GEM DIAMONDS

Half-yearly Report 2016

Interim Business Review

The first half of 2016 (the Period), saw a strong operational performance at the Letšeng mine with production of 57 380 carats (50 019 in H1 2015) and both waste tonnes mined and ore treated up on H1 2015. Letšeng benefited from the Plant 2 Phase 1 upgrade project completed in 2015, realising an increased daily treatment rate through this plant. Letšeng's high-value diamonds performed well during the Period and achieved an average value of US$1 899* per carat.

During the Period, Letšeng continued to implement the optimised life of mine plan, which significantly enhances the mine's net present value through optimising waste stripping and increasing the percentage of the higher-grade, higher-value Satellite pipe ore available to be treated earlier over the life of mine.

The Group will continue to pursue its broader strategy to identify and implement low capital, value enhancing opportunities at Letšeng, and feasibility studies have commenced to progress the next phase of plant enhancements.

On 6 May 2016, the Letšeng Diamond Discovery Centre was officially opened by His Majesty King Letsie III. This centre is a permanent interactive exhibition that tells the story of Lesotho's diamond industry, with specific focus on the history of diamond mining at Letšeng. The centre was built to promote knowledge and serve as a foundation for Basotho learners who wish to learn more about the diamond mining industry and possibly pursue careers in the field. This further emphasises Letšeng's commitment to the development of the mining industry within Lesotho.

Development of the Ghaghoo mine continues to progress with the implementation of the previously announced strategy to reduce the tonnage and associated cost structure. Despite some initial headwinds experienced in the retrenchment process where a court in Botswana ordered the reinstatement of some 20 workers (the order is currently suspended pending an appeal), and the costs associated with the premature caving experienced in November 2015, it is anticipated that the targeted monthly cost rates will be achieved during H2 2016.

The sales of Ghaghoo's rough diamonds have been impacted by the cautious state of the diamond market during the Period. Two sales were concluded during the Period for US$4.8 million, achieving an average of US$157 per carat.

In line with the Group's strategy of returning cash to its shareholders, the Company paid a dividend of 5 US cents per share (US$6.9 million) and a special dividend of 3.5 US cents per share (US$4.9 million) in June 2016.

The Group's financial position remains robust with a cash balance of US$66.5 million and undrawn facilities of US$52.1 million as at 30 June 2016 underpinned by underlying EBITDA[1] of US$43.5 million during the Period (30 June 2015: US$46.1 million).

Diamond market

The market for both rough and polished diamonds remained cautious. Liquidity constraints, high polished inventory levels and the uncertain macro-economic outlook continue to create challenges for the diamond market. In the medium to long term, rough diamond prices are expected to be supported by the favourable demand/supply fundamentals, which are underpinned by a continued growth in demand coupled with a limited growth in supply.

Letšeng's high-value goods performed well. A modest improvement in the prices of smaller, Letšeng quality goods was experienced during the Period.

Health, safety, social and environment (HSSE)

The Group continues to strive towards its goal of zero harm to its people and the environment and to operate within its sustainable development framework. The Group reports a fatality-free first half of 2016, however, two lost time injuries (LTIs) occurred during the Period. The two LTIs resulted in a Group-wide lost time injury frequency rate (LTIFR) of 0.15. The Group-wide all injury frequency rate (AIFR) is 2.61 for the Period. The Group is committed to working closely with project affected communities and implementing sustainable community projects that address the needs of the various communities. No major or significant environmental or stakeholder incidents were recorded over the Period.

** Includes carats extracted for manufacturing at rough valuation*
[1] Underlying earnings before interest, tax, depreciation and mining asset amortisation

Front cover image: 88.43 carat white Letšeng diamond sold during the Period for US$48 000 per carat

Operating review: Letšeng

Sustainability overview

- **Zero major or significant stakeholder and environmental incidents**
- **LTIFR 0.09**
- **AIFR 1.52**
- **One LTI**

Operational overview

- **Waste tonnes mined of 15.3 million (11.4 million tonnes in H1 2015)**
- **Ore treated of 3.3 million (3.1 million tonnes in H1 2015)**
- **Carats recovered of 57 380 (50 019 carats in H1 2015)**
- **Grade recovered of 1.72cpht (1.61cpht in H1 2015)**
- **Rough tender revenue of US$106.2 million* (US$106.3 million* in H1 2015)**
- **Average value of US$1 899* per carat achieved (US$2 264* per carat in H1 2015)**
- **11.8 carat pink diamond recovered (which was sold for US$187 700 per carat)**
- **An exceptional Type II 160.2 carat diamond recovered**

** Includes carats extracted for manufacturing at rough valuation*

Operational performance

Letšeng	H1 2016	H1 2015
Waste mined (tonnes)	**15 287 897**	11 364 784
Ore treated (tonnes)	**3 336 300**	3 110 351
Carats recovered	**57 380**	50 019
Grade recovered (cpht)	**1.72**	1.61

The Letšeng mine is famous for its exceptional, top-quality diamonds, having the highest proportion of large, high-value diamonds, making it the highest average dollar per carat kimberlite diamond mine in the world. Gem Diamonds owns 70% of Letšeng Diamonds (Letšeng) in partnership with the government of the Kingdom of Lesotho, which owns the remaining 30%. Letšeng was acquired in July 2006 and has consistently delivered exceptional returns for its shareholders.

During the Period, 15.3 million tonnes of waste was mined (35% higher than H1 2015) as waste mining ramps up in line with the optimised mine plan, which allows for increased levels of higher grade ore from the higher-value Satellite pipe to be mined annually. This was driven by additional mining fleet which was mobilised and commissioned successfully during the Period.

Letšeng treated a total of 2.9 million tonnes of ore through its two main plants during the Period, of which 66% was sourced from the Main pipe, and 34% from the Satellite pipe. The anticipated benefits from the Plant 2 Phase 1 upgrade, which was successfully commissioned in H1 2015, have started to materialise, evidenced by an increased daily treatment rate through Plant 2 during H1 2016. The remaining 0.4 million tonnes of ore were treated through Alluvial Ventures, the contractor plant, 66% of which was sourced from the Main pipe and 34% from stockpiles. Letšeng's relationship with its long standing contractor Alluvial Ventures continues to operate with the objective of maximising returns for the Company. Options to extend the contract post-December 2016 for a further 24 months are currently being reviewed.

During the Period, 57 380 carats were recovered (15% higher than H1 2015) resulting in a grade of 1.72 carats per hundred tonnes (cpht). The high grades achieved are 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. This also saw a reduction in +100 carat diamonds recovered during the Period impacting the US$ per carat achieved, but, as the mining moved into a different area of the Satellite pipe in early July 2016, exceptional 104 carat and 85 carat diamonds were recovered.

Further optimisation of the Coarse Recovery Plant during the Period included the refinement of the XRT sensitivities, improvement of feed quality and the installation of a high-tech glove box materials handling system to cater for the separation of ore concentrate streams from Letšeng's two processing plants. The Coarse Recovery Plant is currently operating at the designed >5mm size cut off.

A capital project of LSL245 million (US$16.7 million) to relocate and construct a new mining fleet workshop is under review for H2 2016. This capital investment is driven by the optimised mine plan. As Letšeng continues to invest in the future of the operation, the new waste pushback which is required to extend the life of the open pit has been brought forward. The mining workshops, offices and related services, therefore, need to be relocated within the mining site and will allow the mine to effectively maintain the new and larger fleet of mining equipment. This project will be funded through additional external debt and an initial Term Sheet has been agreed with Lenders.

Details of overall costs and capital expenditure incurred at Letšeng during the Period are included in the Group financial performance section.

2016 Guidance

In late July 2016, extreme weather conditions were experienced across the Maluti Mountains in Lesotho where the Letšeng mine is located, with excessive snowfall and severe winds limiting access to the mine. Following damage to the overhead power lines, standby generators previously installed at the mine were used to mitigate the impact, allowing the plants to continue to operate, albeit at reduced rates. The Lesotho Electricity Company repaired the damaged overhead power lines on 10 August 2016 and the external power supply was fully restored.

Given the strong operational performance in H1 2016, waste tonnes mined and carats recovered remain within the Company's original guidance and the Satellite pipe ore contribution has increased. Full-year guidance for ore tonnes treated and operating costs have been revised.

Stay in business capital has also been revised to account for the commencement of the construction of the mining workshop.

