

31 October 2018

GEM DIAMONDS LIMITED

Q3 2018 Trading Update

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 2018 to 30 September 2018 (“**Q3 2018**” or the “**Period**”).

Letšeng:

- Recovered two greater than 100 carat diamonds during the Period.
- After Period end, on 15 October, a 357-carat diamond was recovered, bringing the number of diamonds greater than 100 carats recovered during 2018 to thirteen.
- Recovered 35 755 carats during the Period, up 27% from Q2 2018.
- Sold eight diamonds for more than US\$ 1.0 million each, generating revenue of US\$ 21.0 million during the Period.
- No Lost Time Injuries (LTI’s) occurred during Q3 2018.

Innovation:

- In line with the continuing strategy of early detection of large diamonds and diamond damage reduction, the Company approved a US\$ 3 million pilot plant to be constructed at Letšeng. This project employs innovative technology to identify diamonds within kimberlite ore and uses non-mechanical means of liberating the encapsulated diamonds. The plant will be commissioned during Q2 2019.

Business Transformation:

- The Company remains on track to achieve its cumulative target of US\$ 100 million in incremental revenue, productivity improvements and cost savings for the 4-year period to end 2021.

Ghaghoo:

- The formal sale process for the Ghaghoo mine continues; further updates will be provided in due course.

Financial:

- At the end of the Period, the Group had US\$ 73.0 million of cash on hand of which US\$ 57.9 million is attributable to Gem Diamonds. The Group’s net cash position was US\$ 36.2 million (of which US\$ 25.3 million was attributable to Gem Diamonds). US\$ 36.8 million of available facilities had been drawn down, resulting in undrawn and available facilities of US\$ 56.8 million.

Gem Diamonds’ CEO, Clifford Elphick, commented:

“Letšeng delivered solid production figures for the Period with an increase in tonnes treated and carats recovered of 26% and 27% respectively compared to the previous Period. Post period-end, the thirteenth diamond greater than 100 carats for 2018 was recovered, resulting in the highest number of these recoveries in a single calendar year.

The results of the proof of concept trials to identify and liberate diamonds within kimberlite ore have progressed well and this technology will now be tested on site at Letšeng as part of a pilot project.

The business transformation process has maintained momentum and remains on track to achieve its cumulative 4-year target of US\$100 million in incremental revenue, productivity improvements and cost savings by the end of 2021.”

1. Diamond Market

The demand and prices for Letšeng’s large high-quality white rough diamonds has remained firm.

2. Letšeng

2.1. Production

	Q3 2018	Q2 2018	% Change	YTD 2018
Waste tonnes stripped	6 693 245	6 746 706	-1%	20 186 111
Ore tonnes treated	1 806 638	1 438 757	26%	4 798 440
Carats recovered	35 755	28 070	27%	97 351
Grade recovered (cpht)*	1.98	1.95	2%	2.03

* Grade recovered includes carats recovered through the re-treatment of tailings material through the mobile XRT sorting machine.

Letšeng treated a total of 1.5 million tonnes of ore during the Period, 54% of which was sourced from the Main pipe and 46% from the Satellite pipe. The remaining balance of the ore was treated through the

Alluvial Ventures contractor plant. Waste stripping continued in line with the requirements of the long-term mine plan.

Following the successful replacement of the scrubber shell and other significant maintenance during the major shutdown in Plant 2 during Q2 2018, plant utilisation and availability returned to nameplate capacity resulting in increased tonnages treated for the Period.

The statutory negotiation process relating to the renewal of the Letseng Mining Lease is continuing with the Lesotho Mining Board and updates will be provided in due course.

2.2. Rough diamond sales

	Q3 2018	Q2 2018	% Change	YTD 2018
Carats sold	30 275	29 284	3%	91 971
Total value (US\$ millions)	55.7	63.0	-12%	224.9
Achieved US\$/ct	1 841	2 150	-14%	2 445

During the Period, the highest diamond price achieved was US\$ 60 428 per carat for a 138.20 carat, Type IIa, white diamond. The reduction in average US\$ per carat compared to Q2 2018 is a result of lower quality recoveries during the Period.

2.3. Revised guidance for 2018

Following improved mining efficiencies, strong production during the Period and consistent grade recoveries, production guidance for waste tonnes mined, satellite pipe contribution and carats produced and sold has been revised upwards from that previously reported in March 2018.

Notwithstanding inflationary pressure on local costs, both direct cash costs (before waste) and operating costs per tonne treated are anticipated to remain within guidance. However, the significant increase in fuel price per litre of c24% compared to the budget price has impacted waste cash costs resulting in guidance being increased to M34 – M36 per tonne.

	FY 2018	FY 2018
	Revised Guidance October 2018	Previous Guidance March 2018
Waste tonnes mined (Mt)	25 - 27	24 – 26
Ore treated (Mt)	No change	6.4 – 6.6
Satellite pipe ore contribution (Mt)	2.1	2.0

	FY 2018	FY 2018
	Revised Guidance October 2018	Previous Guidance March 2018
Carats recovered (Kct)	120 – 124	114 – 118
Carats sold (Kct)	118 – 122	112 – 116
Direct cash costs (before waste) per tonne treated (Maloti)	No change	165 – 170
Operating costs per tonne treated ¹ (Maloti)	No change	280 – 290
Mining waste cash costs per tonne of waste mined (Maloti)	34 – 36	31 – 33
Total capital (US\$ million)	No change	24 – 26

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

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

The Group-wide Lost Time Injury Frequency Rate stands at 0.20 for the year-to-date. The Group-wide All Injury Frequency Rate year-to-date is 1.32, trending towards an improvement over the 2017 full year rate of 2.02.

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

FOR FURTHER INFORMATION:

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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