RNS Number:

Gem Diamonds Limited
Full Year 2016 Results

15 March 2017

Gem Diamonds Limited (LSE: GEMD) ("Gem Diamonds", the "Company" or the "Group") announces its Full Year Results for the year ending 31 December 2016 (the "Period").

FINANCIAL RESULTS:

- Revenue of US$189.8 million (US$249.5 million in 2015)
- Underlying EBITDA of US$62.8 million (US$103.5 million in 2015)
- Profit for the year US$32.3 million (US$67.4 million in 2015)
- Attributable profit (before exceptional items) US$17.7 million (US$41.8 million in 2015)
- Earnings per share (pre exceptional items), 12.8 US cents (30.2 US cents in 2015)
- After the exceptional items of US$176.5 million non-cash impairments relating mainly to the decision to place Ghaghoo on care and maintenance, attributable loss of US$158.8 million and basic loss per share of 114.9 US cents
- Cash on hand of US$30.8 million as at 31 December 2016 (US$28.5 million attributable to Gem Diamonds)

OPERATIONAL RESULTS:
Letšeng:

- Carats recovered of 108 206 (108 579 in 2015)
- Waste tonnes mined of 29.8 million tonnes (24.0 million tonnes in 2015)
- Ore treated of 6.6 million tonnes (6.7 million in 2015)
- Average value of US$1 695* per carat achieved (US$2 299* in 2015) due to fewer +100 carat diamonds recovered
- 34 rough diamonds achieved a greater value than US$ 1.0 million each
- Five diamonds larger than 100 carats each recovered (Eleven in 2015)
- 11.8 carat pink diamond, sold for US$187 700 per carat, making it the third highest price per carat sold by Letšeng
- The largest recovered diamond was a 160.2 carat Type II white diamond

* Includes carats extracted for manufacturing at rough valuation

Ghaghoo:

- Development of access to Level 2 completed
- VKMain phase on Level 1 successfully sampled and processed
- Ore treated of 217 372 tonnes (326 922 in 2015)

- Carats recovered of 40 976 (91 499 in 2015)
- Average value of US$152 per carat achieved (US$162 per carat in 2015)
- Total sales of US$7.2 million for 47 266 carats sold
- Operation placed on care and maintenance in February 2017 due to low prices achieved for this category of diamonds

Dividend

- The Board has resolved not to propose the payment of a dividend in respect of the 2016 financial year

Commenting on the results today, Clifford Elphick, Chief Executive of Gem Diamonds, said:

"Letšeng has performed well operationally and achieved all production metrics within targets and guidance. Demand and prices achieved for the large, high quality diamonds recovered from Letšeng have remained firm, but the decline in 2016 in the recovery of diamonds larger than 100 carats has had a disappointing impact upon revenue and cash flow. This recovery rate is consistent with the normal, short term variability of the resource. Based on a detailed geological understanding of the resource, we remain confident that Letšeng will continue to produce exceptional diamonds.

At Ghaghoo, solid progress was made developing the mine. Given the low prices achieved for this category of diamonds, the mine was placed on care and maintenance in February 2017. Ghaghoo provides Gem Diamonds with flexibility to restart operations, when prices for this category of diamonds recover.

The supply demand fundamentals for the diamond industry remain strong. Focus in 2017 will be on cash generation. At Letšeng, the implementation of the updated life of mine plan is expected to improve cash flows through an optimised waste mining profile."

The Company will host a live audio webcast presentation of the full year results today, 15 March 2017, at 09:30 GMT. This can be viewed on the Company's website: www.gemdiamonds.com

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

The Gem Diamonds Limited LEI number is 213800RC2PGGMZQG8L67.

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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 20 largest white gem quality diamonds ever recorded. The Ghaghoo mine in Botswana has been placed on care and maintenance until market conditions allow for recommencement of production.

www.gemdiamonds.com

Chairman's statement

Dear shareholder,

On behalf of the Board, it is my pleasure to present Gem Diamonds' 2016 Annual Report. I believe this report offers a fair and balanced account of the business, its performance over the last year and its prospects going forward. As an organisation, Gem Diamonds remains committed to transparent and relevant reporting to you, its shareholders.

2016 IN REVIEW

Gem Diamonds' strategy is built on three pillars; namely value creation, growth and sustainability. This broad-based approach was developed to allow the Group the flexibility to respond to an ever-changing operating context and has enabled it to adapt to short-term opportunities and challenges while moving towards its long-term goal of delivering sustainable shareholder returns.

The 2016 financial year was challenging for the Group's two operations. Operationally, the Letšeng mine performed well, with all production metrics achieved. In addition, the demand for, and prices of, its large, high-quality, white diamonds remained relatively firm throughout the year. However, the decline in the number of diamonds larger than 100 carats recovered during the year, adversely impacted the Group's revenue, projects and cash flow.

Despite the paucity in the number of large diamonds recovered during 2016, Letšeng continued to recover exceptional, high-quality diamonds demonstrated through the recovery of two rare and valuable pink diamonds of 11.78 and 12.31 carats, which were sold for US$2.2 million and US$1.4 million, respectively. A large 160 carat diamond was also recovered in 2016 and sold into a partnership agreement at a top price, reinforcing the quality of the Letšeng asset.

Development of the Ghaghoo mine continued following the decision to downsize the operation and reduce its associated cost structure. Regrettably, the market for smaller commercial goods (such as those mined at Ghaghoo) remained under pressure and prices for these goods have declined from US$210 to US$142 per carat. Largely due to the depressed market and low realised prices, the Board made the difficult decision to place the operation on care and maintenance in February 2017 resulting in an impairment of US$170.8 million. Ghaghoo remains a key asset for the Group and its expansion opportunities, when diamond prices recover, will strengthen the Group's position. The orebody and all of its characteristics are well understood with just under 137 000 carats recovered and sold to date. 20.5 million carats are contained within the resource.

Against this backdrop, the Group delivered a satisfactory performance. The Group generated underlying EBITDA* of US$63 million with an attributable profit of US$ 18 million before a non-cash impairment charge of US$176 million. The Group ended the year with a cash balance of US$31 million and undrawn facilities of US$53 million as at 31 December 2016.

SUPPORTING INDUSTRY ADVOCACY

The Group understands the importance of protecting and enhancing the premium brand of diamonds. Gem Diamonds was one of the founding members of the Diamond Producers Association (DPA). The Group's association with the DPA has allowed Gem Diamonds to play an active role in maintaining and enhancing consumer demand for and confidence in diamonds.

PARTNERING FOR GROWTH

Gem Diamonds is committed to partnering with its stakeholders to create mutual benefit and shared growth. The Group strives to create positive impact through social initiatives that will outlast the life of its mines. Therefore, the Group's focus is on implementing sustainable projects that address the needs of project-affected communities (PACs). This is done through constant engagement with stakeholders at all levels of the business and using their feedback to guide corporate social investment strategies.

On 6 May 2016, the Letšeng Diamond Discovery Centre was officially opened by His Majesty, King Letsie III in Maseru. The centre tells the story of Lesotho's diamond industry in an interactive manner, focusing on the history of diamond mining at Letšeng. The centre was built to promote knowledge and serve as a foundation for Basotho learners who wish to learn more about the diamond mining industry and possibly pursue careers in the field. To date almost 1 600 visitors have passed through the centre, the vast majority of whom are school children.

STRIVING FOR ZERO HARM

Gem Diamonds endeavours to incorporate sustainability best practice into every level of the business, keeping up-to-date with new developments. Pursuing its goal of zero harm in all areas is a continued priority. During 2016, the Group experienced a fatality-free year and continues to invest in safety training and capability building in its effort to embed a strong safety culture throughout the organisation. Pleasingly, the all injury frequency rate achieved during the year is the lowest in the history of the Group.

PURSUING EXCELLENCE IN CORPORATE GOVERNANCE

The Board is committed to the highest standards of corporate oversight and believes that strong governance is critical to the Group's sustainability.

** Refer to Note 3, Operating profit, for the definition of non-GAAP measures.*

The Board is tasked with providing leadership and guidance to the Group within a framework of controls. It also ensures that the necessary financial and human resources are in place for the Group to meet its objectives and increase shareholder value.

In 2016, the Board once again conducted a detailed Board evaluation. The assessment reviewed the effectiveness of the Board as a collective and the contribution of the individual Directors. Furthermore, the Board evaluation exercise also looked at the composition of the Board and its committees' conduct and decision-making; its approach to and implementation of risk management, management information and reporting; training, development and succession planning; and communication. The outcome of the assessment was used to inform the Board's planning for the year and reinforced our commitment to applying best practices, and setting, monitoring and evaluating the high standards of governance we wish to maintain.

During the year, Alan Ashworth retired as Chief Operating Officer. On behalf of the Board, I would like to thank Alan for his tireless commitment to Gem Diamonds during his eight-year tenure. We welcomed Johnny Velloza as the new Chief Operating Officer in 2016. Johnny brings a wealth of experience to the Group and his contribution has already been felt.

DIVIDEND

In line with the Group's strategy of returning cash to its shareholders, the Company paid a 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) in June 2016 in respect of the 2015 financial year.

Following a careful review of the 2016 results, the Board has decided to focus on cash preservation and is prudently recommending, despite the Group's dividend policy, that no dividend is paid in respect of the 2016 financial year. The Group will continue to focus on capital management discipline and cost control at the operations to return to a position to recommend dividend payments to shareholders in the future.

OUTLOOK

The medium to long-term outlook for diamond demand is expected to remain favourable.

The strategic focus of the Group will remain on creating value by focusing on mining and selling diamonds efficiently and responsibly. Through disciplined execution of its core strategy, the Group is well positioned to maximise shareholder returns and remains confident in its ability to continue delivering returns to shareholders.

APPRECIATION AND FAREWELL

I will be stepping down at this year's Annual General Meeting (AGM), following 10 years as Chairman of Gem Diamonds. It has been an honour to serve this dynamic business for almost a decade. I wish my successor well and know that they join a proud organisation with strong leadership and values. I would like to acknowledge the hard work and commitment of the entire Gem Diamonds team. To my fellow Board members – thank you for your insight and leadership throughout the year. To the host governments, thank you for your continued support. Finally, thank you to the Group's shareholders. Gem Diamonds remains committed to delivering value to you in the year ahead.

Roger Davis
Non-executive Chairman

14 March 2017

CHIEF EXECUTIVE REPORT

Reflecting on 2016, it is evident this was a challenging year for both Letšeng and Ghaghoo. In response to this, the actions and decisions taken by the Board demonstrate the responsive approach and the commitment to focusing on value creation for all stakeholders.

At Letšeng, despite a good operational performance and robust demand for production, the decline in the number of large special diamonds recovered impacted on the average price achieved per carat for the year. On the other end of the diamond spectrum, the depressed market for smaller-sized diamonds continued to place pressure on the prices achieved from our Ghaghoo operation's sales. The Group's financial results were adversely impacted by these lower effective prices, resulting in an EBITDA of US$63 million for the year, 39% lower than in 2015.

MAXIMISING OPERATIONAL EFFICIENCY AND VALUE AT LETŠENG

Operationally, Letšeng had a satisfactory year with all production metrics achieved within plan and guidance. In 2015 the life of mine plan continued to evolve, the implementation of which was successful in its objective of contributing additional higher-value Satellite pipe ore to the processing plants. During the period, a post-investment review on the Plant 2 Phase 1 upgrade, completed in 2015, showed that the plant capability had improved by 12%, in line with the project expectations. The impact of the severe weather experienced during the year offset this improved plant capability, however, we expect the full benefit of this uplift to be evident in 2017 and future years.

Although the number of exceptional diamonds recovered was lower than in prior years, an 11.8 carat pink diamond and a 160.2 carat Type II white diamond were recovered during 2016. These two diamonds, respectively, represent the highest US$ per carat price achieved, as well as the largest diamond recovered for 2016. The pink diamond was sold for US$187 700 per carat making it the third highest price per carat achieved for a single Letšeng diamond. The 160.2 carat Type II white diamond was sold into a partnership arrangement, where Gem Diamonds will participate in additional final polished margin.

The operational performance of the mine is given further credence when you take into consideration the challenges presented by factors entirely outside of our control. In late July, extreme weather conditions were experienced across the Maluti Mountains in Lesotho where the mine is located, with excessive snowfall and severe winds limiting access to the mine and damaging the national grid power supply to the mine. Because of the setbacks that resulted from the severe weather, we revised our targets downwards. During this time, Letšeng provided accommodation and food to approximately 250 local people who were at risk, demonstrating the sense of community of the Letšeng team.

Unfortunately, while the mine was able to achieve its revised operational objectives, the lower than expected recovery frequency of exceptional, large diamonds nevertheless had a significant negative impact on our financial results. The lower revenue achieved for the year is a direct consequence of this.

Following a detailed review of the resource and operational processes by our geology team, we are confident that, as was the case in 2012, the lower recovery rate is simply due to the normal statistical short-term variability of the resource. Letšeng is well known for its recovery of these exceptional diamonds and we expect this trend to continue. Meanwhile, we are assessing options to further enhance recovery and reduce damage to these diamonds through a large-diamond specific recovery plant. As part of the Group's annual planning cycle, a review of the Letšeng mine plan was completed in Q1 2017. This mine plan further optimises the waste mining profile, which in turn will improve cash flow.

FOCUSED ON A PROFITABLE OPERATION AT GHAGHOO

At Ghaghoo, the challenges have predominantly been due to market conditions. The market for small, commercial diamonds remains constrained. At the start of 2016, we announced the decision to downsize our Ghaghoo operation owing to the underperforming smaller sized diamond market. The actions required to reduce tonnage at Ghaghoo were completed in 2016 and the operational improvements progressed well. Mill modifications yielded positive results with increased and improved diamond liberation. Furthermore, the focus on cost discipline resulted in reduced operating costs. There have also been encouraging recoveries of larger diamonds as mining moved into the undiluted portions of kimberlite ore, demonstrating the potential of the mine.

Despite the steps taken, ongoing development of the mine in the near term has been reviewed. Taking into consideration the continued weakness in the market for Ghaghoo's diamonds, which continued to decline from US$210 to US$142 per carat in prices achieved, and which we expect to be further exacerbated by the increase in supply from three new mines entering this particular category of diamond market in February 2017, the Group decided to place the Ghaghoo mine on care and maintenance until conditions improve. This has led to us recognising a non-cash impairment charge of US$ 170.8 million in this year's results.

A decision to place a mine on care and maintenance is a very difficult one based on the impact it has on the people that we employ at the mine. I would like to acknowledge and thank the entire team in Botswana for their tremendous effort and hard work to bring this mine into operation. The 20.5 million carats contained in the mine body will be mined when prices recover and the operation can be economically justified.

CREATING VALUE THROUGH DOWNSTREAM MARKETING ACTIVITIES

We are always looking for ways to create additional value. This means limiting diamond damage as well as continually investing in downstream activities, such as selecting certain high-value rough diamonds for cutting and polishing if they do not achieve reserve prices which have been set on competitive tender. This is done through our own facilities in Antwerp or by partnership arrangements and offers the Group added resilience in the face of the challenges experienced during 2016.

STRENGTH OF BALANCE SHEET

We ended 2015 in a strong financial position underpinned by strong cash generation from Letšeng and prudent capital management over the past few years. While the cash resources were depleted in 2016 because of the challenges discussed and the approach taken by the Board, the Group still ended the year in a net cash position, demonstrating the strength of our balance sheet, which was bolstered by previously implemented revolving credit facilities.

PROTECTING THE WORKFORCE

Safety is an ongoing priority for the Group. Behaviour-based safety forms the cornerstone of our health and safety strategy. We regularly engage with employees to better understand our operational processes so that we become more efficient and improve the working environment. Another way we prioritise the safety and well-being of our employees is through our thorough induction procedure and the ongoing daily monitoring and reporting of safety statistics. These systems continue to bear fruit and I'm pleased to report a fatality-free year, for the second consecutive year although regrettably, five lost time injuries occurred. Continued emphasis on improving safety remains a focus in striving towards our goal of zero harm.

MINIMISING ENVIRONMENTAL IMPACTS

We also understand that our operations are located in sensitive ecosystems, rich in biodiversity. It is, therefore, imperative that we manage our environmental impacts with a high degree of operating discipline throughout the lifecycle of the mining operations. During 2016, our environmental teams continued to monitor the Group's ongoing compliance and pursued innovative ways of addressing environmental challenges. We are happy to report that for the eighth consecutive year, no major environmental incidents have occurred across the Group.

COMMITTED TO LONG TERM SOCIAL DEVELOPMENT

We are committed to contributing positively to the economies in which we operate and to supporting the sustainable development of the communities we directly impact through our operations. We do so through the payment of taxes and royalties, as well as through the development and implementation of appropriate, sustainable corporate social investment projects.

At Letšeng, corporate social projects are implemented in three-year cycles based on needs identified in the community through an in-depth needs analysis. For instance, the Botha-Bothe vegetable project, which commenced in 2015, continued to make a positive and sustainable contribution to community upliftment during the year. Ghaghoo continued to contribute towards initiatives aimed at improving community access to medical services and the upgrading of educational infrastructure.

OUTLOOK

We believe the long-term fundamentals for the diamond industry are strong. As a Group, our focus will be on replenishing cash and strengthening our balance sheet. The emphasis for 2017 and beyond remains on maximising our core asset, Letšeng. We are committed to reducing diamond damage and enhancing the mine plan to improve cash flow. In trying times, it is the difficult decisions we take now that will stand us in good stead in the future. At Ghaghoo, we are focused on placing the asset on care and maintenance efficiently and as cost effectively as possible.

We remain confident about the future of Gem Diamonds and its strategic positioning to weather the current challenging commodity prices and to continue creating value for our shareholders and other stakeholders.

I would like to take this opportunity to thank our shareholders and stakeholders for their continued support. I also extend my sincere gratitude to the Board for their guidance and support throughout the year. A special thank you must go to our outgoing Chairman, Roger Davis, whose commitment to driving Gem Diamonds forward has been instrumental in the Group's success over the years. We wish you well in your future endeavours. We are in the final stages of recruiting Roger's successor and look forward to updating the shareholders further, ahead of the 2017 AGM.

At the end of February 2017, the Letšeng Chief Executive Officer, Ms Mazvi Maharasoa, retired from the organisation after 10 years of diligent service. During her tenure, Mazvi has been instrumental to the successful growth strategy and development of the mine. Mazvi has also been a vital component in the establishment of the Lesotho Chamber of Mines. I would like to take this opportunity to thank Mazvi for her valued contribution to the Group's success.

Finally, thank you to all our employees – your hard work and faithful commitment to the success of Gem Diamonds continues to drive us forward.

Clifford Elphick
Chief Executive Officer

14 March 2017

Group financial performance

Balance sheet strength withstands tough operating and market conditions

The 2016 results were disappointing for the Group when compared to the results of previous years. Challenging market conditions impacting diamond prices, especially for the Ghaghoo type production, and operational headwinds at Letšeng with the lack of large, high-value diamond recoveries, had a significant impact on revenue, profit and cash. Although cash resources were reduced during the year, the Group still ended the year in a positive net cash position.

In response to the challenging operating environment and weak state of the market for the Ghaghoo type production in early 2016, the downsizing of the operation was actioned in Q1 2016. Although cost reductions were initiated and plant modifications implemented, these positive outcomes were not enough to support the operation, considering the continued depressed state of the market. With the last tender held in December 2016 achieving US$142 per carat, down 11% from the first tender of the year, the Board made the decision to place the Ghaghoo operation on care and maintenance in February 2017 and an impairment charge of US$170.8 million was recognised at year end.

Although the heavy snow storms and extreme weather experienced at Letšeng in July 2016 impacted the operation (losing 17 days of production), Letšeng achieved similar operational throughput to that of the previous year. However, the paucity of the larger high-value diamonds recovered in 2016, especially in the second half of the year, significantly impacted the overall US$ per carat achieved. Letšeng achieved US$1 695* per carat for 2016, with an average of US$1 898* per carat achieved in H1 2016 and US$1 480* per carat in H2 2016. The reduction in H2 2016 was driven further by the lower volume of the higher-value Satellite pipe material mined of 0.7 million tonnes compared to 1.0 million tonnes in H1 2016.

Gem Diamonds remains focused on cost discipline and its fundamental goal of extracting the maximum value from its resources for long-term shareholder value creation. In light of the current year's results and the reduced cash resources, the Board did not approve a dividend for the 2016 results. The Group will continue to focus on capital and cost discipline at the operations to remain in a position to recommend dividend payments to shareholders in the future.

REVENUE

The Group continued its objective of maximising the value achieved on rough and polished diamond sales. The Group's revenue is primarily derived from its two business activities, namely sales from its mining operations in Lesotho at Letšeng and Botswana at Ghaghoo, and additional margin generated from its rough diamond manufacturing operation in Belgium. The sales generated by Ghaghoo are not reflected in the Group's revenue figures for the current and prior years, but have been set off against operating and development costs capitalised to the carrying value of the development asset, as the mine did not reach full commercial production for accounting purposes by the end of the year.

Group revenue of US$189.8 million in 2016 is 24% lower than that achieved in 2015. Letšeng achieved an average of US$1 695* per carat from the sale of 108 945 carats, which was 26% lower than that achieved in 2015 of US$2 299* . This lower US$ per carat is largely the consequence of fewer high-quality +100 carat diamonds being recovered at Letšeng during the year.

Ghaghoo sold 47 266 carats during the year for US$7.2 million, achieving an average of US$152 per carat for the year compared to US$162 per carat in 2015. This fall in prices emphasised the weak state of the diamond market for this category of diamonds.

The Group's manufacturing operation contributed additional revenue of US$5.0 million, comprising US$3.2 million polished margin and US$1.8 million as a result of the effect on Group revenue of the movement in own manufactured closing inventory year on year.

** Includes carats extracted for polishing at rough valuation.*

SUMMARY FINANCIAL PERFORMANCE

US$ million	**Year ended 31 December 2016**	Year ended 31 December 2015
Revenue	**189.8**	249.5
Royalty and selling costs	**(17.2)**	(21.9)
Cost of sales	**(98.8)**	(112.4)
Corporate expenses	**(11.0)**	(11.7)
Underlying EBITDA	**62.8**	103.5
Depreciation and amortisation	**(10.4)**	(10.4)
Other income	**0.3**	0.5

Share-based payments	**(1.8)**	(1.7)
Foreign exchange gain	**1.7**	7.0
Net finance (costs)/income	**(0.2)**	0.1
Profit before tax	**52.4**	99.0
Income tax	**(20.0)**	(31.6)
Profit after tax	**32.4**	**67.4**
Non-controlling interests	**(14.7)**	(25.6)
Attributable profit before exceptional items	**17.7**	**41.8**
(Loss)/profit from exceptional items	**(176.5)**	10.2
Attributable (loss)/profit after exceptional items	**(158.8)**	**52.0**
Basic EPS before exceptional items (US cents)	**12.8**	30.2

Royalties consist of an 8% levy paid to the Government of Lesotho and a 10% levy paid to the Botswana Department of Mines on the value of diamonds sold by Letšeng and Ghaghoo, respectively. The Botswana royalty costs were capitalised to the carrying value of the Ghaghoo development asset during the year. Diamond selling and marketing-related expenses are incurred by the Group sales and marketing operation in Belgium. During the year, royalties and selling costs decreased by 22% to US$17.2 million, mainly driven by the reduction in revenue.

