

31 October 2017

GEM DIAMONDS LIMITED

Q3 2017 Trading Update and Board Changes

Gem Diamonds Limited (LSE: GEMD) (“**Gem Diamonds**” or the “**Company**” or the “**Group**”) provides the following Trading Update detailing the Group’s operational and sales performance for the Period from 1 July 2017 to 30 September 2017 (“**Q3 2017**” or the “**Period**”).

Letšeng:

- Recovered 30 774 carats during the Period, up 23% from 24 999 carats in Q2 2017
- Achieved an average price of US\$ 2 397 per carat for the July tender, making it the highest achieved US\$ per carat for a tender since September 2015
- Achieved an average price of US\$ 1 858 per carat for the Period, up 4% from US\$ 1 779 per carat in H1 2017
- Recovered six diamonds greater than 100 carats in the nine months to September 2017
- 24 Diamonds sold for more than US\$ 1.0 million each generating revenue of US\$ 56.9 million in the nine months to September 2017
- Zero Lost Time Injuries (LTI) for the Period. It is pleasing to report that Letšeng has been LTI free for over 365 days to date

Ghaghoo:

- Following the conditional offer for the Ghaghoo mine announced at the interim results, discussions and due diligence are continuing

Efficiency and cost reduction review:

- US\$ 20 million of annualised and once-off efficiency and cost reduction initiatives have been identified, an increase of US\$ 5 million over the figure announced at the interim results, and are now being implemented
- As part of its strategic focus on reducing diamond breakage, the Company has been working in collaboration with leading experts from The University of Johannesburg for the deployment of innovative technologies. These technologies are designed to reduce breakages through identifying diamonds within kimberlite prior to the crushing process; and liberating diamonds through electrical pulse technologies.

Financial:

- The Group had US\$ 25.4 million cash on hand at the end of the Period of which US\$ 19.1 million is attributable to Gem Diamonds, an increase on 30 June 2017 (US\$ 20.0 million and US\$ 16.1 million respectively)
- US\$ 37.3 million of available facilities have been drawn down, of which US\$ 25.0 million relates to the Ghaghoo facility, resulting in a reduced net debt position of US\$ 11.8 million at the end of the Period (H1 2017 – net debt of US\$ 14.2 million). The Group had US\$ 42.2 million worth of undrawn and available facilities at Period end.

Gem Diamonds’ CEO, Clifford Elphick commented:

“The market for Letšeng’s high-quality diamonds has remained firm over the Period with the July tender achieving nearly US\$ 2 400 per carat. It is pleasing to see carats recovered during the Period up by 23% over the prior period.

The group-wide efficiency and cost reduction review is progressing well and has already identified annual and once off cost savings of US\$ 20 million, which is an increase of US\$ 5 million over the figure announced at the time of our interim results. In addition, a number of innovative diamond identification and liberation technology initiatives are being actively pursued and I look forward to updating the market on further progress during Q4.”

1. Diamond Market

The strong demand for Letšeng’s large high-quality white rough diamonds has continued.

2. Letšeng

	Q2 2017	Q3 2017	QoQ % Change	Q3 2016	YoY % Change
Waste stripped (tonnes)	7 192 744	7 685 084	7%	6 626 385	16%
Ore treated (tonnes)	1 511 631	1 634 741	8%	1 612 728	1%
Carats recovered	24 999	30 774	23%	24 388	26%
Grade recovered (cpht)	1.65	1.88	14%	1.51	24%

The mining of waste continues to progress well and there are low risks associated with the future exposure of kimberlite ore.

Letšeng treated a total of 1.3 million tonnes of ore during the Period, 61% of which was sourced from the Main pipe, and 39% from the Satellite pipe. The balance of the ore (0.3 million tonnes) was treated through the Alluvial Ventures contractor plant, which was sourced from the Main pipe and low-grade stockpiles. The higher ore tonnes treated was due to improved plant availability. The stability of the plants has improved. Despite the improved availability, a crack has been identified in the scrubber shell in Plant 2, which is being closely monitored. A decision has been taken to reduce the amount of material being fed into this plant to reduce the stress on the scrubber. This reduced feed rate will be maintained until a new scrubber shell is installed, which is planned for February 2018. As a consequence, guidance for tonnes treated for 2017 has been reduced marginally between 6.5 to 6.6 million tonnes.

During the Period, 30 774 carats were recovered at a grade of 1.88 cpht against an expected reserve grade of 1.84 cpht. The core drilling programme to improve confidence in the geology at depth, including volume, grade, and revenue inputs of the resource has commenced and is progressing well.

Guidance

In line with the revised mine plan, the waste tonnes for the year is expected to be lower than original guidance, positively impacting cash flow.

Guidance for ore tonnes treated has been revised marginally downwards due to the planned reduced feed rate at Plant 2 as explained above. Notwithstanding the lower tonnages forecast, management has implemented various initiatives at Letšeng to ensure carats recovered and sold remain within original guidance. In addition to this, management has increased the contribution from the higher-grade higher-value Satellite pipe material to 2.2m tonnes, up 22% from previous guidance.

As a consequence, unit cost guidance is also revised. Operating costs per tonne treated² are expected to increase as a result of the higher amortisation charge associated with the increased contribution from Satellite pipe material. The remaining impact of the unit cost increase is as a consequence of reduced tonnages for the year.

