Thursday, 3 September 2020

Gem Diamonds Limited
Half Year 2020 Results

Gem Diamonds Limited (LSE: GEMD) ("Gem Diamonds", the "Company" or the "Group") announces its Half Year Results for the six months ending 30 June 2020 (the "Period").

FINANCIAL

- Positive cash generation reduced the Group's net debt position by US$4.7 million during the Period to US$5.5 million
- Cash on hand of US$17.5 million at 30 June 2020 (US$13.8 million attributable to Gem Diamonds)
- The Group has unutilised facilities of US$51.6 million
- Revenue of US$69.5 million (H1 2019: US$91.3 million)
- Underlying EBITDA of US$11.3 million (H1 2019: US$25.3 million)
- Loss from discontinued operations US$1.9 million relating to Ghaghoo (H1 2019: US$2.4 million)
- The Business Transformation programme has delivered US$65.0 million, net of fees and costs, to the Group's results to date.

OPERATIONAL AND HEALTH AND SAFETY:

- No lost time injuries during the Period
- Temporarily suspended operations for 30 days during the Period in line with government's lockdown orders
- Average value of US$1 707 per carat (H1 2019: US$1 697 per carat)
- Seven diamonds larger than 100 carats recovered (H1 2019: Three)
- Recovered 43 275 carats (H1 2019: 56 668 carats)
- Waste tonnes mined of 5.2 million tonnes (H1 2019: 13.2 million tonnes)
- Ore treated of 2.4 million tonnes (H1 2019: 3.3 million tonnes)

COVID-19 Response
In response to the global pandemic, the Group has implemented a COVID-19 Detection and Management Protocol which includes policies and procedures, guided by medical experts, various host country regulations and World Health Organization recommendations.

The Group has implemented a wide range of precautions to protect its workforce and prevent the spread of COVID-19. These measures include thermal screening, X-ray screening, polymerase chain reaction (PCR) screening, COVID-19 serology tests (rapid tests), promotion of sanitation measures, appropriate social distancing, compulsory wearing of face masks, training and counselling and the provision of personal protective equipment (PPE).

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

"One of the Group's foremost priorities is the welfare of its employees, contractors and the communities in which it operates. The Group is taking all necessary precautions to protect its people as part of its COVID-19 response.

Letšeng delivered satisfactory operational results notwithstanding the imposed shutdown of 30 days during the Period to curb the spread of COVID-19. The frequency of large diamonds recovered improved in all size categories greater than 10.8 carats when compared to the previous period.

Despite the challenging global conditions, the sales results during the Period demonstrated the continued demand for Letšeng's high quality diamonds, achieving an average price of US$1 707 per carat. It is also pleasing to note the reopening of key sectors within the diamond industry, in particular the manufacturing sector, which should support positive demand in the short to medium term."

The Company will host a live audio webcast presentation of the full year results today, 3 September 2020, at 9:30 BST. This can be viewed on the Company's website: www.gemdiamonds.com.

The page references in this announcement refer to the Half Year Report, which can be found on the Company's website: www.gemdiamonds.com.

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. 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.

INTERIM BUSINESS REVIEW

OPERATING RESPONSIBLY IN UNCERTAIN TIMES
On 11 March 2020, the World Health Organization (WHO) declared the outbreak of a novel strain of coronavirus (COVID-19[1]) a global pandemic, which prompted governments and industries across the globe to take action to limit the impact of the disease. This included nationwide lockdowns in the various jurisdictions the Group operates in, most notably Lesotho, Belgium, Botswana and South Africa.

In compliance with the Government of Lesotho's lockdown order, Letšeng temporarily suspended operations from 28 March to 26 April[2], placing the mine on care and maintenance. After successfully engaging with the Government of Lesotho to designate mining as an essential service, a restart and ramp-up plan was implemented to commence operations in a responsible and phased manner as soon as it was safe and permissible to do so. After a successful restart of mining and ore treatment, ramp-up to normal production at both treatment plants was achieved on 27 May, with the commencement of normal waste mining in July. The success of the ramp-up plan and the return to normal production levels following the shutdown period was due to a phased approach, localised in-house skills and collaborative contractor engagement. The Group's COVID-19 Detection and Management Protocol was an important success factor in this process. (Page 3).

The process to sell the shares in the Ghaghoo mine[3] is ongoing and remains subject to regulatory approvals in Botswana. The process has been delayed further due to COVID-19 related cross-border travel restrictions. In line with the status of this operation and for reasons of safety, orebody preservation and cost containment, and following discussions with the relevant government authorities, the dewatering of the underground workings was suspended from the end of March, thereby further reducing the overall care and maintenance costs.

The travel and other restrictions implemented by the various governments required a different approach to the Group's sales process. Flexible tender processes were successfully introduced in strict compliance with COVID-19 health and safety protocols, including appropriate social distancing guidelines, sanitation measures and thermal screening. The immediate and successful adoption of flexible tender processes allowed for the sale of diamonds and the generation of total revenue of US$69.5 million for the Period[4] (H1 2019: US$91.3 million). (Page 8).

The Group generated underlying EBITDA from continuing operations of US$11.3 million (H1 2019: US$25.3 million) after COVID-19 standing costs of US$3.3 million, resulting in attributable profit from continuing operations of US$0.2 million (H1 2019: US$6.6 million) and earnings per share from continuing operations of 0.1 US cents (H1 2019: 4.8 US cents) on a weighted average number of shares in issue of 139.0 million. The attributable loss for the Period was US$1.7 million (H1 2019: profit of US$4.2 million). (Page 7).

Significant operating and capital cost reduction and deferment measures were implemented during Q2 2020 which, together with the ability to successfully hold tenders and generate revenue, contributed to positive cash generation in the Period. The Group ended the Period with a cash balance of US$17.5 million (of which US$0.2 million is allocated to the discontinued operation) and drawn down facilities of US$23.0 million, resulting in a net debt[5] position of US$5.5 million (H2 2019: US$10.2 million) and unutilised available facilities of US$51.6 million. (Page 29).

The Group's immediate focus in H1 2020 was to manage the severe operational challenges brought on by the swift onset of the pandemic. Management has been able to normalise its operations and control cash reserves through effective cash preservation initiatives. The focus now is on optimising cash generation through further operational efficiencies to ensure the continued sustainability of the business in a challenging environment in the short to medium term.

The Group will continue with the development of its projects designed to revolutionise diamond detection within kimberlite and apply blockchain technology. The Group will also continue to transform its business to ensure its ability to operate sustainably in the wake of the COVID-19 pandemic and in the event of any future high-impact, unforeseen events.

COVID-19 AND ITS IMPACT ON:
- the welfare of people (Page 3).
- access to cash, liquidity, and the solvency of the Group (Page 10).
- the ability to operate (Page 5).
- the diamond market (Page 2).
- the humanitarian aid to neighbouring communities (Page 4).
- the value of key assets (Page 10).
- viability of the organisation and risk profile (Page 12).

[1] *Coronavirus disease (COVID-19) is an infectious disease, causing respiratory illness (like the flu) with symptoms such as a cough, fever and, in more severe cases, difficulty breathing.*
[2] *28 March 2020 to 26 April 2020 (the shutdown period).*
[3] *Classified as a discontinued operation.*
[4] *1 January 2020 to 30 June 2020 (H1 2020 or the Period).*
[5] *Net debt is a non-GAAP measure and calculated as cash and short-term deposits less drawn down bank facilities (excluding the asset-based finance facility).*

DIAMOND MARKET
Following the decline of the diamond market in 2019, an improvement was seen in the prices achieved for larger, high-quality diamonds in the first two months of the year, with all indications pointing towards a modest recovery in 2020. Like many economies and other industries, the COVID-19 pandemic has significantly impacted the diamond industry, from mining through to retail, with lockdown regulations and travel restrictions imposed across the world.

Reopening of key players in the diamond industry, in particular the manufacturing sector in India and jewellery stores across the globe, is gradually taking place as lockdown restrictions are eased. Positive signs of increased demand for diamond jewellery from China during the Period is also encouraging.

Total global rough diamond supply is estimated to decrease to approximately 110 million carats in 2020 compared to 141 million carats in 2019. This is largely due to a combination of planned mine closures, COVID-19 driven marginal mine closures, suspension and slowdown of certain operations and the cancellation of scheduled sales by De Beers and Alrosa. A number of mines have also been placed on prolonged care and maintenance until there is more certainty with regards to the impact of COVID-19 on continued operations and the diamond market.

The lower than expected production of rough diamonds in 2020 may provide an opportunity for miners, such as De Beers and Alrosa, to release some of their stockpile inventory into the market, and a marked reduction in rough diamond supply, especially in the commercial diamond industry, is therefore unlikely in the short term.

BUSINESS TRANSFORMATION
The Business Transformation (BT) programme remains on track to deliver the targeted US$100 million in revenue, productivity and cost saving measured against the 2017 base. The successful implementation of the BT initiatives over the past two years has placed the Group in a

stronger position to absorb the external shock of the pandemic. The BT programme has, since its inception, delivered US$65.0 million, net of fees and costs, to the Group's results.

Although the cumulative target of US$100 million remains on track, the expected delivery by end 2021 may need to be extended into H1 2022 after taking into account the full impact of the shutdown and subsequent reduced operations in Q2 2020.

The transition from BT to Continuous Improvement (CI) throughout the Group is progressing well. CI focuses on behavioural strategies and the implementation of meaningful key performance indicators for effective visual management and problem solving at all levels. The CI methodology, supported by software training, enables the Group to continuously improve efficiencies by unlocking the inherent capabilities of employees at all levels to implement CI best practices, build effective teams and drive incremental improvements.

LETŠENG CI
- 14 employees from across the levels part of CI Steering Committee
- 12 employees upskilled and accredited as trainers through 'train the trainer' principle
- 25 employees making up taskforces
- 460 hours of training in CI, leadership, visual management and problem solving
- 15 champions trained
- 700 employees introduced to CI

SUSTAINABILITY
One of the Group's foremost priorities is the welfare of its employees, contractors and the communities in which it operates. The Group continues to take all necessary precautions to protect its people as part of its COVID-19 response.

In response to the global pandemic, the Group implemented a Group-wide COVID-19 Detection and Management Protocol which includes policies and procedures guided by medical experts, various host country regulations and WHO recommendations. A total of US$0.3 million has been spent within communities and at the Group's operations during H1 2020 on its COVID-19 detection and management measures.

The Group has implemented a wide range of precautions to protect its employees and contractors and to prevent the spread of COVID-19. These measures include thermal screening, X-ray screening, polymerase chain reaction (PCR) screening, COVID-19 serology tests (rapid tests), promotion of sanitation measures, appropriate social distancing, compulsory wearing of face masks, training and counselling and the provision of personal protective equipment (PPE).