US$ million	**Year ended 31 December 2016**	Year ended 31 December 2015
Group revenue summary		
Sales – rough	**184.6**	236.3
Sales – polished margin	**3.2**	3.8
Sales – other	**0.2**	0.6
Impact of movement in own manufactured inventory	**1.8**	8.8
Group revenue	**189.8**	249.5

OPERATIONAL EXPENSES

While revenue is generated in US dollars, the majority of operational expenses are incurred in the relevant local currency in the operational jurisdictions. The Lesotho loti (LSL) (pegged to the South African rand) and Botswana pula (BWP) were weaker against the US dollar during the first half of the year, thereafter strengthening in the second half of the year. The overall weaker currencies, positively impacted the Group’s US dollar reported costs. Group cost of sales for the year was US$98.8 million, compared to US$112.4 million in the prior year, the majority of which was incurred at Letšeng.

Exchange rates	**Year ended 31 December 2016**	Year ended 31 December 2015	% change
LSL per US$1.00			
Average exchange rate for the year	**14.70**	12.78	15
Year-end exchange rate	**13.68**	15.50	(12)
BWP per US$1.00			
Average exchange rate for the year	**10.89**	10.14	7
Year-end exchange rate	**10.68**	11.25	(5)

US$ per GBP1.00			
Average exchange rate for the year	**1.35**	1.53	(12)
Year-end exchange rate	**1.24**	1.47	(16)

LETŠENG MINING OPERATION

Operational excellence through proactive cost management and enhanced production efficiencies continues to be a key focus at Letšeng. Cost of sales for the year was US$97.8 million, down 12% from US$110.6 million in 2015, and includes waste stripping costs amortised of US$34.7 million (2015: US$47.2 million).

In line with the mine plan at Letšeng, 29.8 million tonnes of waste were mined, 24% higher than 2015. Ore tonnes treated were at similar levels to 2015, at 6.6 million tonnes, of which 1.7 million tonnes were sourced from the Satellite pipe, compared to 1.9 million tonnes in 2015. The Satellite to Main pipe ratio of 26:74 for the year was lower than the previous year of 29:71 and was partly influenced by the extreme weather conditions experienced in 2016. Carats recovered during the year of 108 206 remained at similar levels to that of the prior year of 108 579.

Letšeng costs	**Year ended 31 December 2016**	Year ended 31 December 2015
Unit costs US$		
Direct cash cost (before waste) per tonne treated[1]	**10.70**	11.40
Operating cost per tonne treated[2]	**14.64**	16.50
Waste cash cost per waste tonne mined	**2.09**	2.20
Unit costs (local currency)		
Direct cash cost (before waste) per tonne treated[1]	**157.29**	145.64
Operating cost per tonne treated[2]	**215.13**	210.84
Waste cash cost per waste tonne mined	**30.69**	28.08
Other operating information (US$ million)		
Waste cost capitalised	**70.4**	61.4
Waste stripping costs amortised	**34.7**	47.2

[1] Direct cash costs represent all operating cash costs, excluding royalty and selling costs.
[2] Operating costs include waste stripping cost amortised, inventory and ore stockpile adjustments, and excludes depreciation.

Total direct cash costs (before waste) at Letšeng, in local currency, were LSL1 045.4 million compared to LSL972.8 million in 2015. This resulted in a unit cost per tonne treated of LSL157.29 relative to the prior year of LSL145.64, representing an effective increase of 8%. The increase was driven by local inflation of 5%, the one-off costs associated with the unexpected weather incident in July and an increase in explosive costs due to revised drill patterns (as part of the initiative to address diamond damage). These costs also include those associated with Alluvial Ventures (the contractor operating a third plant at Letšeng) which are based on a percentage of revenue and had a 1.4% effect on the overall increase. In Q4 2016, a productivity improvement project with the aim of increasing mining efficiencies commenced. The initial costs thereof were incurred in 2016; the benefits of which will only be seen in 2017.

Operating costs per tonne treated of LSL215.13 were 2% higher than the prior year's cost of LSL210.84 per tonne treated. This slight increase is driven by lower waste amortisation costs during the year, due to the different waste to ore strip ratios for the particular ore processed. During the year, ore was sourced from four cuts (compared to two in 2015), two of which had not previously been mined. In addition, less ore tonnes were mined from the Satellite pipe, which carries a higher rate of amortisation charge. The amortisation charge attributable to the Satellite pipe ore accounted for 61% of the total waste stripping amortisation charge in 2016 (2015: 65%).

The increase in local currency waste cash costs per waste tonne mined of 9% was impacted by local country inflation, longer haul distances to mine the various waste cutbacks and the impact of the US dollar strength on the cost of the mining fleet. As part of the ramp-up of waste tonnes mined, additional larger fleet was brought into use in 2016 by the mining contractor.

GHAGHOO MINING OPERATION

Based on the market conditions at the end of 2015, a decision was made in Q1 2016 to downsize the Ghaghoo operation with the objective of reducing cash burn. Although most cost reduction initiatives were effected, the challenging underground mining conditions impacted the

anticipated downsized volumes and grades achieved. This had a negative effect on the expected revenue and together with the further decrease in diamond prices, the overall net cash invested (net after sales) in the operation for the year was US$14.4 million. This included one-off retrenchment costs and costs associated with the creation of the buffer zone to prevent sand ingress into the production levels following the sink hole that resulted from the caving in late 2015. Development costs of US$3.6 million were invested in order to access both current and future ore producing tunnels and US$2.6 million was invested in sustaining capital.

Based on the 32% reduction in prices achieved over the two-year period, the continued weak state of the diamond market for the Ghaghoo category of diamonds, the recent strengthening of the Botswana pula against the US dollar and with the Group's focus on profitable production, Ghaghoo was placed on care and maintenance in February 2017. As a result, an impairment of US$170.8 million, representing the total non-current assets on the balance sheet, was recognised in the results and disclosed as an exceptional item. Following the restructuring and settlement of one-off costs, it is planned that the ongoing care and maintenance costs will be approximately US$3.0 million per year.

Letšeng average price achieved
US$1 695 per carat (2015: US$2 299 per carat)

Ghaghoo average price achieved
US$152 per carat (2015: US$162 per carat)

DIAMOND MANUFACTURING OPERATION
The Group generated additional margin on selected high-value diamonds through its manufacturing facilities and partnership arrangements. The diamond manufacturing operation in Belgium contributed US$3.2 million to Group revenue (through additional polished margin) and US$2.2 million to underlying EBITDA. Extracted diamond inventory on hand at the end of the year was US$4.4 million compared to US$6.2 million in the prior year, further increasing Group revenue by US$1.8 million.

As part of initiating cost efficiencies across the Group, the manufacturing operation (Baobab) in Antwerp was downsized during the year. Although Baobab will continue to provide its advanced mapping and rough diamond analysis and manufacturing services to the Group and to third parties, in order to decrease fixed overheads, the back-end cutting and polishing functions were outsourced.

CORPORATE OFFICE
Corporate expenses relate to central costs incurred by the Group through its technical and administrative offices in South Africa and head office in the United Kingdom and are incurred in South African rand and British pounds. The impact of Brexit on the Group was limited to the depreciation of the British pound against the US dollar during the second half of the year, reducing the costs incurred in the United Kingdom which are US dollar reported. Corporate costs for the year were US$11.0 million, showing continued decrease from previous years. During the latter part of 2015 the Diamond Producers Association was formed with Gem Diamonds as a founding member along with industry peers. Costs include the increased associated membership fees. The 2016 costs include once-off notice costs relating to the retirement of an Executive Director. Finding innovative ways of reducing diamond damage is a continued focus and US$0.5 million was spent in the current year investigating alternative processing methods to improve diamond liberation.

The share-based payment charge for the year was US$1.8 million. During the year, a new award was granted in terms of the long-term incentive plan (LTIP), whereby 1 400 000 nil cost options were granted to certain key employees and Executive Directors. The vesting of the options to key employees is subject to the satisfaction of certain market and non-market performance conditions over a three-year period. The share-based payment charge associated with this new award was US$0.4 million for the year.

UNDERLYING EBITDA AND ATTRIBUTABLE PROFIT
Based on the operating results, the Group generated an underlying EBITDA of US$62.8 million. The reduced EBITDA from US$103.5 million in the prior year was driven by the lower revenue of US$59.7 million due to the lower US$ per carat achieved during the year. Before exceptional items, the profit attributable to shareholders was US$17.7 million equating to 12.8 US cents per share based on a weighted average number of shares in issue of 138.3 million.

The Group's effective tax rate was 38.2% excluding exceptional items, above the UK statutory tax rate of 20.0%. This tax rate is driven by tax of 25% on profits generated by Letšeng, withholding tax of 10% on dividends from Letšeng and deferred tax assets not recognised on losses incurred in non-trading operations.

EXCEPTIONAL ITEMS
Impairment of assets totalling US$172.9 million were recognised during the year, of which US$170.8 million relates to impairment of the Ghaghoo operation following the decision to place the asset on care and maintenance. The balance of the impairment of US$2.1 million relates to the closure of the Calibrated operation. This operation was set up to use laser diamond shaping and cutting technology and machinery as part of the integration of the Group's rough diamond analysis and manufacturing business. As part of the Group's focus on reducing costs and the limited ability to develop this beneficiation opportunity in Lesotho, the operation was closed. US$3.5 million foreign currency translation reserve was recycled through the income statement relating to the Calibrated business as the operation was based in South Africa.

After including the effect of exceptional items of US$176.5 million, the Group's attributable loss was US$158.8 million.

FINANCIAL POSITION AND FUNDING OVERVIEW

The Group ended the year with US$30.8 million cash on hand, of which US$28.5 million was attributable to Gem Diamonds and US$3.1 million was restricted (2015: US$2.6 million). This restricted cash mainly relates to funds reserved for a portion of the future repayment of the US$25.0 million secured bank loan facility at Ghaghoo.

The Group generated cash flow from operating activities of US$70.7 million before the investment in waste mining of US$70.4 million and capital expenditure of US$7.6 million at Letšeng and US$2.6 million at Ghaghoo. The capital expenditure at Letšeng mainly comprised US$1.8 million for planned dam wall rehabilitation, US$1.0 million for the first phase of the mining support services workshop and US$0.5 million for the reinforcement of the primary crushing area (PCA) structure. At Ghaghoo, the capital expenditure mainly comprised US$1.1 million for earthmoving equipment, US$0.5 million for borehole extension and US$0.3 million extension to the slimes dam facilities.

During the year, Letšeng declared dividends of US$46.5 million, of which US$29.3 million flowed to the Company and US$17.2 million was paid outside of the Group for withholding taxes of US$3.3 million and payment to the Government of Lesotho of US$13.9 million for its minority portion.

The facilities held at the Company and Ghaghoo were restructured during the year, where the Company's US$20.0 million available revolving credit facility was increased to US$35.0 million and the Ghaghoo fully drawn down facility was restructured whereby the capital repayments were scheduled to re-commence in June 2019. The Group therefore had US$53.3 million worth of undrawn and available facilities at the end of the year comprising US$35.0 million at Gem Diamonds and US$18.3 million at Letšeng.

Post-year end, the decision to place the Ghaghoo mine on care and maintenance impacted the US$25.0 million term loan facility and the Group used the revolving credit facility at the Company level to repay the loan. In addition, the LSL140 million (US$10.2 million) was settled with the final LSL28.0 million (US$2.0 million) repaid in February 2017.

Post year end, negotiations continued to secure funding for the construction of the mining support services complex valued at LSL215.0 million (US$15.7 million). This facility has a planned tenure of 5.5 years with a 13-month availability period for draw down.

DIVIDEND

At the AGM held on 7 June 2016, shareholders approved the payment of an ordinary dividend of 5 US cents per share totalling US$6.9 million, and equating to 18% of the Group's 2015 net sustainable attributable earnings. In addition, a special dividend of 3.5 US cents amounting to US$4.8 million was also approved. Based on the current market conditions, the lower than expected Letšeng revenue, and the impact that it has had on the Group's cash resources, the Board resolved not to propose the payment of a dividend in 2017 based on the 2016 results.

OUTLOOK

Focus in 2017 will be on cash generation. At Letšeng, the implementation of the revised life of mine plan is expected to improve cash flows through a further optimised waste mining profile. Furthermore, the variability of the resource is expected to revert to normal, improving the recovery levels of the larger, high-quality diamonds at Letšeng. The benefits to be derived from the mining performance improvement project at Letšeng and the placing of Ghaghoo on care and maintenance will allow for reduced operating costs. These initiatives will drive the objective of maximising shareholder returns with the intention of recommencing the payment of a dividend in the future.

Michael Michael
Chief Financial Officer

14 March 2017

Letšeng

2016 IN REVIEW

Severe weather impact contained
Revised production targets achieved
Recovered grade achieved 1% above reserve grade
34 rough diamonds achieved a value greater than US$1.0 million each
Five diamonds larger than 100 carats recovered
Average price achieved of US$1 695 per carat
Retained ISO 18001 and ISO 14001 certification

STRONG OPERATIONAL RESULTS OVERSHADOWED BY PAUCITY OF LARGE HIGH-VALUE DIAMONDS

OPERATIONAL PERFORMANCE

The planned increase in mining production progressed during the year, with a 24% increase in waste mining in support of increasing the contribution of the higher-value Satellite pipe ore. Letšeng treated 6.6 million tonnes of ore compared to 6.7 million tonnes of ore in the prior year. A post-implementation review of the Plant 2 Phase 1 upgrade (commissioned in 2015) was completed during the year, indicating a 12% increase in the plant capability. The additional expected tonnes were not realised due to power outages caused by a severe snow storm experienced in July and August which resulted in both Letšeng and Alluvial Ventures' treatment plants running at reduced capacity for a period of 17 days. Ore and waste mined were also negatively impacted by the inclement weather conditions, as access to the pits was unattainable. Ore sourced from strategic stockpiles on surface partially mitigated this impact. Of the total ore treated, 69% was sourced from the Main pipe, 27% from the Satellite pipe and 4% from the Main pipe stockpiles. Letšeng recovered 108 206 carats at a grade of 1.63cpht, in line with the expected reserve grade, at a reserve mine call factor (MCF) of 101%.

LARGE DIAMOND RECOVERIES

During 2016, the frequency of exceptional larger diamonds recovered was lower than expected. Letšeng recovered five +100 carat diamonds during the year, compared to 11 that were recovered in 2015. Following a detailed review of the resource and operational process, it was considered that this paucity of large exceptional diamonds was due to normal statical short-term variability of the resource, as was experienced during 2012. The performance of the resource is further detailed in the mineral resource management section on pages 46 to 49 in the Annual Report and Accounts.

MAXIMISING LETŠENG'S VALUE

Over the past five years, Letšeng has grown to be one of the largest open pit diamond mines in the world. This growth has required comprehensive capital investment. During this time, the mine has continually improved its systems and processes to support the additional volumes mined.

In 2016, a fleet management system was installed to drive further productivity improvements. This world-class system will optimise the running of the fleet of haul trucks which has again increased by seven additional 100 tonne Caterpillar rigid dump trucks in the current year. The KPIs generated by this system will provide the baseline against which productivity improvements will be measured.

Operational performance	**Year ended 31 December 2016**	Year ended 31 December 2015	% change
Waste tonnes mined	**29 776 058**	24 010 847	24.0
Ore tonnes mined	**6 694 753**	6 508 806	2.9
Ore tonnes treated	**6 646 098**	6 679 581	(0.5)
Carats recovered	**108 206**	108 579	(0.3)
Recovered grade – cpht	**1.63**	1.63	0
Carats sold	**108 945**	102 778	6.0
Average price per carat (US$)	**1 695**	2 299	(26.3)

During the annual replanning cycle, the sequence of waste mining was reviewed with an aim to stabilise the waste stripping profile. The outcome of this resulted in an updated mine plan, which was completed in Q1 2017, and will reduce the waste stripping profile over the next three years and increase the ore tonnes available for treatment to 7.0 million tonnes per annum (up from 6.0 million tonnes per annum) for the open pit life of mine. The valuable contribution from the higher US$ per tonne Satellite pipe will increase from 1.6 million tonnes per annum to 1.8 million tonnes per annum for the next two years, and thereafter will increase to 2.0 million tonnes per annum until 2029.

The expansion of the open pits has necessitated the construction and relocation of an expanded mining support services complex. The first phase of this project was completed at a cost of less than US$1.0 million. Detailed design of the next phase has been completed and the construction thereof, at a cost of LSL215.0 million (US$15.7 million), will commence in 2017 once project funding has been secured.

As part of optimising diamond liberation and initiatives aimed at reducing diamond damage, the splitting of the front ends of Plant 1 and Plant 2 commenced and is due for completion in Q1 2017. The splitting of the front ends provides the opportunity to dedicate ore treatment through the most suitable plant based on geo-metallurgical characteristics. Previously implemented workstreams targeting diamond damage reduction have had positive results with some exceptional undamaged diamonds recovered during the year, in particular, a 160 carat Type II, a 104 carat Type II and an 11.8 carat pink diamond. Diamonds continue to be damaged, and therefore the reduction in diamond damage remains a key focus area. To further address this, a project has been initiated to investigate the implementation of a large diamond recovery capability.

To address major sources of downtime experienced during 2016, the primary crushing area (PCA) structure was reinforced in December 2016, thereby prolonging the PCA's life and deferring major capital expenditure by between eight and 10 years. Simultaneously critical maintenance work in Plant 2 was completed during which two vertical conveyors, two major chutes and a new feed preparation screen was installed.

As part of Letšeng's efficiency and cost reduction drive, a mining productivity improvement initiative commenced during Q4 2016 engaging a global mining efficiency and continuous improvement consultancy firm to support the mining team on site, with the fundamental objective of improving mining operational practices and increasing mining equipment utilisation and efficiency, with the benefit of reducing operational costs.

These initiatives will further enhance Letšeng's value proposition and are expected to improve the cash flows from the operation.

RESOURCE DEVELOPMENT
During the year, four micro-diamond samples were treated and preliminary interpretation of the results indicated that it may be possible to use this technique to determine macro-diamond grades. A core drilling programme is scheduled to start in the first half of 2017. The programme provides for the drilling of a combined 7 540 metres of core in both the Main and Satellite pipes. This drilling will provide an enhanced understanding of the kimberlite geology below current mining levels. As part of the programme it is planned to treat suitable samples of core for further micro-diamond analysis. Refer to the mineral resource management section on pages 46 to 49 for further details in the Annual Report and Accounts.

SKILLS
The attraction and retention of skills remains an ongoing challenge at Letšeng. Working in a remote area and remunerating in a globally weak currency remains a challenge when attracting skilled employees. Localisation objectives, difficulties experienced in obtaining work permits for skilled expatriates and increasing competition for skilled personnel from other mining companies in Lesotho contribute to the challenges experienced in retaining the appropriate skills at Letšeng.

During the year, several development programmes with South African universities and other accredited institutions, for the development of Lesotho citizen employees, were successfully introduced.

Through the newly established Lesotho Chamber of Mines, the sector has conducted extensive engagement with the Government of Lesotho to expedite the issuing of work permits and facilitating the entry of expatriates into this important sector of the economy which in turn will assist in the development of mining expertise. A memorandum of understanding has been signed between these two parties which will see tangible benefits to the industry.

HEALTH, SAFETY, SOCIAL AND ENVIRONMENT (HSSE)
Letšeng retained its ISO 18001 and ISO 14001 certification for the second consecutive year. Independent audits were conducted to rate the operation's occupational health, safety and environmental management systems against these ISO standards. Letšeng is committed to identifying and mitigating the risks to the health and safety of its employees, contractors and project-affected communities (PACs). Regrettably, the operation recorded two lost time injuries (LTIs) in 2016, ending a 562-day LTI-free period in May 2016.

As a reflection of the operation's commitment to safeguarding the natural environment in which it operates, Letšeng recorded no major or significant environmental incidents for the year. The operation considers the protection of its natural environment as critical to sustainable success. Numerous environmental projects were launched in 2016, including a Bioremediation Project that forms part of the overarching nitrate and water management plans.

No major or significant stakeholder incidents were recorded in 2016 and Letšeng continues to work closely with all its stakeholders. PACs, identified through a comprehensive social and environmental impact assessment, form an important part of the operation's success. Letšeng worked closely with its PACs during 2016 to address socio-economic challenges faced by these communities.

Approximately US$0.3 million was invested during the year towards community projects. This investment was made in accordance with a needs analysis and corporate social investment strategy that is specific to Letšeng. Education and small and medium enterprise developments received the bulk of the social investment, with US$0.2 million invested in these two categories. In addition to the Botha-Bothe vegetable project, which

has been successfully running since 2015, the operation also invested in another enterprise development project, a dairy project. The dairy project is aimed at empowering local farmers by providing them with the means to generate income from dairy farming.

At the end of 2016, 97% of Letšeng's workforce comprised Lesotho citizens.

Frequency of recovery of large diamonds

Number of diamonds	2008	2009	2010	2011	2012	2013	2014	2015	**2016**
>100 carats	7	6	7	6	3	6	9	11	**5**
60 – 100 carats	18	11	11	22	17	17	21	15	**21**
30 – 60 carats	96	79	66	66	77	60	74	65	**70**
20 – 30 carats	108	111	101	121	121	82	123	126	**83**
Total diamonds >20 carats	229	207	185	215	218	165	227	217	**179**

2017 FOCUS

- **Effective implementation of updated mine plan**
- **Deliver benefits from optimisation and expansion projects**
- **Construct expanded mining complex on time and within budget**
- **Complete core drilling to enhance the understanding of the kimberlite geology**
- **Progress feasibility studies of large-diamond recovery capabilities**

Ghaghoo

2016 IN REVIEW
Operation downsized
49% of planned Level 1 VKSE ore extracted
Development to access Level 2 VKSE ore completed
VK-Main phase on Level 1 successfully sampled
Positive results from plant efficiency improvements
Average price achieved of US$152 per carat
Four-star HSE NOSA rating

CONTINUED CHALLENGING MARKET CONDITIONS FOR GHAGHOO'S PRODUCTION HAS NECESSITATED PLACING THE OPERATION ON CARE AND MAINTENANCE IN 2017

OPERATIONAL PERFORMANCE
Ghaghoo operated at a reduced production rate during the year following the decision to downsize the operation due to the depressed state of the market that was experienced in 2015.

