

17 May 2016

GEM DIAMONDS LIMITED

Trading update for Q1 2016

Gem Diamonds Limited (LSE: GEMD) (“**Gem Diamonds**” or the “**Company**” or the “**Group**”) is pleased to provide the following Trading Update detailing the Group’s operational performance for the Period 1 January 2016 to 31 March 2016 (“**Q1 2016**”) or (the “**Period**”) and sales performance to the date of this report.

Letšeng:

Strong start to the year with production in line with plan. Prices steady for higher quality goods.

- Recovered 28 698 carats during the Period (reflecting a 28% increase on the first quarter of 2015).
- Ore treated was 1 624 964 tonnes (up 14% on Q1 2015).
- Recovered grade was 1.77cpht (up 12% on Q1 2015).
- Average price of US\$ 1 938¹ per carat achieved for first three tenders in 2016 (US\$ 2 157¹ for the first three tenders of 2015).
- Zero Lost Time Injuries (LTIs) for the Period, resulting in 522 consecutive LTI free days to the end of the Period.

¹ Refer to section 2.2 “Rough Diamond Sales and Diamonds Extracted for Manufacturing” for further details.

Ghaghoo:

Production slowdown and cost reduction plan implemented.

- Downsizing process advanced.
- Buffer zone successfully created to contain sand ingress.
- Development of production block 2 on Level 1 is progressing well.
- 47 diamonds greater than 4.8 carats each were recovered during the Period, including 3 diamonds larger than 10.8 carats, with the largest being a 12.99 carat diamond.
- Recovered 11 029 carats during the Period
- Achieved US\$ 160 per carat for the parcel sold in the Period.

Financial:

Strong Balance Sheet maintained. Ordinary and special dividend subject to shareholder approval at the Company’s AGM in June.

- The Group had US\$ 68.8 million cash on hand at the end of the Period (excluding the receipts from the third tender), of which US\$ 60.6 million was attributable to Gem Diamonds.
- During the Period, the Board recommended a dividend of 5 US cents per ordinary share (US\$ 6.9 million) to shareholders following the announcement of the 2015 Full Year results on 15 March 2016. The

payment is to be made on 14 June 2016 to holders of ordinary shares on the register at close of business on 13 May 2016.

- The Board also recommended a once off special dividend of 3.5 US cents per ordinary share (US\$ 4.8 million) to shareholders.
- During the Period, Letšeng paid dividends of US\$ 20.8 million, which resulted in a net cash flow of US\$ 13.1 million to Gem Diamonds and a cash outflow from the Group as a result of withholding taxes of US\$ 1.5 million and payment of the Government of Lesotho's dividend portion of US\$ 6.2 million.

Gem Diamonds' CEO, Clifford Elphick commented:

"The prices achieved for Letšeng's top quality and large diamonds have remained steady and have contributed to an average price of US\$ 1 938 per carat for the first three Letšeng tenders.

At Ghaghoo the downsizing of the operation is advanced and the buffer zone around the sand ingress has been successfully created. Development of the second production block on Level 1 has progressed well and will be the main source of ore for the remainder of the year. A parcel of 14 114 carats of Ghaghoo diamonds was sold during the Period for an average of US\$ 160 per carat, which is some 7 percent above the previous price achieved in December 2015"

1. Diamond Market Overview

Positive actions taken by the major diamond producers (i.e. reduced supply, reduction of prices of rough diamonds and concerted consumer marketing efforts) have led to an overall steady sentiment in the diamond market in the first quarter of 2016. Although there have been signs of improvement in the first quarter of 2016, the diamond market as a whole remained cautious during the Period. The continued slowdown in Chinese retail demand, a strong US dollar and reports of continued high levels of polished inventory (particularly in the manufacturing sector) have contributed to a cautious approach being adopted in the purchasing of rough and polished diamonds.

2. Letšeng

Gem Diamonds holds a 70% shareholding in Letšeng Diamonds (Pty) Ltd ("**Letšeng**") in partnership with the Government of the Kingdom of Lesotho which owns the remaining 30%.

2.1 Production

	Q1 2016	Q4 2015	QoQ % Change	Q1 2015	YoY % Change
Waste stripped (tonnes)	7 056 303	6 401 631	10%	5 299 922	33%
Ore treated (tonnes)	1 624 964	1 810 935	-10%	1 427 656	14%
Carats recovered	28 698	29 100	-1%	22 472	28%
Grade recovered (cpht)	1.77	1.61	10%	1.57	12%

During the Period, 7.1 million tonnes of waste were mined. This is in line with the revised life of mine plan which allows for increased levels of higher grade ore from the higher value Satellite Pipe to be mined annually. Due to

seasonal rain impacting access to ore and treatment rates, there was a reduction to the tonnage treated when compared to the previous Quarter.