COVID-19 DETECTION AND MANAGEMENT PROTOCOL
- Identifying potential COVID-19 cases as soon as possible before clinical care may be required
- Isolating and quarantining potential COVID-19 cases off-site to immediately mitigate the risk of transmission of infection to others
- Mitigating the risk of the spread of COVID-19 to employees and health professionals
- Referring suspected and/or positive cases of COVID-19 either for observation at the national COVID-19 health facilities or home for mandatory self-quarantine
- Supporting and counselling employees who are under quarantine or may have been infected
- Managing the impact on people and operations according to the various official guidelines issued and practices adopted across the global mining and minerals sector

As at 31 August, Letšeng's advanced screening protocol has identified 98 suspected COVID-19 cases. As part of the COVID-19 management strategy, all employees with suspected cases of COVID-19 have been safely transferred to their respective residences or national healthcare facilities, for self-quarantine. No suspected cases remain on site. Sadly, two employees have passed away while in quarantine, off-site, but these cases have yet to be confirmed by the National Health Authority in Lesotho as COVID-19 related deaths.

Letšeng has partnered with the Government of Lesotho and Ministry of Health to raise awareness regarding COVID-19 and distribute PPE and sanitiser in communities in the neighbouring Mokhotlong District.

In addition to the supplying of appropriate PPE, Letšeng donated a four-room mobile structure to the Ministry of Health to use as a COVID-19 testing lab in Maseru. The mobile structure was officially handed over on 21 April and is now operational.

Training and support programmes have been rolled out to educate the workforce and surrounding communities on COVID-19, the correct use of PPE, and the importance of social distancing and proper hygiene. 48 community healthcare workers have been trained to lead the programmes in the surrounding communities.

The surrounding communities have also been provided with necessary food parcels for those adversely affected by the pandemic.

Operational safety trends
The Group's intensified focus on safety and the benefits of visible leadership and training has resulted in positive operational safety trends. There were no fatalities or lost time injuries (LTIs) during the Period, resulting in a Group-wide lost time injury frequency rate (LTIFR) of 0.00. The Group-wide all injury frequency rate (AIFR) also reduced to 0.33 in the Period.

	2016	2017	2018	2019	**H1 2020**
LTIFR trend	0.18	0.04	0.15	0.28	**0.00**
AIFR trend	1.93	2.02	1.45	0.93	**0.33**

Tailings and other storage facilities
The latest quarterly safety inspection of the freshwater dam at Letšeng was carried out in March. The inspection recorded no adverse observations, and the dam continues to be deemed safe.

Scheduled maintenance work on the old Tailings Storage Facility was suspended during the shutdown period. This work recommenced in July and is scheduled to be completed in September 2020.

Following the release of the Global Industry Standard on Tailings Management, the Group has implemented processes to proactively assess conformance to the new standard and to develop an action plan to close any identified gaps. This is scheduled for Q3 of 2020, subject to the lifting of lockdown regulations to allow necessary engagement with experts and physical inspections of the facilities to take place.

LOOKING AHEAD
Although the full impact of COVID-19 on the diamond industry and the Group's operations in the short term cannot yet be fully assessed, it is anticipated that in the medium to long term, rough diamond prices are expected to be supported by favourable demand and supply fundamentals, which are underpinned by continued growth in demand from markets such as China and India, contrasted with the projected

falloff in rough diamond supply. This dynamic is expected to benefit high-quality diamonds in particular, where shortages of certain categories of these rough diamonds have already been seen during the Period.

The Group's business priorities had to immediately adapt as a result of COVID-19, and numerous operational projects had to be deferred to focus on normalising the business in the immediate term.

The Group is constantly monitoring the impact of the pandemic, and considers the primary risks to be disruptions in production resulting in lower throughput and the risk of reduced revenue due to continued downward pressure on the diamond price and decreased demand.

The Group continues to focus on areas of optimisation and aims to preserve cash through re-evaluating all operational and financial management initiatives while keeping employees and surrounding communities safe.

The focus on effective capital allocation and cost reductions will ensure the financial and funding resilience needed to operate in extremely challenging times and to achieve the Group's strategic objectives.

OPERATING REVIEW: LETŠENG

Letšeng returned to normal ore mining and treatment capacity during Q2 2020 after temporarily suspending operations for 30 days in line with government's lockdown regulations. Waste mining activities returned to normal production levels in July.

H1 2020 IN REVIEW

- Seven diamonds greater than 100 carats recovered
- Average value of US$1 707[1] per carat (H1 2019: US$1 697 per carat)
- Highest prices achieved during the Period were for a 13.6 carat pink diamond at US$40 117 per carat and for a 48.16 carat white Type IIa diamond at US$33 453 per carat
- No fatalities or LTIs

OPERATIONAL PERFORMANCE

Gem Diamonds owns 70% of Letšeng Diamonds (Letšeng) in partnership with the Government of the Kingdom of Lesotho, which owns the remaining 30%. The Letšeng mine, famous for its large, high-value, top-quality diamonds is the highest average dollar per carat kimberlite diamond mine in the world.

	Unit	**H1 2020**	H1 2019
Waste mined	tonnes	**5 167 305**	13 150 417
Ore mined	tonnes	**2 489 655**	3 181 762
Ore treated	tonnes	**2 353 991**	3 339 620
Carats recovered[2]	carats	**43 275**	56 668
Recovered grade[2]	cpht[3]	**1.84**	1.70

Waste mining reduced to 5.2 million tonnes (H1 2019: 13.2 million) during the Period, primarily due to the regulated and enforced operational shutdown and the Group's strategic decision to further reduce waste mining during Q2 2020 in order to preserve cash. The volumes of waste mined were also impacted by the underperformance of certain drill rigs and the drilling contracter, both of which have subsequently been replaced. The reduction of waste mining during the Period will not have a material impact on the future availability of ore as the impact has been partially offset by the lower volumes of ore mined during Q2 2020 and a revised plan which has been implemented. The required waste mining activities resumed in July.

During the Period, 2.4 million ore tonnes were treated, of which the two Letšeng plants treated 2.0 million tonnes (H1 2019: 2.8 million tonnes), with the remaining 0.4 million tonnes (H1 2019: 0.5 million tonnes) treated by Alluvial Ventures (AV), the third-party processing contractor. Ore treatment during the Period, in particular during Q2, focused on the high-value Satellite pipe material, which accounted for 50% of all material treated during the Period (H1 2019: 11%), contributing to a higher overall grade and average price achieved in the Period when compared to H1 2019.

Treatment volumes were impacted by the shutdown period, losing 30 days operational time and operating only one plant for a further 30 days, in accordance with the phased ramp-up plan. Letšeng achieved normal treatment capacity on 27 May. Prior to the shutdown period, volumes treated were impacted by unscheduled maintenance in both plants and the treatment of coarser Satellite pipe material, reducing overall throughput.

The successful implementation of a responsible restart and phased ramp-up plan was assisted by the Group's long-standing focus on the development of local skills in Lesotho as travel restrictions prevented access to expatriate skills and expertise. Careful management of supplies and consumable items for both mining and treatment was required during ramp-up to ensure continued operations. The Group continues to engage with its major contractors to closely manage supply chain, services and costs to ensure continued and sustainable production at normal levels in a responsible and safe manner.

The Group recovered 43 275 carats, a decrease of 23.6% from H1 2019. This is mainly as a result of no tonnes being treated during the shutdown period and reduced tonnes during the ramp-up phase. The BT initiative to re-treat tailings material through a tailings treatment plant continued during the Period, and 456 carats were recovered in H1 2020 (H1 2019: 2 711).

The overall grade for H1 2020 was 1.84 cpht, representing an increase of 8.2% from H1 2019, mainly driven by the increased contribution from higher-grade Satellite pipe material. The grade recovered is in line with the expected reserve grade.

1 *The smaller sized diamonds from the June tender were carried over and will be sold in September. This average dollar per carat includes an estimated valuation of these diamonds.*
2 *Includes carats produced from the Letšeng Plants, the Alluvial Ventures (AV) plant and the tailings treatment plant.*
3 *Carats per hundred tonnes.*

FREQUENCY OF RECOVERY OF LARGE DIAMONDS

Number of diamonds	**H1 2020**	H1 2019	FY Average 2008 – 2019
>100 carats	**7**	3	8
60 – 100 carats	**21**	9	18
30 – 60 carats	**47**	36	74
20 – 30 carats	**57**	72	114
10 – 20 carats	**180**	155	427
Total diamonds >10 carats	**312**	275	641

Progress on the resource development studies and technical reports has been impacted by the COVID-19 lockdowns in South Africa, Canada, Belgium and Lesotho. The process of finalising the reserve and resources statement therefore continues.

Progress with the Group's two key technologies to identify locked diamonds within kimberlite and to liberate diamonds using a non-mechanical process was also impacted by the lockdown and is scheduled to continue in Q3 2020, subject to cross-border travel restrictions being lifted.

DIAMOND SALES

A slight improvement in rough diamond prices was seen in Tender 1, but the sudden onset of the COVID-19 pandemic resulted in immediate downward pressure on prices achieved for the subsequent two tenders held in the Period.

The average estimated price during the Period was US$1 707 per carat (H1 2019: US$ 1 697 per carat) for 43 384 carats at a value of US$74.0 million. The smaller diamonds which have been carried over for sale in September have been included in these values at their estimated value of US$4.3 million. Revenue for the Period was based on the sale of 31 644 carats at an average price of US$2 203 per carat, which excludes the smaller diamonds that will be sold in September. The highest price achieved in the Period was for a 13.6 carat pink diamond that sold for US$40 117 per carat. 16 diamonds sold for more than US$1.0 million each, generating revenue of US$29.4 million during the Period (H1 2019: 15 diamonds sold for more than a US$1.0 million each, generating revenue of US$41.6 million). There were no polished diamond sales during the Period.

With cross-border travel restrictions having been implemented in many countries, specifically Belgium, Israel and India, many international clients were not able to physically attend the tender viewings as usual. Flexible tender processes were therefore adopted, allowing for sales to be conducted by limited tender and/or allowing clients to view diamonds virtually before tendering. Additional information of selected large, high-value rough diamonds was provided to assist clients who could not physically attend the tenders to virtually view the diamonds prior to bidding on the tender platform.

