

6 February 2017

GEM DIAMONDS LIMITED Q4 2016 Trading Update

Gem Diamonds Limited (LSE: GEMD) ("**Gem Diamonds**" or the "**Company**" or the "**Group**") is pleased to provide the following Trading Update detailing the Group's operational and sales performance for the Period 1 October 2016 to 31 December 2016 ("**Q4 2016**" or the "**Period**").

Letšeng:

Full year operational guidance achieved

- Waste mined 7 861 775 tonnes (19% increase from 6 626 385 in Q3 2016), taking full year waste mined to 29 776 058 tonnes.
- Ore treated 1 697 070 tonnes (5% increase from 1 612 728 in Q3 2016), taking full year ore treated to 6 646 098 tonnes.
- Recovered 26 438 carats during the Period (8% increase from 24 388 carats in Q3 2016) taking full year production to 108 206.
- 7 diamonds sold for more than US\$ 1.0 million in the Period generating revenues of US\$ 12.3 million.
- During the Period US\$ 109 677 per carat was achieved for a 12.31 carat pink diamond and US\$ 53 451 per carat for a 56.48 carat white diamond.
- During the Period Letšeng recovered fewer large special diamonds than expected, resulting in an average US\$ per carat of US\$ 1 444, bringing the average for the year to US\$ 1 695.

Ghaghoo:

Optimisation programme continued

- Mill refurbishment completed on time and within budget with positive results.
- 67 466 tonnes of ore treated during the Period (up 24% from 54 337 in Q3 2016).
- 12 380 carats recovered during the Period, an increase of 60% from previous quarter (7 720 carats in Q3 2016) with a positive presence of larger diamonds than typically recovered.
- During the Period, 16 989 carats were sold on open tender for a total value of US\$ 2.4 million, achieving an average price of US\$ 142 per carat.

- Largely due to the weak prices achieved, the future of the operation remains under review, as previously announced.

Financial:

- The Group had US\$ 30.8 million cash on hand as at 31 December 2016, of which US\$ 28.5 million is attributable to Gem Diamonds Limited.
- US\$ 26.9 million of available facilities have been drawn down resulting in a net cash position of US\$ 3.8 million. At Period end, the Group had US\$ 53.3 million worth of undrawn and available facilities.

Gem Diamonds’ CEO, Clifford Elphick commented:

“The market for large special diamonds for which Letšeng is renowned has remained firm to date, but the relative paucity of these diamonds recovered during 2016 has had an adverse impact upon the Company’s revenues and cash flows during the year. Operationally, all other production metrics were achieved and within guidance issued.

At Ghaghoo, the fall in prices of its diamonds from US\$ 210 per carat in early 2015 to US\$ 142 per carat at its most recent sale in December 2016, emphasises the weak state of the diamond market for this category of diamonds. With the Company’s focus on profitable production, and as indicated previously, the future of the operation remains under review with a decision scheduled to be made during Q1 2017 with regards to its current financial viability.”

1. Diamond Market

The overall mood of the diamond market continues to remain cautious. Demand for, and prices of, Letšeng’s large high quality white diamonds have remained firm throughout the Period. The smaller commercial goods mined at Ghaghoo remain under pressure. The recent Indian demonetisation and high levels of polished inventory available, and because the supply of this category of diamonds will increase significantly from production of some 7 million carats per annum from 2017 from the new Liqhobong, Renard and Gahcho Kué mines, the Company believes prices for this category may remain constrained.

2. Letšeng

2.1. Production

	Q4 2016	Q3 2016	QoQ % Change	Full year 2016	Full year 2015	YoY % Change
Waste mined (tonnes)	7 861 775	6 626 385	19%	29 776 058	24 010 847	24%

Ore treated (tonnes)	1 697 070	1 612 728	5%	6 646 098	6 679 581	-1%
Carats recovered	26 438	24 388	8%	108 206	108 579	0%
Grade recovered (cpht)	1.56	1.51	3%	1.63	1.63	0%

Letšeng plants treated a total of 1.4 million tonnes of ore during the Period, 75% of which was sourced from the Main pipe, and 25% from the Satellite pipe. The balance of the ore (0.31 million tonnes) was treated through the Alluvial Ventures contractor plant, 77% of which was sourced from the Main pipe and 23% from stockpiles. Waste mined during the full year was 29 776 058 tonnes and the overall stripping ratio for the year was 4.4.