The revised full-year guidance is set out below:

	FY 2017 Original Guidance	FY 2017 Revised Guidance
Waste stripped (Mt)	30 - 32	29 - 30
Ore treated (Mt)	6.8 - 7.0	6.5 - 6.6
Satellite pipe ore contribution (Mt)	1.8	2.2
Carats recovered (Kct)	110 - 114	unchanged
Carats sold (Kct)	108 - 112	unchanged
Direct cash costs (before waste) per tonne treated (Maloti) ¹	155 - 165	unchanged
Operating costs per tonne treated ² (Maloti)	240 - 250	270 - 275
Mining waste cash costs per tonne of waste mined (Maloti)	31 - 32	32 - 34
Stay in business capital (US\$ million)	21 - 23	16 - 18

¹ Direct cash costs represent all operating costs, excluding royalty and selling costs

² Operating costs include waste stripping costs amortised, inventory and ore stockpile adjustments, and excludes depreciation

Letšeng rough diamond sales

	Q3 2016	Q3 2017	YoY % change	H1 2017	YTD
Carats sold	26 656	25 909	-3%	49 930	75 839
Total value (US\$ millions)	40.4	48.1	19%	88.8	137.0
Achieved US\$/ct*	1 516	1 858	23%	1 779	1 806

Two tenders have been held in the Period with a total of 25 909 carats sold for US\$ 48.1 million, achieving an average price of US\$ 1 858* per carat (H1 2017 – US\$ 1 779* per carat).

Contributing to the achieved US\$ per carat was a 7.87 carat pink diamond which achieved US\$ 202 222 per carat, making it the second highest price per carat achieved by a Letšeng rough diamond. A 55.58 carat white diamond achieved US\$ 61 778 per carat, making it the highest price per carat achieved for a Letšeng rough white diamond for the year to date. The 126.75 carat diamond recovered in July achieved US\$ 56 402 per carat during the Period while the 115.29 carat diamond recovered in September will be sold in Q4.

* Includes carats extracted at rough value for polishing.

3. Ghaghoo

As previously announced, the Board received a conditional offer for the Ghaghoo mine in August. Discussions and due diligence are ongoing.

The 13 021 carats on hand were sold during Q3 2017, achieving an average price of US\$ 175 per carat.

4. Business Efficiency

The business efficiency and optimisation programme has progressed well with US\$ 20 million of annualised and once-off efficiency and cost reduction initiatives identified, which are now being implemented. This represents an increase of a further US\$ 5 million since early guidance was provided at the interim results. The key areas contributing to the expected savings and efficiencies are mining and processing improvements. These initiatives include projects to improve plant availability, steepening slope angles and contract renegotiations. In addition, a plan is currently being implemented to materially reduce the Company's office footprints in the UK, South Africa and Lesotho. The aircraft associated with the Ghaghoo mine has been sold.

The previously announced updated Letšeng Life of Mine plan is expected to reduce cash outflow from early 2018, primarily as a result of a significant reduction in the volume of waste mined.

5. Innovation

As previously communicated, Gem is focused on reducing diamond breakage to optimise revenue and increase the value created for our shareholders. The Company continues to consider the deployment of innovative technologies designed to reduce breakages through identifying diamonds within kimberlite prior to the crushing process and the liberation of diamonds through electrical pulse technologies in collaboration with leading experts from The University of Johannesburg.

The technology effectively scans ore prior to crushing and, in trials conducted to date, has already been proven to clearly identify diamonds within kimberlite. The technology will also reduce processing costs by materially reducing the volume of material run through the crushing process thus lowering the cost per tonne of material processed.

6. Directors

It was with great sadness that the Company announced, on 27 October, the passing away of its non-executive director Mr Mike Salamon.

In order to maintain the appropriate balance of non-executive directors to executive directors for corporate governance reasons and also in order to downsize the Company's Board of directors in keeping with the ongoing efficiency and cost programme, the Company announces that executive director Mr Glenn Turner has offered to step off the Board after the upcoming November Board meeting, which has been accepted.

This will result in the Board comprising three non-executive directors, including the Chairman, and two executive directors. Mr Turner will continue to be a key executive of the Company and the Company Secretary.

In addition, non-executive director Gavin Beevers who has served for nearly 11 years on the Board has indicated that he will not be standing for re-election next year. A replacement non-executive director for Mr Beevers will be announced shortly.

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

There were no Lost Time Injuries (LTI) during the Period, resulting in a Group-wide Lost Time Injury Frequency Rate (LTIFR) of 0.00 for the Period. The Group-wide All Injury Frequency Rate (AIFR) for the Period was 1.88 which is an improvement on 2016's rate of 1.93. It is pleasing to report that Letšeng achieved 365 LTI free days on 9 October 2017.

No major or significant community or environmental incidents have occurred across the Group during the Period.

FOR FURTHER INFORMATION:

Gem Diamonds Limited

Susan Wallace, Company Secretarial department

ir@gemdiamonds.com

Celicourt Communications

Mark Antelme / Jimmy Lea

Tel: +44 (0) 207 520 9261

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.

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. www.gemdiamonds.com