GROUP FINANCIAL PERFORMANCE

H1 2020 IN REVIEW

- Reduced Group net debt[1] by US$4.7 million to US$5.5 million (H2 2019: US$10.2 million)
- Revenue of US$69.5 million (H1 2019: US$91.3 million)
- Underlying EBITDA[2] of US$11.3 million (H1 2019: US$25.3 million)
- Attributable profit from continuing operations of US$0.2 million (H1 2019: profit of US$6.6 million)
- Basic earnings per share from continuing operations of 0.1 US cents (H1 2019: 4.8 US cents)
- Loss from discontinued operations US$1.9 million relating to Ghaghoo (H1 2019: US$2.4 million)

PROFITABILITY AND LIQUIDITY

US$ million	**H1 2020**	H1 2019
Revenue	**69.5**	91.3
Royalty and selling costs	**(7.6)**	(8.4)
Cost of sales[3]	**(43.7)**	(52.5)
COVID-19 standing costs	**(3.3)**	–
Corporate expenses	**(3.6)**	(5.1)
Underlying EBITDA[2] from continuing operations	**11.3**	25.3
Depreciation and mining asset amortisation	**(6.2)**	(7.1)
Share-based payments	**(0.3)**	(0.6)
Other income	**–**	1.4
Foreign exchange gain	**0.3**	2.4
Net finance costs	**(2.6)**	(2.7)
Profit before tax from continuing operations	**2.5**	18.7
Income tax expense	**(0.7)**	(6.6)
Profit for the Period from continuing operations	**1.8**	12.1
Non-controlling interests	**(1.6)**	(5.5)
Attributable profit from continuing operations	**0.2**	6.6
Loss from discontinued operations	**(1.9)**	(2.4)
Attributable net (loss)/profit	**(1.7)**	4.2
Earnings per share from continuing operations (US cents)	**0.1**	4.8
Loss per share from discontinued operations (US cents)	**(1.4)**	(1.8)

The Group generated an underlying EBITDA[2] of US$11.3 million after COVID-19 standing costs of US$3.3 million. The profit attributable to shareholders from continuing operations for the Period was US$0.2 million, equating to earnings per share from continuing operations of 0.1 US cents on a weighted average number of shares in issue of 139.0 million. After including the loss of US$1.9 million from Ghaghoo, which remains classified as a discontinued operation, the Group's attributable loss was US$1.7 million, resulting in a loss per share after discontinued operations of 1.3 US cents.

[1] *Net debt is a non-GAAP measure and calculated as cash and short-term deposits less drawn down bank facilities (excluding the asset-based finance facility).*
[2] *Underlying earnings before interest, tax, depreciation and mining asset amortisation (EBITDA) as defined in Note 5 of the condensed notes to the consolidated interim financial statements.*
[3] *Including waste stripping costs amortisation but excluding depreciation and mining asset amortisation.*

Revenue

US$ million	**H1 2020**	H1 2019
Letšeng carats sold/valued[1]	**74.0**	94.5
Tender receipts received post Period end	**–**	(3.2)
Impact of carry over rough diamonds	**(4.5)**	–
Group revenue	**69.5**	91.3

The Group's decreased revenue of US$69.5 million was mainly driven by lower sales volumes combined with deferring the sale of the small diamonds to September 2020. The lower sales volumes were a direct result of the loss of production due to the temporary suspension of operations at Letšeng as a result of COVID-19.

Costs
The Group proactively implemented cost reduction and deferment measures to preserve cash and improve liquidity during the Period. Measures included negotiations with contractors to manage services and costs during the shutdown period and as the operation moved towards normal production. In addition, salary reductions were implemented across the Group, ranging from 20% at executive level to 15% and 10% across various salary bands.

Exchange rate impacts
While revenue is generated in US dollars, the majority of operational expenses are incurred in the relevant local currency in the operational jurisdictions. Local currency rates for the Lesotho loti (LSL) (pegged to the South African rand) and Botswana pula (BWP) were weaker against the US dollar during the Period (compared to H1 2019) which reduced the Group's US dollar reported costs.

Exchange rates	**H1 2020**	H1 2019	% change
LSL per US$1.00			
Average exchange rate for the Period	**16.66**	14.20	17%
Period end exchange rate	**17.38**	14.10	23%
BWP per US$1.00			
Average exchange rate for the Period	**11.53**	10.65	8%
Period end exchange rate	**11.81**	10.62	11%
US$ per GBP1.00			
Average exchange rate for the Period	**1.26**	1.29	(2%)
Period end exchange rate	**1.24**	1.27	(2%)

COVID-19 impact on operational costs
During the shutdown and ramp-up periods where normal waste stripping and carat production levels were disrupted, certain standing charges incurred were recognised as abnormal costs, and in terms of IAS 2 *Inventories* have been expensed immediately in the Interim Consolidated Statement of Profit or Loss and disclosed separately from cost of sales. These costs amount to LSL55.2 million (US$3.3 million) and include costs incurred to implement protocols to address the risk and prevent the spread of COVID-19.

The stated cash preservation measures, together with the continued focus to reduce costs in line with the BT initiatives, resulted in the total direct operating costs[2] decreasing from LSL558.4 million in H1 2019 to LSL468.4 million in H1 2020. In addition, the further reduction in waste mining activities post the shutdown period resulted in the total waste costs reducing from LSL468.6 million in H1 2019 to LSL223.8 million, resulting in an overall reduction of LSL334.8 million in costs in H1 2020 compared to H1 2019. These costs exclude LSL62.2 million of costs that have been deferred into H2 2020 in line with negotiations and cash-saving initiatives implemented.

Notwithstanding the reduction in total costs as a result of COVID-19, the unit cost per tonne increased. Tonnes treated were 30% lower while waste tonnes mined were 61% lower compared to H1 2019. Although the variable costs together with a portion of fixed costs were saved due to the lower volumes, the impact of the remaining fixed portion of costs impacted unit costs. In local currency, total operating costs[3] decreased by 1% to LSL734.0 million in H1 2020 (H1 2019: LSL741.0 million), resulting in total operating costs per tonne treated of LSL311.81, an increase of 41% from LSL221.89 per tonne treated in H1 2019. This increase was driven by the reduced tonnes treated and the higher non-cash accounting charges during the Period, which was due to the increased contribution from Satellite pipe material. This material carries a higher stripping ratio and associated amortisation charge. During the Period, 1.2 million tonnes of this material were treated (H1 2019: 0.4 million).

1 *The smaller sized diamonds from the June tender were carried over and will be sold in September.*
2 *Direct operating costs before waste costs and non-cash accounting charges.*
3 *Operating costs before waste costs and after adding non-cash accounting charges.*

Unit cost per tonne treated

		Operating costs			BT costs		Non-cash accounting charges[1]		
	Tonnes treated (millions)	Direct costs[2]	Third plant operator costs	**Sub-total**	Tailings treatment plant operating costs	BT and CI associated costs	**Total direct operating costs**	Charges	**Total operating cost**
H1 2020 (LSL)	**2.35**	**181.74**	**12.51**	**194.25**	**3.09**	**1.66**	**199.0**	**112.81**	**311.81**
H1 2019 (LSL)	3.34	148.28	13.67	161.95	1.63	10.52	174.10	49.79	221.89
% change	(30%)	23%	(8%)	**20%**	90%	(84%)	**14%**	127%	**41%**
H1 2020 (US$)	**2.35**	**10.91**	**0.75**	**11.66**	**0.19**	**0.10**	**11.95**	**6.77**	**18.72**
H1 2019 (US$)	3.34	10.44	0.96	11.40	0.11	0.74	12.25	3.37	15.62
% change	(30%)	5%	(22%)	**2%**	73%	(86%)	**(2%)**	101%	**20%**

- Direct costs are LSL181.74, representing a 23% increase from H1 2019. Waste cost per waste tonne mined increased by 22% to LSL43.31 (H1 2019: LSL35.63). These increases are a direct result of the lower volumes treated and mined during the Period. In addition, direct costs also include LSL0.99 per tonne (H1 2019: zero) relating to the ongoing testing of the Group's technology to identify diamonds within Kimberlite and liberating these without mechanical intervention.
- Third plant operator costs per tonne treated in local currency decreased by 8%. This cost is a function of the revenue generated by the sales from diamonds recovered through the contractor plant and the decrease in costs is directly linked to the lower revenue generated during the Period.
- Tailings treatment costs per tonne increased as a result of lower tonnes treated.
- BT and CI associated costs of US$0.2 million relates to the implementation of the CI programme as no costs were incurred during the Period relating to BT.
- Non-cash accounting changes: The mining mix in H1 2020 had an increased contribution from the Satellite pipe, which accounted for 50% of all material treated during the Period (H1 2019: 11%). Notwithstanding the lower tonnes treated, the total waste amortisation costs increased to LSL288.4 million (H1 2019: LSL210.5 million), impacting the cost by LSL60 per tonne. This increase was slightly offset by the timing differences of the inventory and stockpile movements during the Period.

Cost reductions to preserve cash – corporate office
These central costs are incurred to provide expertise in all areas of the business to realise maximum value from the Group's assets. These costs are incurred by the Group through its technical and administrative offices in South Africa (in South African rand) and head office in the UK (in British pound).

General corporate costs for the Period were US$3.6 million (H1 2019: US$4.1 million) continuing the trend of reducing corporate costs and realising the benefits from the corporate cost initiatives implemented through BT. During the Period, no costs were incurred relating to BT or ad hoc projects (H1 2019: US$1.0 million), resulting in an overall saving of US$1.5 million compared to H1 2019.

The stated cash preservation measures, most notably the salary reductions as detailed above, resulted in US$0.2 million of cash flows being deferred into H2 2020, but these costs have been accrued for and included in the total costs of US$3.6 million.

The share-based payment charge for the Period was US$0.3 million (H1 2019: US$0.6 million). On 9 June, 1 249 000 nil-cost options were granted to certain key employees and Executive Directors under the long-term incentive plan of the Group with similar conditions as previous awards granted under this scheme.

1 *Non-cash accounting charges include waste stripping cost amortised, inventory and ore stockpile adjustments and the impact of IFRS 16 Leases, and excludes depreciation and mining asset amortisation.*
2 *Direct mine costs represent all operating costs, excluding royalty and selling costs.*

Cost reductions to preserve cash – Ghaghoo (discontinued operation)
The operation, currently on care and maintenance, continues to be classified as a discontinued operation in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, as the sale is still subject to regulatory approvals in Botswana. Care and maintenance costs reduced to US$1.9 million (H1 2019: US$2.4 million) and have been recognised and disclosed separately in the Interim Consolidated Statement of Profit or Loss. The reduction in costs was mainly due to the renegotiation of key contracts following the suspension of the dewatering programme. The suspension realised savings relating to reduced fuel consumption on site and ancillary costs associated with dewatering.

FINANCIAL POSITION
The LSL closed 24% weaker against the US dollar at the end of the Period compared to 31 December 2019. This has resulted in a significant reduction in the US dollar reported values in the Interim Consolidated Statement of Financial Position. The changes to and key drivers of selected totals of the Interim Consolidated Statement of Financial Position are detailed below.