The revised full-year guidance is set out below:

	FY 2016 Revised guidance	FY 2016 Original guidance
Waste tonnes mined (Mt)	**29 – 32**	29 – 32
Ore treated (Mt)	**6.6 – 6.8**	6.8 – 7.0
Satellite ore contribution (Mt)	**1.7 – 1.8**	1.65
Carats recovered (Kct)	**107 – 109**	107 – 109
Carats sold (Kct)	**107 – 110**	107 – 110
Direct cash costs (before waste) per tonne treated (maloti)[1]	**155 – 165**	145 – 155
Operating costs per tonne treated[2] (maloti)	**215 – 235**	200 – 220
Mining waste cash costs per tonne of waste mined (maloti)	**28 – 30**	28 – 30
Stay in business capital (US$ million)	**15 – 17**	8 – 10

[1] *Direct cash costs represent all operating costs, excluding royalty and selling costs*
[2] *Operating costs include waste stripping costs amortised, inventory and ore stockpile adjustments, and excludes depreciation*

Diamond sales

Four tenders were completed during H1 2016, with a total of 55 948 carats sold in Antwerp through Gem Diamonds Marketing Services, a wholly owned Gem Diamonds subsidiary. The average price achieved was US$1 899* per carat resulting in total rough tender revenue of US$106.2 million*, bringing the 12-month rolling US$ per carat average to US$2 113* per carat.

Among the exceptional diamonds recovered during the Period was an 11.8 carat pink diamond which sold for US$187 700 per carat, the third highest price per carat achieved for a single Letšeng diamond, and a 160.2 carat Type II white diamond which was sold into a partnership arrangement with additional participation in the final polished margin.

HSSE

One LTI was recorded at Letšeng during the Period, resulting in an LTIFR of 0.09. The AIFR for the Period was 1.52. Letšeng continues to build on the culture of safety it has created, as well as implementing various initiatives aimed at integrating its approach to HSSE management. Behaviour-based safety continues to form the cornerstone of the health and safety management programme at the operation.

Environmental rehabilitation trials through re-vegetation are continuing in key areas of the mine. The results from these trials will assist the operation when tailoring rehabilitation initiative requirements.

Letšeng has continued with the implementation of its three-year corporate social investment (CSI) plan (which commenced in 2014) aimed at uplifting communities, locally and beyond.

No significant or major environmental or stakeholder incidents were recorded in the Period.

H2 2016 and onwards

The focus at Letšeng will be on the following key areas:

- continue work streams on enhancing value through reducing diamond damage and progress feasibility studies for the next phase of plant enhancements;
- continue the implementation of a fleet management system to improve grade control, fleet optimisation and reduce operating costs;
- commence construction of the mining workshop;
- extend the life of the tailings residue facility by an additional three years through lifting and strengthening the existing wall; and
- commence the review and design of the next three-year CSI plan.

** Includes carats extracted for manufacturing at rough valuation*

Operating review: Ghaghoo

Sustainability overview

- Zero major or significant stakeholder or environmental incidents
- LTIFR 0.42
- AIFR 4.23
- One LTI

Operational overview

- All 13 VKSE development tunnels on Level 1 have been completed
- Slot tunnel has been completed on Level 1 and the sub-level cave is progressing according to plan
- Development of the Level 2 production level has commenced
- Mill surge bin commissioned and confirms ability to achieve treatment plant name plate capacity
- Average value of US$157 per carat achieved in the Period
- Ongoing recovery of fancy colours in the smaller size fractions

The Ghaghoo diamond mine in Botswana is being developed by the Company's wholly owned subsidiary, Gem Diamonds Botswana, which is the holder of a 25-year mining licence. The initial objectives of Phase 1 of the development were to confirm the grade, diamond prices and the recovery processes, including the use of autogenous milling, which were expected to increase diamond liberation. The results from Phase 1 were planned to underpin a study aimed at defining the way forward for mining at Ghaghoo. However, based on prevailing diamond market conditions impacting the Ghaghoo production, the operation has been downsized to 300 000 tonnes per annum from the planned Phase 1 of 720 000 tonnes per annum. It is anticipated that the planned output rate will be achieved in H2 2016. Ghaghoo had not reached commercial production during the Period which resulted in all sales realised and costs incurred in the Period being capitalised to the carrying value of the asset. The ongoing difficult market conditions for Ghaghoo's production has resulted in a US$40.0 million non-cash impairment charge against the carrying value of this asset.

Operational performance

Ghaghoo	H1 2016	H1 2015
Development (metres)	**1 168**	825
Ore treated (tonnes)	**95 569**	132 125
Carats recovered	**20 876**	35 283
Grade recovered (cpht)	**21.8**	26.7

Following the caving which occurred in Block 1 at the end of 2015, a buffer zone was successfully created during the first quarter of 2016 to prevent the ingress of sand into the production levels, resulting in the sterilisation of approximately 300 000 tonnes of ore. This impacted the volume of tonnes delivered to surface stockpiles during the Period.

During the Period, 95 569 tonnes of ore sourced from Level 1 were treated, from which a total of 20 876 carats were recovered, resulting in a grade of 21.8cpht. Of the total tonnes treated during the Period, only 23% was high-grade, undiluted material which achieved an average grade of 27.6cpht when compared to the reserve grade of 27.8cpht. The balance of the ore was sourced from areas close to the contact zone of the Kimberlite pipe where there was dilution of ore as Block 1 was mined out. The establishment of the Block 2 production stopes is progressing according to plan.

Work practices adopted to manage the water underground have proven effective and the development of the Level 2 production level has commenced and is progressing in line with the plan to maintain production flexibility into 2017.

During Q2 2016, work was performed to optimise the performance of the mill which resulted in higher mill retention times and better diamond liberation. This elevated the number of stones recovered in the smaller size fraction during the Period. Initiatives to further improve the overall efficiency of the processing plant continue.

The downsizing activities progressed during the Period, with the operation now structured to produce at the targeted rate of 300 000 tonnes per annum.

Details of overall costs and capital expenditure incurred at Ghaghoo during the Period are included in the Group financial performance section.

Diamond sales

Two sales were concluded during the Period. The first sale of 14 114 carats achieved US$160 per carat (US$2.3 million) and the second sale of 16 163 carats, which had an increased proportion of smaller size fraction diamonds, achieved US$155 per carat (US$2.5 million). The total sales achieved for the Period were US$4.8 million reflecting an average of US$157 per carat.

HSSE

One LTI has been recorded during the Period, resulting in an LTIFR of 0.42. The AIFR for the Period was 4.23. Ghaghoo continues to work towards improvement of its health, safety and environmental systems with specific focus on the implementation of a behaviour-based safety programme. Ghaghoo continues to contribute towards community initiatives aimed at improving community access to medical services and the upgrading of education infrastructure.

No major or significant environmental or stakeholder incidents were recorded in the Period.

H2 2016 and onwards

The focus at Ghaghoo will be on the following key areas:

- further optimise the downsizing and manage costs to limit cash burn;
- continuing underground development on Level 2 to ensure sustainable production at the planned rates;
- enhance mineral resource data through sampling ore from VK Main;
- continue plant efficiency initiatives to improve throughput;
- monitor market conditions to assess expansion options; and
- continuous improvement of HSSE practice.

Operating review: Sales, marketing and manufacturing

Operational overview

- **US$106.2 million* with an average price of US$1 899* per carat was achieved for Letšeng's production**
- **US$4.8 million with an average of US$157 per carat was achieved for Ghaghoo's production**
- **20 rough diamonds sold for greater than US$1.0 million each during the Period compared to 13 in H1 2015**
- **Sales of polished diamonds contributed US$1.2 million in additional margin to the Group**

The Group's in-house sales and marketing function provides a flexible sales strategy with multiple marketing channels to maximise revenue from the Group's production. This is achieved through competitive tenders and other appropriate sales and marketing channels for its rough and polished diamonds.

The Group's rough diamond analysis capabilities provide in-depth knowledge of the value of large, rough diamonds and are vital in the setting of appropriate reserve prices for the diamonds to be sold at each tender.

The Group's ability to extract select diamonds for manufacturing further contributes to revenue by allowing access to additional margins further along the diamond value chain.