The buffer zone around the sand dilution from the sink hole that occurred in November 2015, was successfully created during Q1 2016, sterilising approximately 300 000 tonnes of ore.

A total of 1 440 metres of development was completed during the year. In total, 217 372 tonnes of ore were treated and 40 976 carats were recovered, achieving a recovered grade of 18.9cpht. The recovered grade was below the reserve grade of 27.8cpht due to the high percentage of coarse breccia dilution encountered in the ore extracted near the contact zone from Block 2. This was further exacerbated by diamond lock up in the DMS tailings and mill oversize material. The gratings and liners in the autogenous mill were reconfigured during the fourth quarter of the year and the mill operation was optimised to obtain better liberation and reduce diamond damage.

The VK-Main phase was successfully sampled and processed. The sample achieved a recovered grade of 18.2cpht, being 2% above the estimated reserve grade of 17.8cpht.

During the year, nine diamonds larger than 10.8 carats were recovered, of which the largest was a 40 carat diamond. Fancy coloured diamonds continued to be recovered, confirming the presence of these types of diamonds in the Ghaghoo resource.

Three sales were concluded during the year, achieving an average price of US$152 per carat from the sale of 47 266 carats.

HSSE
During the year, Ghaghoo's health, safety and environmental (HSE) management system was audited by NOSA (previously audited by IRCA) and maintained its four-star rating for its fourth consecutive year. Ghaghoo focused on readying its HSE management systems for ISO 18001 and ISO 14001 pre-certification audits. The operation also underwent a 'Gem Way' internal audit during 2016, following which it was awarded a three-star rating.

Ghaghoo focused on building on the safety progress made in 2015, unfortunately the operation recorded three LTIs during 2016 ending a 449-day LTI-free period.

No major or significant environmental incidents were recorded during 2016. The operation underwent a suite of environmental audits during the year to monitor its compliance with legal and social licence requirements. Ghaghoo advanced its study into aquifer recharge and commenced with the construction of a pilot system that would provide the operation with data to better understand the feasibility of aquifer recharge as part of a water management strategy.

Operational performance	**Year ended 31 December 2016**	Year ended 31 December 2015	% change
Ore tonnes mined	**231 099**	320 630	(27.9)
Ore tonnes treated	**217 372**	326 922	(33.5)
Tunnelling metres developed	**1 440**	1 751	(17.8)
Carats recovered	**40 976**	91 499	(55.2)
Grade recovered (cpht)	**18.9**	28.0	(32.5)

Carats sold	**47 266**	89 107	(47.0)
Average price per carat (US$)	**152**	162	(6.2)

No major or significant stakeholder incidents were recorded during 2016. Ghaghoo used the year to strengthen and formalise its corporate social investment strategy. A community needs analysis was completed at the start of 2016 and supported the social investment strategy implemented by Ghaghoo. Furthermore, approximately US$50 000 was invested towards maintaining existing corporate social project commitments.

At the end of the year, 97% of Ghaghoo's workforce comprised Motswana citizens.

CARE AND MAINTENANCE

The fall in prices of Ghaghoo's production from US$210 per carat in early 2015 to US$142 per carat at its most recent sale in December 2016, emphasised the weak state of the diamond market for this category of diamonds. The operation has been placed on care and maintenance to preserve the value of the resource. The focus in 2017 will be to restructure the operation to reach a state of full care and maintenance during H1 2017. The care and maintenance philosophy is to maintain the asset as a going concern to enable effective and efficient recommencement of the operation when market conditions improve.

2017 FOCUS

- **Execute the care and maintenance plan**
- **Assess future viable options**

Mineral resource management

2016 IN REVIEW

Letšeng diamonds achieve top prices
Lack of larger high-quality diamonds impact overall US$ per carat
Letšeng grade performance achieves MCF
VKMain at Ghaghoo bulk sampled

THE LETŠENG RESOURCE DELIVERS EXCEPTIONAL DIAMONDS ALTHOUGH FEWER OF THE LARGER HIGH-VALUE DIAMONDS WERE RECOVERED DURING THE CURRENT YEAR

RESOURCE PERFORMANCE

Letšeng

Letšeng is renowned for producing some of the world's largest and highest-value diamonds. This is mainly as a result of the high proportion of exceptional quality, flawless white Type II diamonds. This ranks Letšeng as the highest average US$ per carat kimberlite mine in the world.

Letšeng's revenue is highly geared towards the number of large, high-value diamonds recovered. The years 2014 and 2015 were extraordinary in terms of large diamond (greater than 100 carats) recoveries and the percentage of total revenue derived from diamonds larger than 10.8 carats. In comparison, the 2016 production year has been characterised by fewer large and high-value diamonds. Letšeng's realised US$ per carat was below the 2016 expected reserve prices, and achieved US$1 695 per carat compared to US$2 092 per carat.

Of the 100 highest-value diamonds produced in the past six years, only 12 were produced in 2016, negatively impacting the revenue at Letšeng.

Although 2016 recorded fewer +100 carat diamonds than the prior year, the mine produced an 11.78 carat fancy pink diamond which achieved US$187 700 per carat, the third highest price for a single diamond from Letšeng. In addition, four spectacular diamonds recovered during 2016 were ranked in the top 35 of the highest total revenue achieved for a single diamond from Letšeng since 2011. The aggregate value of these four diamonds was US$22.0 million:

Highest value diamonds of 2016 (ranked in top 35 since 2011)

160.21 carat Type II D – ranked 8th
93.90 carat Type II D – ranked 16th
88.43 carat Type II D – ranked 28th
84.87 carat Type II D – ranked 31st

Despite recovering these exceptional diamonds, an increase in grade and the recovery of a higher quantity of smaller diamonds from an area within the southern portion of the Satellite pipe during the year, resulted in the average diamond price achieved for the year being below expectations.

Over the past six years, annual revenue from individual diamonds larger than 10.8 carats has been consistently 70% to 80% of total revenue and, therefore, the operational focus at Letšeng is dramatically different to other diamond producers where grade is usually the primary metric.

Grade performance

Letšeng's recovered grade of 1.63cpht was in line with the expected grade and achieved a reserve MCF of 101%. Of the total ore treated during 2016, 69% was sourced from the Main pipe, 27% from the Satellite pipe and 4% from the Main pipe stockpiles. Historically the Satellite pipe has produced a higher percentage of high-value Type II diamonds while Main pipe has produced some of the largest and most valuable stones.

Discrete sampling results

Pipe	Domain	Wet tonnes*	Carats	Stones	Grade (cpht)*	Average Stone Size (carats)
Main	KMain	1 376 737	19 830	25 250	1.44	0.79
	K4	61 038	717	1 326	1.17	0.54
	Total	1 437 775	20 547	26 576	1.43	0.77
Satellite	NVK	177 621	4 372	5 580	2.46	0.78
	SVK	314 723	8 876	12 559	2.82	0.71

	Total	492 344	13 248	18 139	2.69	0.73

** Based on wet tonnes – no moisture factor applied.*

Discrete sampling results

During 2016, discrete sampling within Main pipe and Satellite pipe was focused on areas within the KMain, K4, NVK and SVK kimberlite domains. This sampling programme will continue into 2017 and together with the 2017 core drilling programme will augment the understanding of the resource. This work is enhancing the understanding of the geology and value of both pipes at depth.

Resource development

The Letšeng kimberlites are unique and have been a source of intrigue for geologists since their discovery. Not only are the diamond populations atypical, but the way the pipes were formed and their emplacement history is rather unusual. Several features of the Letšeng pipes differentiate them from the Kimberly-type pyroclastic kimberlites and impact our understanding of the distribution of diamonds within the pipes.

Since mid-2013, the geological team at Letšeng has been working with a team of leading kimberlite experts from Canada and South Africa to gain a deeper understanding of the relationships between the various kimberlite types within each pipe and to differentiate high-grade varieties from those with high value (containing large and abundant Type II diamonds). During the year, previous geological work was reassessed; historical drill core was relogged; more detailed studies were undertaken on indicator mineral abundances and petrography; and the rock types at depth were linked with those previously mapped in detail in the open pits to update the geological models.

Although Letšeng demonstrates broad scale consistency year on year in terms of price and average stone size for each of the kimberlite domains, the objective of the resource development programme is to gather data on local variability within each domain to improve large stone predictability and calibrate expectations of what each domain and subdomain can reasonably be expected to yield in terms of grade, average stone size, number of +100 carat stones and average price.

Capital was approved in late 2016 for another phase of core drilling in both the Main and Satellite pipes to increase the density of drillholes down to approximately 300m below the current pit floors and further refine the geological models. The programme is scheduled to start in the first half of 2017 and provides for the drilling of 7 540m of core.

Research was undertaken at University of Alberta on Type II macro-diamonds using Fourier Transform Infrared Spectroscopy and Secondary Ion Mass Spectrometry to assess a genetic relationship between microdiamonds and Type II macro-diamonds and to test the suitability of the technique as a predictor of grade and Type II diamond continuity. This research is being expanded in 2017 to study inclusions within the Type II macro-diamonds to identify a distinct mantle signature that could be used to target kimberlite phases with elevated Type II diamond potential based on associated indicator mineral chemistry.

The resource development programme has significantly advanced the understanding of the Letšeng kimberlites, the details of which are to be presented at the 11th International Kimberlite Conference in September 2017.

No additional resources and reserves were added during 2016. The priority for 2016 and into 2017 is firming up on the existing resource base and making appropriate operational and infrastructural adjustments to extract maximum value. Considering the current resource-related work streams in progress, no new resource and reserve statement is to be declared for 2016. After completion of the drilling programme and the associated geological studies on the core are integrated into the resource evaluation, an updated resource and reserve statement will be issued.

Ghaghoo

Since mining operations began, the focus was on confirming the historical estimates of the higher grade VKSE domain. Mining started in the south eastern portion of the pipe in the relatively undiluted VKSE ore. Mining then progressed towards the central zone containing abundant country rock dilution, referred to as the brecciated VK or BXVK in the resource statement. This material contains primary kimberlite that was diluted with brecciated country rock during the emplacement process.

2016 saw a convergence of several factors which served to stress the operation, most notably the decline in prices for the types of diamonds produced at Ghaghoo. Another contributing factor was the mining and processing challenges related to unavoidable highly diluted brecciated ore and the substantial proportion of lower grade ore from the VKMain.

Of the 217 372 tonnes treated during 2016, 48% were from VKMain (17 cpht reserve), 45% from VKSE (27cpht reserve) and 7% from BXVK (9cpht reserve).

During 2016 the evaluation of the lower grade VKMain domain was initiated. This domain was originally excluded from the underground mining reserves due to its low grade. Underground development of the tunnel into the VKMain ore commenced in July 2016 and sample processing was completed in December 2016. The sample confirmed the reserve estimates with a recovered grade of 18.2cpht, which is 2% above the estimated 17.8cpht reserve. Additional resource delineation drilling was completed during the year in order to confirm geological contacts for level one and level two.

Sales, marketing and manufacturing

2016 IN REVIEW

11.78 carat pink diamond achieved US$187 700 per carat
Letšeng achieved US$1 695 per carat
Ghaghoo achieved US$152 per carat
Polished sales contributed additional revenue of US$3.1 million

PRICES FOR LETŠENG'S HIGH-VALUE DIAMONDS REMAIN FIRM

Gem Diamonds continues to invest in its sales, marketing and manufacturing operations to pursue ways of maximising revenue through a combination of marketing channels, including tenders, strategic partnerships, off-take arrangements and additional initiatives further along the diamond pipeline.

SALES AND MARKETING

The Group's rough diamond production is marketed and sold by Gem Diamonds Marketing Services (Belgium) and Gem Diamonds Marketing Botswana (Botswana). Letšeng's diamonds are viewed and sold through an open tender in Antwerp while Ghaghoo's diamonds are viewed in both Gaborone and Antwerp and, subject to prevailing market conditions, are sold either through an open tender or direct sale.

Following viewings by customers in either Antwerp or Gaborone, Gem Diamonds' electronic tender platform allows customers the flexibility to participate in each tender from anywhere in the world. The tender process is managed in a transparent manner. This, combined with professionalism and focused customer care and management, has led to a branded Gem Diamonds experience, contributing to securing customer loyalty, as well as supporting highest market-driven prices for the Group's rough diamond production.

Select rough diamonds from Letšeng which have been manufactured into polished diamonds by Baobab Technologies (Baobab) are sold by Gem Diamonds Marketing Services through direct selling channels to prominent high-end customers.

OPERATIONAL PERFORMANCE

During the year, the Group continued to build its premium customer base. Currently, the Group has 337 approved and registered customers, up from 105 in 2010. Eight large rough diamond tenders were held during the year, all of which were well attended, with an average of approximately 130 customers attending each tender. The Group continually engages with its customers to better understand their challenges and needs and, where possible, accommodates these in its marketing strategy. This is evident in the change in the number of tenders held in a year reducing from 10 to eight (implemented in 2015) and the tenders for the smaller production being reduced to one per quarter with higher volumes.

The multiple strategic and flexible marketing channels adopted in the sale of Letšeng's high-quality diamonds in 2016 contributed in achieving an average price of US$1 695* per carat in a difficult and challenging diamond market. The lower Letšeng average US$ per carat achieved in 2016 was largely a consequence of the paucity of large, high-quality diamonds, rather than any notable decrease in demand or weakening of the prices for these diamonds.

Prices achieved for Letšeng's large, high-value diamonds continued to impress with the following prices being achieved:

- an 11.78 carat pink diamond achieved US$187 700 per carat, making it the third highest US$ per carat achieved for a single Letšeng rough diamond since Gem Diamonds Marketing Services was established in 2010;
- a 12.31 carat pink diamond achieved US$109 677 per carat; and
- the top two white diamonds of 93.90 and 56.48 carats achieved US$56 561 per carat and US$53 451 per carat respectively.

The sale of polished diamonds previously placed into strategic partnerships contributed additional revenue of US$2.6 million to the Group.

An average price of US$152 per carat was achieved for Ghaghoo's production. The downward pressure on prices for the more commercial Ghaghoo production seen in 2016, materially influenced the sales and marketing strategy for these goods. Two of the three Ghaghoo production sales were concluded through direct sales, with the aim of maximising the price (US$160 per carat and US$155 per carat, respectively). The third and final sale for 2016 was concluded by way of open tender with viewings in Gaborone and Antwerp, achieving US$142 per carat.

ROUGH DIAMOND ANALYSIS AND MANUFACTURING

Baobab's advanced mapping and analysis of Letšeng's large exceptional rough diamonds supports the Group in analysing and assessing the value of Letšeng's rough diamonds that are presented for sale on tender or sold through other sales channels. This ensures that robust reserve prices are set for the Group's high-value diamonds at each tender and informs strategic selling, partnering or manufacturing decisions.

To access the highest value for Letšeng's top-quality diamonds, the Group, through Baobab, selectively manufactures certain of the high-value rough diamonds and additionally places other exceptional diamonds into strategic partnership arrangements with select clients. Baobab also performs analyses and management of the manufacturing of large, high-value diamonds for third-party customers.

** Includes carats extracted for polishing at rough valuation.*

OPERATIONAL PERFORMANCE

The challenging market, especially in the manufacturing sector of the diamond industry, necessitated a re-evaluation of Baobab's activities in 2016. Although Baobab continued to provide its advanced mapping and rough diamond analysis and manufacturing services to the Group and to third parties, a decision was taken to outsource the back-end cutting and polishing functions to decrease fixed overheads and provide the needed services in a more optimal and fit-for-purpose manner.

During 2016, 33.42 carats of rough diamonds were extracted for manufacturing, with a rough market value of US$0.7 million. The sale of polished diamonds previously extracted contributed additional revenue of US$0.5 million to the Group for the year. The lower volume of extractions reflects the flexible marketing strategy of the Group which was adapted to consider the current challenging polished diamond market and to capitalise on the sale of Letšeng's production of rough diamonds on tender, which remained firm during the year.

2017 FOCUS

- Maximise revenues in changing market conditions
- Increase downstream opportunities to capitalise on additional revenue
- Maintain reputation for holding premier tenders for Letšeng's large, high-value diamonds
- Monitor market for Ghaghoo-type production

Principal risks and uncertainties
How we approach risk

The Group is exposed to a number of risks and uncertainties that could have a material impact on its performance and long-term growth. The effective identification, management and mitigation of these risks and uncertainties is a core focus of the Group as they are key to achieving the Company's strategic objectives.

Central to Gem Diamonds' approach to risk management is having the right Board and Senior Management team in place, with such members combining extensive experience in diamond mining, corporate governance, assurance management and knowledge of the local operating conditions in Lesotho and Botswana.

The Board is accountable for risk management, assisted primarily by the Audit and HSSE Committees, who together identify and assess change in risk exposure, along with the potential financial and non-financial impacts and likelihood of occurrence.

The Company is continually strengthening its risk management processes to provide informed assurance to the Board to assess current objectives. The Group internal audit function carries out the risk-based audit plan approved by the Audit Committee, to evaluate the effectiveness and contribute to the improvement of risk management controls and governance processes.

Following the extreme weather conditions experienced at Letšeng during the year, the mitigation measures relating to business continuity were reviewed and further strengthened where necessary.

Given the long-term nature of the Group's mining operations, risks are unlikely to alter significantly on a yearly basis; however, inevitably the level of risk and the Group's risk appetite could change. The Board and its Committees have identified the following key risks which have been set out in no order of priority. This is not an exhaustive list, but rather a list of the most material risks facing the Group. The impact of these risks, individually or collectively, could potentially affect the ability of the Group to operate profitably and generate positive cash flows in the medium to long term. The risks are actively monitored and managed as detailed on the following pages.

The KPIs, which are grouped into the growth, value creation and sustainability of the Group's strategy on pages 12 to 13 in the Annual Report and Accounts are linked to each risk.

Description and impact	Mitigation	2016 actions and outcomes	KPIs affected
MARKET RISKS			
1. ROUGH DIAMOND DEMAND AND PRICES			
• Numerous factors beyond the control of the Group may affect the price and demand for diamonds. • These factors include international economic and political trends; projected supply from existing mines; supply and timing of production from new mines; and consumer trends. • The volatility in the market can significantly impact the ability to generate cash flows and to fund operations and growth plans.	• Market conditions are continually monitored to identify trends that pose a threat or create opportunity for the Group. • The Group has flexibility in its sales processes and the ability to reassess its capital projects and operational strategies considering existing market conditions to preserve cash balances. • Strict treasury management procedures are in place to monitor cash and capital project expenditure. • Revolving credit facilities are available during periods when cash constraints are experienced.	• Global macro-economic volatility and uncertainty and the cautious sentiment in the diamond market continued to strain the rough and polished diamond market during 2016. • Letšeng's high-value diamonds continued to be in high demand and achieved firm prices. • The price for Ghaghoo's more commercial production decreased by approximately 30% from that achieved at the beginning of 2015, and is anticipated to remain constrained due to projected increase in supply for these types of goods from new mines coming into production in 2017. The continued decline in Ghaghoo's prices prompted a review by management of the financial viability of the	**Growth** **Value creation**

		operation, and post year end, the decision was taken to place the operation on care and maintenance until such time that commencing full commercial production would make economic sense.	
OPERATIONAL RISKS			
2. MINERAL RESOURCE RISK			
• The Group's mineral resources influence the operational mine plans. Uncertainty or underperformance of mineral resources could affect the Group's ability to operate profitably. • Limited knowledge of the resource could lead to an inability to forecast or plan accurately or optimally, and lead to financial risk. • With Letšeng being the world's lowest grade operating kimberlite mine, the risk of resource underperformance is elevated.	• Various bulk sampling programmes, combined with geological mapping and modelling methods significantly improve the Group's understanding of and confidence in the mineral resources and assist in optimising the mining thereof.	• At Letšeng, ahead-of-face drilling and discrete production sampling programmes initiated in previous years continued in 2016 to better define the orebody. In addition, micro-diamond sample analysis which aims to predict grades at depth was also conducted. The outcomes of these programmes will be used to update resource models. A drilling programme was approved in 2016 and will commence during Q1 2017. • During 2016, fewer exceptional large, high-value diamonds were recovered at Letšeng. Following a detailed review of the resource and operational processes, it was considered that the absence of these type of recoveries is due to the normal statistical short- term variability of the resource and is expected to revert to normal recovery levels. • Resource development at Ghaghoo was limited to mapping of the geology for the underground tunnels. Data obtained from mining activities was analysed to further understand the resource and develop the value in the reserve. While the asset is on care and maintenance, further analysis of data will be undertaken to improve the knowledge of the resource.	**Growth** **Value creation**
3. A MAJOR PRODUCTION INTERRUPTION			
• The Group may experience material mine and/or plant shutdowns or periods of decreased production due to numerous events. Any such event could negatively	• The Group continually reviews the likelihood and consequence of various possible events and ensures that the appropriate management controls,	• During 2016, excessive snow fall and severe winds were experienced in Lesotho, limiting access to Letšeng and damaging the Lesotho Electricity Company's	**Growth** **Value creation** **Sustainability**

impact the Group's operations and its profitability and cash flows.	processes, and business continuity plans are in place to immediately mitigate risk.	infrastructure, impacting power to the operation. Backup generators at the mine were used to mitigate the impact, allowing treatment plants to continue to operate, albeit at reduced rates. • The two major production interruption risks at Ghaghoo of wet underground conditions and single access tunnel to the underground, continued to be managed through water management strategies and regular monitoring of the condition of the access tunnel respectively.	
4. DIAMOND THEFT			
• Theft is an inherent risk factor in the diamond industry. • At Letšeng, because of the frequency of high-value diamonds and the associated low grade, theft can have a material impact on Group cash flow.	• Security measures are constantly reviewed and implemented to minimise this risk. • State-of-the-art security infrastructure and technologies are invested in and supported through additional surveillance processes.	• The Coarse Recovery Plant at Letšeng, with additional security features, continued to be optimised during the year. • Three independent audits of the security systems were conducted, the outcomes of which resulted in a series of findings that provided opportunity to further improve the security processes at Letšeng.	**Growth**
5. DIAMOND DAMAGE			
• Letšeng's valuable Type II diamonds are highly susceptible to damage during the mining and recovery process. To reduce such damage creates a potential upside for the Group.	• Diamond damage is regularly monitored and analysed through studies and variance analyses. • Opportunities to reduce damage through modifications to the mining and treatment process are identified for further investigation.	• During the year, five diamonds greater than 100 carats were recovered. • Options are currently being assessed to further enhance recovery and reduce damage to the large-sized diamonds through a large-diamond specific recovery plant.	**Growth** **Value creation**
6. EXPANSION AND GROWTH			
• The Group's growth strategy is based on delivery of expansion projects, premised on various studies, cost trends and future market assumptions. In assessing the viability, cost and implementation of these projects, risks concerning	• Project governance structures have been applied to ensure that projects are monitored and risks managed at an appropriate level. • Flexibility in the execution of projects allows the Group to react quickly to changes in	• At Letšeng a post-investment review was completed on the Plant 2 Phase 1 upgrade which proved that the project achieved its objective. • In Q4 2016 projects aimed at maximising Letšeng's value commenced and included a revised life of mine plan,	**Growth** **Value creation**

cost overruns and/or delays may affect the implementation and execution thereof.	market and operational conditions.	aimed at reducing waste tonnes mined and further enhancing cash flows, and the study of the benefits of developing a large-diamond specific recovery plant. • Ghaghoo was downsized during 2016, necessitated by the challenging diamond market for the Ghaghoo production. Market and operational conditions worsened during the year necessitated the placing of Ghaghoo on care and maintenance post year end. The viability of this asset will be continually monitored to allow the Group to react to any positive market movements.	
7. HSSE-related risks			
• The risk that a major health, safety, social or environmental incident may occur is inherent in mining operations. • These risks could impact the safety of employees, licence to operate, Company reputation and compliance with facility agreements.	• The Group has implemented appropriate HSSE policies which are subjected to a continuous improvement review. • The Group actively participates and invests in corporate social initiatives for its PACs.	• The Group achieved a fatality-free year. • Five LTIs were reported resulting in an LTIFR of 0.18 and AIFR of 1.93, being the lowest achieved to date in the history of the Group • Ghaghoo maintained its four-star rating for the external HSSE audits. • Letšeng retained its ISO14001 and ISO18001 certification. • Corporate social investment into the Group's PACs continued during the year.	**Sustainability**
8. COUNTRY AND POLITICAL RISKS			
• The political environment of the various jurisdictions that the Group operates within may adversely impact its ability to operate effectively and profitably. Emerging market economies are generally subject to greater risks, including regulatory and political risk, and can be exposed to a rapidly changing environment.	• Changes to the political environment and regulatory developments are closely monitored. Where necessary, the Group engages in dialogue with relevant government representatives to build relationships and to remain well informed of all legal and regulatory developments impacting its operations.	• There were no strikes or lockouts during the year across the Group. • In Lesotho, numerous initiatives in promoting in-country stakeholder relationships were undertaken during the year, including the successful establishment of the Lesotho Chamber of Mines which is chaired by a representative from Letšeng. • There were no disruptions to operations following the retrenchment of employees after the downsizing of Ghaghoo.	**Growth** **Sustainability**
9. ATTRACTING AND RETAINING APPROPRIATE			