US$ million	**H1 2020**	FY 2019	% variance
Non-current assets	**279.5**	353.9	
Current assets	**51.0**	58.3	
Assets associated with discontinued operation	**3.5**	3.9	
Total assets	**334.0**	416.1	(20%)
Equity attributable to parent company	**93.8**	158.7	
Non-controlling interest	**101.7**	85.4	
Total equity	**195.5**	244.1	(20%)
Non-current liabilities	**94.6**	123.1	
Current liabilities	**40.0**	44.7	
Liabilities associated with discontinued operation	**3.9**	4.2	
Total liabilities	**138.5**	172.0	(19%)

Key asset drivers

US$ million	**H1 2020**	H1 2019
Waste cost capitalised	**15.5**	37.3
Waste stripping cost amortised	**18.0**	15.6
Depreciation and mining asset amortisation	**6.2**	7.1
Capex	**0.9**	4.4

Depreciation and mining asset amortisation decreased to US$6.2 million during the Period. Waste cost capitalised reduced in line with the lower volumes of waste mined during the Period while waste amortisation increased due to the higher contribution from Satellite pipe.

The Group re-evaluated the capital requirements for 2020 as a result of COVID-19 and as a result, savings were realised together with a portion of the capital being deferred to future years. During the Period, the limited capital spent related to the furthering of the resource and reserve statement, expansion of the Patiseng Tailings Storage Facility and initial design work to upgrade the primary crushing area (PCA).

Liquidity and solvency
The Group ended the Period with cash on hand of US$17.5 million (31 December 2019: US$11.4 million) of which US$13.8 million is attributable to Gem Diamonds and US$0.1 million is restricted. The Group generated cash from operating activities of US$21.8 million (30 June 2019: US$22.6 million) during the Period. (Page 19).

At Period end, the Group had utilised facilities of US$23.0 million, resulting in a net debt[1] position of US$5.5 million and available facilities of US$51.6 million, comprising US$17.0 million at Gem Diamonds and US$34.6 million at Letšeng.

With the focus on cash preservation Letšeng did not pay dividends during the Period and the Group did not propose an interim dividend.

The Group optimised the capital structure to ensure Letšeng's debts were fully repaid at the end of the Period, even under COVID-19 circumstances, to ensure lower overall gearing in the medium term should the pandemic have extended implications. The Group has also started renegotiations of Gem Diamonds' three-year revolving credit facility which expires in December 2020. The Group engages regularly with lenders and credit providers to ensure continued access to funding and to manage the Group's cash flow requirements, normalising gearing during the turbulent time.

[1] *Net debt is a non-GAAP measure and calculated as cash and short-term deposits less drawn down bank facilities (excluding the asset-based finance facility).*

Summary of loan facilities as at 30 June 2020:

Company	**Term/ description**	**Lender**	**Expiry**	**Interest rate[1]**	**Amount US$ million**	**Drawn down US$ million**	**Available US$ million**
Gem Diamonds Limited	Three-year rolling credit facility (RCF)	Nedbank	December 2020	London US$ three-month London Interbank Offered Rate (LIBOR) + 4.5%	**29.0**	**12.0**	**17.0**
	Three-year term loan	Nedbank	December 2020		**25.0**	**5.0**	**–**
Letšeng Diamonds	Three-year RCF	Standard Lesotho Bank and Nedbank Lesotho	July 2021	Lesotho prime rate minus 1.5%	**28.8**	**–**	**28.8**
Letšeng Diamonds	5.5-year project facility	Nedbank/ Export Credit Insurance Corporation	March 2022	Tranche 1 (ZAR180 million) South African Johannesburg Interbank Average Rate (JIBAR) + 3.15%	**10.4**	**4.8**	**–**
			September 2022	Tranche 2 (LSL35 million) South African JIBAR + 6.75%	**2.0**	**1.2**	**–**
Letšeng Diamonds	12-month overdraft	Nedbank	December 2020	South African prime rate minus 0.7%	**5.7**	**–**	**5.8**
Total					**100.9**	**23.0**	**51.6**

Going concern
To ensure the Group has a comprehensive understanding of any potential impact of the COVID-19 pandemic on the Group's ability to continue as a going concern, a series of sensitivity analyses on cash flow forecasts were performed. The projections of the Group's current and expected

profitability, considering reasonable possible changes in operations, key assumptions and inputs, such as the renewal of the facilities during this period, indicate that the Group will be able to operate as a going concern for the foreseeable future. See the financial statements on page 20.

Tax matters

The forecast effective tax rate for the full year is 28.9% and has been applied to the actual results for the Period. This rate is the result of profits generated by Letšeng being taxed at 25.0% and deferred tax assets not recognised on losses incurred in non-trading operations, partially offset by a reduction in the deferred tax liability on unremitted earnings. Governments in various countries introduced tax relief measures in an attempt to reduce the financial impact of COVID-19 on companies and, where applicable, the Group applied the available tax relief measures.

As disclosed in the 2019 Annual Report and Accounts, an amended tax assessment was issued to Letšeng by the Lesotho Revenue Authority (LRA), contradicting the application of certain tax treatments in the current Lesotho Income Tax Act, 1993. An objection to the amended tax assessment was lodged with the LRA in March 2020. Further details on this matter can be found on page 35.

[1] *At 30 June 2020 LIBOR was 0.3% and JIBAR was 3.9%.*

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties that could have a material financial, operational and compliance impact on the Group's performance and long-term growth are presented in the 2019 Annual Report and Accounts. The Group's principal risks as presented in the Annual Report remain unchanged in the medium to long term, considering current market and operational conditions.

The COVID-19 pandemic has had an impact on the welfare of employees and communities surrounding the mine, the Group's operations and global markets, including the ability to mitigate risks through insurance. The Group continues to monitor the evolving impact of the COVID-19 pandemic on all these risks and has assessed that the risk ratings of the following risks have increased in the short to medium term:

Health, safety, social and environment (HSSE) and social licence to operate – The health and social effects on the workforce and communities that determine the Group's social licence to operate and workforce and health and safety risks are managed through the implementation of a rigorous COVID-19 Detection and Management Protocol, which includes policies and procedures guided by various host country regulations and WHO recommendations. These range from active thermal, X-ray and serology (rapid tests) screening, rigorous polymerase chain reaction (PCR) testing, promotion of personal hygiene practices, social distancing and ongoing community support.

Rough diamond demand and prices – Due to travel restrictions affecting the accessibility of tender locations, the sector is experiencing changes in the demand for rough diamonds, which in turn affects market prices. Successful flexible tender processes have been introduced to ensure maximum revenue through a transparent sale process.

Cash management – Focus remains on cash management through cash preservation, deferred cash flow initiatives, reductions in cost and capital expenditure and continued access to funding.

Production interruption – The risk of production interruption as a result of workforce infections, the ability for specialised expatriate skills to access the operations in different countries and supply chain shortages are managed through the implementation of the COVID-19 Detection and Management Protocol, optimised procurement strategies and workable solutions with governments to enable supply chain and expatriates' access across borders.

The maturity of the Group's risk management process and its resilience to enable a quick response and adaptability in difficult conditions are demonstrated by the current HSSE statistics, production trends and sales results.

Clifford Elphick
Chief Executive Officer

2 September 2020

HALF YEAR FINANCIAL STATEMENTS

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE HALF YEAR REPORT AND FINANCIAL STATEMENTS

PURSUANT TO DISCLOSURE AND TRANSPARENCY RULES (DTR) 4.2.10

The Directors confirm that, to the best of their knowledge, this condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* and that the Half year Report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

(a) an indication of important events that have occurred during the first six months of the financial year and their impact on this condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) material related-party transactions in the first six months of the year and any material changes in the related-party transactions described in the Gem Diamonds Limited Annual Report 2019.

The names and functions of the Directors of Gem Diamonds Limited are listed in the Annual Report for the year ended 31 December 2019.

For and on behalf of the Board

Michael Michael
Chief Financial Officer

2 September 2020

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Notes	30 June 2020[1] US$'000	30 June 2019[1] US$'000
CONTINUING OPERATIONS			
Revenue from contracts with customers		**69 543**	91 337
Cost of sales		**(49 931)**	(59 629)
Gross profit		**19 612**	31 708
Other operating income		**13**	1 393
COVID-19 standing costs	4	**(3 314)**	–
Royalties and selling costs		**(7 640)**	(8 365)
Corporate expenses		**(3 566)**	(5 090)
Share-based payments	16	**(301)**	(601)
Foreign exchange gain		**312**	2 395
Operating profit	5	**5 116**	21 440
Net finance costs		**(2 565)**	(2 733)
– Finance income		**240**	518
– Finance costs		**(2 805)**	(3 251)
Profit before tax for the Period from continuing operations		**2 551**	18 707
Income tax expense	7	**(739)**	(6 616)
Profit after tax for the Period from continuing operations		**1 812**	12 091
DISCONTINUED OPERATION			
Loss after tax for the Period from discontinued operation	14	**(1 925)**	(2 428)
(Loss)/profit for the Period		**(113)**	9 663
Attributable to:			
Equity holders of parent		**(1 736)**	4 162
Non-controlling interests		**1 623**	5 501
(Loss)/earnings per share (cents)			
– Basic earnings for the Period attributable to ordinary equity holders of the parent		**(1.25)**	3.00
– Diluted earnings for the Period attributable to ordinary equity holders of the parent		**(1.23)**	2.93
Earnings per share (cents) for continuing operations			
– Basic earnings for the Period attributable to ordinary equity holders of the parent		**0.13**	4.75
– Diluted earnings for the Period attributable to ordinary equity holders of the parent		**0.13**	4.64

1 *Unaudited*

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	30 June 2020[1] US$'000	30 June 2019[1] US$'000
(Loss)/profit for the Period	**(113)**	9 663
Other comprehensive income that could be classified to the Interim Consolidated Statement of Profit or Loss in subsequent periods		
Exchange differences on translation of foreign operations	**(48 833)**	3 028
Other comprehensive (loss)/income for the Period, net of tax	**(48 833)**	3 028
Total comprehensive (loss)/income for the Period, net of tax	**(48 946)**	12 691
Attributable to:		
Equity holders of parent	**(65 232)**	2 289
Non-controlling interests	**16 286**	10 402