Sales and marketing

Gem Diamonds Marketing Services (GDMS) markets and sells Letšeng's rough diamond production through an electronic tender platform. The tender platform is designed to enhance engagement with customers by allowing continual access, flexibility and communication, as well as ensuring transparency during the tender process. Although tender viewings of Letšeng's diamonds take place in Antwerp, the electronic tender platform allows customers the flexibility to participate in each tender from anywhere in the world. This flexibility, together with the professional and transparent manner in which the tenders are managed and the reputable customers who participate in the tenders, contribute to the strategy of achieving highest market-driven prices for Letšeng's rough diamond production.

Rough diamonds selected for own polishing are analysed, planned and manufactured by Baobab Technologies (Baobab). The final polished diamonds are sold by GDMS through direct selling channels to reputable high-end diamantaires.

During the first half of 2016, four Letšeng tenders were held with 55 948 carats sold for a total value of US$106.2 million* achieving an average of US$1 899* per carat. Through its multiple marketing channels, a 160.2 carat Type II diamond recovered during the Period was sold into a partnership arrangement, while an 11.8 carat pink diamond achieved US$187 700 per carat on tender.

Gem Diamonds Marketing Botswana (GDMB) was incorporated in 2015 to market the Ghaghoo diamonds together with GDMS. During the Period, two Ghaghoo sales were held with 30 277 carats sold for a total value of US$4.8 million achieving an average of US$157 per carat.

Analysis and manufacturing

Baobab's advanced mapping and analysis of Letšeng's large, exceptional quality rough diamonds assists the Group in understanding and assessing appropriate values for these rough diamonds when presented for sale. This ensures that robust reserve prices are set for its diamonds at each tender and assists in the making of strategic selling, partnering or manufacturing decisions.

The Group selectively manufactures some of its own high-value rough diamonds and has the flexibility to place other exceptional diamonds into strategic partnership arrangements with select customers in order to achieve margins along the diamond value chain.

** Includes carats extracted for manufacturing at rough valuation*

Group financial performance

Results overview

- **Revenue US$109.1 million (US$118.0 million in H1 2015)**
- **Underlying EBITDA[1] US$43.5 million (US$46.1 million in H1 2015)**
- **Attributable net profit (before exceptional item)[2] US$13.4 million (US$15.4 million in H1 2015)**
- **Basic EPS (before exceptional item) 9.70 US cents (10.69 US cents in H1 2015)**
- **Cash on hand US$66.5 million**
- **After the Ghaghoo asset non-cash impairment of US$40.0 million, attributable loss of US$26.6 million and basic loss per share of 19.23 US cents**

(US$ million)	Six months ended 30 June 2016 Before exceptional item	Exceptional item[2]	Six months ended 30 June 2016 Total	Six months ended 30 June 2015
Revenue	109.1	–	109.1	118.0
Royalty and selling costs	(9.8)	–	(9.8)	(9.7)
Cost of sales[3]	(48.7)	–	(48.7)	(56.1)
Corporate expenses	(7.1)	–	(7.1)	(6.1)
Underlying EBITDA[1]	43.5	–	43.5	46.1
Depreciation and mining asset amortisation	(5.0)	–	(5.0)	(5.6)
Share-based payments	(0.9)	–	(0.9)	(0.8)
Other income	0.1	–	0.1	0.3
Foreign exchange gain	1.9	–	1.9	1.3
Net finance costs	(0.4)	–	(0.4)	(0.6)
Impairment of asset	–	(40.0)	(40.0)	–
Profit/(loss) before tax from continuing operations	39.2	(40.0)	(0.8)	40.7
Income tax expense	(15.1)	–	(15.1)	(15.1)
Profit/(loss) from continuing operations	24.1	(40.0)	(15.9)	25.6
Discontinued operation	–	–	–	0.7
Profit/(loss) for the Period	24.1	(40.0)	(15.9)	26.3
Non-controlling interests	(10.7)	–	(10.7)	(10.9)
Attributable profit/(loss)	13.4	(40.0)	(26.6)	15.4
Earnings/(loss) per share (US cents)	9.70	–	(19.23)	11.17
Earnings/(loss) per share for continuing operations (US cents)	9.70	–	(19.23)	10.69

[1] *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*
[2] *Exceptional item relates to an impairment to the carrying value of the Ghaghoo development asset*
[3] *Including waste stripping costs amortisation but excluding depreciation and mining asset amortisation*

Group financial performance continued

Revenue

The Group's revenue is primarily derived from its two business activities, namely its mining operations in Lesotho (Letšeng) and Botswana (Ghaghoo), and its rough diamond manufacturing operation in Antwerp. The first six months of the year continued to be influenced by the cautious approach adopted by the diamond traders for both rough and polished diamonds.

Letšeng achieved an average of US$1 899* per carat during the Period which was 16% lower than that achieved in H1 2015 of US$2 264*. This lower US$ per carat was a function of fewer +100 carat diamonds being recovered than usual, as mining occurred in the lower value areas of the Satellite pipe. Notwithstanding the fewer +100 carat diamonds, some exceptional high-value diamonds were recovered, including an 11.8 carat pink diamond which was sold for US$187 700 per carat, the third highest single diamond per carat value achieved at Letšeng. The impact of the reduced US$ per carat on overall revenue was mitigated by the higher than reserve grades achieved which resulted in a 19% increase in carats sold compared to the prior period. This resulted in Letšeng sales of US$106.2 million*, similar to that achieved in H1 2015 of US$106.3 million*.

	Six months ended 30 June 2016	Six months ended 30 June 2015
Letšeng revenue		
Average price per carat (US$)*	**1 899**	2 264
Carats sold	**55 948**	46 961
Ghaghoo revenue		
Average price per carat (US$)	**157**	210
Carats sold	**30 277**	10 096

** Includes carats extracted for manufacturing at rough valuation*

Ghaghoo achieved an average of US$157 per carat during the Period from two sales. The first sale of 14 114 carats achieved US$160 per carat (US$2.3 million), and the second sale of 16 163 carats, which was impacted by an increase in the recovery of fine diamonds, achieved US$155 per carat (US$2.5 million). These sales are not reported in the Group revenue, but have been offset against operating and development costs capitalised to the carrying value of the Ghaghoo asset as the mine did not reach full commercial production by the end of the Period.

Additional revenue of US$1.2 million was generated through polished margin by the manufacturing operation. The Group's revenue was also positively impacted by the movement in own manufactured inventory, increasing Group revenue by US$1.6 million. As a result, the Group achieved revenue of US$109.1 million for H1 2016 which is 8% lower than that achieved in H1 2015.

Group revenue summary

(US$ million)	**Six months ended 30 June 2016**	Six months ended 30 June 2015
Sales – rough	**106.2**	106.3
Sales – polished margin	**1.2**	3.3
Sales – other	**0.1**	0.3
Impact of movement in own manufactured inventory	**1.6**	8.1
Group revenue	**109.1**	118.0

Royalties consist of an 8% levy paid to the Lesotho Revenue Authority on the sale of diamonds in Lesotho. Royalties in Botswana are levied at 10% on the sale of diamonds; however, these costs were capitalised to the carrying value of the Ghaghoo development asset, together with the associated sales earned during the Period. Diamond selling and marketing-related expenses are incurred by the Group's sales and marketing operation in Belgium.

Operations

While revenue is generated in US dollar, the majority of operational expenses are incurred in the local currency in the operational jurisdictions. The Lesotho loti (LSL) (pegged to the South African rand), Botswana pula (BWP) and British pound (GBP) were all weaker against the US dollar during the Period which positively impacted the Group's US dollar reported costs. However, the strong US dollar has negatively impacted certain purchases which are US dollar-based.

Exchange rates	**Six months ended 30 June 2016**	Six months ended 30 June 2015	% change
LSL per US$1.00			
Average exchange rate for the Period	**15.41**	11.92	29%
Period-end exchange rate	**14.65**	12.14	21%
BWP per US$1.00			
Average exchange rate for the Period	**11.13**	9.79	14%
Period-end exchange rate	**10.85**	9.87	10%
US$ per GBP1.00			
Average exchange rate for the Period	**1.43**	1.52	(6%)
Period-end exchange rate	**1.34**	1.57	(15%)

Letšeng mining operation

Group cost of sales for the Period was US$48.7 million, compared to US$56.1 million in H1 2015, the majority of which was incurred at Letšeng and includes waste stripping costs amortised of US$18.0 million (2015: US$24.4 million).