Letšeng's Plants 1 and 2 treated a total of 1.4 million tonnes of ore during the Period, of which 64% was sourced from the Main Pipe and 36% from the Satellite Pipe. The balance of the ore (0.2 million tonnes) for the Period was treated through the Alluvial Ventures Plant which was sourced from the Main pipe and low grade stockpiles. The increase of the grade recovered is reflective of the area mined in the Satellite Pipe that has historically produced higher than reserve grades albeit at a slightly smaller average stone size, which contributed to a lower average \$ per carat for the Period.

2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

	First three tenders 2016**	Q4 2015 (2 tenders)*	QoQ % Change	First three tenders 2015*	YoY % Change
Carats sold	45 311	30 357	49%	35 940	26%
Total value (US\$ millions)	87.8	64.3	37%	77.5	13%
Achieved US\$/ct	1 938	2 117*	-8%	2 157 ²	-10%

*Includes carats extracted at rough value for polishing.

** Includes (a) carats extracted at rough valuation for polishing and (b) lower-value smaller commercial production carried over at valuation.

² This is the actual result achieved which exceeds the estimate previously reported.

Three Letšeng tenders have been held in 2016, achieving an average price of US\$ 1 938** per carat (first three tenders in 2015 – US\$ 2 157*), bringing the 12 month rolling average to US\$ 2 198 per carat.

In line with the sales and marketing strategy, the lower-value smaller commercial production is accumulated and carried over for a larger volume sale once every quarter. This production from the third export, valued at US\$ 4.8 million, has been carried over to be sold in the fourth tender to be held in June and has been included at this value in determining the average US\$ per carat for the first three tenders of 2016.

209 carats were extracted during the first three tenders at a rough value of US\$ 2.9 million.

3. Ghaghoo

Gem Diamonds' wholly-owned subsidiary, Gem Diamonds Botswana (Pty) Ltd, is currently developing the Ghaghoo Mine ("Ghaghoo") in Botswana.

	Q1 2016	Q4 2015	QoQ % change	Q1 2015	YoY % change
Ore treated (tonnes)	50 514	85 046	-41%	48 740	4%
Carats recovered	11 029	24 294	-55%	11 559	-5%
Grade recovered (cpht)	21.8	28.6	-24%	23.7	-8%

During the Period, Ghaghoo treated 50 514 tonnes of ore. This reduced tonnage is in line with the strategy of downsizing and reducing the production plan for 2016 to approximately 300 000 tonnes.

The Ghaghoo operation recovered 11 029 carats achieving a recovered grade of 21.8cpht. The majority of the 50 514 tonnes of ore treated was sourced from tunnels one to five on Level 1. The area of the pipe mined was close to the contact and contained more internal dilution and hence delivered a lower grade when compared to the previous quarter.

The development of the second production block is progressing well with over 200 metres of tunnelling completed per month which will allow access to higher grade ore towards the centre of the pipe from mid year onwards.

A parcel of 14 114 carats was sold for US\$ 2.3 million in the Period (US\$ 160 per carat).

Although Ghaghoo will operate at a reduced production rate during 2016, prices for the Ghaghoo production will continue to be monitored and the option of returning to full production regularly reviewed.

4. Health, Safety, Security and Environment (HSSE):

The Group continues to strive toward its goal of zero harm to its people and environment and to operate within the Group's sustainable development framework.

During the Period, one LTI was reported at Ghaghoo bringing to an end the Group's record of 460 LTI free days and resulting in a Lost Time Injury Frequency Rate (LTIFR) of 0.14. The Group All Injury Frequency Rate (AIFR) is 1.71 for the Period. For the same Period in 2015, the Group AIFR was 3.08.

Gem Diamonds continues to work closely with its project affected communities to ensure that the social projects implemented continue to benefit the communities and are sustainable.

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

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About Gem Diamonds:

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

Gem Diamonds has a growth strategy based on the expansion of the Letšeng mine and bringing the Ghaghoo mine into production, while maintaining its strong balance sheet. The Company seeks to maximise revenue and margin from its rough diamond production by pursuing cutting, polishing and sales and marketing initiatives further along the diamond value chain. With favourable supply/demand dynamics expected to benefit the industry over the medium to long term, particularly at the high end of the market supplied by Gem Diamonds, this strategy positions the Company well to generate attractive returns for shareholders in the coming years.

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