1 *Unaudited*

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Notes	**30 June 2020[1] US$'000**	31 December 2019[2] US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**257 776**	323 853
Right-of-use assets	10	**4 427**	8 454
Intangible assets	11	**10 988**	13 653
Deferred tax assets		**6 266**	7 871
		279 457	353 831
Current assets			
Inventories		**25 053**	32 517
Receivables and other assets	12	**3 170**	6 337
Income tax receivable		**5 531**	8 189
Cash and short-term deposits	13	**17 285**	11 303
		51 039	58 346
Asset held for sale	14	**3 526**	3 943
Total assets		**334 022**	416 120
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	15	**1 394**	1 391
Share premium		**885 648**	885 648
Other reserves		**(266 049)**	(202 857)
Accumulated losses		**(527 185)**	(525 449)
		93 808	158 733
Non-controlling interests		**101 710**	85 424
Total equity		**195 518**	244 157
Non-current liabilities			
Interest-bearing loans and borrowings	17	**3 164**	6 009
Lease liabilities	10	**4 076**	8 539
Trade and other payables		**1 766**	1 936
Provisions		**12 966**	15 588
Deferred tax liabilities		**72 571**	90 995
		94 543	123 067
Current liabilities			
Interest-bearing loans and borrowings	17	**20 443**	16 332
Lease liabilities	10	**1 892**	1 940
Trade and other payables		**17 680**	26 390
Income tax payable		**18**	13
		40 033	44 675
Liabilities directly associated with the asset held for sale	14	**3 928**	4 221
Total liabilities		**138 504**	171 963
Total equity and liabilities		**334 022**	416 120

1 *Unaudited*
2 *Audited*

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Attributable to the equity holders of the parent						
	Issued capital US$'000	Share premium US$'000	Other reserves[1] US$'000	Accumulated (losses)/ retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2020	**1 391**	**885 648**	**(202 857)**	**(525 449)**	**158 733**	**85 424**	**244 157**
(Loss)/profit for the Period	**–**	**–**	**–**	**(1 736)**	**(1 736)**	**1 623**	**(113)**
Other comprehensive (loss)/income	**–**	**–**	**(63 496)**	**–**	**(63 496)**	**14 663**	**(48 833)**
Total comprehensive (loss)/income	**–**	**–**	**(63 496)**	**(1 736)**	**(65 232)**	**16 286**	**(48 946)**
Share capital issued (Note 15)	**3**	**–**	**(3)**	**–**	**–**	**–**	**–**
Share-based payments (Note 16)	**–**	**–**	**307**	**–**	**307**	**–**	**307**
Balance at 30 June 2020[2]	**1 394**	**885 648**	**(266 049)**	**(527 185)**	**93 808**	**101 710**	**195 518**
Attributable to discontinued operation (Note 14)	**–**	**–**	**(51 868)**	**(192 029)**	**(243 897)**	**–**	**(243 897)**
Balance at 1 January 2019	1 390	885 648	(152 029)	(578 834)	156 175	72 103	228 278
IFRS 16 implementation adjustment	–	–	–	751	751	322	1 073
Restated balance as at 1 January 2019	1 390	885 648	(152 029)	(578 083)	156 926	74 425	229 351
Profit for the Period	–	–	–	4 162	4 162	5 501	9 663
Other comprehensive (loss)/income	–	–	(1 873)	–	(1 873)	4 901	3 028
Total comprehensive (loss)/income	–	–	(1 873)	4 162	2 289	10 402	12 691
Share capital issued (Note 15)	1	–	–	–	1	–	1
Share-based payments (Note 16)	–	–	608	–	608	–	608
Balance at 30 June 2019[2]	1 391	885 648	(153 294)	(573 921)	159 824	82 827	242 651
IFRS 16 implementation adjustment restatement (Note 10)	–	–	–	(751)	(751)	(322)	(1 073)
Balance at 30 June 2019[2] – restated	1 391	885 648	(153 924)	(574 672)	159 073	82 505	241 578
Attributable to discontinued operation (Note 14)	–	–	(51 787)	(188 083)	(239 870)	–	(239 870)

[1] *Other reserves relate to Foreign currency translation reserves and Share based equity reserves*
[2] *Unaudited*

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Notes	**30 June 2020[1] US$'000**	30 June 2019[1] US$'000
Cash flows from operating activities		**21 814**	22 553
Cash generated by operations	18.1	**32 028**	41 446
Working capital adjustments	18.2	**(7 955)**	(3 024)
Interest received		**240**	518
Interest paid[2]		**(2 193)**	(2 554)
Income tax paid		**(306)**	(13 833)
Cash flows used in investing activities		**(16 317)**	(39 625)
Purchase of property, plant and equipment	9	**(864)**	(4 396)
Waste stripping costs capitalised	9	**(15 453)**	(37 350)
Proceeds from sale of property, plant and equipment		**–**	2 121
Cash flows from financing activities		**2 310**	(8 229)
Lease liabilities repaid[2]		**(900)**	(1 115)
Net financial liabilities raised/(repaid)[2]	18.3	**3 210**	(7 114)
– Financial liabilities raised		**32 513**	5 281
– Financial liabilities repaid[2]		**(29 303)**	(12 395)
Net increase/(decrease) in cash and cash equivalents		**7 807**	(25 301)
Cash and cash equivalents at beginning of Period		**11 443**	25 511
Foreign exchange differences		**(1 733)**	326
Cash and cash equivalents		**17 517**	25 836
Cash and cash equivalents at end of Period – continuing operations	13	**17 285**	25 673
Cash and cash equivalents held at banks		**17 239**	25 573
Restricted cash		**46**	100
Cash and cash equivalents at end of Period – discontinued operation	14	**232**	163
Cash and cash equivalents held at banks		**181**	105
Restricted cash		**51**	58

[1] *Unaudited*
[2] *Prior period comparative figures have been disaggregated (for comparative purposes) into lease repayments of the principal amount and the interest amount. These repayments of US$1.1 million and US$0.8 million respectively, were previously presented within financial liabilities repaid of US$14.3 million.*

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. CORPORATE INFORMATION

1.1 Incorporation and authorisation

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.

The financial information shown in this report relating to Gem Diamonds Limited and its subsidiaries (the Group) was approved by the Board of Directors on 2 September 2020, is unaudited and does not constitute statutory financial statements. The report of the auditor on the Group's 2019 Annual Report and Accounts was unqualified.

The Group is principally engaged in operating diamond mines.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of presentation

The condensed consolidated interim financial statements for the six months ended 30 June 2020 (the Period) have been prepared in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's Annual Financial Statements for the year ended 31 December 2019. The Condensed financial statements are unaudited and do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The financial information for the year to 31 December 2019 included in this report was derived from the statutory accounts for the year ended 31 December 2019, a copy of which has been delivered to the Registrar of Companies. The auditor's report on these accounts was unqualified, did not include a reference to any matters to which the auditor drew attention by way of an emphasis of matter and did not contain a statement under sections 498 (2) or (3) of the Companies Act 2006.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 1 to 12. The financial position of the Group, its cash flows and liquidity position are described in the Group Financial Performance on pages 7 to 11. The Group's net debt at 30 June 2020 was US$5.5 million (31 December 2019: US$10.2 million) and with its undrawn facilities of US$51.6 million, its liquidity (defined as net debt and undrawn facilities) of US$46.1 million remains strong. However, the Group's Revolving Credit facilities, which total US$63.6 million when fully unutilised, mature within the next 12 months, with US$34.8 million maturing on 31 December 2020 (Refer Note 17, Interest-bearing loans and borrowings). Management have commenced discussions with lenders to restructure and extend the maturity dates of these facilities and are confident that the facilities will be restructured as per previous successful renewals.

After making enquiries which include reviews of forecasts and budgets, timing of cash flows, the maturity and status of renewal of the borrowing facilities and sensitivity analyses and considering the impact of the COVID-19 pandemic on both the wider macro-economic environment (including demand for the Group's products and realised prices) and the Group's operations and production levels, the Directors have a reasonable expectation that the Group and the Company have adequate financial resources without the use of mitigating actions to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing this half year report and accounts of the Group.

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's Annual Financial Statements for the year ended 31 December 2019. A number of new accounting pronouncements, principally minor amendments to existing standards, also became effective on 1 January 2020 and have been adopted by the Group. The adoption of these new accounting pronouncements has not had a significant impact on the accounting policies, methods of computation or presentation applied by the Group.

Amendments to standards

Amendments	Description
Amendments to IFRS standards	References to the Conceptual Framework
Amendments to IFRS 3	Definition of a business
Amendments to IAS 1 and IAS 8	Definition of material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform

Standards issued but not yet effective

The standards, amendments and improvements that are issued, but not yet effective, up to the date of issuance of the Group's consolidated interim financial statements are listed in the table below. The Group has early adopted the amendment to *IFRS 16 – COVID-19 Related Rent Concessions*. The nature and effect of the adoption of this amendment is described below. The other standards, amendments and improvements have not been early adopted and it is expected that, where applicable, these standards and amendments will be adopted on each respective effective date. The impact of the adoption of these standards cannot be reasonably assessed at this stage.

Standards, amendments, and improvements	Description	Effective date*
IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 37	Onerous contracts – cost of fulfilling a contract	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16	Property, plant and equipment proceeds before intended use	1 January 2022
Amendments to IFRS 16	COVID-19 Related Rent Concessions	1 June 2020

Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Pending
Improvement IFRS 1	Subsidiary as a first-time adopter	1 January 2022
Improvement IFRS 9	Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
Improvement IAS 41	Agriculture – Taxation in fair value measurements	1 January 2022

* *Annual periods beginning on or after*

Amendment to IFRS 16 – COVID-19 Related Rent Concessions
The amendment, in the form of a practical expedient, provides optional relief to lessees on the treatment of rent concessions occurring as a direct consequence of the COVID-19 pandemic.

The expedient allows lessees to account for such rent concessions as if they were not lease modifications if all of the following conditions are met:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
(b) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
(c) there is no substantive change to other terms and conditions of the lease.

During the Period, the Group early adopted the amendment to IFRS 16. The practical expedient was applied to all leases where there was a change in lease payments granted by lessors as a direct consequence of a COVID-19 related rental concessions. For leases where concessions have been given in the form of forgiveness, the Group included the forgiveness as negative variable lease payments in the Interim Consolidated Statement of Profit or Loss. For leases where concessions have been given in the form of payment deferrals, the Group continued to account for the lease liability and right-of-use asset using the rights and obligations of the existing lease, with a separate lease payable being recognised for the payment deferred in the period when the allocated lease cash payment is due. This adoption did not have a material impact on the Group. Refer Note 10, Right of use assets and lease liabilities.

2.3 Significant accounting matters
During the six months ended 30 June 2020, the significant accounting matters addressed by management included:
- the assessment of impairment and impairment reversal indicators, together with the estimation of cash flow projections for impairment testing, and
- identifying uncertainties over tax treatments (Refer Note 19, Commitments and Contingencies for full updated details).