During the Period, 15.3 million tonnes of waste were mined at Letšeng being 35% higher than H1 2015 and in line with the optimised mine plan. Ore tonnes treated at Letšeng of 3.3 million tonnes were 7% higher than H1 2015. Of the total ore treated, 2.9 million tonnes were treated through the Letšeng Plants 1 and 2, of which 66% was sourced from the Main pipe and 34% from the Satellite pipe, similar to the 67% and 33% ratio in H1 2015.

Letšeng cost	Six months ended 30 June 2016	Six months ended 30 June 2015	% change
US$ (per unit)			
Direct cash cost (before waste) per tonne treated[1]	**9.48**	11.96	(21%)
Operating cost per tonne treated[2]	**14.26**	17.56	(19%)
Waste cash cost per waste tonne mined	**1.80**	2.17	(17%)
Local currency (per unit) LSL			
Direct cash cost (before waste) per tonne treated[1]	**146.15**	142.60	2%
Operating cost per tonne treated[2]	**219.70**	209.33	5%
Waste cash cost per waste tonne mined	**27.80**	25.84	8%

[1] *Direct cash costs represent all operating costs, excluding royalty and selling costs*
[2] *Operating costs include waste stripping cost amortised, inventory and ore stockpile adjustments, and excludes depreciation*

Total direct cash costs (before waste costs) at Letšeng in local currency increased by 10% from LSL443.5 million in H1 2015 to LSL487.6 million in H1 2016 of which 75% related to the increase in volumes treated during the Period. This resulted in unit costs per tonne treated for the Period of LSL146.15 relative to the prior comparative period of LSL142.60, representing an effective increase of 2%. Cost-saving initiatives contributed to the lower increase than general in-country inflation of approximately 6%, however, US dollar-based purchases, such as fuel and the capital costs associated with the increased mining fleet, were negatively impacted by the strong US dollar.

Operating costs per tonne treated for the Period increased by 5% to LSL219.70 per tonne compared to LSL209.33 per tonne in H1 2015. These costs are driven by the direct cash costs above, the waste stripping cost amortised (which is influenced by the different waste to ore strip ratios for the particular ore processed) and inventory movements. Operating costs per tonne treated for the Period were impacted by the higher proportion of Satellite pipe material mined in H1 2016 when compared to the full-year anticipated Satellite pipe ore contribution.

The increase in the local currency waste cash cost per waste tonne mined of 8% was impacted by local country inflation costs and the impact of the US dollar strength on the cost of the mining fleet.

Other operating information – Letšeng (US$ million)	Six months ended 30 June 2016	Six months ended 30 June 2015
Waste cost capitalised	**31.3**	28.5
Waste stripping cost amortised	**18.0**	24.4
Depreciation and mining asset amortisation	**5.0**	5.6
Capital expenditure	**3.7**	8.5

Group financial performance continued

Ghaghoo mining operation

Based on the prevailing market conditions, Ghaghoo has predominantly focused on downsizing to improve efficiencies and processes during the Period. Initiatives to downsize included profiling the ramp up of production to achieve targeted monthly rates in H2 2016 (300 000 tonnes per annum) and restructuring staff complements through retrenchments. Although the retrenchment process was largely completed, the cost-cutting programme has required renegotiation of various contracts from which the benefits will only materialise in H2 2016.

During the Period, cash operating costs (net of sales received) amounted to US$5.6 million and included once-off retrenchment costs and costs associated with the creation of the buffer zone to prevent sand ingress into the production levels following the sink hole that resulted from the early caving. In addition, development costs of US$2.8 million were invested in order to access both current and future ore producing tunnels.

The operation did not reach its targeted production rates during the Period and therefore commercial production was not achieved by the end of the Period. As a result, all costs, net of sales, have been capitalised to the carrying value of the development asset.

As a result of the continued market uncertainty, the ongoing difficult market conditions for Ghaghoo's production, recent strengthening of the Botswana pula against the US dollar and the challenges in the operation reaching its targeted production rate, the Group recognised a US$40.0 million (post-tax) impairment. This has been disclosed as an exceptional item and represents the estimated impact on the asset when applying a conservative view to diamond prices and market recovery in the short term.

Diamond manufacturing operation

The Group generated additional margin on selected high-value diamonds through its manufacturing facilities and partnership arrangements.

During the Period, 145 carats were extracted and selected for manufacturing. Extracted diamond inventory on hand at the end of the Period amounted to US$4.6 million (compared to US$6.2 million at the end of December 2015), resulting in a polished inventory movement increase in Group revenue of US$1.6 million for the Period. In total, the diamond manufacturing operation contributed US$1.2 million to Group revenue (through additional polished uplift generated) and US$0.6 million to underlying EBITDA during the Period.

Corporate office

Corporate costs relate to central costs incurred by the Group through its technical and administrative offices in South Africa and the United Kingdom and are incurred in both South African rand and British pound. Corporate costs for the Period of US$7.1 million include notice costs relating to the retirement of an Executive Director. During the latter part of 2015, the Diamond Producers Association was formed, with Gem Diamonds as a founding member along with industry peers. Costs for the Period include the new associated membership fees and certain project costs.

The share-based payment charge for the Period amounted to US$0.9 million. A new long-term incentive plan (LTIP) option was issued during the Period whereby 1 400 000 nil-cost options were granted to certain key employees and Executive Directors. 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 share-based payment charge associated with this new award was US$0.2 million for the Period.

Underlying EBITDA[1] and attributable profit

Based on the above operating results, the Group generated an Underlying EBITDA[1] of US$43.5 million. The profit attributable to shareholders before exceptional items[2] for the Period was US$13.4 million equating to 9.70 US cents per share on a weighted average number of shares in issue of 138 million.

The forecast effective tax rate for the full year is 38.4% and has been applied to the actual results for the Period. This rate excludes the impact of the exceptional item as there is no tax effect on this item. The forecast effective tax rate is above the UK statutory tax rate of 20.0% as a result of profits generated by Letšeng being taxed at 25.0%, withholding tax of 10.0% on dividends from Letšeng and deferred tax assets not recognised on losses incurred in non-trading operations.

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[1] *Underlying earnings before interest, tax, depreciation and mining asset amortisation*
[2] *Exceptional item relates to an impairment to the carrying value of the Ghaghoo development asset*

Financial position and funding review

The Group continued its prudent cash management and ended the Period with US$66.5 million (31 December 2015: US$85.7 million) cash on hand of which US$53.2 million is attributable to Gem Diamonds and US$2.7 million is restricted. The restricted cash mainly relates to funds reserved for a portion of the future repayment of the US$25.0 million secured bank facility at Ghaghoo. Furthermore, standby undrawn facilities of US$ 52.1 million remain available, comprising US$35.0 million at Gem Diamonds (which was increased from US$20.0 million in January 2016) and US$17.1 million (LSL250.0 million) at Letšeng.

The Group generated cash from operating activities of US$44.5 million (30 June 2015: US$38.7 million) before the investment in waste stripping costs at Letšeng of US$31.3 million, capital expenditure of US$6.0 million, incurred mainly at Letšeng and cash operational costs (net of sales) at Ghaghoo of US$5.6 million. Furthermore, development costs at Ghaghoo of US$2.8 million were incurred in order to access both current and future ore producing tunnels.

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 after withholding taxes of US$1.5 million and the payment to the government of Lesotho's dividend portion of US$6.2 million.

The Group paid dividends of US$11.8 million on 14 June 2016, consisting of an ordinary dividend of US$6.9 million (5 US cents per share) and a special dividend of US$4.9 million (3.5 US cents per share).

The Group remains well funded and ended the Period in a net cash position of US$37.6 million (after borrowings). The LSL140.0 million facility at Letšeng has an outstanding balance of LSL58.1 million (US$4.0 million) and is due to be fully repaid by June 2017. During the Period, US$0.1 million of the US$25.0 million secured bank facility at Ghaghoo was paid. This facility is being restructured, whereby capital repayments are scheduled to re-commence in June 2019 with a final repayment due on 31 December 2021.

Outlook

Capital and cash management discipline remains a high priority in the short term and the Company remains committed to generating and returning cash to shareholders. The Company's dividend policy as previously adopted remains intact.

Letšeng remained cash generative and as mining moves into the higher-value area of the Satellite pipe in H2 2016, the cash generation is expected to improve. Letšeng will be commencing its mining workshop capital project in H2 2016.

Focus at Ghaghoo will be on cost optimisation and reduction in cash consumption.

Risks to our business

The Group is exposed to a number of risks and uncertainties that could have a material impact on its performance and long-term growth.