SKILLS

• The success of the Group's objectives and sustainable growth depends on its ability to attract and retain key suitably qualified and experienced personnel, especially in an environment and industry where skills shortages are prevalent and in jurisdictions where localisation policies exist.	• The Group regularly reviews human resources practices, which are designed to identify areas of skill shortages, and implements development programmes to mitigate such risks. In addition, these programmes are designed to attract, incentivise and retain individuals of the appropriate calibre through performance-based bonus schemes and long-term reward and retention schemes.	• Intensified efforts continued in the development of selected key employees through structured training and development programmes. • Extensive engagements with respective government departments are ongoing as part of the effort to implement efficient work permit processing and to develop plans for local employee upskilling. • Following engagement with the Government of Lesotho during the year a memorandum of understanding was signed post year end to expedite the issuing of work permits and facilitate the entry of expatriates.	**Growth** **Value creation** **Sustainability**

FINANCIAL RISKS

10. CURRENCY VOLATILITY

• The Group receives its revenue in US dollars, while its cost base is incurred in the local currency of the various countries within which the Group operates. The volatility of these currencies trading against the US dollar impacts the Group's profitability and cash.	• The impact of the exchange rates and fluctuations are closely monitored. • It is the Group's policy to hedge a portion of future diamond sales when weakness in the local currency reach levels where it would be appropriate. Such contracts are generally short term in nature.	• Local currencies in the jurisdictions in which the Group operates weakened against the US dollar during the first half of the year; however, the second half of the year saw significant strengthening of local currencies of Lesotho and Botswana against the US dollar. This has negatively impacted the Group's results which are translated into US dollars. Due to the volatility and uncertainty of the currency movements during the year, no hedges were entered into.	**Growth** **Value creation**

Viability statement

In accordance with the revised UK Corporate Governance Code, the Directors have assessed the viability of the Group over a period significantly longer than 12 months from the approval of the financial statements. The Board concluded that the most relevant time period for consideration for this assessment is a three-year period from the approval of the financial statements, taking into account the Group's current position and the potential impact of the principal risks documented on pages 18 to 24 in the Annual Report and Accounts that could impact the viability of the Group. This period also coincides with the Group's business and strategic planning period, which is reviewed annually, led by the CEO and involving all relevant functions including operations, sales and marketing, financial, treasury and risk. The Board participates fully in the annual review process by means of structured board meetings and annual strategic sessions. A three-year period gives management and the Board sufficient and realistic visibility in the context of the industry environment of the Group.

At Letšeng, the Group's focus is on organic growth with particular emphasis on enhancing efficiencies and optimising expansion plans at the operation. At Ghaghoo, following the weak state of the diamond market for this category of diamonds, the decision has been taken to place the mine on care and maintenance with the objective of cash preservation and the option to bring the mine into commercial production should the diamond market improve for these goods.

For the purpose of assessing the Group's viability, the Directors focused their attention on the more critical principal risks categorised within the Market, Operational and Financial risks together with the likely effectiveness of the potential mitigations that management reasonably believes would be available to the Company over this period. Although the business and strategic plan reflects the Directors' best estimate of the future prospects of the Group, they have also tested the potential impact on the Group of a number of scenarios over and above those included in the plan, by quantifying their financial impact and overlaying this on the detailed financial forecasts in the plan.

The scenarios tested considered the Group's revenue, EBITDA, cash flows and other key financial ratios over the three-year period. Given that Letšeng experienced a paucity of larger high quality diamonds in 2016 impacting its revenue and cash flows, the scenarios tested included the impact of continued paucity of these diamonds over the three-year period. This paucity is considered to be due to the normal statistical short-term variability of the resource and would be expected to revert to normal recovery levels within this three-year period.

The scenarios tested included the compounding effect of:

- a decrease in forecast rough diamond prices from the expected reserve prices; and
- an appreciation of local currencies to the US dollar from expected market forecasts.

With the current net cash position of US$3.8 million as at 31 December 2016 and available standby facilities of US$53.3 million, the Group would be able to withstand the impact of these scenarios occurring over the three-year period, due to the cash-generating nature of the Group's core asset, Letšeng, and its flexibility in adjusting its operating plans within the normal course of business. Post year end, the US$25.0 million Ghaghoo facility was settled out of available facilities at the Company level.

Based on their robust assessment of the principal risks, prospects and viability of the Group, the Board confirms that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending March 2020.

Responsibility Statement of the Directors in Respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with International Financial Reporting Standards (IFRS). Having taken advice from the Audit Committee, the Board considers the report and accounts taken as a whole, are fair, balanced and understandable and that they provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

PREPARATION OF THE FINANCIAL STATEMENTS

The Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group, and of their profit or loss for that period. In preparing the Group financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the Group financial statements; and
- prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose, with reasonable accuracy at any time, the financial position of the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole. In addition, suitable accounting policies have been selected and applied consistently.

Information, including accounting policies, has been presented in a manner that provides relevant, reliable, comparable and understandable information, and additional disclosures have been provided when compliance with the specific requirements in IFRS have been insufficient to enable users to understand the financial impact of particular transactions, other events and conditions on the Group's financial position and financial performance. Where necessary, the Directors have made judgements and estimates that are reasonable and prudent.

The Directors of the Company have elected to comply with the Companies Act 2006, in particular the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 of the United Kingdom pertaining to Directors' remuneration which would otherwise only apply to companies incorporated in the UK.

Michael Michael
Chief Financial Officer

14 March 2017

Independent Auditor’s Report to the Members of Gem Diamonds Limited

OUR OPINION ON THE FINANCIAL STATEMENTS

In our opinion:

- the financial statements of Gem Diamonds Limited (the Group) give a true and fair view of the state of the Group’s affairs as at 31 December 2016 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with IFRS.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

Overview of our audit approach

Risks of material misstatement	• Revenue recognition • Assessing the Ghaghoo development asset for impairment
Audit scope	• We performed a full scope audit of three components and audit procedures on specific balances for a further six components • The components where we performed full or specific audit procedures accounted for 99% of pre-tax profit, 100% of revenue and 99% of total assets
Materiality	• Overall Group materiality was US$2.3 million which represents 5% of pre-tax profit; excluding exceptional items. We exclude the exceptional items, being the impairment on Ghaghoo and the abandonment of the Calibrated Diamonds Investment Holdings (Proprietary) Limited Group (CDIH), as they represent unusual non-recurring events

OUR ASSESSMENT OF RISK OF MATERIAL MISSTATEMENT

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	**Our response to the risk**	**Key observations communicated to the Audit Committee**
Revenue recognition		
Refer to the Audit Committee Report (page 76 in the Annual Report and Accounts*); Accounting policies (page 139* in the Annual Report and Accounts*); and Note 2 of the Annual Financial Statements (page 144* in the Annual Report and Accounts*).*		
The Group recognised revenue of US$189.8 million in the year (2015: US$249.5 million). Diamonds are sold through the following revenue streams: • Rough diamonds sold on tender; • Selected diamonds sold through partnership arrangements; • Diamonds extracted for purposes of manufacturing and sold thereafter in polished form; and • Diamonds sold through joint operation arrangements. We focused on this area due to the inherent risk related to the recognition and measurement of revenue, particularly on partnership arrangements and diamonds extracted for purposes of manufacturing (cutting and polishing). For partnership arrangements, revenue is earned on the sale of the rough diamond, with an additional uplift recognised on the polished margin achieved.	• We considered all diamond revenue streams as significant, and therefore, observed the design effectiveness of the controls around the revenue process in understanding management’s internal processes and the control environment. • We verified management’s recognition of revenue, covering all revenue streams of the Group. This involved agreeing revenue transactions to underlying customer agreements, invoices and supporting calculations to confirm the accuracy and occurrence of the sales recorded. • For partnership arrangements, we assessed the appropriateness of management’s judgement, in determining when risks and rewards are transferred, by reviewing correspondence between management and the partner that confirms no managerial involvement after the sale of the rough stone. • We assessed the accounting treatment of all stones sold through joint operation arrangements ensuring they are recognised in accordance with	We concluded that revenue recognised in the year has been appropriately recognised on the basis of our procedures.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Judgement is involved in determining when the risks and rewards of ownership transfer on the sale of the rough diamond. For diamonds extracted for purposes of manufacturing, no revenue is recognised by the Group until the diamonds are sold to third parties; as a result, there are a number of intercompany transactions that must be eliminated in the consolidated financial statements. There is a risk relating to the completeness of sales recognised through the extraction process in light of the polishing losses that result from the manufacturing process.	IFRS 11 Joint Arrangements. • We performed cut off testing at year end by selecting transactions close to the year end, ensuring the revenue was recognised in the correct period. • We also reviewed management's reconciliation of inventory movements from stones recovered and exported from Letšeng to those sold during the year and the remaining inventory on hand at Gem Diamonds Marketing Services at year end to validate the completeness of revenue.	
Assessing the Ghaghoo development asset for impairment		
Refer to the Audit Committee Report (page 77 in the Annual Report and Accounts*); Accounting policies (page 141* in the Annual Report and Accounts*); and Note 12 of the Annual Financial Statements (page 152* in the Annual Report and Accounts*).*		
We focused on this area due to the size of the Ghaghoo development asset (pre-impairment) that had increased to US$130.7 million from US$117.6 million (post-impairment) in June 2016 (2015: US$141.9 million) and because of the judgements and estimates involved in determining the expected future performance of the mine. Management's decision to place the mine on care and maintenance in February 2017 was determined to be evidence of the existence of impairment indicators at year end. Having reassessed Ghaghoo's recoverable amount, management has provided for the impairment of US$170.8 million for the year ended 31 December 2016 (which includes the US$40.0 million recognised at 30 June 2016), being the development asset and all property, plant and equipment comprising the Ghaghoo cash-generating unit. Management has classified the Ghaghoo US$25.0 million facility as current at year end as it is required to be repaid once the mine is placed on care and maintenance.	• We tested the methodology applied in the value-in-use calculation relative to the requirements of International Accounting Standards (IAS) 36 Impairment of Assets, and the mathematical accuracy of management's model. • We obtained an understanding of and assessed the basis for key underlying assumptions in the mine's business plan: focussing on diamond prices and discount rates. • We challenged management's cash flow forecasts by considering evidence available to support assumptions for reasonableness and the reliability of past forecasts. • We checked that hindsight was not used in determining the amount of the year end impairment. • We engaged EY specialists to assess the reasonableness of the methodology used in determining the discount rate and challenge management's price and discount rate assumptions by benchmarking against industry peers. • We performed sensitivity testing on the price and discount rate assumptions used. • We assessed the implications of the announcement, post-balance sheet date, to place the mine on care and maintenance. • Verified that all required disclosures in the consolidated financial statements were complete and adequately reflected the outcome of management's care and maintenance decision.	Based on the above findings we note that the model is sensitive to any changes in assumptions. Given the current market conditions and the history of the asset, we believe any such changes that would result in less than a full impairment would be optimistic. Therefore we concur with management's decision to fully impair the non-current assets. We believe management's recognition and related disclosure of the impairment in the financial statements to be reasonable and in line with IAS 36 Impairment.

The risk around the key judgements relating to production start date is no longer applicable following the decision to place the mine on care and maintenance.

THE SCOPE OF OUR AUDIT
Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 20 reporting components of the Group, we selected 13 components (the remaining seven components are dormant) covering entities within Belgium, Botswana, Lesotho, South Africa, United Arab Emirates, and the United Kingdom, which represent the principal business units within the Group.

Of the 13 components selected, we performed a full scope audit of three components which were selected based on their size or risk characteristics. For six components (specific scope components), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The components where we performed audit procedures accounted for 99% (2015: 99%) of the Group's pre-tax profit, 100% (2015: 100%) of the Group's revenue and 97% (2015: 97%) of the Group's total assets. For the current year, the full scope components contributed 98% (2015: 98%) of the Group's pre-tax profit, 98% (2015: 98%) of the Group's revenue and 95% (2015: 95%) of the Group's total assets. The specific scope components contributed 1% (2015: 1%) of the Group's pre-tax profit, 2% (2015: 2%) of the Group's revenue and 2% (2015: 2%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but contributed to the coverage of significant accounts tested for the Group.

Of the remaining four components that together represent 1% of the Group's pre-tax profit, we performed other procedures, including analytical reviews, testing of consolidation journals and intercompany eliminations, and assessing entity level controls to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

CHANGES FROM THE PRIOR YEAR

Our scope allocation in the current year is broadly consistent with 2015 in terms of overall coverage of the Group, however, we did make some changes in the identity of components subject to full and specific scope audit procedures. Changes in our scope since the 2015 audit included moving the audit of the Gem Diamonds Limited standalone entity from full audit scope to a specific scope component due to only specific accounts having been considered to have a potential material impact on the significant accounts in the financial statements.

INVOLVEMENT WITH COMPONENT TEAMS

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. For the three full scope components, audit procedures were performed on one of these directly by the primary audit team and by our component audit teams in Botswana and Lesotho. For the six specific scope components, audit procedures were performed on three of these directly by the primary audit team. Of the three specific scope components where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits each of the full scope locations at least once a year. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in Belgium, Lesotho, and South Africa. The Global Team Planning Event was held in South Africa with representatives of the components from Botswana, Lesotho and South Africa all attending. The primary audit team also held a separate team planning event with the component audit team in Belgium. Dependent on the timing of our visits, these involved discussion of the audit approach with the component team and any issues arising from their work, consideration of the approach to revenue recognition, and meeting with local management. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers, attended audit closing meetings, including discussions of fraud and error, and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US$2.3 million (2015: US$5.4 million), which is 5% (2015: 5%) of pre-tax profits, excluding exceptional items. We have excluded the exceptional item, being the impairment, recognised on Ghaghoo and the abandonment of the CDIH group, as they represent non-recurring events. We consider pre-tax profit provides us with the most relevant performance measure to the stakeholders of the entity given the production stage of the Group's Letšeng mine. Our planning materiality has decreased by 52% compared to 2015 given the reduction in pre-tax profit recognised by the Group in 2016.

During the course of our audit, we reassessed initial materiality and changed our final materiality to reflect the actual reported performance of the Group in the year.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2015: 50%) of our planning materiality, namely US$1.3 million (2015: US$2.7 million). We have set performance materiality at this percentage due to our expectation of misstatements identified based on prior experience.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was US$0.2 million to US$1 million (2015: US$0.4 million to US$1.4 million).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We have agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$0.1 million (2015: US$0.2 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR
As explained more fully in the Directors' responsibilities statement set out on page 112 in the Annual Report and Accounts, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

In addition, the Company has also instructed us to:

- report whether the section of the Directors' Remuneration Report that is described as audited has been properly prepared in accordance with the basis of preparation described therein;
- report on whether in the course of the audit:
  - the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
  - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;
- report as to whether the information given in the Corporate Governance Statement set out on pages 66 to 73 in the Annual Report and Accounts with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures and in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority:
  - is consistent with the financial statements and
  - has been prepared in accordance with applicable legal requirement.

Report on whether in the course of the audit rules 7.2.2, 7.2.3 and 7.2.7 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (with respect to the Company's corporate governance code and practices about its administrative, management and supervisory bodies and their committees) have been complied with if applicable.

This report is made solely to the Company's members, as a body, in accordance with the terms of our engagement letter dated 4 March 2016.

Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the Annual Report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the Annual Report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.	**We have no exceptions to report.**
Engagement letter requirements	The Company has instructed us to report on whether, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified any material misstatements in the Strategic Report or Directors' Report or Corporate Governance Statement set out on pages 30 to 109 in the Annual Report and Accounts. The Company has also instructed us to report whether in our opinion: • adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or • the financial statements are not in agreement with the accounting records and returns; or • we have not received all the information and explanations we require for our audit; or • certain disclosures of directors' remuneration specified by law are not made; or • a Corporate Governance Statement has not been prepared by the Company.	**We have no exceptions to report.**
Listing Rules review requirements	We are required to review: • the Directors' statement in relation to going concern (set out on page 107 in the Annual Report) and Accounts, and longer-term viability (set out on page 108 in the Annual Report and Accounts). This statement is specified for review by the Listing Rules of the Financial Conduct Authority for premium listed UK incorporated companies. • the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	**We have no exceptions to report.**

STATEMENT ON THE DIRECTORS' ASSESSMENT OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE ENTITY

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; • the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and • the Directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to	**We have nothing material to add or to draw attention to.**

continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Steven Dobson (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
London

14 March 2017

Consolidated Income Statement
for the year ended 31 December 2016

	Notes	**2016 US$'000 Before exceptional items**	**2016 US$'000 Exceptional items**	**2016 US$'000 Total**	2015 US$'000 Before exceptional items	2015 US$'000 Exceptional items	2015 US$'000 Total
CONTINUING OPERATIONS							
Revenue	2	**189 815**	**–**	**189 815**	249 475	–	249 475
Cost of sales		**(109 063)**	**–**	**(109 063)**	(122 483)	–	(122 483)
Gross profit		**80 752**	**–**	**80 752**	126 992	–	126 992
Other operating income	3	**306**	**–**	**306**	458	8 126	8 584
Royalties and selling costs		**(17 170)**	**–**	**(17 170)**	(21 929)	–	(21 929)
Corporate expenses		**(11 234)**	**–**	**(11 234)**	(11 941)	–	(11 941)
Share-based payments	25	**(1 790)**	**–**	**(1 790)**	(1 738)	–	(1 738)
Foreign exchange gain	3	**1 715**	**–**	**1 715**	6 997	1 472	8 469
Impairment of assets	4	**–**	**(172 932)**	**(172 932)**	–	–	–
Recycling of foreign currency translation reserve on abandonment of operation	4	**–**	**(3 546)**	**(3 546)**	–	–	–
Operating profit/(loss)	3	**52 579**	**(176 478)**	**(123 899)**	98 839	9 598	108 437
Net finance (costs)/income	5	**(209)**	**–**	**(209)**	120	–	120
Finance income		**2 411**	**–**	**2 411**	1 505	–	1 505
Finance costs		**(2 620)**	**–**	**(2 620)**	(1 385)	–	(1 385)
Profit/(loss) before tax for the year from continuing operations		**52 370**	**(176 478)**	**(124 108)**	98 959	9 598	108 557
Income tax expense	6	**(19 966)**	**–**	**(19 966)**	(31 553)	–	(31 553)
Profit/(loss) for the year from continuing operations		**32 404**	**(176 478)**	**(144 074)**	67 406	9 598	77 004
DISCONTINUED OPERATION							
Profit after tax for the year from discontinued operation	7	**–**	**–**	**–**	–	668	668
Profit/(loss) for the year		**32 404**	**(176 478)**	**(144 074)**	67 406	10 266	77 672
Attributable to:							
Equity holders of parent		**17 668**	**(176 478)**	**(158 810)**	41 759	10 266	52 025
Non-controlling interests		**14 736**	**–**	**14 736**	25 647	–	25 647
Earnings/(loss) per share (cents)	8						
– Basic earnings for the year attributable to ordinary equity holders of the parent		**12.8**	**–**	**(114.9)**	30.2	–	37.6
– Diluted earnings for the year attributable to ordinary equity holders of the parent		**12.8**	**–**	**(114.9)**	29.9	–	37.2

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2016

	Notes	**2016 US$'000**	2015 US$'000
(Loss)/profit for the year		**(144 074)**	77 672
Other comprehensive income that could be reclassified to the income statement in subsequent periods			
Exchange differences on translation of foreign operations		**24 398**	(81 601)
Recycling of exchange differences on abandoned and discontinued operations	4	**3 546**	(988)
Other comprehensive income/(expense) for the year, net of tax		**27 944**	(82 589)
Total comprehensive income/(expense) for the year, net of tax		**(116 130)**	(4 917)
Attributable to:			
Equity holders of the parent		**(140 793)**	(15 586)
Non-controlling interests		**24 663**	10 669

Consolidated Statement of Financial Position
for the year ended 31 December 2016

	Notes	**2016 US$'000**	2015 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**257 199**	339 367
Investment property	10	**615**	615
Intangible assets	11	**14 014**	13 510
Receivables and other assets	13	**31**	2 218
Other financial assets		**–**	4
		271 859	355 714
Current assets			
Inventories	14	**30 911**	30 288
Receivables and other assets	13	**6 557**	5 827
Other financial assets		**–**	6
Income tax receivable		**4 636**	269
Cash and short-term deposits	15	**30 787**	85 719
		72 891	122 109
Total assets		**344 750**	477 823
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	16	**1 384**	1 383
Share premium		**885 648**	885 648
Treasury shares[1]		**(1)**	(1)
Other reserves	16	**(143 498)**	(163 420)
Accumulated losses		**(610 329)**	(439 764)
		133 204	283 846
Non-controlling interests		**70 623**	59 923
Total equity		**203 827**	343 769
Non-current liabilities			
Interest-bearing loans and borrowings	17	**–**	25 082
Trade and other payables	18	**1 409**	1 138
Provisions	19	**16 630**	12 473
Deferred tax liabilities	20	**65 676**	50 385
		83 715	89 078
Current liabilities			
Interest-bearing loans and borrowings	17	**27 757**	5 339
Trade and other payables	18	**29 012**	32 228

Income tax payable	**439**	7 409
	57 208	44 976
Total liabilities	**140 923**	134 054
Total equity and liabilities	**344 750**	477 823

[1] Shares held by the Gem Diamonds Limited Employee Share Trust.

