	145 – 155
Mining waste cash costs per tonne of waste mined (Maloti)	26 – 28	28 – 30
Operating costs per tonne treated ¹ (Maloti)	205 – 225	210 – 230

1. Operating costs per tonne excludes royalty, selling costs, depreciation and mine amortisation, but includes inventory, waste and ore stockpile adjustments.

3. Ghaghoo

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

	Q3 2015	H1 2015	9 months to 30 September 2015
Ore treated (tonnes)	109 751	132 125	241 876
Carats recovered	31 922	35 283	67 205
Grade recovered (cpht)	29.1	26.7	27.8

All ore mined is being sourced from tunnels one to five on Level 1. Production build up is continuing. Development of the next four tunnels is well advanced in order to generate reserves for sustainable production. The water at the rim tunnel has been successfully sealed and development has now progressed through the fissure area.

Plant optimisation continued during the Period, with the highest year to date monthly treated tonnage of 43 263 achieved in September 2015. As part of this optimisation process, a new 100 tonne surge bin is scheduled for installation in January 2016, and will be positioned ahead of the Autogenous Mill to further enhance the mill's performance.

A second parcel of 29 891 carats of commissioning phase production sold for US\$ 4.9 million in July 2015 (US\$ 165 per carat), bringing the total average US\$ per carat achieved for the year to date to US\$ 176 per carat.

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

The Group continues to strive toward its goal of zero harm to its people and environment and to operate within the Group's sustainable development framework. It is pleasing to report that both Letšeng and Ghaghoo have been Lost Time Injury (LTI) free for over 365 days to date.

To the end of the Period, the Group-wide Lost Time Injury Frequency Rate (LTIFR) was 0.00 and the Group All Injury Frequency Rate (AIFR) was 2.89.

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

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

For further information:

Gem Diamonds Limited
 Sherryn Schooling, Investor Relations
 Tel: +44 (0) 203 0430 2080
 Mob: +44 (0) 7778 246 321

Bell Pottinger
 Daniel Thöle
 Tel: +44 (0) 203 772 2500

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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