Many of these risks are beyond the control of the Group but a formal risk management process exists to assist in identifying and reviewing potential risks. Mitigating plans are formulated and reviewed regularly to understand their effectiveness and progress. The Group is focused on continuously analysing and assessing the risks faced and improving the risk management process accordingly.

The Group internal audit function carries out a risk-based programme approved by the Audit Committee to evaluate the effectiveness and contribute to the improvement of risk management controls and governance processes.

A reassessment of the risks, which have been previously reported in the Business Review in the 2015 Annual Report, has identified that the principal risks and uncertainties have not changed. These may impact the Group over the medium to long term; however, the following key risks may impact the Group over the next six months.

Short-term demand and prices (market and price risk)

While the medium to long-term fundamentals of the diamond market remain intact, with demand forecast to significantly outpace supply, in the short term the prevailing climate of global economic uncertainty may cause some volatility in rough diamond pricing. The cautious approach adopted by rough and polished diamantaires and manufacturers could continue into the second half of the year. Market conditions are constantly monitored to identify current trends that may pose a threat or create an opportunity for the Group. In this regard, management has taken all reasonable measures to preserve its cash position and to have flexibility in its sales processes and in reassessing its capital projects and operational strategies.

Currency (financial risk)

The Group receives its revenue in US dollar while its cost base arises in the local currencies of the various countries within which the Group operates (mainly in Lesotho, Botswana and South Africa). The volatility of these currencies against the US dollar will impact the Group's profitability. In order to mitigate currency risk, these fluctuations are closely monitored and, where appropriate and at relevant currency levels, the Group enters into exchange rate contracts to protect future cash flows.

Capital projects (operational risk)

Ghaghoo has predominantly focused on downsizing operations during the period and continues to focus on reducing its cash consumption in the current challenging market until such time as the market recovers. During the downsizing of operations, people were retrenched and the retention of key operational staff is essential to ensure that the mine achieves its targets.

Political risks (operational risk)

The political environments of the various jurisdictions in which the Group operates may adversely impact the ability to operate effectively and profitably. Emerging market economies are generally subject to greater risks, including regulatory and political risk, and are potentially subject to rapid change. Changes to the political environment and regulatory developments are closely monitored. Where necessary, the Group engages in dialogue with relevant government representatives in order to remain well informed of all legal and regulatory developments impacting its operations and to build relationships.

Mineral resource risks (operational risk)

The Group's mineral resources influence the operational mine plans and affect the generation of sufficient margins. Variability of its mineral resources could affect the Group's profitability in the short term, mitigated by flexibility in the mining faces and improved in-pit geological controls.

Production interruption (operational risk)

The Group may experience material mine and/or plant shut downs or periods of decreased production due to a number of different events. Any such event could negatively affect the Group's operations and impact both profitability and cash flows. The likelihood of possible interruption events is continually reviewed and the appropriate controls, processes and business continuity plans are in place to mitigate this risk.

Clifford Elphick
Chief Executive Officer

16 August 2016

Half-yearly financial statements

30 June 2016

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Responsibility Statement of the Directors in Respect of the Half-yearly 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-yearly 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 2015.

The names and functions of the Directors of Gem Diamonds are listed in the Annual Report for the year ended 31 December 2015. An Executive Director, Alan Ashworth, retired from the Company and from the Board on 7 June 2016.

For and on behalf of the Board

Michael Michael
Chief Financial Officer

16 August 2016

Independent Review Report to the Members of Gem Diamonds Limited

We have been engaged by Gem Diamonds Limited (the Company) to review the condensed consolidated set of financial statements of the Company and its subsidiaries (the Group) in the Half-yearly Report for the six months ended 30 June 2016 which comprises the interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of financial position, interim consolidated statement of changes in equity, interim consolidated statement of cash flows and the related explanatory notes. We have read the other information contained in the Half-yearly Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The Half-yearly Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-yearly Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority. As disclosed in note 1.2.1 in the 2015 audited annual financial statements, the Annual Financial Statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS). The condensed consolidated set of financial statements included in this Half-yearly Report have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed consolidated set of financial statements in the Half-yearly Report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the United Kingdom.

A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the Half-yearly Report for the six months ended 30 June 2016 are not prepared, in all material respects, in accordance with International Accounting Standard 34 and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London

16 August 2016

Interim Consolidated Income Statement

for the six months ended 30 June 2016

	Notes	30 June 2016[1] Before exceptional item US$'000	30 June 2016[1] Exceptional item US$'000	30 June 2016[1] Total US$'000	30 June 2015[1] US$'000
CONTINUING OPERATIONS					
Revenue	3	**109 140**	–	**109 140**	118 014
Cost of sales		**(53 649)**	–	**(53 649)**	(61 526)
Gross profit		**55 491**	–	**55 491**	56 488
Other operating income		**69**	–	**69**	339
Royalties and selling costs		**(9 782)**	–	**(9 782)**	(9 724)
Corporate expenses		**(7 214)**	–	**(7 214)**	(6 209)
Share-based payments	14	**(914)**	–	**(914)**	(828)
Foreign exchange gain		**1 936**	–	**1 936**	1 273
Impairment of asset	4	–	**(40 000)**	**(40 000)**	–
Operating profit/(loss)	3	**39 586**	**(40 000)**	**(414)**	41 339
Net finance costs		**(422)**	–	**(422)**	(595)
Finance income		**972**	–	**972**	913
Finance costs		**(1 394)**	–	**(1 394)**	(1 508)
Profit/(loss) before tax from continuing operations		**39 164**	**(40 000)**	**(836)**	40 744
Income tax expense	8	**(15 052)**	–	**(15 052)**	(15 137)
Profit/(loss) from continuing operations		**24 112**	**(40 000)**	**(15 888)**	25 607
DISCONTINUED OPERATION					
Profit after tax from discontinued operation	6	–	–	–	668
Profit/(loss)		**24 112**	**(40 000)**	**(15 888)**	26 275
Attributable to:					
Equity holders of parent		**13 417**	**(40 000)**	**(26 583)**	15 440
Non-controlling interests		**10 695**	–	**10 695**	10 835
Earnings per share (cents)					
– Basic earnings for the Period attributable to ordinary equity holders of the parent		**9.70**	–	**(19.23)**	11.17
– Diluted earnings for the Period attributable to ordinary equity holders of the parent		**9.70**	–	**(19.23)**	11.01
Earnings per share for continuing operations (cents)					
– Basic earnings from continuing operations for the Period attributable to ordinary equity holders of the parent		**9.70**	–	**(19.23)**	10. 69
– Diluted earnings from continuing operations for the Period attributable to ordinary equity holders of the parent		**9.70**	–	**(19.23)**	10. 53

[1] *Unaudited*

Interim Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2016

	30 June 2016[1] US$'000	30 June 2015[1] US$'000
(Loss)/profit for the Period	**(15 888)**	26 275
Other comprehensive income that could be classified to the income statement in subsequent periods		
Exchange differences on translation of foreign operations	**11 488**	(14 642)
Recycling of exchange differences on discontinued operation	**–**	(988)
Other comprehensive income/(expense) net of tax	**11 488**	(15 630)
Total comprehensive (expense)/income	**(4 400)**	10 645
Attributable to:		
Equity holders of parent	**(21 512)**	806
Non-controlling interests	**17 112**	9 839
Total comprehensive (expense)/income net of tax	**(4 400)**	10 645

[1] *Unaudited*

Interim Consolidated Statement of Financial Position

as at 30 June 2016

	Notes	30 June 2016[1] US$'000	30 December 2015[2] US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**338 613**	339 367
Investment property		**615**	615
Intangible assets		**14 203**	13 510
Receivables and other assets	11	**1 839**	2 218
Other financial assets		**–**	4
		355 270	355 714
Current assets			
Inventories		**27 157**	30 288
Receivables and other assets	11	**5 845**	5 827
Other financial assets		**–**	6
Income tax receivable		**–**	269
Cash and short-term deposits	12	**66 456**	85 719
		99 458	122 109
Total assets		**454 728**	477 823
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	13	**1 383**	1 383
Share premium		**885 648**	885 648
Treasury shares[3]		**(1)**	(1)
Other reserves		**(157 395)**	(163 420)
Accumulated losses		**(478 102)**	(439 764)
		251 533	283 846
Non-controlling interests		**70 789**	59 923
Total equity		**322 322**	343 769
Non-current liabilities			
Interest-bearing loans and borrowings	15	**23 275**	25 082
Trade and other payables		**1 331**	1 138
Provisions		**13 594**	12 473
Deferred tax liabilities		**58 274**	50 385
		96 474	89 078
Current liabilities			
Interest-bearing loans and borrowings	15	**5 594**	5 339
Trade and other payables		**27 288**	32 228
Income tax payable		**3 050**	7 409
		35 932	44 976
Total liabilities		**132 406**	134 054
Total equity and liabilities		**454 728**	477 823