Approved by the Board of Directors on 14 March 2017 and signed on their behalf by:

CT Elphick	**M Michael**
Director	Director

Consolidated Statement of Changes in Equity
for the year ended 31 December 2016

	Issued capital[1] US$'000	Share premium[1] US$'000	Own shares[2] US$'000	Other reserves[1] US$'000	Accumulated (losses)/ retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
				Attributable to the equity holders of the parent				
Balance at 1 January 2016	**1 383**	**885 648**	**(1)**	**(163 420)**	**(439 764)**	**283 846**	**59 923**	**343 769**
Total comprehensive income/(expense)	**–**	**–**	**–**	**18 017**	**(158 810)**	**(140 793)**	**24 663**	**(116 130)**
(Loss)/profit for the year	**–**	**–**	**–**	**–**	**(158 810)**	**(158 810)**	**14 736**	**(144 074)**
Other comprehensive income	**–**	**–**	**–**	**18 017**	**–**	**18 017**	**9 927**	**27 944**
Share capital issued	**1**	**–**	**–**	**–**	**–**	**1**	**–**	**1**
Share-based payments (Note 25)	**–**	**–**	**–**	**1 905**	**–**	**1 905**	**–**	**1 905**
Dividends paid	**–**	**–**	**–**	**–**	**(11 755)**	**(11 755)**	**(13 963)**	**(25 718)**
Balance at 31 December 2016	**1 384**	**885 648**	**(1)**	**(143 498)**	**(610 329)**	**133 204**	**70 623**	**203 827**
Balance at 1 January 2015	1 383	885 648	(1)	(97 753)	(484 874)	304 403	61 014	365 417
Total comprehensive income/(expense)	–	–	–	(67 611)	52 025	(15 586)	10 669	(4 917)
Profit for the year	–	–	–	–	52 025	52 025	25 647	77 672
Other comprehensive expense	–	–	–	(67 611)	–	(67 611)	(14 978)	(82 589)
Share-based payments (Note 25)	–	–	–	1 944	–	1 944	–	1 944
Dividends paid	–	–	–	–	(6 915)	(6 915)	(11 760)	(18 675)
Balance at 31 December 2015	1 383	885 648	(1)	(163 420)	(439 764)	283 846	59 923	343 769

[1] Refer to Note 16, Issued capital and reserves, for further detail.
[2] Being shares held by the Gem Diamonds Limited Employee Share Trust.

Consolidated Statement of Cash Flows
for the year ended 31 December 2016

	Notes	**2016 US$'000**	2015 US$'000
Cash flows from operating activities		**70 675**	119 103
Cash generated by operations	21.1	**93 518**	155 257
Working capital adjustments	21.2	**446**	(3 769)
		93 964	151 488
Interest received		**1 253**	1 762
Interest paid		**(2 671)**	(417)
Income tax paid		**(21 871)**	(33 730)
Cash flows used in investing activities		**(98 988)**	(109 605)
Purchase of property, plant and equipment		**(10 624)**	(22 892)
Ghaghoo development costs capitalised		**(3 642)**	(9 040)
Ghaghoo commissioning costs capitalised (net of revenue)		**(14 374)**	(16 630)
Waste cost capitalised		**(70 378)**	(61 416)
Proceeds from sale of property, plant and equipment		**30**	407
Cash used in disposal of subsidiary	21.3	**–**	(34)
Cash flows used in financing activities		**(29 624)**	(23 057)
Financial liabilities repaid		**(3 906)**	(4 384)
Dividends paid to holders of the parent		**(11 755)**	(6 913)
Dividends paid to non-controlling interests		**(13 963)**	(11 760)
Net decrease in cash and cash equivalents		**(57 937)**	(13 559)
Cash and cash equivalents at beginning of the year – continuing operations		**85 719**	110 704
Cash and cash equivalents at beginning of the year – discontinuing operation		**–**	34
Foreign exchange differences		**3 005**	(11 460)
Cash and cash equivalents at end of year held at banks		**27 730**	83 165
Restricted cash at end of year		**3 057**	2 554
Cash and cash equivalents at end of year	15	**30 787**	85 719

1. NOTES TO THE FINANCIAL STATEMENTS

1.1 Corporate information

1.1.1 Incorporation

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.

These financial statements were authorised for issue by the Board on 14 March 2017.

The Group is principally engaged in the exploration and development of diamond mines.

1.1.2 Operational information

The Company has the following investments directly in subsidiaries at 31 December 2016:

Name of company	Share-holding	Cost of investment[1]	Country of incorporation	Nature of business
Subsidiaries				
Gem Diamond Technical Services (Proprietary) Limited[2]	100%	US$17	RSA	Technical, financial and management consulting services.
Gem Equity Group Limited[2]	100%	US$52 277	BVI	Dormant investment company holding 1% in Gem Diamonds Botswana (Proprietary) Limited, 2% in Gem Diamonds Marketing Services BVBA, 1% in Baobab Technologies BVBA and 0.1% in Gem Diamonds Marketing Botswana (Proprietary) Limited.
Letšeng Diamonds (Proprietary) Limited[2]	70%	US$126 000 303	Lesotho	Diamond mining and holder of mining rights.
Gem Diamonds Botswana (Proprietary) Limited[2]	100%	US$27 752 144	Botswana	Diamond mining; evaluation and development; and holder of mining licences and concessions.
BDI Mining Corp[2]	100%	US$82 064 783	BVI	Dormant investment company.
Gem Diamonds Australia Holdings[2]	100%	US$293 960 521	Australia	Dormant investment company.
Gem Diamonds Investments Limited[2]	100%	US$17 531 316	UK	Investment holding company holding 100% in each of Gem Diamonds Technology DMCC and Calibrated Diamonds Investment Holdings (Proprietary) Limited[3]; 99.9% in Gem Diamonds Marketing Botswana (Proprietary) Limited; 99% in Baobab Technologies BVBA; and 98% in Gem Diamonds Marketing Services BVBA, a marketing company that sells the Group's diamonds on tender in Antwerp.

[1] The cost of investment represents original cost of investments at acquisition dates.
[2] No change in the shareholding since the prior year.
[3] On 31 December 2016, the Group abandoned the CDIH group which was involved in the development and use of laser diamond shaping and cutting technology and machinery. As the operations are being closed and not sold the closure has been classified as an abandonment (refer to Note 4, Exceptional items).

1.1.3 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 main geographical regions and the type of products and services from which each reporting segment derives its revenue from are:

- Lesotho (diamond mining activities);
- Botswana (diamond mining activities through Ghaghoo and sales and marketing of diamonds through Gem Diamonds Marketing Botswana (Proprietary) Limited;
- Belgium (sales, marketing and manufacturing of diamonds); and
- BVI, RSA and UK (technical and administrative services).

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

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 manufacturing margins, and Group services.

During the period, an immaterial operation, CDIH, operating out of South Africa and part of the Belgium segment, which developed and maintained laser diamond shaping and cutting technology and machinery, was abandoned due to its inability to generate profits during current market conditions and therefore its results have been excluded.

The following table presents revenue and profit, and asset and liability information from operations regarding the Group's geographical segments:

Year ended 31 December 2016	**Lesotho US$'000**	**Botswana US$'000**	**Belgium US$'000**	**BVI, RSA and UK US$'000**	**Total US$'000**
Revenue					
Total revenue	**184 864**	**–**	**194 387**	**9 719**	**388 970**
Intersegment	**(182 258)**	**–**	**(7 404)**	**(9 493)**	**(199 155)**
External customers	**2 606**	**–**	**186 983**	**226**[1]	**189 815**
Recycling of foreign currency translation reserve on abandonment of operation	**–**	**–**	**3 546**	**–**	**3 546**
Depreciation and amortisation	**44 416**	**–**	**752**	**304**	**45 472**
Depreciation and mining asset amortisation	**9 704**	**–**	**752**	**304**	**10 760**
Waste stripping cost amortisation	**34 712**	**–**	**–**	**–**	**34 712**
Share-based equity transactions	**461**	**–**	**2**	**1 327**	**1 790**
Impairment	**–**	**170 778**	**2 154**	**–**	**172 932**
Segment operating profit/(loss)	**64 409**	**(169 685)**	**(6 529)**	**(12 094)**	**(123 899)**
Net finance costs	**702**	**7**	**–**	**(918)**	**(209)**
Profit/(loss) before tax	**65 111**	**(169 678)**	**(6 529)**	**(13 012)**	**(124 108)**
Income tax expense					**(19 966)**
Loss for the year					**(144 074)**
Segment assets	**309 469**	**6 001**	**6 185**	**23 095**	**344 750**
Segment liabilities	**39 677**	**33 164**	**609**	**1 797**	**75 247**
Other segment information					
Capital expenditure					
– Property, plant and equipment[2]	**7 612**	**7 602**	**408**	**152**	**15 774**

– Waste cost capitalised	**70 378**	**–**	**–**	**–**	**70 378**
– Operating and development costs capitalised	**–**	**18 016**	**–**	**–**	**18 016**
Total capital expenditure	**77 990**	**25 618**	**408**	**152**	**104 168**

[1] No revenue was generated in BVI.
[2] Capital expenditure includes non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho and Botswana segments and capitalisation of share-based payments for the Botswana segment.

Included in annual revenue for the current year is revenue from a single customer which amounted to US$31.3 million arising from sales reported in the Lesotho and Belgium segment.

Segment liabilities do not include net deferred tax liabilities of US$65.6 million.

Total sales for the current year are lower than that of the prior year mainly as a result of the lower frequency of exceptional large diamonds being recovered at the Lesotho segment, resulting in lower diamond prices achieved.

Year ended 31 December 2015	Lesotho US$'000	Botswana US$'000	Belgium US$'000	BVI, RSA and UK US$'000	Total conti-nuing opera-tions	Discon-tinued opera-tions	Total US$'000
Revenue							
Total revenue	236 357	–	263 490	9 788	509 635	85	509 720
Intersegment	(235 183)	–	(15 696)	(9 281)	(260 160)	–	(260 160)
External customers	1 174	–	247 794	507[1]	249 475	85	249 560
Depreciation and amortisation	56 497	–	615	362	57 474	117	57 591
Depreciation and mining asset amortisation	9 275	–	615	362	10 252	117	10 369
Waste stripping cost amortisation	47 222	–	–	–	47 222	–	47 222
Share-based equity transactions	489	–	–	1 249	1 738	–	1 738
Segment operating profit/(loss)	113 998	(1 864)	(1 281)	(2 416)	108 437	(1 002)	107 435
Net finance income					120	–	120
Profit/(loss) before tax					108 557	(1 002)	107 555
Income tax expense					(31 553)	–	(31 553)
Gain on disposal of subsidiary					–	1 670	1 670
Profit for the year					77 004	668	77 672
Segment assets	278 570	158 399	7 938	32 916	477 823	426	478 249
Segment liabilities	44 426	35 105	1 123	3 015	83 669	758	84 427
Other segment information						–	–
Capital expenditure							
– Property, plant and equipment[2]	10 206	19 871	374	2 337	32 788	–	32 788
– Waste cost capitalised	61 416	–	–	–	61 416	–	61 416
– Operating and	–	14 260	–	–	14 260		14 260

development expenses capitalised							
Total capital expenditure	71 622	34 131	374	2 337	108 464	–	108 464

[1] No revenue was generated in BVI.

[2] Capital expenditure includes non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho and Botswana segments and capitalisation of share-based payments for the Botswana segment.

Included in annual revenue for the 2015 year was revenue from a single customer which amounted to US$46.7 million arising from sales reported in the Lesotho and Belgium segment.

Segment liabilities do not include net deferred tax liabilities of US$50.4 million.

Total sales for 2015 were lower than that of 2014 mainly as a result of market conditions and lower diamond prices achieved at the Lesotho segment, together with lower number of carats sold due to production cut-off periods.

1.2 Summary of significant accounting policies

1.2.1 Basis of presentation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements have been prepared under the historical cost basis. The accounting policies have been consistently applied except for the adoption of the new standards and interpretations detailed below.

The functional currency of the Company and certain of its subsidiaries is US dollar, which is the currency of the primary economic environment in which the entities operate. All amounts are expressed in US dollar. The financial statements of subsidiaries whose functional and reporting currency is in currencies other than US dollar have been converted into US dollar on the basis as set out in Note 1.2.16, Foreign currency translations.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1.2.26, Critical accounting estimates and judgements.

The Group has also adopted the following standards and interpretations from 1 January 2016:

Standards issued but not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1 January 2017 or in later periods, which the Group has decided not to adopt early.

Standard, amendment or interpretation		**Effective period commencing on or after**
IFRS 16	Leases	1 January 2019
IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customer	1 January 2018
IAS 7	Disclosure Initiative	1 January 2017
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017

The Group is in the process of assessing the impact of these standards on the financial statements.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 will replace IAS 18 Revenue and IAS 11 Construction Contracts and establishes a unified framework for determining the timing, measurement and recognition of revenue. The principle of the new standard is to recognise revenue as performance obligations are met rather than based on the transfer of risks and rewards. The effective date of the standard is 1 January 2018.

The Group is currently reviewing the potential impact of IFRS 15 with the primary focus being understanding those sales contracts where the timing and amount of revenue recognised could differ under IFRS 15. As the Group's revenue is predominantly derived from rough diamond sales in which the transfer of risks and rewards coincides with the fulfilment of performance obligations, the timing and amount of revenue recognised is unlikely to be affected for these sales. It is currently anticipated that IFRS 15 will have an impact on the timing and amount of revenue recognised relating to uplift on partnership derived on the sale of polished diamonds. As these revenue streams have represented between 1.4% – 2.6% of total revenue generated in the past five years, it is not anticipated to have a significant impact on the results.

IFRS 15 also includes disclosure requirements including qualitative and quantitative information about contracts with customers to help users of the financial statements understand the nature, amount, timing and uncertainty of revenue. The Group will start developing a transition plan to identify and implement the required changes during 2017. The Group expects to adopt this standard retrospectively.

IFRS 16 *Leases*

Under the new standard, a lessee is in essence required to:

- recognise all right of use assets and lease liabilities, with the exception of short term (under 12 months) and low value leases, on the balance sheet. The liability is initially measured at the present value of future lease payments for the lease term. This includes variable lease payments that depend on an index or rate but excludes other variable lease payments. The right of use asset reflects the lease liability, initial direct costs, any lease payments made before the commencement date of the lease, less any lease incentives and, where applicable, provision for dismantling and restoration;
- recognise depreciation of right of use assets and interest on lease liabilities in the income statement over the lease term; and
- separate the total amount of cash paid into a principal portion (presented within financing activities) and interest portion (which the Group presents in operating activities) in the cash flow statement.

This standard will have an impact on the Group's earnings and it must be implemented retrospectively, either with the restatement of comparatives or with the cumulative impact of application recognised as at 1 January 2019 under the modified retrospective approach.

Under IFRS 16 the present value of the Group's operating lease commitments as defined under the new standard, excluding low value leases and short-term leases, will be shown as right of use assets and as lease liabilities on the balance sheet. Information on the undiscounted amount of the Group's operating lease commitments under IAS 17, the current leasing standard, is disclosed in Note 22. The Group is considering the available options for transition.

Over the next two years, the Group will focus on the identification of the provisions of the standard which will most impact the Group.

Business environment and country risk

The Group's operations are subject to country risk being the economic, political and social risks inherent in doing business in certain areas of Africa and Europe. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange rate fluctuations and the enforceability of contract rights.

The consolidated financial information reflects management's assessment of the impact of these business environments on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

1.2.2 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review on pages 40 to 45 and pages 50 to 52 in the Annual Report and Accounts. The financial position of the Company, its cash flows and liquidity position are described in the Strategic Review on pages 34 to 39 in the Annual Report and Accounts. In addition, Note 24, Financial risk management, includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

After making enquiries which include reviews of forecasts and budgets, timing of cash flows, borrowing facilities and sensitivity analyses and considering the uncertainties described in this report either directly or by cross-reference, the Directors have a reasonable expectation that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going-concern basis in preparing the Annual Report and Accounts of the Company.

These financial statements have been prepared on a going-concern basis which assumes that the Group will be able to meet its liabilities as they fall due for the foreseeable future.

1.2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company.

Subsidiaries

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three of the following criteria must be met:
(a) an investor has power over an investee;
(b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and
(c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intragroup balances and transactions, including unrealised profits arising from them, are eliminated in full.

Non-controlling interests

Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to the parent company and is presented separately within equity in the consolidated statement of financial position, separately from equity attributable to owners of the parent. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

1.2.4 Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

- acquisition of rights to explore;
- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- conducting market and finance studies.

Administration costs that are not directly attributable to a specific exploration area are charged to the income statement. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.

Exploration and evaluation expenditure is capitalised as incurred. Capitalised exploration expenditure is recorded as a component of property, plant and equipment at cost less accumulated impairment charges. As the asset is not available for use, it is not depreciated.

All capitalised exploration and evaluation expenditure is monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest in conjunction with the group of operating assets (representing a cash-generating unit (CGU)) to which the exploration is attributed. To the extent that exploration expenditure is not expected to be recovered, it is charged to the income statement. Exploration areas where reserves have been discovered, but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is under way as planned.

1.2.5 Development expenditure

When proved reserves are determined and development is sanctioned, capitalised exploration and evaluation expenditure is reclassified within property, plant and equipment to development expenditure. As the asset is not available for use, during the development phase, it is not depreciated. On completion of the development, any capitalised exploration and evaluation expenditure already capitalised to development asset, together with the subsequent development expenditure, is reclassified within property, plant and equipment to mining assets and depreciated on the basis as laid out in Note 1.2.6, Property, plant and equipment.

All development expenditure is monitored for indicators of impairment annually.

1.2.6 *Property, plant and equipment*

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition and construction of the items, among others, professional fees, and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policies.

Subsequent costs to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised when the cost of the item can be measured reliably, with the carrying amount of the original component being written off. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation commences when an asset is available for use. Depreciation is charged so as to write off the depreciable amount of the asset to its residual value over its estimated useful life, using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group.

Item	Method	Useful life
Mining assets	Straight line	Lesser of life of mine or period of lease
Decommissioning assets	Straight line	Lesser of life of mine or period of lease
Leasehold improvements	Straight line	Lesser of three years or period of lease
Plant and equipment	Straight line	Three to 10 years
Other assets	Straight line	Two to five years

Pre-production stripping costs

Costs associated with removal of waste overburden are classified as stripping costs.

The capitalisation of pre-production stripping costs as part of exploration and development assets ceases when the mine is commissioned and ready for production. Subsequent stripping activities that are undertaken during the production phase of a surface mine may create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where production stripping costs are incurred and where the benefit is the creation of mining flexibility and improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a 'stripping activity asset', if:
(a) future economic benefits (being improved access to the orebody) are probable;
(b) the component of the orebody for which access will be improved can be accurately identified; and
(c) the costs associated with the improved access can be reliably measured.

The stripping activity asset is separately disclosed in Note 9, Property, plant and equipment. If all the criteria are not met, the production stripping costs are charged to the income statement as operating costs. The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. If incidental operations are occurring at the same time as the production stripping activity, but are not necessary for the production stripping activity to continue as planned, these costs are not included in the cost of the stripping activity asset. If the costs of the stripping activity asset and the inventory produced are not separately identifiable, a relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. The stripping activity asset is subsequently amortised over the expected useful life of the identified component of the orebody that became more accessible as a result of the stripping activity. Based on proven and probable reserves, the expected average stripping ratio over the average life of the area being mined is used to amortise the stripping activity. As a result, the stripping activity asset is carried at cost less amortisation and any impairment losses.

The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the orebody divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Changes in the stripping ratio are accounted for prospectively as a change in estimate.

1.2.7 *Investment property*

Investment property is initially recognised using the cost model. Subsequent recognition is at cost less accumulated depreciation, and less any accumulated impairment losses. Rental income from investment property is recognised on a

straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging the lease are capitalised to investment property and depreciated over the lease term. Depreciation is calculated as follows:

Item	Method	Useful life
Investment property amount being zero	No depreciation is provided due to depreciable amount being zero	
Initial direct costs capitalised to investment property	Straight line	Five years

1.2.8 Business combinations, goodwill and other intangible assets

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets, is determined on a transaction-by-transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IFRS 13 in the income statement. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements are accounted for separately from the business combination in accordance with their nature and applicable IFRS. Identifiable intangible assets, meeting either the contractual legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition date fair value can be measured reliably.

If the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities, and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in profit and loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs (or groups of CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes, and shall not be larger than an operating segment before aggregation.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Concessions and licences

Concessions and licences are shown at cost. Concessions and licences have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of concessions and licences over the shorter of the life of mine or term of the licence once production commences.

1.2.9 Other financial assets

Management determines the classification of its investments at initial recognition and re-evaluates this designation at

every reporting date. Currently the Group only has financial assets at fair value through profit or loss, and loans and receivables.

When financial assets are recognised initially, they are measured at fair value plus (in the case of investments not at fair value through profit or loss) directly attributable costs.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss. Upon initial recognition, a financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Gains and losses on investments held for trading are recognised in profit or loss. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities greater than 12 months after the reporting date. These are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment, if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at an appropriate interest rate. The amount of the provision is recognised in the income statement.