During 2016, the frequency of exceptional large diamonds being recovered was lower than expected. Following a detailed review of the resource and operational processes, it was considered that this paucity of large exceptional stones is due to the normal statistical short term variability of the resource, as was experienced during 2012. This is expected to revert to normal recovery levels in the near future. In addition, options are currently being assessed to further enhance recovery and reduce damage to these size diamonds through a large-diamond specific recovery plant.

A review of the Letšeng mine plan is currently being undertaken to further optimise the waste mining profile which in turn will improve cashflow. This review will be completed during Q1 2017 and is likely to lead to reduced waste tonnes mined.

2.2. Rough diamond sales and market for Letšeng diamonds

	Q4 2016*	Q3 2016*	QoQ % Change	Full year 2016*	Full year 2015*	YoY % Change
Carats sold	26 341	26 656	-1%	108 945	102 778	6%
Total value (US\$ millions)	38.0	40.4	-6%	184.6	236.3	-22%
Achieved US\$/ct	1 444	1 516	-5%	1 695	2 299	-26%

*Includes carats extracted at rough value for polishing.

Two tenders were held during the Period with 26 341 carats sold for a total value of US\$ 38 million, achieving an average price of US\$ 1 444 per carat.

The lower revenues and average US\$ per carat achieved during the Period was largely the consequence of a continued paucity of high quality large diamonds seen in 2016, rather than any notable decrease in demand or weakening of the prices for these diamonds. The decrease in annual revenue contribution from the +100 carat high value diamonds in 2016 compared to the previous four years is illustrated in the table below:

Year	Number of diamonds > 100 carats	Number of diamonds > 100 carats that achieved more than \$10 000 per carat	Revenue contribution of diamonds > 100 carats
2012	3	1	US\$ 6.8m
2013	5	2	US\$ 15.6m
2014	8	7	US\$ 43.6m
2015	11	7	US\$ 65.4m
2016	4	2	US\$ 12.2m

Letšeng's large high quality diamonds continue to achieve firm prices. In October 2016, a 12.31 carat pink diamond sold for US\$ 109 677 per carat and a 56.48 carat white diamond also recovered during the Period, achieved US\$ 53 451 per carat.

2.3. Costs

Letšeng has managed to maintain its costs within expected targets. Costs are largely in line with the full year 2016 guidance and are expected to approximate the figures below:

Direct cash costs (before waste) per tonne treated: Maloti 160

Operating costs per tonne treated¹: Maloti 220

Mining waste cash costs per tonne of waste: Maloti 31

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

Waste cast costs have marginally exceeded the upper end of guidance mainly driven by the lower volume of waste mined (at the lower end of guidance).

Guidance for the 2017 year will be published during March 2017 together with the new mine plan.

3. Ghaghoo

	Q4 2016	Q3 2016	QoQ % Change	Full year 2016*	Full year 2015	YoY % Change
Ore treated (tonnes)	67 466	54 337	24%	217 372	326 922	-34%
Carats recovered	12 380	7 720	60%	40 976	91 499	-55%
Grade recovered (cpht)	18.4	14.2	29%	18.9	28.0	-33%

*The decision to downsize the operation was taken in 2016 and the operational results reflect this reduction when compared to 2015.

Planned operational improvements progressed well. Mill modifications yielded positive results with increased and improved diamond liberation. These modifications however are not sufficient to sustain the operation given current weak prices achieved for the Ghaghoo diamonds.

In December, 16 989 carats were sold on tender for a total value of US\$ 2.4 million, achieving US\$ 142 per carat.

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

One Lost Time Injury (LTI) occurred during the Period. This has resulted in a Group Lost Time Injury Frequency Rate (LTIFR) of 0.17 for 2016.

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

For further information:

Gem Diamonds Limited
Juliet Cox
Investor Relations Manager
Tel: +44 (0) 203 043 0280

Celicourt Communications
Joanna Boon / Mark Antelme
Tel: +44 (0) 207 520 9265

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

About Gem Diamonds:

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

www.gemdiamonds.com