[1] *Unaudited*
[2] *Audited*
[3] *Shares held by Gem Diamonds Limited Employee Share Trust*

Interim Consolidated Statement of Changes in Equity

for the six months ended 30 June 2016

	Issued capital US$'000	Share premium US$'000	Own shares[2] US$'000	Other reserves US$'000	Accu-mulated losses US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
				Attributable to the equity holders of the parent				
Balance at 1 January 2016	**1 383**	**885 648**	**(1)**	**(163 420)**	**(439 764)**	**283 846**	**59 923**	**343 769**
(Loss)/profit for the Period	–	–	–	-	(26 583)	(26 583)	10 695	(15 888)
Other comprehensive income	–	–	–	5 071	–	5 071	6 417	11 488
Total comprehensive income/(expense)	–	–	–	5 071	(26 583)	(21 512)	17 112	(4 400)
Share-based payments (Note 14)	–	–	–	954	–	954	–	954
Dividends paid (Note 9)	–	–	–	-	(11 755)	(11 755)	(6 246)	(18 001)
Balance at 30 June 2016[1]	**1 383**	**885 648**	**(1)**	**(157 395)**	**(478 102)**	**251 533**	**70 789**	**322 322**
Balance at 1 January 2015	1 383	885 648	(1)	(97 753)	(484 874)	304 403	61 014	365 417
Profit for the Period	–	–	–	–	15 440	15 440	10 835	26 275
Other comprehensive expense	–	–	–	(14 634)	–	(14 634)	(996)	(15 630)
Total comprehensive (expense)/income	–	–	–	(14 634)	15 440	806	9 839	10 645
Share-based payments (Note 14)	–	–	–	931	–	931	–	931
Dividends paid (Note 9)	–	–	–	–	(6 915)	(6 915)	–	(6 915)
Balance at 30 June 2015[1]	1 383	885 648	(1)	(111 456)	(476 349)	299 225	70 853	370 078

[1] *Unaudited*
[2] *Shares held by Gem Diamonds Limited Employee Share Trust*

Interim Consolidated Statement of Cash Flows

for the six months ended 30 June 2016

	Notes	**30 June 2016[1] US$'000**	30 June 2015[1] US$'000
Cash flows from operating activities		**44 454**	38 701
Cash generated by operations	16.1	**59 463**	70 663
Working capital adjustments	16.2	**(529)**	(9 393)
		58 934	61 270
Interest received		**1 089**	913
Interest paid		**(1 839)**	(101)
Income tax paid		**(13 730)**	(23 381)
Cash flows used in investing activities		**(45 599)**	(54 592)
Purchase of property, plant and equipment	10	**(5 982)**	(11 453)
Ghaghoo development costs capitalised	10	**(2 754)**	(4 521)
Ghaghoo commissioning costs capitalised	10	**(5 621)**	(10 519)
Letšeng waste cost capitalised	10	**(31 269)**	(28 487)
Proceeds from sale of property, plant and equipment		**27**	422
Cash disposed of from disposal of subsidiary		**–**	(34)
Cash flows used in financing activities		**(20 669)**	(9 264)
Financial liabilities repaid		**(2 667)**	(2 349)
Dividend paid to equity holders of the parent		**(11 755)**	(6 915)
Dividends paid to non-controlling interests		**(6 247)**	–
Net decrease in cash and cash equivalents		**(21 814)**	(25 155)
Cash and cash equivalents at beginning of Period – continuing operations		**85 719**	110 704
Cash and cash equivalents at beginning of Period – discontinued operations	6	**–**	34
Foreign exchange differences		**2 551**	(1 800)
Cash and cash equivalents at end of Period		**66 456**	83 783
Cash and cash equivalents at end of Period held with banks		**63 785**	83 611
Restricted cash at end of the Period		**2 671**	172
Cash and cash equivalents at end of Period	12	**66 456**	83 783

[1] *Unaudited*

Condensed Notes to the Consolidated Interim Financial Statements

for the six months ended 30 June 2016

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. 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 16 August 2016, is unaudited and does not constitute statutory financial statements. The report of the auditors on the Group's 2015 Annual Report and Accounts was unqualified.

The Group is principally engaged in the development and operating of 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 2016 (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 2015.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Interim Business Review on pages 1 to 12. The financial position of the Group, its cash flows and liquidity position are described in the Interim Business Review on pages 7 to 12.

After making enquiries which include reviews of forecasts and budgets, timing of cash flows, borrowing facilities and sensitivity analyses and considering the uncertainties described in this report either directly or by cross reference, the Directors have a reasonable expectation that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going-concern basis in preparing this half-yearly 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 2015, except for the adoption of new standards and amendments as of 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although the new standards and amendments apply for the first time in 2016, they do not have a material impact on the interim condensed consolidated financial statements of the Group.

Annual improvements 2012 – 2014 Cycle

These improvements are effective from 1 January 2016 and the Group has applied these amendments in these interim condensed consolidated financial statements.

Condensed Notes to the Consolidated Interim Financial Statements continued

for the six months ended 30 June 2016

2. Basis of preparation and accounting policies (continued)

2.2 Significant accounting policies (continued)

Standards issued but not effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards if applicable when they become effective.

Standard or interpretation			Effective date*
IFRS 16	*Leases*	The new standard requires lessees to recognise assets and liabilities on their balance sheets for most leases, many of which may have been off balance sheet in the past. The Group will assess the impact prior to the effective date.	1 January 2019
IFRS 9	*Financial Instruments*	Classification and measurement of financial assets and financial liabilities that replaces IAS 39. The Group will assess the impact prior to the effective date.	1 January 2018
IFRS 15	*Revenue from Contracts with Customer*	The new revenue standard introduces a single, principles-based, five-step model for the recognition of revenue when control of a good or service is transferred to the customer. The Group will assess the impact prior to the effective date.	1 January 2018
IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*	The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount. The Group will assess the impact prior to the effective date.	1 January 2017

** Annual periods beginning on or after*

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. Other regions where no direct mining activities take place are organised into geographical regions in the areas where the operations are managed. 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);
- Botswana (diamond mining activities);
- Belgium (sales, marketing and manufacturing of diamonds); and
- BVI, RSA and UK (technical and administrative services).

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

Segment performance is evaluated based on operating profit or loss.

Inter-segment 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 manufacturing margins and Group services.

3. Segment information (continued)

The following table presents revenue and profit, and asset and liability information from operations regarding the Group's geographical segments:

Six months ended 30 June 2016[1]	Lesotho US$'000	Botswana US$'000	Belgium US$'000	BVI, RSA and UK US$'000	Total US$'000
Revenue					
Total revenue	**105 709**	**–**	**113 488**	**4 922**	**224 119**
Inter-segment	**(104 932)**	**–**	**(5 213)**	**(4 834)**	**(114 979)**
External customers	**777**	**–**	**108 275**	**88[2]**	**109 140**
Segment operating profit/(loss)	**46 856**	**(39 004)[3]**	**(958)**	**(7 308)**	**(414)**
Net finance costs					**(422)**
Loss before tax					**(836)**
Income tax expense					**(15 052)**
Loss for the Period					**(15 888)**

[1] *Unaudited*
[2] *No revenue was generated in BVI*
[3] *The operating loss in the Botswana segment mainly relates to the impairment provided for on the Ghaghoo development asset (refer to Note 4, Exceptional item), which has been marginally offset by realised foreign exchange gains on third-party funding. The commissioning and development costs (net of sales) have been capitalised to the carrying value of the Ghaghoo asset. The foreign exchange gains have not been capitalised to the carrying value of the Ghaghoo asset.*