1.2.10 Financial liabilities

Interest-bearing borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement, unless capitalised in accordance with Note 1.2.24, Finance costs, over the period of the borrowings, using the effective interest rate method.

Bank overdrafts are recognised at amortised cost.

1.2.11 Fair value measurement

The Group measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly

or indirectly observable.

Level 3 – Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1.2.12 Impairments

Non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment if it is determined that there is an indication of impairment in accordance with IAS 36. Goodwill is assessed for impairment on an annual basis. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Non-financial assets that were previously impaired are reviewed for possible reversal of the impairment at each reporting date.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the income statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date, any subsequent reversal of an impairment loss is recognised in the income statement.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

1.2.13 Inventories

Inventories, which include rough diamonds, ore stockpiles and consumables, are measured at the lower of cost and net realisable value. The amount of any write-down of inventories to net realisable value and all losses, is recognised in the period the write-down or loss occurs. Cost is determined as the average cost of production, using the weighted average method. Cost includes directly attributable mining overheads, but excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs to be incurred in marketing, selling and distribution.

1.2.14 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost. Cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term, highly liquid investments with original maturities of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1.2.15 Issued share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

1.2.16 Foreign currency translations

Presentation currency

The results and financial position of the Group's subsidiaries which have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- statement of financial position items are translated at the closing rate at the reporting date;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- resulting exchange differences are recognised as a separate component of equity.

Details of the rates applied at the respective reporting dates and for the income statement transactions are detailed in Note 16, Issued capital and reserves.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary items that are measured in terms of cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary items for each statement of financial position presented are translated at the closing rate at the reporting date.

1.2.17 Share-based payments

Employees (including Senior Executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). In situations where some or all of the goods or services received by the entity as consideration for equity instruments cannot be specifically identified, they are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date. For cash-settled transactions, the liability is remeasured at each reporting date until settlement, with the changes in fair value recognised in the income statement.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous reporting date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified

award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately.

Where an equity-settled award is forfeited, it is treated as if vesting conditions had not been met and all costs previously recognised in the income statement for the award are reversed and recognised in income immediately.

Management applies judgement when determining whether share options relating to employees who resigned before the end of the service condition period are cancelled or forfeited as referred under policy 1.2.26, Critical accounting estimates and judgements.

1.2.18 Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of a past event; and
- a reliable estimate can be made of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

1.2.19 Restoration and rehabilitation

The mining, extraction and processing activities of the Group normally give rise to obligations for site restoration and rehabilitation. Rehabilitation works can include facility decommissioning and dismantling, removal and treatment of waste materials, land rehabilitation, and site restoration. The extent of the work required and the estimated cost of final rehabilitation, comprising liabilities for decommissioning and restoration, are based on current legal requirements, existing technology and the Group's environmental policies, and is reassessed annually. Cost estimates are not reduced by the potential proceeds from the sale of property, plant and equipment.

Provisions for the cost of each restoration and rehabilitation programme are recognised at the time the environmental disturbance occurs. When the extent of the disturbance increases over the life of the operation, the provision and associated asset is increased accordingly. Costs included in the provision encompass all restoration and rehabilitation activity expected to occur. The restoration and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value. Discount rates used are specific to the country in which the operation is located. The value of the provision is progressively increased over time as the effect of the discounting unwinds, which is recognised in finance charges. Restoration and rehabilitation provisions are also adjusted for changes in estimates.

When provisions for restoration and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset where it gives rise to a future benefit and depreciated over future production from the operation to which it relates.

1.2.20 Taxation

Income tax for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax is provided except where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly

controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Withholding tax is recognised in the income statement when dividends or other services which give rise to that withholding tax are declared or accrued respectively. Withholding tax is disclosed as part of current tax.

Royalties

Royalties incurred by the Group comprise mineral extraction costs based on a percentage of sales paid to the local revenue authorities. These obligations arising from royalty arrangements are recognised as current payables and disclosed as part of royalty and selling costs in the income statement.

Royalties and revenue-based taxes are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is based on taxable income – rather than based on quantity produced or as a percentage of revenue. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. The royalties incurred by the Group are considered not to meet the criteria to be treated as part of income tax.

1.2.21 Employee benefits

Provision is made in the financial statements for all short-term employee benefits. Liabilities for wages and salaries, including non-monetary benefits, benefits required by legislation, annual leave, retirement benefits and accumulating sick leave obliged to be settled within 12 months of the reporting date, are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled. Benefits falling due more than 12 months after the reporting date are discounted to present value. The Group recognises an expense for contributions to the defined contribution pension fund in the period in which the employees render the related service.

Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation. These liabilities are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled.

1.2.22 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfilment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Group as a lessee

Leases of property, plant and equipment where the Group has, substantially, all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of finance charges, are included in financial liabilities.

The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. When the Group is a party to a lease where there is a contingent rental element associated within the agreement, a cost is recognised as and when the contingency

materialises.

Group as a lessor

Assets leased out under operating leases are included in investment property. Rental income is recognised on a straight-line basis over the lease term. Refer to Note 1.2.7, Investment property, for further information on the treatment of investment property.

1.2.23 Revenue

Revenue is measured at fair value of the consideration received or receivable and comprises the fair value for the sale of goods, net of value added tax, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer and can be measured reliably and receipt of future economic benefits is probable.

The following revenue streams are recognised:

- rough diamonds which are made through competitive tender processes, partnership agreements and joint operation arrangements;
- polished diamonds and other products which are made through direct sale transactions;
- additional uplift on partnership arrangements; and
- additional uplift on joint operation arrangements.

Revenue through joint operation arrangements is recognised for the sale of the rough diamond according to the percentage interest in the joint operation arrangement, as only that percentage of significant risks and rewards pass at the time of sale. Contractual agreements are entered into between the Group and the joint operation partner (partner) whereby both parties control jointly the cutting and polishing activities relating to the diamond. All decisions pertaining to the cutting and polishing of the diamonds require unanimous consent from both parties. Once these activities are complete, the polished diamond is sold, after which the revenue on the remaining percentage of the rough diamond is recognised, together with additional uplift on the joint operation arrangement. For more detail on how these arrangements have been included in the financial statements refer to Note 2, Revenue. The Group portion of inventories related to these transactions is included in the total inventories balance refer to Note 14, Inventories.

Revenue through partnership arrangements is recognised for the sale of the rough diamond, with an additional uplift based on the polished margin achieved. Management recognises the revenue on the sale of the rough diamond when it is sold to a third party, as there is no continuing involvement by management in the cutting and polishing process and the significant risks and rewards have passed to the third party. For additional uplift on partnership arrangements, certain estimates and judgements are made by management as referred to under policy 1.2.26, Critical accounting estimates and judgements.

Rendering of service

Revenue from services relating to third-party diamond manufacturing is recognised in the accounting period in which the services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate method.

Dividends

Dividends are recognised when the amount of the dividend can be reliably measured and the Group’s right to receive payment is established.

1.2.24 Finance costs

Finance costs are generally expensed as incurred, except where they relate to the financing of construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use. Finance costs are capitalised up to the date when the asset is ready for its intended use.

1.2.25 Dividend distribution

Dividend distributions to the Group’s shareholders are recognised as a liability in the Group’s financial statements in the period in which the dividends are approved by the Group’s shareholders.

1.2.26 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and judgements and form assumptions that affect the reported amounts of the assets and liabilities, the reported revenue and costs during the periods presented therein, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the financial results or the financial position reported in future periods are discussed below.

Estimates

Life of mine (LoM)

There are numerous uncertainties inherent in estimating ore reserves and the associated LoM. Therefore the Group must make a number of assumptions in making those estimations, including assumptions as to the prices of commodities, exchange rates, production costs and recovery rates. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of ore reserves and may, ultimately, result in the ore reserves being restated. Where assumptions change the LoM estimates, the associated depreciation rates, residual values, waste stripping and amortisation ratios, and environmental provisions are reassessed to take into account the revised LoM estimate. Refer to Note 9, Property, plant and equipment.

Exploration and evaluation expenditure

This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether economically viable extraction operations are viable where reserves have been discovered and whether indications of impairment exist. Any such estimates and assumptions may change as new information becomes available. Refer to Note 9, Property, plant and equipment.

Provision for restoration and rehabilitation

Significant estimates and assumptions are made in determining the amount of the restoration and rehabilitation provisions. These deal with uncertainties such as changes to the legal and regulatory framework, magnitude of possible contamination, and the timing, extent and costs of required restoration and rehabilitation activity. Refer to Note 19, Provisions, for further detail.

Judgements

Development expenditure

Judgement is applied by management in determining when a project has reached a stage at which economically recoverable reserves exist and that development may be sanctioned. Management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure.

Refer to Note 9, Property, plant and equipment.

Revenue – partnership arrangements

Management has entered into partnership arrangements to increase the revenue earned on the sale of rough diamonds. Under these arrangements, revenue is earned for the sale of the rough diamond, with an additional uplift based on the polished margin achieved. Management recognises the revenue on the sale of the rough diamond at the point at which it is sold to the third party, as there is no continuing involvement by management in the cutting and polishing process and the significant risks and rewards have passed to the third party. Judgement is applied by management in determining when additional uplift is recognised and measured with regard to rough diamonds sold into partnership arrangements. Management is required to make certain estimates and assumptions based on when the uplift can be reliably measured. This occurs when the third party sells these goods, at which point the value of the final polished goods are determined.

Impairment reviews

The Group determines if goodwill is impaired at least on an annual basis, while all other significant operations are tested for impairment when there are potential indicators which may require impairment review. This requires an estimation of the recoverable amount of the relevant cash-generating unit under review. Recoverable amount is the higher of fair value less costs to sell and value in use.

While conducting an impairment review of its assets using value-in-use impairment models, the Group exercises judgement in making assumptions about future rough diamond prices, exchange rates, volumes of production, ore

reserves and resources included in the current LoM plans, production costs and macro-economic factors such as inflation and discount rates. Changes in estimates used can result in significant changes to the consolidated income statement and consolidated statement of financial position.

The results of the impairment testing performed indicated an impairment on the Ghaghoo mining operation as disclosed in Note 12, Impairment testing.

The key assumptions used in the recoverable amount calculations, determined on a value-in-use basis, are listed in the table below:

Valuation basis

Discounted present value of future cash flows.

LoM and recoverable value of reserves and resources

Economically recoverable reserves and resources, carats recoverable and grades achievable are based on management's expectations of the availability of reserves and resources at mine sites and technical studies undertaken by in-house and third-party specialists. Reserves remaining after the current LoM plans and current lease periods have not been included in determining the value in use of the operations.

Capital expenditure

Management has estimated the timing and quantum of the capital expenditure based on the Group's current LoM plans for each operation.

Diamond prices

The diamond prices used in the impairment test have been set with reference to recent prices achieved, the Group's medium-term forecast and market trends. Long-term diamond price escalation reflects the Group's assessment of market supply/demand fundamentals.

Discount rate

The discount rate of 12.6% (2015: 12.0%)used for Letšeng and 12.0% (2015: 13.1%) for Ghaghoo, in both instances represents the before-tax risk-free rate adjusted for market risk, volatility and risks specific to the asset and its operating jurisdiction.

Cost and inflation rate

These costs for Letšeng are determined on management's experience and the use of contractors over a period of time whose costs are fairly reasonably determinable. Mining costs have been based on the negotiated eight-year mining contract, which came into effect from 1 January 2014. Costs of extracting and processing which are reasonably determinable are based on management's experience. Long-term inflation rates of 4% to 6% above the long-term US dollar inflation rate were used for operating costs and capital cost escalators.

Exchange rates

Exchange rates are estimated based on an assessment at current market fundamentals and long-term expectations. The US$/Lesotho Loti (LSL) and US$/Botswana Pula (BWP) exchange rate used was determined with reference to the closing rate at 31 December 2016 of LSL13.68 and BWP10.68, respectively.

Sensitivity

The value in use for Letšeng indicated sufficient headroom, and no reasonable change in the key assumptions will result in an impairment.

Market capitalisation

The Group has made a judgement in determining if, in the instance where the Group's asset carrying values exceed market capitalisation, this results in an indicator of impairment. All significant operations were assessed for impairment during the year and impairments were recognised where relevant.

Refer to Note 12, Impairment testing, for further detail.

Capitalised stripping costs (deferred waste)

Waste removal costs (stripping costs) are incurred during the development and production phases at surface mining operations. Furthermore, during the production phase, stripping costs are incurred in the production of inventory as well as in the creation of future benefits by improving access and mining flexibility in respect of the ore to be mined, the latter

being referred to as a 'stripping activity asset'. Judgement is required to distinguish between these two activities at Letšeng. The orebody needs to be identified in its various separately identifiable components. An identifiable component is a specific volume of the orebody that is made more accessible by the stripping activity. Judgement is required to identify and define these components (referred to as 'cuts'), and also to determine the expected volumes (tonnes) of waste to be stripped and ore to be mined in each of these components. These assessments are based on a combination of information available in the mine plans, specific characteristics of the orebody and the milestones relating to major capital investment decisions.

Judgement is also required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and the stripping activity asset. The ratio of expected volume (tonnes) of waste to be stripped for an expected volume (tonnes) of ore to be mined for a specific component of the orebody, compared to the current period ratio of actual volume (tonnes) of waste to the volume (tonnes) of ore is considered to determine the most suitable production measure.

These judgements and estimates are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity asset(s). Furthermore, judgements and estimates are also used to apply the stripping ratio calculation in determining the amortisation of the stripping activity asset. Refer to Note 9, Property, plant and equipment, for further detail.

Stripping ratio

Estimated recoverable reserves are used in determining the amortisation of mine-specific assets. Amortisation is calculated by using the expected average stripping ratio over the average life of the area being mined. The average stripping ratio is calculated as the number of tonnes of waste material expected to be removed during the life of area, per tonne of ore mined. The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the orebody divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Changes in the stripping ratio are accounted for prospectively as a change in estimate. Refer to Note 9, Property, plant and equipment, for further detail.

Production start date

The phase of each mine construction project is assessed to determine when a mine moves into the production phase. The criteria used to assess the start date are determined by the unique nature of each mine's construction project and include factors such as the complexity of a plant and its location. Various relevant criteria are considered to assess when the mine is substantially complete and ready for its intended use and moves into the production phase. At this point, all related amounts are reclassified from 'exploration and development assets' to 'mining assets', 'stripping activity asset' and/or 'property, plant and equipment'. Some of the criteria would include but are not limited to the following:

- the level of capital expenditure compared to the construction costs estimates;
- completion of a reasonable period of testing of the mine plant and equipment;
- ability to produce inventory in saleable form; and
- ability to sustain ongoing production of inventory.

Refer to Note 9, Property, plant and equipment, for further detail.

When a mine construction project moves into the production phase, the capitalisation of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for capitalisable costs related to mining asset additions or improvements, production phase stripping costs capitalisable as stripping activity asset(s), and exploration expenditure that meets the criteria for capitalisation. It is also at this point that depreciation/amortisation commences.

Management made the key judgement that the Ghaghoo mine had not reached production start date during the year based on the following:

- Continued operational and technical challenges as a result of difficult ground conditions resulted in Ghaghoo not achieving its planned ramp-up profile and production targets.
- Inconsistent plant throughput rates impacting ability to sustain ongoing production of inventory.

As a result, the mine was not in the condition necessary for it to be capable of operating in the manner intended by management on a sustainable basis and therefore the mine remained in its construction phase with all costs incurred during the year being capitalised to the exploration and development asset. Subsequent to period end, the Ghaghoo mine was placed on care and maintenance and all costs previously capitalised to the exploration and development asset were impaired in full as disclosed in Note 9, Property, plant and equipment.

Share-based payments

Judgement is applied by management in determining whether the share options relating to employees who resigned before the end of the service condition period have been cancelled or forfeited in light of their leaving status. Where

employees do not meet the requirements of a good leaver as per the rules of the long-term incentive plan (LTIP), no award will vest and this will be treated as cancellation by forfeiture. The expenses relating to these charges previously recognised are then reversed. Where employees do meet the requirements of a good leaver as per the rules of the LTIP, some or all of an award will vest and this will be treated as a modification to the original award. The future expenses relating to these awards are accelerated and recognised as an expense immediately. Refer to Note 25, Share-based payments, for further detail.

1.2.27 Exceptional items

The Group presents as exceptional items on the face of the income statement, those material items of income and expenses which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance. Refer to Note 4, Exceptional items, for further detail.

2. REVENUE

	2016 US$'000	2015 US$'000
Sale of goods	**189 355**	248 969
Rendering of services	**460**	506
	189 815	249 475

Included in revenue are sales of diamonds which are sold through joint operation arrangements totalling US$0.2 million (2015: US$2.4 million).

Finance income is reflected in Note 5, Net finance (costs)/income.

3. OPERATING PROFIT/(LOSS) BEFORE EXCEPTIONAL ITEMS

Operating profit includes the following:

Other operating income		
Profit on disposal of property, plant and equipment	**16**	251
Depreciation and amortisation		
Depreciation and mining asset amortisation – continuing operations	**(14 899)**	(13 057)
Depreciation – discontinued operation	**–**	(117)
Waste stripping costs amortised	**(34 712)**	(47 222)
	(49 611)	(60 396)
Less: Depreciation capitalised to development asset	**4 545**	2 738
(Add)/less: Depreciation and mining asset amortisation capitalised to inventory	**(249)**	224
	(45 315)	(57 434)
Amortisation of intangible assets	**(157)**	(157)
	(45 472)	(57 591)
Inventories		
Cost of inventories recognised as an expense	**(98 896)**	(111 969)
Write-down of inventory to net realisable value	**(466)**	–
	(99 362)	(111 969)
Foreign exchange gain		
Foreign exchange gain	**1 715**	7 314
Mark-to-market revaluations on forward exchange contracts	**–**	1 155

	2016 US$'000	2015 US$'000
	1 715	8 469
Operating lease expenses as a lessee		
Mine site property	**(126)**	(112)
Equipment and service leases	**(54 279)**	(51 147)
Contingent rental – Alluvial Ventures	**(10 716)**	(11 360)
Leased premises	**(2 197)**	(2 509)
	(67 318)	(65 128)
Auditor's remuneration – EY		
Group financial statements	**(441)**	(555)
Statutory	**(146)**	(154)
	(587)	(709)
Auditor's remuneration – other		
Statutory	**(20)**	(34)
	(20)	(34)

	2016 US$'000	2015 US$'000
Other non-audit fees – EY		
Tax services advisory and consultancy	**(63)**	(32)
Tax compliance services	**(18)**	(17)
Other services	**(10)**	(17)
Other assurance services[1]	**(149)**	(155)
	(240)	(221)
Other non-audit fees – other		
Internal audit	**(1)**	(29)
Tax services advisory and consultancy	**(6)**	(16)
	(7)	(45)
Employee benefits expense		
Salaries and wages[2]	**(16 673)**	(21 784)

Underlying earnings before interest, tax, depreciation and mining asset amortisation (underlying EBITDA) before exceptional items

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 as listed below. The reconciliation from operating profit to underlying EBITDA is as follows:

	2016 US$'000	2015 US$'000
Operating profit	**52 579**	98 839
Other operating income	**(306)**	(458)
Foreign exchange gain	**(1 715)**	(6 997)
Share-based payments	**1 790**	1 738
Depreciation and mining asset amortisation (excluding waste stripping cost amortised)	**10 469**	10 424
Underlying EBITDA before exceptional items	**62 817**	103 546

4. EXCEPTIONAL ITEMS

Other operating income[3]	**–**	8 126
Foreign exchange gain[3]	**–**	1 472
Impairment of assets[4]	**(172 932)**	–
Recycling of foreign currency translation reserve on abandonment of operation[4]	**(3 546)**	–
	(176 478)	9 598

[1] Other assurance services by EY relate to the interim review on the half-year results for the six months ended 30 June.
[2] Includes contributions to defined contribution plan of US$0.6 million (31 December 2015: US$0.6 million).
[3] The prior year exceptional items relate to the settlement of an interest-bearing tax liability for an amount less than that previously provided for which resulted in the reversal of accrued expenses of US$8.1 million. In addition, the interest-bearing tax liability was payable in Australian dollar, resulting in a foreign exchange gain of US$1.5 million.
[4] Relates to the impairment of the abandoned operation resulting in an impairment charge of US$2.2 million and recycling of foreign currency translation reserve of US$3.5 million. In addition, the impairment of the carrying value of the Ghaghoo asset was US$170.8 million. Refer to Note 12, Impairment testing, for further information.

5. NET FINANCE (COSTS)/INCOME

	2016 US$'000	2015 US$'000
Finance income		
Bank deposits	**1 232**	1 098
Other	**1 179**	407
Total finance income	**2 411**	1 505
Finance costs		
Bank overdraft	**(815)**	(82)
Finance costs on borrowings	**(1 064)**	(335)
Finance costs on unwinding of rehabilitation provision	**(741)**	(968)
Total finance costs	**(2 620)**	(1 385)
	(209)	120

6. INCOME TAX

Income tax expense		
Income statement		
Current		
– Overseas	**(7 138)**	(22 209)
Withholding tax		
– Overseas	**(3 379)**	(2 858)
Deferred		
– Overseas	**(9 449)**	(6 486)
	(19 966)	(31 553)
(Loss)/profit before taxation	**(124 108)**	108 557
	%	%
Reconciliation of tax rate		
Applicable income tax rate	**20.0**	20.3

Permanent differences	**(27.0)**	(1.9)
Unrecognised deferred tax assets	**(6.9)**	3.6
Effect of overseas tax at different rates	**0.5**	4.5
Withholding tax	**(2.7)**	2.6
Effective income tax rate	**(16.1)**	29.1

Included in permanent differences is the impairment of the abandoned operation and the impairment of the carrying value of the Ghaghoo asset. For more information, refer to Note 4, Exceptional items. During the year, the effective statutory UK Corporate Tax Rate changed to 20.0% (2015: 20.3%).

7. DISPOSAL OF SUBSIDIARY

There are no disposals of subsidiaries or discontinued operations for the current year.

During the prior year, the Group sold its small manufacturing business facility in Mauritius, through Gem Diamonds Technology Mauritius (Proprietary) Limited. The sale was finalised for the agreed purchase price of US$0.4 million, to be paid in quarterly instalments of a minimum of US$50 000 which was due to commence in January 2016. Based on current market conditions, the consideration has not been received to date and therefore a provision for bad debt of the full purchase price of US$0.4 million has been raised. Refer to Note 13, Receivables and other assets.