COVID-19
The critical judgements and sources of estimation uncertainty affecting the results for the six months ended 30 June 2020 are consistent with those disclosed in the Group's Annual Report and Accounts for the year ended 31 December 2019. The Group has considered the impact of COVID-19 on its significant accounting judgements and estimates. The Group's main source of estimation uncertainty is in relation to assumptions used for the assessment of impairment and impairment reversal of assets where indicators of impairment or impairment reversal are identified. No further significant estimates have been identified as a result of COVID-19, although the pandemic has increased the level of uncertainty inherent in all future cash flow forecasts. The diamond price and foreign exchange rate assumptions used to forecast future cash flows for impairment assessment purposes have been updated to consider both the short-term observable impact of COVID-19 and the forecast medium and longer-term impact on the world economy and commodity prices. The updated diamond price assumptions when considered together with foreign exchange rate assumptions are not considered to be indicators of impairment or impairment reversals at 30 June 2020 for the majority of the Group's assets. Additional information is provided below for those assets where potential impairment triggers have been identified.

Letšeng Diamonds (Letšeng) goodwill
Goodwill impairment testing is undertaken on Letšeng annually and when there are indications of impairment. The short-term impact of COVID-19 on current pricing and the uncertainty on future pricing and recoverability has triggered an impairment assessment at 30 June 2020. In assessing whether goodwill has been impaired, the carrying amount of Letšeng is compared with its recoverable amount. For the purpose of goodwill impairment testing, the recoverable amount for Letšeng has been determined based on a value-in-use model, similar to that adopted in the past. The diamond prices used in the impairment test have been set with reference to recent prices achieved, recent market trends and anticipated market supply and the Group's medium-term forecast. Long-term diamond price escalation reflects the Group's assessment of market supply/demand fundamentals. The valuation of Letšeng has been assessed at 30 June 2020 and the recoverable amount exceeded the carrying value by US$177 million. The valuation, based on discounted cash flows for the Life of Mine period to 2034, and using the same pre-tax discount rates as at 31 December 2019, is sensitive to input assumptions particularly in relation to the foreign exchange assumption of the US dollar (US$) to the Lesotho loti (LSL) and the future price growth for diamonds. The Group has assumed an appropriate price reduction for its diamonds (from its starting point for the 31 December 2019 value-in-use calculation) and a phased restoration thereafter to pricing of pre-COVID-19 levels by the start of 2023. The exchange rate has been updated to the closing rate at 30 June 2020 of US$1:LSL17.38 (31 December 2019: US$1:LSL13.98).

A range of alternative scenarios have been considered in determining whether there is a reasonably possible change in the foreign exchange rates in conjunction with a reasonably possible change in the diamond price recovery, which would result in the recoverable amount equating to the carrying amount. A 25% strengthening of the LSL to the US$ to US$1:LSL14.00 or a further reduction of 20% to the starting diamond prices (showing recovery to pre-COVID-19 prices by 2029) would result in the recoverable amount equating to the carrying value, with other valuation assumptions remaining the same.

As a result, no impairment charge was recognised during the Period.

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 below measures of profit or loss, assets and liabilities are reviewed by the Chief Operating Decision-Maker, i.e. Board of Directors. 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);
- Belgium (sales, marketing and manufacturing of diamonds);
- BVI, RSA, UK and Cyprus (technical and administrative services and innovative technology owner); and
- Botswana (diamond mining activities), classified as a discontinued operation since 30 June 2019.

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

Gem Diamonds Botswana (Ghaghoo Diamond Mine), which, during the prior period was classified as a discontinued operation held for sale and disclosed separately, continues to be classified as such, as management remain committed to the sales process albeit materially impacted by the constraints of COVID-19. Refer Note 14, Asset held for sale.

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 diamond manufacturing margins and Group services.

The following tables present revenue form contracts with customers, profit/(loss) for the Period, EBITDA and asset and liability information from operations regarding the Group's geographical segments:

Six months ended 30 June 2020[1]	Lesotho US$'000	Belgium US$'000	BVI, RSA, UK and Cyprus[2] US$'000	Total continuing operations US$'000	Discontinued operations US$'000	Total US$'000
Revenue from contracts with customers						
Total revenue	**68 500**	**69 861**	**2 947**	**141 308**	**–**	**141 308**
Intersegment	**(68 500)**	**(318)**	**(2 947)**	**(71 765)**	**–**	**(71 765)**
External customers	**–**	**69 543**	**–**	**69 543**	**–**	**69 543**
Segment operating profit/(loss)	**8 751**	**316**	**(3 951)**	**5 116**	**(1 825)**	**3 291**
Net finance costs	**(1 677)**	**(3)**	**(885)**	**(2 565)**	**(100)**	**(2 665)**
Profit/(loss) before tax	**7 074**	**313**	**(4 836)**	**2 551**	**(1 925)**	**626**
Income tax expense				**(739)**	**–**	**(739)**
Profit/(loss) for the Period				**1 812**	**(1 925)**	**(113)**
EBITDA	**13 863**	**531**	**(3 058)**	**11 336**	**(1 720)**	**9 616**

1 *Unaudited*
2 *No revenue was generated in BVI and Cyprus*

Six months ended 30 June 2019[1]	Lesotho US$'000	Belgium US$'000	BVI, RSA, UK and Cyprus[2] US$'000	Total continuing operations US$'000	Discontinued operations US$'000	Total US$'000
Revenue from contracts with customers						
Total revenue	93 112	91 536	4 451	189 099	–	189 099
Intersegment	(93 112)	(199)	(4 451)	(97 762)	–	(97 762)
External customers	–	91 337	–	91 337	–	91 337
Segment operating profit/(loss)	25 731	733	(5 024)	21 440	(2 337)	19 103
Net finance costs	(1 843)	(117)	(773)	(2 733)	(91)	(2 824)
Profit/(loss) before tax	21 891	222	(3 406)	18 707	(2 428)	16 279
Income tax expense				(6 616)	–	(6 616)
Profit/(loss) for the Period				12 091	(2 428)	9 663
EBITDA	30 041	748	(5 482)	25 307	(2 314)	22 993

1 *Unaudited*
2 *No revenue was generated in BVI and Cyprus*

	Lesotho US$'000	Belgium US$'000	BVI, RSA, UK and Cyprus US$'000	Total continuing operations US$'000	Discontinued operations US$'000	Total US$'000
Segment assets						
30 June 2020[1]	**314 748**	**1 959**	**7 523**	**324 230**	**3 526**	**327 756**
31 December 2019[2]	393 107	2 477	8 722	404 306	3 943	408 249
Segment liabilities						
30 June 2020[1]	**40 605**	**523**	**20 877**	**62 005**	**3 928**	**65 933**

31 December 2019[2]	59 854	600	16 293	76 747	4 221	80 968

[1] *Unaudited*
[2] *Audited*

Included in revenue for the Period is revenue from three customers which amounted to US$37.9 million (US$41.1 million in the prior period) from the sale of diamonds reported in the Lesotho and Belgium segments.

Segment assets and liabilities do not include deferred tax assets and liabilities of US$6.3 million and US$72.6 million respectively (31 December 2019: deferred tax asset US$7.9 million, deferred tax liabilities US$91.0 million).

Total revenue for the Period is lower than that of the prior period mainly due to the negative impact of COVID-19 on production and sales volumes, and sales prices achieved.

During the Period, COVID-19 had the following impact on revenue:

- Production volumes were negatively impacted as a result of Letšeng's production ceasing on 28 March – 26 April 2020, in line with the COVID-19 lockdown instituted by the Government of Lesotho.
- Three sales tenders were held compared to four sales tenders during the prior period.
- Six +100 carat diamonds were sold achieving an average of US$20 638 per carat, compared to four +100 carat diamonds sold in the prior period achieving an average of US$28 612 per carat.

4. COVID-19 STANDING COSTS

	30 June 2020[1] US$'000	30 June 2019[1] US$'000
COVID-19 standing costs	**(3 314)**	-

[1] *Unaudited*

In compliance with the Government of Lesotho's lockdown order, Letšeng temporarily suspended operations between 28 March and 26 April and placed the mine on care and maintenance. After successfully engaging with the Government of Lesotho to designate mining as an essential service, a restart and ramp-up plan was implemented commencing in May, whereby normal production levels for both treatment plants were achieved by 27 May, with incidental waste mining commencing in May and reaching normal levels in July. During the care and maintenance and ramp-up periods where normal waste stripping and carat production levels were disrupted, certain standing fixed costs incurred were recognised as abnormal costs, and in terms of *IAS 2 Inventories* have been expensed immediately in the Statement of profit or loss as COVID-19 standing costs and disclosed separately from cost of sales. Of these costs, US$0.3 million related to costs incurred to implement protocols throughout the Group to address the risk and curb the spread of COVID-19.

5. UNDERLYING EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND MINING ASSET AMORTISATION (UNDERLYING EBITDA) BEFORE DISCONTINUED OPERATION

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:

	30 June 2020[1] US$'000	30 June 2019[1] US$'000
Operating profit	**5 116**	21 440
Other operating income	**(13)**	(1 393)
Foreign exchange gain	**(312)**	(2 395)
Share-based payments	**301**	601
Depreciation and mining asset amortisation (excluding waste stripping cost amortised)	**6 244**	7 054
Underlying EBITDA before discontinued operation	**11 336**	25 307

[1] *Unaudited*

6. SEASONALITY OF OPERATIONS

The Group's sales environment with regard to its diamond sales is not materially impacted by seasonal and cyclical fluctuations. The mining operations may be impacted by seasonal weather conditions. Appropriate mine planning and ore stockpile build-up ensures that mining can continue during adverse weather conditions.

7. INCOME TAX EXPENSE

	30 June 2020[1] US$'000	30 June 2019[1] US$'000
Current		
– Overseas	**(3 802)**	(1 003)
Withholding tax		
– Overseas	**(73)**	(69)
Deferred		
– Overseas	**3 136**	(5 544)
	(739)	(6 616)

[1] *Unaudited*

The forecast effective tax rate for the full year from continuing operations is 28.9% (31 December 2019: 37.5%) and has been applied to the actual results from continuing operations for the Period. The asset held for sale (refer to Note 14, Asset held for sale), has been excluded from the forecast effective tax rate for the full year and taxed separately. There is no tax effect on the loss from the asset held for sale.

The effective tax rate is above the Lesotho statutory tax rate of 25% primarily as a result of deferred tax assets not recognised on losses incurred in non-trading operations, which were partially offset by a reduction in the deferred tax liability on unremitted earnings.

8. DIVIDENDS PAID AND PROPOSED

There were no dividends proposed in 2020 for the 2019 financial year, nor were there any dividends proposed in 2019 for the 2018 financial year. The dividend policy is dependent on the results of the Group's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at that time.

9. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group invested US$0.9 million (30 June 2019: US$4.4 million) into property, plant and equipment, of which US$0.8 million (30 June 2019: US$3.5 million) related to Letšeng.