Six months ended 30 June 2015[1]	Lesotho US$'000	Botswana US$'000	Belgium US$'000	BVI, RSA and UK US$'000	Total US$'000
Revenue					
Total revenue	107 823	–	119 413	4 298	231 534
Inter-segment	(106 649)	–	(2 725)	(4 146)	(113 520)
External customers	1 174	–	116 688	152[2]	118 014
Segment operating profit/(loss)	48 111	(149)[3]	(529)	(6 094)	41 339
Net finance costs					(595)
Profit before tax					40 744
Income tax expense					(15 137)
Profit from continuing operations					25 607
Profit from discontinued operation					668
Profit for the Period					26 275

[1] *Unaudited*
[2] *No revenue was generated in BVI*
[3] *The operating loss in the Botswana segment mainly relates to realised foreign exchange losses on third-party funding. These losses have not been capitalised to the carrying value of the Ghaghoo asset.*

Condensed Notes to the Consolidated Interim Financial Statements continued

for the six months ended 30 June 2016

3. Segment information (continued)

Segment assets	Lesotho US$'000	Botswana US$'000	Belgium US$'000	BVI, RSA and UK US$'000	Total continuing operations US$'000	Discon-tinued operation US$'000	Total US$'000
At 30 June 2016[1]	**302 222**	**126 435**	**8 000**	**18 071**	**454 728**	**–**	**454 728**
At 31 December 2015[2]	278 570	158 399	7 938	32 916	477 823	426	478 249
Segment liabilities							
At 30 June 2016[1]	**39 138**	**31 820**	**705**	**2 469**	**74 132**	**–**	**74 132**
At 31 December 2015[2]	44 426	35 105	1 123	3 015	83 669	758	84 427

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

Included in revenue is revenue from a single customer which amounted to US$24.2 million (30 June 2015: US$21.6 million) arising from sales reported in the Lesotho and Belgium segments.

Segment assets and liabilities do not include net deferred tax liabilities of US$58.3 million (31 December 2015: US$50.4 million).

Operating profits have decreased marginally, notwithstanding the lower revenue as a result of lower diamond prices achieved. This is mainly due to costs which have decreased mainly as a result of the strong trading of the US dollar against the Lesotho loti which positively impacted US dollar reported costs during the Period.

4. Exceptional item

Recognised in arriving at operating profit from continuing operations:

	30 June 2016[1] US$'000	30 June 2015[1] US$'000
Impairment – Ghaghoo	**40 000**	–

[1] *Unaudited*

Impairment – Ghaghoo

At 31 December 2015, the recoverable amount of Ghaghoo was assessed through a value-in-use calculation, and although it exceeded the carrying value at that date, the value did not reflect significant headroom. This value in use remained highly sensitive to rough diamond prices and future diamond price escalation rates.

As a result of the continued market uncertainty, the ongoing difficult market conditions for Ghaghoo's production, the recent strengthening of the Botswana pula against the US dollar and the challenges in the operation reaching targeted production rate, the Ghaghoo recoverable amount was reassessed at 30 June 2016 and an impairment was considered appropriate. The Group recognised a consolidated income statement impairment charge of US$40.0 million (post-tax), being the estimated impact on the value-in-use calculation when applying a conservative view to diamond prices and market recovery in the short term. Although the Group has taken a number of steps to respond to these conditions, such as downsizing the operation and reducing cash spend, the impact and benefit of these steps have not yet been realised.

The valuation remains sensitive to market conditions impacting price and any adverse changes thereto could result in additional impairment.

The key assumptions used to determine the recoverable amount are:

Diamond prices

The diamond prices used in the impairment test have been set with reference to recent prices achieved, the Group's conservative short-term forecast and market trends; and medium to long-term diamond price escalations are based on external market consensus forecasts as published by independent marketing consultants.

Discount rate

A discount rate which represents a pre-tax risk-free rate adjusted for market risk, volatility and risks specific to the asset and its operating jurisdiction was applied.

Exchange rates

Exchange rates are estimated based on current exchange rates and devalued over the Period in line with economic forecasts.

5. Underlying earnings before interest, tax, depreciation and mining asset amortisation (EBITDA)

Underlying EBITDA is shown, as the Directors consider this measure to be a relevant guide to the performance of the Group. The reconciliation from operating profit to underlying EBITDA before exceptional item is as follows:

	30 June 2016[1] US$'000	30 June 2015[1] US$'000
Operating profit	**39 586**	41 339
Other operating income	**(69)**	(339)
Share-based payments	**914**	828
Foreign exchange gain	**(1 936)**	(1 273)
Depreciation and mining asset amortisation (excluding waste stripping cost amortised)	**4 993**	5 639
Underlying EBITDA before exceptional item	**43 488**	46 194

[1] *Unaudited*

6. Disposal of subsidiary

There are no disposals of subsidiaries or discontinued operations for the current Period.

During the prior period, the Group sold its small manufacturing business facility in Mauritius, through Gem Diamonds Technology Mauritius (Proprietary) Limited. The sale was finalised for the agreed purchase price of US$0.4 million, to be paid in quarterly instalments of a minimum of US$50 000 which was due to commence in January 2016. Based on current market conditions, the consideration has not been received to date and therefore a provision for bad debt of US$0.4 million has been included in receivables and other assets (refer to Note 11, Receivables and other assets).

The results of the Mauritius operation for the Periods ended 30 June 2016 and 30 June 2015 are as follows:

	30 June 2016[1] US$'000	30 June 2015[1] US$'000
Revenue	–	85
Cost of sales and other operating costs	–	(443)
Gross loss	–	(358)
Foreign exchange loss	–	(644)
Operating loss	–	(1 002)
Gain on disposal of subsidiary	–	1 670
Profit before tax from discontinued operation	–	668
Income tax expense	–	–
Profit after tax from discontinued operation	–	668
Earnings per share from discontinued operation (cents)		
Basic	–	0.48
Diluted	–	0.48
The net cash flows attributable to the discontinued operation are as follows:		
Operating	–	(293)
Investing	–	444
Financing	–	(151)
Foreign exchange loss on translation of cash balance	–	(4)
Net cash outflow	–	(4)

[1] *Unaudited*

Condensed Notes to the Consolidated Interim Financial Statements continued

for the six months ended 30 June 2016

6. Disposal of subsidiary (continued)

The net liabilities disposed of were as follows:

	30 June 2016[1] US$'000	30 June 2015[1] US$'000
Assets		
Property, plant and equipment	–	269
Inventories	–	4
Receivables and other assets	–	119
Cash and short term deposits	–	34
Liabilities		
Trade and other payables	–	(732)
Provisions	–	(26)
Net identifiable liabilities disposed of	–	(332)
Recycling of foreign currency translation reserve	–	(988)
Consideration not yet received	–	(350)
Gain on disposal of subsidiary	–	(1 670)

[1] *Unaudited*

7. 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.

8. Income tax expense

	30 June 2016[1] US$'000	30 June 2015[1] US$'000
Income statement		
Current		
– Overseas	**(7 957)**	(7 953)
Withholding tax		
– Overseas	**(1 516)**	(56)
Deferred		
– Overseas	**(5 579)**	(7 128)
	(15 052)	(15 137)

[1] *Unaudited*

The forecast effective tax rate for the full year is 38.4% and has been applied to the actual results excluding exceptional items for the Period. This rate excludes the impact of the exceptional item as there is no tax effect on this item. The forecast effective tax rate is above the UK statutory tax rate of 20.0% as a result of profit generated by Letšeng being taxed at 25.0%, withholding tax of 10.0% on dividends from Letšeng and deferred tax assets not recognised on losses incurred in non-trading operations.

9. Dividends paid and proposed

	30 June 2016[1] US$'000	30 June 2015[1] US$'000
Dividends on ordinary shares declared and paid		
Final ordinary dividend for 2015: 5 US cents per share (2014: 5 US cents per share)	**6 915**	6 915
Final special dividend for 2015: 3.5 US cents per share (2014: Nil)	**4 840**	–
Total	**11 755**	6 915

[1] *Unaudited*

The 2015 proposed dividend based on the 2015 full-year results was approved on 7 June 2016 and a final cash dividend of US$11.8 million was paid on 14 June 2016, comprising an ordinary dividend of US$6.9 million (5 US cents per share) and a special dividend of US$4.9 million (3.5 US cents per share).

The Directors intend on applying a similar dividend policy in the current year on the 2016 full year results as has been adopted previously. This 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.