The results of the Mauritius operation for the year ended 31 December 2015 is as follows:

	31 December 2015 US$'000
Revenue	85
Cost of sales and other operating costs	(443)
Gross loss	(358)
Foreign exchange loss	(644)
Operating loss	(1 002)
Gain on disposal of subsidiary	1 670
Profit before tax from discontinued operation	668
Income tax expense	–
Profit after tax from discontinued operation	668
Earnings per share from discontinued operation (cents)	
Basic	0.48
Diluted	0.48
The net cash flows attributable to the discontinued operation are as follows:	
Operating	(293)
Investing	444
Financing	(151)
Foreign exchange loss on translation of cash balance	(4)
Net cash outflow	(4)
The net assets disposed of are as follows:	
Assets	
Property, plant and equipment	269
Inventories	4
Trade and other receivables	119

Cash and cash equivalents	34
Liabilities	
Trade and other payables	(732)
Provisions	(26)
Net identifiable assets disposed of	(332)
Recycling of foreign currency translation reserve	(988)
Consideration not received[1]	(350)
Gain on disposal of subsidiary	(1 670)

[1] *Consideration was not received and a provision for bad debt has been raised during 2016.*

8. EARNINGS PER SHARE

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2016 US$'000	2015 US$'000
(Loss)/profit for the year from continuing operations after exceptional items	**(144 074)**	77 004
Profit for the year from discontinued operation	**–**	668
Less: Non-controlling interests	**(14 736)**	(25 647)
Net profit attributable to equity holders of the parent for basic and diluted earnings	**(158 810)**	52 025
The weighted average number of shares takes into account the treasury shares at year end.		
Weighted average number of ordinary shares outstanding during the year ('000)	**138 266**	138 227

Earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year after taking into account future potential conversion and issue rights associated with the ordinary shares.

	2016 Number of shares	2015 Number of shares
Weighted average number of ordinary shares outstanding during the year	**138 266**	138 227
Effect of dilution:		
– Future share awards under the Employee Share Option Plan	**1 729**	1 476
Weighted average number of ordinary shares outstanding during the year adjusted for the effect of dilution	**139 995**	139 703

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

9. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2016	**Stripping activity asset US$'000**	**Mining asset US$'000**	**Exploration and develop-ment assets[1] US$'000**	**Decommis-sioning assets US$'000**	**Leasehold improve-ment US$'000**	**Plant and equip-ment US$'000**	**Other assets[2] US$'000**	**Total US$'000**

Cost								
Balance at 1 January 2016	**232 779**	**111 879**	**129 493**	**3 941**	**28 205**	**61 743**	**19 401**	**587 441**
Additions	**70 378**	**–**	**23 611**	**–**	**261**	**7 623**	**2 295**	**104 168**
Net movement in rehabilitation provision	**–**	**–**	**511**	**1 403**	**–**	**–**	**–**	**1 914**
Disposals						**–**	**(567)**	**(567)**
Reclassifications	**–**	**1 458**	**(12 721)**	**–**	**3 415**	**7 534**	**314**	**–**
Foreign exchange differences	**36 247**	**5 809**	**7 140**	**665**	**3 523**	**9 249**	**1 690**	**64 323**
Balance at 31 December 2016	**339 404**	**119 146**	**148 034**	**6 009**	**35 404**	**86 149**	**23 133**	**757 279**
Accumulated depreciation/ amortisation								
Balance at 1 January 2016	**144 495**	**44 624**	**–**	**3 017**	**8 815**	**37 942**	**9 181**	**248 074**
Charge for the year	**34 712**	**1 786**	**–**	**111**	**3 622**	**5 617**	**3 763**	**49 611**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**(548)**	**(548)**
Reclassifications	**–**	**809**	**–**	**–**	**(28)**	**(2)**	**(779)**	**–**
Impairment	**–**	**–**	**147 251**	**–**	**5 790**	**13 100**	**6 340**	**172 481**
Foreign exchange differences	**20 182**	**870**	**783**	**445**	**1 415**	**5 860**	**907**	**30 462**
Balance at 31 December 2016	**199 389**	**48 089**	**148 034**	**3 573**	**19 614**	**62 517**	**18 864**	**500 080**
Net book value at 31 December 2016	**140 015**	**71 057**	**–**	**2 436**	**15 790**	**23 632**	**4 269**	**257 199**

[1] Borrowing costs of US$1.6 million (31 December 2015: US$1.6 million) incurred in respect of the US$25.0 million facility at Ghaghoo (refer to Note 17, Interest-bearing loans and borrowings) were capitalised to the development asset. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 6.5%.
[2] Other assets comprise motor vehicles, computer equipment, furniture and fittings, and office equipment.

As at 31 December 2015	Stripping activity asset US$'000	Mining asset US$'000	Exploration and develop-ment assets[1] US$'000	Decommis-sioning assets US$'000	Leasehold improve-ment US$'000	Plant and equip-ment[2] US$'000	Other assets[3] US$'000	Total US$'000
Cost								
Balance at 1 January 2015	243 952	125 361	124 081	8 408	22 348	88 554	14 579	627 283
Additions	61 416	–	27 402	–	390	13 183	8 824	111 215
Net movement in rehabilitation provision	–	–	–	(2 751)	–	–	–	(2 751)
Disposals	–	–	–	–	(96)	(1 450)	(209)	(1 755)
Reclassifications	–	2 126	–	–	13 115	(15 408)	167	–
Foreign exchange differences	(72 589)	(15 608)	(21 990)	(1 716)	(7 552)	(23 136)	(3 960)	(146 551)

Balance at 31 December 2015	232 779	111 879	129 493	3 941	28 205	61 743	19 401	587 441
Accumulated depreciation/ amortisation								
Balance at 1 January 2015	138 079	44 434	–	3 646	9 944	48 135	8 118	252 356
Charge for the year	47 222	2 098	–	439	1 945	5 355	3 337	60 396
Disposals	–	–	–	–	(96)	(842)	(157)	(1 095)
Foreign exchange differences	(40 806)	(1 908)	–	(1 068)	(2 978)	(14 706)	(2 117)	(63 583)
Balance at 31 December 2015	144 495	44 624	–	3 017	8 815	37 942	9 181	248 074
Net book value at 31 December 2015	88 284	67 255	129 493	924	19 390	23 801	10 220	339 367

[1] *Borrowing costs of US$1.6 million (31 December 2014: US$0.6 million) incurred in respect of the US$25.0 million facility at Ghaghoo development (refer to Note 17, Interest-bearing loans and borrowings) were capitalised to the development asset. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 6.5%.*

[2] *During 2015 the Coarse Recovery Plant was completed and reclassified out of plant and equipment, into leasehold improvements. Borrowing costs of US$0.9 million incurred in respect of the associated LSL140.0 million bank loan facility were capitalised (refer to Note 17, Interest-bearing loans and borrowings). The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 11.35%.*

[3] *Other assets comprise motor vehicles, computer equipment, furniture and fittings, and office equipment.*

10. Investment property

The investment property consists of a commercial unit located in the Almas Towers in Dubai. The unit is being let out in terms of a rental agreement entered into for a further two-year period commencing 1 October 2016.

	2016 US$'000	2015 US$'000
Cost		
Balance at 1 January	**617**	617
Balance at 31 December	**617**	617
Accumulated depreciation		
Balance at 1 January	**2**	2
Depreciation	**–**	–
Balance at 31 December	**2**	2
Net book value at 31 December	**615**	615
Fair value[1]	**923**	1 011
Amounts recognised in profit or loss		
Rental income	**60**	59
Direct operating expenses	**(20)**	(16)
The future minimum rental income under the rental agreement in aggregate and for each of the following periods are as follows:		
– Within one year	**63**	44
– After one year but not more than five years	**47**	–
– More than five years	**–**	–
	110	44

[1] An independent valuation was performed whereby the fair value was based on an overview of property sales (units within the same building as the investment property) during 2016, weighted towards the most recent sales activity and taking into account current and future trending market sentiment.

11. Intangible assets

As at 31 December 2016	Intangibles US$'000	Goodwill US$'000	Total US$'000
Cost			
Balance at 1 January 2016	783	13 305	14 088
Foreign exchange difference	–	665	665
Balance at 31 December 2016	783	13 970	14 753
Accumulated amortisation			
Balance at 1 January 2016	578	–	578
Amortisation	157	–	157
Impairment	4	–	4
Balance at 31 December 2016	739	–	739
Net book value at 31 December 2016	44	13 970	14 014
As at 31 December 2015			
Cost			
Balance at 1 January 2015	784	17 818	18 602
Foreign exchange difference	(1)	(4 513)	(4 514)
Balance at 31 December 2015	783	13 305	14 088
Accumulated amortisation			
Balance at 1 January 2015	421	–	421
Amortisation	157	–	157
Balance at 31 December 2015	578	–	578
Net book value at 31 December 2015	205	13 305	13 510

Impairment of goodwill within the Group was tested in accordance with the Group's policy. Refer to Note 12, Impairment testing, for further details.

12. IMPAIRMENT TESTING

	2016 US$'000	2015 US$'000
Impairment		
Ghaghoo	**170 778**[1]	–
CDIH	**2 154**[2]	–
Total impairment	**172 932**	–

[1] As a result of the continued market uncertainty, the ongoing difficult market conditions for Ghaghoo's production and the challenges in the operation reaching targeted production it was decided to place the mine on care and maintenance post-year end. Ghaghoo's recoverable amount was reassessed at 31 December 2016 and an impairment was considered appropriate. The Group recognised a consolidated income statement impairment charge of US$170.8 million (post-tax), being the write-down of US$0.2 million inventory and all non-current assets of Ghaghoo.

[2] During 2016, the Group abandoned the CDIH Group, which developed and maintained laser diamond shaping and cutting technology

and machinery due to its inability to generate profits. The impairment on CDIH includes US$0.3 million write-down of inventory and US$1.9 million write-down of other assets.

	2016 US$'000	2015 US$'000
Goodwill		
Goodwill acquired through business combinations has been allocated to the individual cash-generating unit, as follows:		
– Letšeng Diamonds	**13 970**	13 305
Balance at end of year	**13 970**	13 305

Movement in goodwill relates mainly to foreign exchange translation from functional to presentation currency.

The discount rate is outlined below, and represents the nominal pre-tax rate. This rate is based on the weighted average cost of capital (WACC) of the Group and adjusted accordingly at a risk premium for the Letšeng Diamonds cash-generating unit, taking into account risks associated therein.

	2016 %	2015 %
Discount rate		
– Letšeng Diamonds	**12.6**	12.0

Goodwill impairment testing is undertaken annually and whenever there are indications of impairment. The most recent test was undertaken at 31 December 2016. In assessing whether goodwill has been impaired, the carrying amount of the Letšeng Diamonds cash-generating unit is compared with its recoverable amount. For the purpose of goodwill impairment testing in 2016, the recoverable amount for Letšeng Diamonds has been determined based on a value-in-use model, similar to that done in the past.

Value in use

Cash flows are projected for a period up to the date that mining is expected to cease, based on management's expectations at the time of completing the testing. The period used was eight years, representing the lesser of the current economic resource or the remaining eight-year mining lease period.

Sensitivity to changes in assumptions

For the purpose of testing for impairment of goodwill using the value-in-use basis for the Letšeng mining cash-generating unit, it was assessed that no reasonably possible change in any of the key assumptions would cause its carrying amount to exceed its recoverable amount.

The Group will continue to test its assets for impairment where indications are identified and may, in future, record additional impairment charges or reverse any impairment charges to the extent that market conditions improve and to the extent permitted by accounting standards.

13. RECEIVABLES AND OTHER ASSETS

	2016 US$'000	2015 US$'000
Non-current		
Prepayments[1]	**–**	1 905
Other receivables	**31**	313
	31	2 218
Current		
Trade receivables[2]	**1 187**	83

Prepayments	**756**	780
Deposits	**135**	457
Other receivables	**334**	58
VAT receivable	**4 145**	4 449
	6 557	5 827

[1] The waste tonnes that had to be recovered from the mining contractor, which were overpaid in previous periods and gave rise to the prepayment in the prior year, were fully recovered from the mining contractor during the current year.
[2] Trade receivables mainly relates to margin recognised on partnership arrangements for which proceeds were received post period end.

The carrying amounts above approximate their fair value.

Terms and conditions of the receivables:

	2016 US$'000	2015 US$'000
Analysis of trade receivables		
Neither past due nor impaired	**1 154**	53
Past due but not impaired:		
Less than 30 days	**33**	20
30 to 60 days	**–**	4
60 to 90 days	**–**	4
90 to 120 days	**–**	2
	1 187	83

14. INVENTORIES

Diamonds on hand	**17 278**	18 984
Ore stockpiles	**1 909**	1 658
Consumable stores	**11 724**	9 646
	30 911	30 288
Net realisable value write-down[1]	**466**	–

[1] The write-down relates to inventory written down. Refer to Note 4, Exceptional item and Note 12, Impairment testing.

15. CASH AND SHORT-TERM DEPOSITS

	2016 US$'000	2015 US$'000
Cash on hand	**2**	1
Bank balances	**15 762**	58 465
Short-term bank deposits	**15 023**	27 253
	30 787	85 719

The amounts reflected in the financial statements approximate fair value.

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are generally call deposit accounts and earn interest at the respective short-term deposit rates.

At 31 December 2016, the Group had restricted cash of US$3.1 million (31 December 2015: US$2.6 million). This restricted cash mainly relates to funds reserved for the debt service of the US$25.0 million secured bank loan facility at Ghaghoo.

The Group's cash surpluses are deposited with major financial institutions of high-quality credit standing predominantly within Lesotho and the United Kingdom.

At 31 December 2016, the Group had US$53.3 million (31 December 2015: US$16.1 million) of undrawn facilities representing the LSL250.0 million (US$18.3 million) three-year unsecured revolving working capital facility at Letšeng and the US$35.0 million three-year unsecured revolving credit facility at the Company.

For further details on these facilities, refer to Note 17, Interest-bearing loans and borrowings, and Note 29, Events after the reporting period.

16. ISSUED CAPITAL AND RESERVES

Issued capital

	31 December 2016		31 December 2015	
	Number of shares '000	**US$'000**	Number of shares '000	US$'000
Authorised – ordinary shares of US$0.01 each				
As at year end	**200 000**	**2 000**	200 000	2 000
Issued and fully paid				
Balance at beginning of year	**138 296**	**1 383**	138 270	1 383
Allotments during the year	**65**	**1**	27	–
Balance at end of year	**138 361**	**1 384**	138 297	1 383

Share premium

Share premium comprises the excess value recognised from the issue of ordinary shares at par value.

Treasury shares

The Company established an Employee Share Option Plan (ESOP) on 5 February 2007. Under the terms of the ESOP, the Company granted options to employees of over 376 500 ordinary shares with a nil exercise price upon listing. At listing, the Gem Diamonds Limited Employee Share Trust acquired these ordinary shares by subscription from the Company at nominal value of US$0.01.

During the current year, 5 000 shares were exercised (31 December 2015: 7 350) and no shares lapsed (31 December 2015: nil). At 31 December 2016, 53 200 shares were held by the trust (31 December 2015: 58 200).

Other reserves	**Foreign currency translation reserve US$'000**	**Share-based equity reserve US$'000**	**Total US$'000**
Balance at 1 January 2016	**(214 162)**	**50 742**	**(163 420)**
Other comprehensive expense	**18 017**	**–**	**18 017**
Total comprehensive expense	**18 017**	**–**	**18 017**
Share-based payments	**–**	**1 905**	**1 905**
Balance at 31 December 2016	**(196 145)**	**52 647**	**(143 498)**
Balance at 1 January 2015	(146 551)	48 798	(97 753)
Other comprehensive expense	(67 611)	–	(67 611)
Total comprehensive expense	(67 611)	–	(67 611)

Share-based payments	–	1 944	1 944
Balance at 31 December 2015	(214 162)	50 742	(163 420)

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of foreign entities. The South African, Lesotho, Botswana and United Arab Emirate subsidiaries' functional currencies are different to the Group's functional currency of US dollar. The rates used to convert the operating functional currency into US dollar are as follows:

	Currency	**2016**	2015
Average rate	ZAR/LSL to US$1	**14.70**	12.78
Period end	ZAR/LSL to US$1	**13.68**	15.50
Average rate	Pula to US$1	**10.89**	10.14
Period end	Pula to US$1	**10.68**	11.25
Average rate	Dirham to US$1	**3.68**	3.67
Period end	Dirham to US$1	**3.68**	3.67

Share-based equity reserves

For details on the share-based equity reserve, refer to Note 25, Share-based payments.

Capital management

For details on capital management, refer to Note 24, Financial risk management.

17. INTEREST-BEARING LOANS AND BORROWINGS

	Effective interest rate %	Maturity	**2016 US$'000**	2015 US$'000
Non-current				
LSL140.0 million bank loan facility	South African Jibar + 4.95%	30 June 2017[1]	**–**	1 807
US$25.0 million bank loan facility	London US$ three-month Libor + 5.5%	30 June 2021[2]	**–**	23 275
			–	25 082
Current				
LSL140.0 million bank loan facility	South African Jibar + 4.95%	30 June 2017[1]	**2 047**	3 614
US$25.0 million bank loan facility	London US$ three-month LiboR + 5.5%	30 June 2021[2]	**25 710**	1 725
			27 757	5 339

[1] ***LSL140.0 million bank loan facility at Letšeng Diamonds***
This loan is a three-year unsecured project debt facility signed jointly with Standard Lesotho Bank and Nedbank Limited on 26 June 2014 for the total funding of the Coarse Recovery Plant. The loan is repayable in 10 quarterly payments which commenced 31 March 2015 with a final payment due on 30 June 2017; however, full repayment was made on 10 February 2017. The interest rate for the

facility at 31 December 2016 is 12.3% (31 December 2015: 11.6%).

[2] ***US$25.0 million bank loan facility at Gem Diamonds Botswana (Ghaghoo)***

Following the decision to place the Ghaghoo mine on care and maintenance, the US$25.0 million facility was repaid through the utilisation of the existing Company US$35.0 million facility. At 31 December 2016, the facility was reclassified into current liabilities. Total interest for the year on the interest-bearing loans and borrowings was US$1.9 million (2015: US$2.5 million) of which US$1.6 million related to the Ghaghoo facility and has been capitalised to the carrying value of the asset as borrowing costs.

Other facilities

In addition, at 31 December 2016, the Group has the following available facilities:

- At Gem Diamonds Limited, a US$35.0 million three-year unsecured revolving credit facility with Nedbank Capital which was renewed on 29 January 2016. No amounts have been drawn down during the year. Following the repayment of the US$25.0 million facility in early 2017, the available amount on this facility reduced to US$10.0 million.
- Through its subsidiary Letšeng Diamonds, a LSL250.0 million (US$18.3 million) three-year unsecured revolving working capital facility jointly with Standard Lesotho Bank and Nedbank Capital, which was renewed in July 2015.

18. TRADE AND OTHER PAYABLES

	2016 US$'000	2015 US$'000
Non-current		
Operating lease	–	82
Severance pay benefits[1]	**1 409**	1 056
	1 409	1 138
Current		
Trade payables[2]	**15 599**	16 340
Accrued expenses[2]	**8 430**	9 342
Leave benefits	**1 011**	730
Royalties[2]	**2 024**	4 285
Operating lease	**1 260**	741
Other	**688**	790
	29 012	32 228
Total trade and other payables	**30 421**	33 366

The carrying amounts above approximate fair value.

Terms and conditions of the trade and other payables:

[1] *The severance pay benefits arise due to legislation within the Lesotho jurisdiction, requiring that two weeks of severance pay be provided for every completed year of service, payable on retirement.*

[2] *These amounts are mainly non-interest-bearing and are settled in accordance with terms agreed between the parties.*

19. PROVISIONS

	2016 US$'000	2015 US$'000
Rehabilitation provisions	**16 630**	12 473
Reconciliation of movement in rehabilitation provisions		
Balance at beginning of year	**12 473**	19 543
Increase/(decrease) during the year	**1 631**	(4 229)
Unwinding of discount rate	**899**	1 265

Foreign exchange differences	**1 627**	(4 106)
Balance at end of year	**16 630**	12 473

Rehabilitation provisions

The provisions have been recognised as the Group has an obligation for rehabilitation of the mining areas. The provisions have been calculated based on total estimated rehabilitation costs, discounted back to their present values over the life of mine at the mining operations. The pre-tax discount rates are adjusted annually and reflect current market assessments.

In determining the amounts attributable to the rehabilitation provisions, management used a discount rate range of 6.0% to 7.4% (31 December 2015: 6.5% to 7.5%), estimated rehabilitation timing of eight to 11 years (31 December 2015: nine to 12 years) and an inflation rate range of 4.0% to 6.7% (31 December 2015: 4.6% to 6.0%) respectively at the Botswana and Lesotho mining areas. In addition to the changes in the discount rates, inflation and rehabilitation timing, the increase in the provision is attributable to the annual reassessment of the estimated closure costs performed at the operations and the strengthening of the local currencies against the US dollar.

20. DEFERRED TAXATION

	2016 US$'000	2015 US$'000
Deferred tax assets		
Accrued leave	**56**	34
Operating lease liability	**5**	2
Provisions	**4 539**	3 594
Tax loss not utilised	**–**	239
	4 600	3 869
Deferred tax liabilities		
Property, plant and equipment	**(65 870)**	(49 652)
Prepayments	**(367)**	(563)
Unremitted earnings	**(4 039)**	(4 039)
	(70 276)	(54 254)
Net deferred tax liability	**(65 676)**	(50 385)
Reconciliation of deferred tax liability		
Balance at beginning of year	**(50 385)**	(57 467)
Movement in current period:		
– Accelerated depreciation for tax purposes	**(9 851)**	(6 193)
– Accrued leave	**(198)**	(5)
– Operating lease liability	**72**	93
– Prepayments	**208**	(293)
– Provisions	**537**	(308)
– Tax losses utilised in the year	**(217)**	220
– Disposal of subsidiaries	**–**	50
– Foreign exchange differences	**(5 842)**	13 518
Balance at end of year	**(65 676)**	(50 385)

The Group has not recognised a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries because it is able to control the timing of dividends and only part of the temporary difference is expected to reverse in the foreseeable future. The gross temporary difference in respect of the undistributable reserves of the Group's subsidiaries for which a deferred tax

liability has not been recognised is US$49.3 million (31 December 2015: US$39.1 million).

The Group has estimated tax losses of US$348.3 million (31 December 2015: US$311.7 million). The deferred tax asset of US$0.9 million recognised in the prior year has been fully utilised during the current year. All tax losses are generated in jurisdictions where tax losses do not expire.