In order to preserve cash during COVID-19, the Group's capital spend was limited during the Period, with a number of capital investments being deferred where possible. Letšeng's capital spend was incurred mainly on continued core drilling, micro diamond analysis and mineral resource studies to firm up the existing mineral resource base, amounting to US$0.4 million (30 June 2019: US$0.5 million), the engineering designs for the construction of the new Primary Crusher Area of US$0.2 million (30 June 2019: Nil) and the ongoing extension of the footprint of the Patiseng tailings storage facility of US$0.1 million (30 June 2019: US$0.9 million). In addition, US$69.5 thousand was spent on COVID-19 screening equipment and hardware.

Letšeng further invested US$15.5 million (30 June 2019: US$37.3 million) in deferred stripping costs which were capitalised. Amortisation of the deferred stripping asset (waste stripping cost amortisation) of US$18.0 million (30 June 2019: US$15.6 million) was charged to the Interim Consolidated Statement of Profit or Loss during the Period. The amortisation is directly related to the areas that were mined during the Period and their associated waste to ore strip ratios.

Depreciation and mining asset amortisation of US$6.2 million (30 June 2019: US$7.3 million) was charged to the Interim Consolidated Statement of Profit or Loss during the Period.

In addition to the above, foreign exchange movements on translation affecting property, plant and equipment decreased the asset balances by US$55.1 million (30 June 2019: US$5.7 million).

10. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	Right-of-use assets				
	Plant and equipment	Motor vehicles	Buildings	Total	**Lease liabilities**
As at 1 January 2020	**1 032**	**1 295**	**6 127**	**8 454**	**10 479**
Additions	**77**	**–**	**354**	**431**	**431**
Depreciation charge	**(384)**	**(57)**	**(560)**	**(1 001)**	**–**
Interest expense				**–**	**309**
Lease payments				**–**	**(1 234)**
Disposals/derecognition of lease	**(465)**	**(835)**	**(792)**	**(2 092)**	**(2 242)**
Foreign exchange differences	**(174)**	**(258)**	**(933)**	**(1 365)**	**(1 775)**
As at 30 June 2020	**86**	**145**	**4 196**	**4 427**	**5 968**
As at 1 January 2019	1 350	1 620	6 642	9 612	11 043
As previously stated	1 350	1 620	8 085	11 055	11 055
IFRS 16 implementation adjustment restatement[1]	–	–	(1 443)	(1 443)	(12)
Additions	616	–	540	1 156	1 156
Depreciation charge	(977)	(360)	(1 189)	(2 526)	–
Interest expense	–	–	–	–	1 087
Lease payments	–	–	–	–	(2 988)
Foreign exchange differences	43	35	134	212	181
As at 31 December 2019	1 032	1 295	6 127	8 454	10 479

[1] *The restatement relates to the adoption of IFRS 16, whereby the right-of-use assets were recognised based on the amount equal to the lease liabilities, with the amount of any prepaid or accrued lease payments being incorrectly recognised in equity. This was subsequently re-assessed in the 2019 Annual Report and Accounts, with right-of-use assets being recognised based on the amount equal to the lease liabilities on the date of initial application (i.e. 1 January 2019), adjusted by the amount of any recognised prepaid or accrued lease payments relating to that lease immediately before the date of initial application (i.e. 31 December 2018).*

During the Period, Letšeng entered into a new contract with its existing ore processing contractor. The original contract, which was assessed as containing a lease on adoption on 1 January 2019, was cancelled. The new contract was assessed as not containing a lease as Letšeng no longer retained the right to control the use of the assets associated with the contract. All assets and liabilities associated with the original lease were derecognised. Furthermore, Gem Diamonds Limited (GDL) entered into a new contract for the rental of its office space. The new contract was assessed as containing a lease resulting in the recognition of the associated assets and liabilities. The original contract was cancelled, and the associated assets and liabilities were derecognised. Total gains of US$0.2 million relating to the derecognition of leases in the Group have been recognised in the Consolidated Statement of Profit or Loss. Refer Note 18.1, Cash generated by operations.

During the Period, the Group recognised income from sub-leasing its office buildings in Maseru, Lesotho of US$0.2 million (30 June 2019: US$0.2 million) and incurred expenses relating to short-term leases of US$0.8 million (30 June 2019: US$0.9 million) and variable lease payments of US$15.4 million (30 June 2019: US$26.5 million).

Residual value guarantees of US$0.1 million (31 December 2019: US$0.1 million) exist on leases for backup power generating equipment at Letšeng, which represents the cost to decommission and return the power generating equipment to the supplier at the end of the lease term.

The Group applied the practical expedient to all rental concessions received as a direct consequence of the COVID-19 pandemic. This adoption did not have a material impact on the Group. Refer Note 2.2, Significant accounting policies.

11. INTANGIBLE ASSETS

	Intangibles US$'000	Goodwill[1] US$'000	Total US$'000
As at 30 June 2020			
Cost			
Balance at 1 January 2020	**791**	**13 653**	**14 444**
Foreign exchange differences	**–**	**(2 665)**	**(2 665)**
Balance as at 30 June 2020	**791**	**10 988**	**11 779**
Accumulated depreciation			
Balance at 1 January 2020	**791**	**–**	**791**
Amortisation/impairment charge for the Period	**–**	**–**	**–**
Balance as at 30 June 2020	**791**	**–**	**791**
Net book value as at 30 June 2020	**–**	**10 988**	**10 988**
As at 31 December 2019			
Cost			
Balance at 1 January 2019	791	13 272	14 063
Foreign exchange differences	–	381	381
Balance as at 31 December 2019	791	13 653	14 444
Accumulated depreciation			
Balance at 1 January 2019	791	–	791
Amortisation/impairment charge for the year	–	–	–
Balance as at 31 December 2019	791	–	791
Net book value as at 31 December 2019	–	13 653	13 653

1 *Goodwill is allocated to Letšeng Diamonds*

12. RECEIVABLES AND OTHER ASSETS

	30 June 2020[1] US$'000	31 December 2019[2] US$'000
Current		
Trade receivables	**23**	89
Prepayments	**481**	1 087
Deposits	**85**	94
Other receivables	**528**	797
VAT receivable	**2 053**	4 270
	3 170	6 337

1 *Unaudited*
2 *Audited*

The amounts reflected above approximate their fair value.

13. CASH AND SHORT-TERM DEPOSITS

	30 June 2020[1] US$'000	31 December 2019[2] US$'000
Cash on hand	**–**	1
Bank balances	**4 930**	10 971
Short-term bank deposits	**12 355**	331
	17 285	11 303

1 *Unaudited*
2 *Audited*

The amounts reflected above approximate their fair value.

At 30 June 2020, the Group had restricted cash of US$46.2 thousand (31 December 2019: US$0.1 million).

Finance income relates to interest earned on cash and short-term deposits.

Finance costs include interest incurred on bank overdraft and borrowings, finance lease liabilities and the unwinding of rehabilitation provisions.

At 30 June 2020, the Group had US$51.6 million (31 December 2019: $69.9 million) of undrawn facilities, representing the LSL500.0 million (US$28.8 million) three-year unsecured revolving working capital facility at Letšeng, the Letšeng ZAR100.0 million (US$5.8 million) working capital facility and US$17.0 million from tranche 2 of the Company's three-and-a-half year unsecured revolving credit facility.

14. ASSET HELD FOR SALE

The Ghaghoo mine was placed on care and maintenance on 31 March 2017. In June 2019, the Company entered into a binding agreement for the sale of 100% of the share capital of Gem Diamonds Botswana Proprietary Limited, which owns the Ghaghoo diamond mine, for US$5.4 million. The sale was subject to regulatory approvals in Botswana, by the Ministry of Minerals, Energy and Water resources (the Ministry) and other conditions precedent.

The conclusion of the sale was pending at Period end, as a result of the buyer being delayed in meeting the requirements of the Ministry in order to obtain regulatory approvals. These delays were further exacerbated by COVID-19, which halted the engagement between the buyer and the Ministry to conclude the outstanding requirements. The Company and the buyer remain fully committed to the sale with the conclusion of the sales process being dependent on the lifting of COVID-19 related restrictions in Botswana.

During the Period, some consumable inventory items were written off relating to expired explosives and plant consumables; and spares and accessories for automotives no longer on site.

The asset held for sale is carried at carrying value which is lower than fair value less costs to sell. The non-recurring fair value measurement is included in level 3 of the fair value hierarchy. The fair value is based on the purchase price of the transaction. The trading results of the operation continue to be classified as a discontinued operation held for sale and are presented as follows:

	30 June 2020[1] US$'000	30 June 2019[1] US$'000
Gross profit	**–**	–
Other costs	**(1 677)**	(2 332)
Inventory write-down	**(142)**	–
Share-based payments	**(6)**	(7)
Foreign exchange gain	**–**	2
Operating loss	**(1 825)**	(2 337)
Net finance costs	**(100)**	(91)
Loss for the Period before tax from discontinued operation	**(1 925)**	(2 428)
Income tax	**–**	–
Loss for the Period after tax from discontinued operation attributable to Equity holders of the parent	**(1 925)**	(2 428)
Loss per share from discontinued operation		
Basic	**(1.38)**	(1.75)
Diluted	**(1.36)**	(1.71)

[1] *Unaudited*

The assets and liabilities attributable to the discontinued operation are shown in the table below. Deferred tax assets of US$0.3 million were recognised to the extent of the deferred tax liabilities. These have been netted off in the table below. Gem Diamonds Botswana has estimated tax losses of US$111.3 million for which no deferred tax asset has been recognised.

	30 June 2020[1] US$'000	31 December 2019[2] US$'000
ASSETS		
Non-current assets		
Property, plant and equipment	**1 410**	1 568
Current assets		
Inventories	**1 706**	2 136
Receivables and other assets	**178**	99
Cash and cash short-term deposits	**232**	140
	2 116	2 375
Total assets	**3 526**	3 943
LIABILITIES		
Non-current liabilities		
Provisions	**3 335**	3 613
Current liabilities		

Trade and other payables	**593**	608
Total liabilities	**3 928**	4 221

[1] *Unaudited*
[2] *Audited*

The net cash flows attributable to the discontinued operation held for sale are as follows:

	30 June 2020[1] US$'000	30 June 2019[1] US$'000
Operating	**109**	84
Foreign exchange (loss)/gain on translation of cash balance	**(17)**	1
Cash inflow	**92**	85

[1] *Unaudited*

15. ISSUED CAPITAL AND RESERVES

	30 June 2020[1]		31 December 2019[2]	
	Number of shares '000	**US$'000**	Number of shares '000	US$'000
Authorised – ordinary shares of US$0.01 each				
As at Period/Year	**200 000**	**2 000**	200 000	2 000
Issued and fully paid				
Balance at beginning of Period/Year	**138 984**	**1 391**	138 896	1 390
Allotments during the Period/Year	**344**	**3**	88	1
Balance at end of Period/Year	**139 328**	**1 394**	138 984	1 391

[1] *Unaudited*
[2] *Audited*

16. SHARE-BASED PAYMENTS

Long-term Incentive Plan 2017 Award – 9 June 2020 award

On 9 June, 1 249 000 nil-cost options were granted to certain key employees and Executive Directors under the Long-term Incentive Plan 2017 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. 180 000 of the options granted relate to market conditions. The options vest after a three-year period and are exercisable between 9 June 2023 and 8 June 2030. 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. As the charge for the Period (21 days) was immaterial, a preliminary estimate has been made for the fair value of the nil-cost options at £0.31 (US$0.39), with a formal valuation to be prepared at year end. The option grants are settled by issuing shares.

