

19 July 2016

GEM DIAMONDS LIMITED H1 2016 Trading Update

Gem Diamonds Limited (LSE: GEMD) ("**Gem Diamonds**" or the "**Company**" or the "**Group**") is pleased to provide the following Trading Update detailing the Group's operational and sales performance for the Period 1 January 2016 to 30 June 2016 ("**H1 2016**" or the "**Period**") ahead of its Half Yearly Results which will be released on 17 August 2016.

Letseng:

Letseng Diamonds continues to perform well with consistent prices achieved on a like-for-like basis. Carat production is currently tracking towards the top end of guidance for 2016.

- Recovered 57 380 carats during the Period (50 019 carats in H1 2015).
- Average grade achieved over the Period was 1.72 cpht (1.61cpht in H1 2015).
- Average price of US\$ 1 899 per carat achieved in H1 2016 (US\$ 2 264 in H1 2015). The price achieved reflects the mix of diamonds recovered and fewer +100 carat diamonds, as mining worked through a lower value, but higher grade area during the Period.
- Waste stripping is progressing well and in line with the optimised mine plan.
- Amongst the exceptional diamonds recovered, an undamaged Type II 160 carat and an 11.8 carat pink diamond (which sold for US\$ 187 000 per carat) were recovered during the Period.
- Post Period end: an exceptional quality 104 carat Type II white diamond was recovered in July 2016.

Ghaghoo:

Development of production Block 2 on Level 1 completed.

- Development of production Block 2 on Level 1 completed and development of Level 2 has commenced.
- As reported, a sale of Ghaghoo production was held in Q1 2016 and achieved an average price of US\$ 160 per carat. A further sale took place in June 2016 and achieved

an average price of US\$ 155 per carat due to an increase in the proportion of finer material sold.

Financial:

- The Group had US\$ 66.4 million cash on hand as at 30 June 2016, of which US\$ 53.1 million is attributable to Gem Diamonds Limited.
- An annual dividend of 5 US cents per share (US\$ 6.9 million) and a special dividend of 3.5 US cents per share (US\$ 4.9 million) were paid on 14 June 2016.
- US\$ 28.7 million of its available facilities have been drawn down resulting in a net cash position of US\$ 37.7 million. No new draw down of any facilities took place during the Period.
- During the Period, Letseng paid dividends of US\$ 20.8 million, which resulted in a net cash flow of US\$ 13.1 million to Gem Diamonds after withholding taxes of US\$ 1.5 million and the payment to the Government of Lesotho's dividend portion of US\$ 6.2 million.

Gem Diamonds' CEO, Clifford Elphick commented:

"Production at Letseng has proceeded well during the Period with carat production up 15 per cent compared to H1 2015 and average grade significantly up at 1.72 carats per hundred tonnes, and we are tracking towards the top end of carat production guidance for 2016.

It is pleasing to note that the work on diamond damage reduction is continuing to produce results with an undamaged 160 carat Type II white diamond recovered during the Period and an undamaged 104 carat Type II white diamond of exceptional quality being recovered in early July¹.

There has been a modest recovery in Letseng's rough diamond prices towards the end of the Period on a like-for-like basis. The average dollar per carat value achieved in the Period is a function of fewer +100 carat stones than usual being recovered as mining has worked through the lower value areas of the mine.

At Ghaghoo, completion of mining in the first block and commencement of mining in the second block has meant that a large proportion of ore treated has been from diluted areas near the pipe extremities with lower recovered grades achieved; however grades have improved as mining in the second block has advanced towards the centre of the pipe. Development of Level 2 has commenced."

¹ A photograph of this diamond can be viewed on the Company website.

1. Diamond Market

Letšeng’s high quality large white rough diamonds have seen a modest improvement in prices, on a like-for-like basis, during the Period. Liquidity constraints, high polished inventory levels and the uncertain macro-economic outlook continue to characterise the polished diamond market. It is anticipated that the modest recovery in rough prices will continue into the second half of 2016.