21. CASH FLOW NOTES

	Notes	**2016 US$'000**	2015 US$'000
21.1 Cash generated by operations			
(Loss)/profit for the year before tax from continuing operations		**(124 108)**	108 557
Profit/(loss) before tax for the year from discontinued operation		**–**	668
Adjustments for:			
Depreciation and amortisation on property, plant and equipment	3	**10 760**	10 369
Waste stripping cost amortised	3	**34 712**	47 222
Impairment on assets	4	**172 932**	–
Finance income	5	**(2 411)**	(1 505)
Finance costs	5	**2 620**	1 385
Market to market revaluations		**–**	(249)
Unrealised foreign exchange differences		**(4 718)**	(6 369)
Profit on disposal of property, plant and equipment		**(16)**	(251)
Movement in prepayment		**254**	1 115
Other non-cash movements		**1 703**	(5 753)
Gain on disposal of subsidiary		**–**	(1 670)
Share-based equity transaction		**1 790**	1 738
		93 518	155 257
21.2 Working capital adjustment			
Decrease/(increase) in inventory		**1 579**	(8 216)
Decrease/(increase) in receivables		**5 259**	(4 586)
(Decrease)/increase in trade and other payables		**(6 392)**	9 033
		446	(3 769)
21.3 Cash flows used in investing activities			
Cash equivalents sold		**–**	(34)
Net cash proceeds divested		**–**	(34)

22. Commitments And Contingencies

	2016 US$'000	2015 US$'000

Commitments

Operating lease commitments – Group as lessee

The Group has entered into commercial lease arrangements for rental of office premises. These leases have a period of between two and 12 years with an option of renewal at the end of the period. The terms will be negotiated during the extension option periods catered for in the agreements. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases:

– Within one year	**1 753**	1 443
– After one year but not more than five years	**5 087**	3 759
– More than five years	**5 797**	5 900
	12 637	11 102

Mining leases

Mining lease commitments represent the Group's future obligation arising from agreements entered into with local authorities in the mining areas that the Group operates.

The period of these commitments is determined as the lesser of the term of the agreement, including renewable periods, or the life of the mine. The estimated lease obligation regarding the future lease period, accepting stable inflation and exchange rates, is as follows:

– Within one year	**112**	107
– After one year but not more than five years	**593**	492
– More than five years	**1 283**	1 271
	1 988	1 870

Moveable equipment lease

The Group has entered into commercial lease arrangements which include the provision of loading, hauling and other transportation services payable at a fixed rate per tonne of ore and waste mined; power generator equipment payable based on a consumption basis; and rental agreements for various mining equipment based on a fixed monthly fee.

– Within one year	**41 749**	25 428
– After one year but not more than five years	**175 704**	157 883
– More than five years	**–**	33 138
	217 453	216 449

Capital expenditure

Approved but not contracted for	**19 927**	127
Approved and contracted for	**3 315**	5 229

The main capital expenditure approved but not contracted for relates to the construction of the Letšeng mining workshop of LSL215.0 million (US$15.7 million). The capital expenditure will be funded from a new project facility which is being finalised in 2017.

Contingent rentals – Alluvial Ventures

The contingent rentals represent the Group's obligation to a third party (Alluvial Ventures) for operating a third plant on the Group's mining property at Letšeng Diamonds. The rental is determined when the actual diamonds mined by Alluvial Ventures are sold. The rental agreement is based on 50% to 70% of the value (after costs) of the diamonds recovered by Alluvial Ventures and is limited to US$1.2 million per individual diamond. As at the reporting date, such future sales cannot be determined.

Letšeng Diamonds Educational Fund

In terms of the mining agreement entered into between the Group and the government of the Kingdom of Lesotho, the Group has an obligation to provide funding for education and training scholarships. The quantum of such funding is at the discretion of the Letšeng Diamonds Education Fund Committee. The amount of the funding provided for the current year was US$0.1 million (31 December 2015: US$0.1 million).

Contingencies

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 approximating US$0.5 million (December 2015: US$0.6 million) and tax claims within the various jurisdictions in which the Group

operates approximating US$1.0 million (December 2015: US$1.3 million). There are no possible disputes relating to Ghaghoo's care and maintenance status included in these contingencies.

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.

23. RELATED PARTIES

Related party	Relationship
Jemax Management (Proprietary) Limited	Common director
Jemax Aviation (Proprietary) Limited	Common director
Gem Diamond Holdings Limited	Common director
Government of Lesotho	Non-controlling interest

Refer to Note 1.1.2, Operational information, for information regarding shareholding in subsidiaries.

Refer to the Directors' Report for information regarding the Directors.

	2016 US$'000	2015 US$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	**1 396**	1 421
Short-term employee benefits	**3 907**	7 784
	5 303	9 205
Fees paid to related parties		
Jemax Aviation (Proprietary) Limited	**(96)**	(108)
Jemax Management (Proprietary) Limited	**(75)**	(165)
Royalties paid to related parties		
Government of Lesotho	**(14 624)**	(19 273)
Lease and licence payments to related parties		
Government of Lesotho	**(126)**	(112)
Purchases from related parties		
Jemax Aviation (Proprietary) Limited	**(97)**	(75)
Jemax Management (Proprietary) Limited	**(82)**	(89)
Amount included in trade receivables owing by/(to) related parties		
Jemax Aviation (Proprietary) Limited	**4**	(42)
Jemax Management (Proprietary) Limited	**(8)**	(7)
Amounts owing to related party		
Government of Lesotho	**(1 966)**	(3 513)
Dividends paid		
Government of Lesotho	**(13 963)**	(11 760)

Jemax Management (Proprietary) Limited and Jemax Aviation (Proprietary) Limited provided administrative and aviation services with regard to the mining activities undertaken by the Group. The above transactions were made on terms agreed between the parties and were made on terms that prevail in arm's-length transactions.

24. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks:

- market risk (including commodity price risk and foreign exchange risk);
- credit risk; and
- liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

There have been no changes to the financial risk management policy since the prior year.

Capital management

The capital of the Company is the issued share capital, share premium and treasury shares on the Group's statement of financial position. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares. The management of the Group's capital is performed by the Board.

At 31 December 2016, the Group has US$53.3 million (31 December 2015: US$16.1 million) debt facilities available and continues to have the flexibility to manage the capital structure more efficiently by the use of these debt facilities, thus ensuring that an appropriate gearing ratio is achieved.

The debt facilities in the Group are as follows:

Unsecured – Standard Lesotho Bank and Nedbank Capital (a division of Nedbank Limited) – three-year unsecured revolving credit facility – LSL250.0 million (US$18.3 million)

The Group, through its subsidiary, Letšeng Diamonds, has an LSL250.0 million (US$18.3 million), three-year unsecured revolving working capital facility. The facility bears interest at the Lesotho prime rate.

At year end, there is no drawdown on this facility.

Secured – Nedbank Capital (a division of Nedbank Limited) – six-and-a-half-year project debt facility – US$25.0 million

The Group, through its subsidiary, Gem Diamonds Botswana (Ghaghoo), has a secured debt loan facility held with Nedbank Capital. In November 2016 this loan was restructured in order to postpone further capital repayments from June 2016 to June 2019, with final repayment due on 31 December 2021. The loan is repayable in staggered bi-annual payments. The first capital repayment of US$0.1 million was paid in June 2016 with the next capital repayment due in June 2019. The facility bears interest at London USD Interbank three-month LIBOR + 5.5%.

At year end, this facility was fully drawn down. Post-year end this facility was fully repaid in line with placing the Ghaghoo asset on care and maintenance. For further detail refer to Note 17, Interest-bearing borrowings and Note 29, Events after the reporting period.

Unsecured – Standard Lesotho Bank and Nedbank Limited – three-year unsecured project debt facility – LSL140.0 million (US$10.2 million)

This loan is a three-year unsecured project debt facility signed jointly with Standard Lesotho Bank and Nedbank Limited on 26 June 2014 for LSL140.0 million, being the total funding of the Coarse Recovery Plant with a final payment due on 30 June 2017. This facility bears interest at South African JIBAR + 4.95%.

At year end, there was LSL28.0 million (US$2.0 million) outstanding on this facility. Post-year end, this facility was fully repaid in advance of its final repayment date. For further detail refer to Note 17, Interest-bearing borrowings and Note 29, Events after the reporting period.

Unsecured – Nedbank Capital (a division of Nedbank Limited) – three-year unsecured revolving credit facility – US$35.0 million

The Company has a US$35.0 million three-year unsecured revolving credit facility with Nedbank Capital which was renewed on 29 January 2016. This facility bears interest at London USD Interbank three-month LIBOR + 5.5%.

At year end, there is no drawdown on this facility. Post-year end this facility was accessed in order to settle the Ghaghoo US$25.0 million facility.

The Group is subject to diamond price risk. Diamonds are not homogeneous products and the price of rough diamonds is not monitored on a public index system. The fluctuation of prices is related to certain features of diamonds such as quality and size. Diamond prices are marketed in US dollar and long-term US$ per carat prices are based on external market consensus forecasts and contracted sales arrangements adjusted for the Group's specific operations. The Group does not have any financial instruments that may fluctuate as a result of commodity price movements.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Lesotho Loti, South African Rand and Botswana Pula. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's sales are denominated in US dollar which is the functional currency of the Company, but not the functional currency of the operations.

The currency sensitivity analysis below is based on the following assumptions:

Differences resulting from the translation of the financial statements of the subsidiaries into the Group's presentation currency of US dollar, are not taken into consideration.

The major currency exposures for the Group relate to the US dollar and local currencies of subsidiaries. Foreign currency exposures between two currencies where one is not the US dollar are deemed insignificant to the Group and have therefore been excluded from the sensitivity analysis.

The analysis of the currency risk arises because of financial instruments denominated in a currency that is not the functional currency of the relevant Group entity. The sensitivity has been based on financial assets and liabilities at 31 December 2016. There has been no change in the assumptions or method applied from the prior year.

Sensitivity analysis

If the US dollar had appreciated/(depreciated) 10% against currencies significant to the Group at 31 December 2016, income before taxation would have been US$2.6 million higher/(lower) (31 December 2015: US$3.1 million). There would be no effect on equity reserves other than those directly related to income statement movements.

(ii) Forward exchange contracts

The Group enters into forward exchange contracts to hedge the exposure to changes in foreign currency of future sales of diamonds at Letšeng Diamonds. The Group performs no hedge accounting. At 31 December 2016, the Group had no forward exchange contracts outstanding (31 December 2015: US$nil).

(iii) Cash flow interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's cash flow interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. At the time of taking new loans or borrowings, management uses its judgement to decide whether it believes that a fixed or variable rate borrowing would be more favourable to the Group over the expected period until maturity.

(b) Credit risk

The Group's potential concentration of credit risk consists mainly of cash deposits with banks and other receivables. The Group's short-term cash surpluses are placed with the banks that have investment grade ratings. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the reporting dates. The Group considers the credit standing of counterparties when making deposits to manage the credit risk.

Considering the nature of the Group's ultimate customers and the relevant terms and conditions entered into with such customers, the Group believes that credit risk is limited as customers pay on receipt of goods.

No other financial assets are impaired or past due and accordingly, no additional analysis has been provided.

No collateral is held in respect of any impaired receivables or receivables that are past due but not impaired.

(c) Liquidity risk

Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments including the inability to sell a financial asset quickly at a price close to its fair value. Management manages the risk by maintaining sufficient cash, marketable securities and ensuring access to financial institutions and shareholding funding. This ensures flexibility in maintaining business operations and maximises opportunities. The Group has available debt facilities of US$53.3 million at year end.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments:

	2016 US$'000	2015 US$'000
Floating interest rates		
Interest-bearing loans and borrowings[1]		
– Within one year	**28 689**	7 438
– After one year but not more than five years	**1 587**	29 658
Total	**30 276**	37 096
Trade and other payables		
– Within one year	**29 012**	32 228
– After one year but not more than five years	**1 409**	1 138
Total	**30 421**	33 366

[1] Includes the Letšeng and Ghaghoo facilities which have been repaid subsequent to year end. For further detail refer to Note 29, Events after the reporting period.

25. SHARE-BASED PAYMENTS

The expense recognised for employee services received during the year is shown in the following table:

	2016 US$'000	2015 US$'000
Equity-settled share-based payment transactions charged to the income statement	**1 790**	1 738
Equity-settled share-based payment transactions capitalised	**116**	206
	1 906	1 944

The long-term incentive plans are described below:

Employee Share Option Plan (ESOP)

Certain key employees are entitled to a grant of options, under the ESOP of the Company. The vesting of the options is dependent on employees remaining in service for a prescribed period (normally three years) from the date of grant. The fair value of share options granted is estimated at the date of the grant using a Black Scholes simulation model, taking into account the terms and conditions upon which the options were granted. It takes into account projected dividends and share price fluctuation co-variances of the Company.

There is a nil or nominal exercise price for the options granted at admission of the Company. The contractual life of the options is 10 years and there are no cash settlement alternatives. The Company has no past practice of cash settlement.

Non-Executive share awards

In order to align the interests of the Chairman and independent Directors with those of the shareholders, the non-Executive Directors were invited to subscribe for shares at nominal value on terms set out in the prospectus. The non-Executive Directors shall not be eligible to participate in the short-term incentive bonus scheme (STIBS) or ESOP or any other performance-related incentive arrangements which may be introduced by the Company from time to time. There are currently no non-Executive share awards.

ESOP for September 2012 (LTIP)

On 11 September 2012, 936 000 nil-cost options were granted to certain key employees (excluding Executive Directors) under the LTIP of the Company. Of the total number of shares, 312 000 were nil value options and 624 000 were market value options. The exercise price of the market value options is £1.78 (US$2.85), which was equal to the market price of the shares on the date of grant. The awards which vest over a three-year period in tranches of a third of the award each year, dependent on the performance targets for the 2013, 2014 and 2015 financial years being met, are exercisable between 1 January 2016 and 31 December 2023. This award became exercisable on 1 January 2016. Of the 936 000 options originally granted, only 217 100 are still outstanding following the resignation of a number of employees and the exercising of these options.

ESOP for March 2014 (LTIP)

In March 2014, 625 000 nil-cost options were granted to certain key employees under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options which vest over a three-year period in tranches of a third of the award each year are exercisable between 19 March 2017 and 18 March 2024. If the performance or service conditions are not met, the options lapse. As the performance conditions are non-market-based they are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £1.74 (US$2.87). Of the 625 000 options originally granted, only 297 271 are still outstanding following the resignation of a number of employees.

ESOP for June 2014 (LTIP)

In June 2014, 609 000 nil-cost options were granted to the Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. Of the 609 000 nil-cost options, 152 250 relates to market conditions with the remaining 456 750 relating to non-market conditions. The options which vest are exercisable between 10 June 2017 and 9 June 2024. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date. At each financial year end, the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required. The fair value of the nil-cost options relating to non-market conditions is £1.61 (US$2.70). The fair value of the options granted, relating to the market conditions, is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the options in years and the weighted average share price of the Company. Of the 609 000 options originally granted, only 560 839 are still outstanding following the resignation of an Executive Director during the year.

ESOP for April 2015 (LTIP)

In April 2015, 660 000 nil-cost options were granted to certain key employees under the long-term incentive plan (LTIP) of the Company. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options which vest after a three-year period are exercisable between 1 April 2018 and 31 March 2025. If the performance or service conditions are not met, the options lapse. As the performance conditions are non-market-based they are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £1.33 (US$1.97). Of the 667 500 options originally granted, only 472 608 are still outstanding following the resignation of a number of employees.

In addition, 740 000 nil-cost options were granted to the Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. Of the 740 000 nil-cost options, 185 000 relate to market conditions with the remaining 555 000 relating to non-market conditions. The options which vest are exercisable between 1 April 2018 and 31 March 2025. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date. At each financial year end, the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required. The fair value of the nil-cost options relating to the market conditions is £1.33 (US$1.97). The fair value of these options is estimated in a similar manner as the June 2014 LTIP. Of the 740 000 options originally granted, only 640 730 are still outstanding following the resignation of an Executive Director during the year.

ESOP for March 2016 (LTIP)

In March 2016, 1 400 000 nil-cost options were approved to be granted to certain key employees and Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. The satisfaction of certain performance as well as service conditions are classified as non-market conditions. A total of 185 000 of the options granted relate to market conditions. The options vest after a three-year period and are exercisable between 15 March 2019 and 14 March 2026. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £0.99 (US$1.40). The fair value of the options relating to

market conditions is estimated in a similar manner as the June 2014 and April 2015 LTIP. Of the total options originally granted, 1 340 000 are still outstanding following the resignation of a number of employees.

Movements in the year

ESOP

The following table illustrates the number ('000) and movement in share options during the year:

	2016 **'000**	2015 '000
Outstanding at beginning of year	**11**	18
Exercised during the year	**(5)**	(7)
Balance at end of year	**6**	11
Exercisable at end of year	**–**	–

The following table lists the inputs to the model used for the plan for the awards granted under the ESOP:

Dividend yield (%)	–
Expected volatility (%)	22
Risk-free interest rate (%)	5
Expected life of option (years)	10
Weighted average share price	18.28
Model used	Black Scholes

The fair value of share options granted is estimated at the date of the grant using a Black Scholes simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the option in years and the weighted average share price of the Company.

The ESOP is an equity-settled plan and the fair value is measured at the grant date.

ESOP for March 2016, April 2015, June 2014, March 2014 and September 2012 (LTIP)

The following table illustrates the number ('000) and movement in the outstanding share options during the year:

	2016 **'000**	2015 '000
Outstanding at beginning of year	**2 726**	2 445
Granted during the year	**1 400**	1 408
Exercised during the year	**(61)**	–
Forfeited	**(536)**	(1 127)
Balance at end of year	**3 529**	2 726

The following table lists the inputs to the model used for the market conditions awards granted during the current and prior year:

	LTIP March 2016	LTIP April 2015	LTIP June 2014	LTIP September 2012
Dividend yield (%)	**2.00**	2.00	–	–
Expected volatility (%)	**39.71**	37.18	37.25	42.10
Risk-free interest rate (%)	**0.97**	1.16	1.94	0.33
Expected life of option (years)	**3.00**	3.00	3.00	3.00

Weighted average share price (US$)	**1.56**	2.10	2.70	2.85
Fair value of nil value options (US$)	**1.40**	1.97	1.83	2.85
Fair value of market value options (US$)	**–**	–	–	1.66
Model used	**Monte Carlo**	Monte Carlo	Monte Carlo	Monte Carlo

The fair value of share options granted is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the option in years and the weighted average share price of the Company.

26. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than the non-current and current portions of the prepayment disclosed in Note 13, Receivables and other assets, which do not meet the criteria of a financial asset. These prepayments are carried at amortised cost.

	31 December 2016 US$'000	31 December 2015 US$'000
Financial assets		
Cash (net of overdraft)	**30 787**	85 719
Receivables and other assets	**5 832**	5 360
Other financial assets	**–**	10
Total	**36 619**	91 089
Total non-current	**31**	317
Total current	**36 588**	90 772
Financial liabilities		
Interest-bearing loans and borrowings	**27 757**	30 421
Trade and other payables	**30 421**	33 366
Total	**58 178**	63 787
Total non-current	**1 409**	26 220
Total current	**56 769**	37 567

The carrying amounts of the Group's financial instruments held approximate their fair value.

Fair value hierarchy

All financial instruments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

There were no transfers between Level 1 and Level 2 fair value measurements or any transfers into or out of Level 3 fair value measurements during the period.

Other risk management activities

The Group is exposed to foreign currency risk on future sales of diamonds at Letšeng Diamonds. In order to reduce this risk, the Group enters into forward exchange contracts to hedge this exposure. The Group performs no hedge accounting. During the current period the Group did not enter into any new forward exchange contracts due to the strong US dollar being favourable to the Group's revenue.

27. DIVIDENDS PAID AND PROPOSED

	2016 US$'000	2015 US$'000
Proposed dividends on ordinary shares		
Final ordinary cash dividend for 2016: US$nil (2015: 5 US cents per share)	–	6 915
Special dividend for 2016: US$nil (2015: 3.5 US cents per share)	–	4 840
Total	–	11 755

There were no dividends proposed for the 2016 financial year.

The 2015 dividends were approved on 7 June 2016 and a final cash dividend of 8.5 US cents per share was paid to shareholders on 16 June 2016.

28. MATERIAL PARTLY OWNED SUBSIDIARIES

Financial information of Letšeng Diamonds, a subsidiary which has a material non-controlling interest, is provided below.

Proportion of equity interest held by non-controlling interests

Name incorporation	Country of and operation	2016 US$'000	2015 US$'000
Letšeng Diamonds (Proprietary) Limited	Lesotho		
Accumulated balances of material non-controlling interest		**63 522**	57 494
Profit allocated to material non-controlling interest		**14 739**	24 397

The summarised financial information of this subsidiary is provided below. This information is based on amounts before intercompany eliminations.

Summarised income statement for the year ended 31 December		
Revenue	**184 864**	236 357
Cost of sales	**(105 398)**	(118 385)
Gross profit	**79 466**	117 972
Royalties and selling costs	**(14 827)**	(19 475)
Other (costs)/income	**(217)**	8 401
Operating profit	**64 422**	106 898
Net finance income	**702**	279
Profit before tax	**65 124**	107 177
Income tax expense	**(15 996)**	(25 850)
Profit for the year	**49 128**	81 327
Total comprehensive income	**49 128**	81 327
Attributable to non-controlling interest	**14 739**	24 397
Dividends paid to non-controlling interest	**13 963**	11 760
Summarised statement of financial position as at 31 December		
Assets		
Non-current assets		
Property, plant and equipment and intangible assets	**267 433**	204 350
Current assets		

Inventories, receivables and other assets, and cash and short-term deposits	**45 438**	78 436
Total assets	**312 871**	282 786
Non-current liabilities		
Trade and other payables, provisions and deferred tax liabilities	**76 304**	59 345
Current liabilities		
Interest-bearing loans and borrowings and trade and other payables	**24 827**	31 794
Total liabilities	**101 131**	91 139
Total equity	**211 740**	191 647
Attributable to:		
Equity holders of parent	**148 218**	134 153
Non-controlling interest	**63 522**	57 494
Summarised cash flow information for the year ended 31 December		
Operating	**55 582**	4 701
Investing	**(77 967)**	–
Financing	**(11 915)**	5 421
Net (decrease)/increase in cash and cash equivalents	**(34 300)**	10 122

29. Events after the reporting period

Post-year end the outstanding balance of LSL28.0 million (US$2.0 million) on the three-year unsecured project debt facility at Letšeng, was fully repaid together with interest and net breakage costs.

Post-year end, following the decision to place the Ghaghoo mine on care and maintenance, the US$25.0 million term loan facility at Ghaghoo was settled in advance of its final repayment date using the US$35.0 million revolving credit facility held at the Company. The restricted cash of US$3.0 million reserved for a portion of the future repayment of the term loan facility at Ghaghoo was released at the same time.

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