The expense disclosed in the Interim Consolidated Statement of Profit or Loss is made up as follows:

	30 June 2020[1] US$'000	30 June 2019[1] US$'000
Equity-settled share-based payment transactions – charged to the Statement of Profit or Loss – continuing operations	**301**	601
Equity-settled share-based payment transactions – charged to the Statement of Profit or Loss – discontinued operation	**6**	7
	307	608

[1] *Unaudited*

17. INTEREST-BEARING LOANS AND BORROWINGS

	Effective interest rate	Maturity	**30 June 2020[1] US$'000**	31 December 2019[2] US$'000
Non-current				
LSL215.0 million bank loan facility				
Tranche 1	South African JIBAR + 3.15%	31 March 2022	**2 072**	4 291
Tranche 2	South African JIBAR + 6.75%	30 September 2022	**671**	1 168
ZAR12.8 million asset-based finance facility	South African Prime Lending Rate	1 January 2024	**421**	550
			3 164	6 009

Current				
LSL215.0 million bank loan facility				
Tranche 1	South African JIBAR + 3.15%	31 March 2022	**2 763**	3 433
Tranche 2	South African JIBAR + 6.75%	30 September 2022	**537**	667
US$45.0 million bank loan facility				
Tranche 1	London US$ three-month LIBOR + 4.5%	31 December 2020	**5 000**	10 000
Tranche 2	London US$ three-month LIBOR + 4.5%	31 December 2020	**12 000**	2 000
ZAR12.8 million asset-based finance facility	South African Prime Lending Rate	1 January 2024	**143**	232
			20 443	16 332

1 *Unaudited*
2 *Audited*

The amounts reflected above approximate their fair value.

LSL215.0 million (US$12.4 million) bank loan facility at Letšeng Diamonds
This loan comprises two tranches of debt as follows:

- Tranche 1: South African Rand denominated ZAR180.0 million (US$10.4 million) debt facility supported by the Export Credit Insurance Corporation (ECIC) (five years tenure); and
- Tranche 2: Lesotho Loti denominated LSL35.0 million (US$2.0 million) term loan facility without ECIC support (five years and six months tenure).

The loan is an unsecured project debt facility which was signed jointly with Nedbank and the ECIC on 22 March 2017 to fund the construction of the Letšeng mining support services complex. The loan is repayable in equal quarterly payments, which commenced in September 2018. At Period end LSL105.0 million (US$6.0 million) (31 December 2019: LSL133.7 million (US$9.6 million)) remains outstanding.

The South African Rand based interest rates for the facility at 30 June 2020 are:

- Tranche 1: 7.06% (30 June 2019: 10.18%)
- Tranche 2: 10.66% (30 June 2019: 13.78%)

The South African prime lending rate has reduced materially during the Period due to the South African Reserve Bank reducing the repo rate to provide relief during the COVID-19 pandemic.

Total interest for the Period on this interest-bearing loan was US$0.2 million (30 June 2019: US$0.3 million).

US$45.0 million bank loan facility at Gem Diamonds Limited
This facility is a three-and-a-half-year revolving credit facility (RCF) with Nedbank Capital and consists of two tranches:

- Tranche 1: relates to the Ghaghoo US$25.0 million debt whereby capital repayments commenced in September 2018 with a final repayment due on 31 December 2020; and
- Tranche 2: this tranche of US$20.0 million relates to an RCF which included an upsize mechanism whereby the tranche increased by a ratio of 0.6:1 for every repayment made under Tranche 1. At Period end US$5.0 million of the Tranche 1 debt remains outstanding. This has resulted in the Tranche 2 RCF increasing to US$29.0 million.

At Period end, US$5.0 million (31 December 2019: US$10.0 million) had been drawn down relating to Tranche 1 and US$12.0 million (31 December 2019: US$2.0 million) relating to Tranche 2. This resulted in US$17.0 million (31 December 2019: US$27.0 million) remaining undrawn under Tranche 2 at Period end. The US$-based interest rate for this facility at 30 June 2020 is 4.81% (30 June 2019: 6.83%).

Total interest for the Period on this interest-bearing loan was US$0.4 million (30 June 2019: US$0.7 million).

This facility expires in December 2020 and the Company has entered into discussions with the lenders to renew this facility before its maturity date. The Going concern assessment has included the renewal of this facility.

ZAR12.8 million Asset-Based Finance facility
The Group, through its subsidiary, Gem Diamond Technical Services, entered into a ZAR12.8 million (US$0.7 million) Asset Based Finance facility (ABF) with Nedbank Limited for the purchase of an X-Ray transmission machine (the asset). The asset serves as security for the facility. At Period end ZAR9.8 million (US$0.6 million) remains outstanding (31 December 2019: ZAR10.9 million, US$0.8 million). The facility is repayable over five years and bears interest at the South African Prime Lending rate, which was 7.25% at 30 June 2020 (30 June 2019: 10.25%).

Total interest for the Period on this interest-bearing loan was US$26.6 thousand (30 June 2019: US$40.1 thousand).

Other facilities
The Group through its subsidiary Letšeng Diamonds, has a LSL500.0 million (US$28.8 million) three-year unsecured revolving working capital facility jointly with Standard Lesotho Bank and Nedbank Capital, which was renewed in July 2018. At Period end the full facility was available for draw down (31 December 2019: full facility).

In addition, Letšeng Diamonds, also has a ZAR100.0 million (US$5.8 million) 12-month working capital facility, which expires in December 2020, with Nedbank Limited (acting through its Nedbank Corporate and Investment Banking division). At Period end the full facility was available for draw down (31 December 2019: full facility).

18. CASH FLOW NOTES

		Notes	30 June 2020[1] US$'000	30 June 2019[1] US$'000
18.1	**Cash generated by operations**			
	Profit before tax for the Period – continuing operations		**2 551**	18 707
	Loss before tax for the Period – discontinued operation		**(1 925)**	(2 428)
	Adjustments for:			
	Depreciation and amortisation excluding waste stripping		**5 244**	5 914
	Depreciation on right-of-use assets		**1 000**	1 370
	Waste stripping cost amortised		**17 968**	15 649
	Finance income		**(240)**	(518)
	Finance costs		**2 905**	3 342
	Unrealised foreign exchange differences		**187**	(3 046)
	Profit on disposal of property, plant and equipment		**–**	(1 169)
	Gain on derecognition of leases		**(151)**	–
	Inventory write down		**142**	–
	Movement in prepayments		**205**	(206)
	Other non-cash movements		**3 835**	3 223
	Share-based equity transaction		**307**	608
			32 028	41 446
18.2	**Working capital adjustment**			
	Decrease in inventories		**1 545**	1 076
	(Increase)/decrease in receivables		**(3 192)**	2 578
	Decrease in trade and other payables		**(6 308)**	(6 678)
			(7 955)	(3 024)
18.3	**Cash flows from financing activities (excluding lease liabilities)**			
	Balance at beginning of Period		**22 341**	34 166
	Net cash raised/(used) in financing activities		**3 210**	(7 114)
	– financial liabilities raised		**32 513**	5 281
	– financial liabilities repaid		**(29 303)**	(12 395)
	Non-cash movement – FCTR		**(1 944)**	310
	Balance Period end		**23 607**	27 362

[1] *Unaudited*

19. COMMITMENTS AND CONTINGENCIES

The Board has approved capital projects of US$2.7 million (31 December 2019: US$4.8 million) of which US$0.2 million (31 December 2019: US$1.5 million) has been contracted at 30 June 2020. The main capital expenditure approved relates to an accommodation block expansion of US$0.6 million (31 December 2019: US$0.7 million), continued tailings storage extension investment of US$0.4 million (31 December 2019: US$0.6 million), information technology (IT) and security equipment upgrades of US$0.3 million (31 December 2019: US$0.6 million) and further mineral resource studies of US$0.2 million (31 December 2019: US$0.5 million). The expenditure is expected to be incurred over the next 12 months but will be assessed in line with the uncertainty presented by the COVID-19 pandemic.

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 relating to ongoing employee-related legal costs approximating US$0.2 million (31 December 2019: US$0.2 million).

The Group monitors possible tax claims within the various jurisdictions in which the Group operates. Management applies judgement in identifying uncertainties over tax treatments and concluded that there were no uncertain tax treatments during the Period. 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.

As disclosed in the 2019 Annual Report and Accounts, an amended tax assessment was issued to Letšeng by the Lesotho Revenue Authority (LRA), contradicting the application of certain tax treatments in the current Lesotho Income Tax Act 1993. In March 2020, Letšeng lodged an objection to the assessment, which was supported by the opinion of senior counsel, together with an application for the suspension of any payment deemed due. The application for suspension of payment was accepted. The LRA has subsequently lodged an application to the Lesotho High Court pertaining to this matter, to which Letšeng is opposing. There has therefore been no change in the judgement applied and the accounting treatment for this matter. Refer Note 1.2.28, Critical accounting estimates and judgements in the 2019 Annual Report and Accounts.

20. RELATED PARTIES

	Relationship
Jemax Management (Proprietary) Limited	Common director

Gem Diamond Holdings Limited	Common director
Government of the Kingdom of Lesotho	Non-controlling interest

	30 June 2020[1] US$'000	30 June 2019[1] US$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	**158**	325
Short-term employee benefits	**2 158**	2 032
	2 316	2 357
Fees paid to related parties		
Jemax Management (Proprietary) Limited	**(41)**	(49)
Royalties paid to related parties		
Government of Lesotho	**(6 953)**	(7 680)
Lease and licence payments to related parties		
Government of Lesotho	**(26)**	(162)
Purchases from related parties		
Jemax Management (Proprietary) Limited	**(2)**	(3)
Amount included in trade payables owing to related parties		
Jemax Management (Proprietary) Limited	**(7)**	(8)
Amounts owing to related party		
Government of Lesotho	**(152)**	(299)

[1] *Unaudited*

21. EVENTS AFTER THE REPORTING PERIOD

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