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

	H1 2016	H1 2015	YoY % Change
Waste stripped (tonnes)	15 287 897	11 364 784	35%
Ore treated (tonnes)	3 336 300	3 110 351	7 %
Carats recovered	57 380	50 019	15%
Grade recovered (cpht)	1.72	1.61	7%

During the Period, 15.3 million tonnes of waste were mined and waste mining continues to ramp up in line with the optimised mine plan. Additional mining fleet was commissioned and mobilised successfully during the Period.

Letšeng treated a total of 2.9 million tonnes of ore during the Period, 66% of which was sourced from the Main pipe, and 34% from the Satellite pipe. The balance of the ore (0.4 million tonnes) was treated through the Alluvial Ventures contractor plant, 66% of which was sourced from the Main pipe and 34% from stockpiles.

57 380 carats were produced during the Period – up 15 per cent on H1 2015. The good grades achieved are reflective of the area mined in the Satellite Pipe that has historically produced higher than reserve grades albeit at a slightly smaller average stone size. This also saw a reduction in +100 carat diamonds recovered during the Period, but, as the mining moved into a different area of the Satellite Pipe in early July 2016, an exceptional 104 carat and an exceptional 85 carat diamond were recovered.

The Coarse Recovery XRT Plant is successfully operating at a >5mm size cut off with final materials handling improvements rolled out during June 2016.

Guidance for 2016 is maintained with carat production tracking toward the top end of guidance.

2.2. Rough Diamond Sales and Diamonds Extracted for Manufacturing

	H1 2016	H1 2015	YoY % Change
Carats sold	55 959	46 961	19%
Total value (US\$ millions)	106.3	106.3	0%
Achieved US\$/ct*	1 899	2 264	-16%

*Includes carats extracted at rough value for polishing.

Four Letšeng tenders have been held during the Period, achieving an average price of US\$ 1 899 per carat, bringing the 12 month rolling average to US\$ 2 113 per carat. Prices achieved in H1 2016 were impacted by the mix of production and fewer +100 carat diamonds. Pricing has also been impacted by an improvement in the recovery of lower value fine diamonds at Letšeng.

3. Ghaghoo

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

	Q1 2016	Q2 2016	H1 2016	H2 2015	HoH % Change
Ore treated (tonnes)	50 514	45 055	95 569	194 797	-51%
Carats recovered	11 029	9 847	20 876	56 217	-63%
Grade recovered (cpht)	21.8	21.9	21.8	28.9	-24%

As previously reported, a sale of Ghaghoo production was held in the first quarter which achieved an average price of US\$ 160 per carat. A second sale took place in June 2016 and achieved an average price of US\$ 155 per carat. The average \$/ct has been impacted by an increase in the recovery of fine diamonds because of an improvement in diamond liberation in the mill.

Ghaghoo has predominantly focussed on downsizing from the original production targets of

2 000 tonnes per day, improving efficiencies, processes and further progressing operational developments during the Period. Towards the end of the Period mining rates improved and are currently at a rate consistent with the 300 000 tonnes per annum target.

The total recovered grade YTD was 21.8 cpht. The lower grade recovered was due to a significant portion of the ore treated being sourced from lower grade areas, specifically close to the contact zones as Block 1 was mined out and development of Block 2 commenced. Development of Level 2 has commenced.

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

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

One Lost Time Injury (LTI) was reported at Letšeng and one at Ghaghoo during the Period. This has resulted in a Group Lost Time Injury Frequency Rate (LTIFR) of 0.15. The Group All Injury Frequency Rate (AIFR) is 2.61 for the first half of 2016. For the same Period in 2015, the Group AIFR was 3.26.

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.

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

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

About Gem Diamonds:

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

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

www.gemdiamonds.com



"104 carat Type II White Diamond recovered at Letšeng in July 2016"