10. Property, plant and equipment

During the Period, the Group acquired property, plant and equipment of US$6.0 million (30 June 2015: US$11.5 million), of which US$3.7 million related to Letšeng, US$1.9 million related to Ghaghoo and the balance to other Group operations. Letšeng's capital spend was incurred mainly on improvements to the Coarse Recovery Plant (US$1.4 million), rehabilitation to the fresh water dam (US$0.5 million) and initial costs associated with the feasibility of the new mining workshop which is required for the larger fleet. The balance of the spend was incurred on stay-in-business capital. At Ghaghoo, capital spend was mainly on mining fleet.

Letšeng further invested US$31.3 million (30 June 2015: US$28.5 million) in deferred stripping costs and Ghaghoo further invested US$2.8 million (30 June 2015: US$4.5 million) in development costs.

As Ghaghoo had not reached commercial production during the Period, operating costs of US$5.6 million (30 June 2015: US$10.5 million) were capitalised until such time as the mine reaches sustainable levels of operation. Due to the ongoing weak diamond market for Ghaghoo diamonds, an impairment of US$40.0 million has been provided against the carrying value of the development asset. The carrying value of the Ghaghoo development asset after the impairment is US$95.0 million. Refer to Note 4, Exceptional item, for further information.

Borrowing costs of US$0.8 million (30 June 2015: US$0.4 million) incurred in respect of the US$25.0 million Ghaghoo facility (refer to Note 15, Interest-bearing loans and borrowings) have been capitalised. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 3.2%.

In addition to the above, foreign exchange movements on translation were affecting property, plant and equipment US$16.7 million (30 June 2015: (US$15.5 million)).

Depreciation and mining asset amortisation of US$5.0 million (30 June 2015: US$5.6 million) was charged to the income statement during the Period.

Amortisation of the deferred stripping asset (waste stripping cost amortisation) of US$18.0 million (30 June 2015: US$24.4 million) was charged to the income statement 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.

Condensed Notes to the Consolidated Interim Financial Statements continued

for the six months ended 30 June 2016

11. Receivables and other assets

	30 June 2016[1] US$'000	31 December 2015[2] US$'000
Non-current		
Prepayments	**1 825**	1 905
Other receivables (net of provision for write-downs)	**14**	313
	1 839	2 218
Current		
Trade receivables	**635**	83
Prepayments	**1 075**	780
Deposits	**124**	457
Other receivables (net of provision for write-downs)	**270**	58
VAT receivable	**3 741**	4 449
	5 845	5 827

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

Included in total prepayments is an amount of US$2.1 million (31 December 2015: US$2.1 million) (comprising a non-current portion of US$1.8 million (31 December 2015: US$1.9 million) and a current portion of US$0.3 million (31 December 2015: US$0.2 million) relating to the balance of the value to be recovered from the mining contractor as a result of the estimation change in respect of the waste mined, which was disclosed in 2012. The waste tonnes and strip ratio for future cuts have been reassessed and has resulted in a credit to the waste amortisation charge (included in cost of sales) of US$0.7 million (31 December 2015: US$0.7 million) and a finance income adjustment of US$0.2 million (31 December 2015: US$0.4 million) in the Period.

Other recievables are net of the US$0.4 million provision raised for the consideration not received for the sale of the subsidiary disposed of in the previous period.

12. Cash and short-term deposits

	30 June 2016[1] US$'000	31 December 2015[2] US$'000
Short-term bank deposits	**55 977**	58 465
Bank balances	**10 477**	27 253
Cash on hand	**2**	1
Cash and short-term deposits	**66 456**	85 719

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

At 30 June 2016, the Group had restricted cash of US$2.7 million (31 December 2015: US$2.6 million) of which US$2.5 million relates to funds reserved for the debt service of the Ghaghoo US$25.0 million secured bank loan facility.

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

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

13. Issued capital and reserves

	30 June 2016[1]		31 December 2015[2]	
	Number of shares '000	**US$'000**	Number of shares '000	US$'000
Authorised – ordinary shares of US$0.01 each				
Balance at beginning of Period/year	**200 000**	**2 000**	200 000	2 000
Increase in authorised shares	**–**	**–**	–	–
Balance at end of Period/year	**200 000**	**2 000**	200 000	2 000
Issued and fully paid				
Balance at beginning of Period/year	**138 296**	**1 383**	138 270	1 383
Allotments during the Period/year	**16**	**–**	27	–
Balance at end of Period/year	**138 312**	**1 383**	138 297	1 383

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

14. Share-based payments

There was one option award granted during the current period:

Employee Share Option Plan for March 2016

In March 2016, 1 400 000 cost options were approved to be granted to certain key employees and Executive Directors under the Long-term Incentive Plan (LTIP) 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. A total of 185 000 of the options granted relate to market conditions. The options vest after a three-year period and are exercisable between 15 March 2019 and 14 March 2026. 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. The fair value of the nil-cost options is £0.99 (US$1.40).

The fair value of the options granted relating to the market conditions is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the options in years and the weighted average share price of the Company. Of the total options originally granted, 5 000 have been forfeited following the resignation of employees.

The following table illustrates the inputs to the model used for the market condition awards:

	LTIP March 2016[1]
Employee Share Option Plan	
Dividend yield (%)	**2.00**
Expected volatility (%)	**39.71**
Risk-free interest rate (%)	**0.97**
Expected life of option (years)	**3.00**
Weighted average share price (US$)	**1.56**
Fair value of nil-cost options (US$)	**1.40**
Model used	**Monte Carlo**

[1] *Unaudited*

Condensed Notes to the Consolidated Interim Financial Statements continued

for the six months ended 30 June 2016

14. Share-based payments (continued)

The expense disclosed in the interim consolidated income statement is made up as follows:

	30 June 2016[1] US$'000	30 June 2015[1] US$'000
Equity-settled share-based payment transactions – charged to the income statement	**961**	905
Reversal of previous expense due to forfeiture – credited to the income statement	**(47)**	(77)
	914	828
Equity-settled share-based payment transactions – capitalised	**40**	103
	954	931

[1] *Unaudited*

15. Interest-bearing loans and borrowings

	Effective interest rate %	Maturity	30 June 2016[1] US$'000	31 December 2015[2] US$'000
Non-current				
LSL140.0 million bank loan facility	South African JIBAR + 4.95%	30 June 2017	–	1 807
US$25.0 million bank loan facility	London US$ three-month LIBOR + 5.5%	30 June 2021[3]	**23 275**	23 275
			23 275	25 082
Current				
LSL140.0 million bank loan facility	South African JIBAR + 4.95%	30 June 2017	**3 969**	3 614
US$25.0 million bank loan facility	London US$ three-month LIBOR + 5.5%	30 June 2021[3]	**1 625**	1 725
			5 594	5 339

[1] *Unaudited*
[2] *Audited*
[3] *Post Period end being restructured with remaining payments to re-commence in 2019 and maturity extended to 31 December 2021.*

LSL140.0 million bank loan facility at Letšeng Diamonds

This loan is a three-year unsecured project debt facility which was signed jointly with Standard Lesotho Bank and Nedbank Limited on 26 June 2014 for the total funding of the Coarse Recovery Plant. The loan is repayable in 10 quarterly payments which commenced on 31 March 2015 and has a final payment date of 30 June 2017. The interest rate for the facility at 30 June 2016 is 12.3% (31 December 2015: 11.6%).

US$25.0 million bank loan facility at Gem Diamonds Botswana

This loan is a six-year secured debt facility held with Nedbank Capital. During the Period, US$0.1 million of the US$25.0 million was repaid. Post-Period end, this facility is in the process of being restructured in order to postpone further capital repayments to June 2019, with final repayment due on 31 December 2021. The interest rate for the facility at 30 June 2016 is 6.4% (31 December 2015: 5.8%).

Total interest for the Period on the above interest-bearing loans and borrowings was US$0.8 million (30 June 2015: US$1.0 million) which has been capitalised to the carrying value of the respective assets as borrowing costs.

Other facilities

In addition, at 30 June 2016, the Group has the following available facilities which remain unchanged from that disclosed in the 2015 Annual Report:

- US$35.0 million three-year unsecured revolving credit facility with Nedbank Capital which was renewed on 29 January 2016. No amounts have been drawn down during the Period.
- Through its subsidiary Letšeng Diamonds, a LSL250.0 million (US$17.1 million) three-year unsecured revolving working capital facility jointly with Standard Lesotho Bank and Nedbank Capital, which was renewed in July 2015. No amounts have been drawn down during the Period.

16. Cash flow notes

	30 June 2016[1] US$'000	30 June 2015[1] US$'000
16.1 Cash generated by operations		
(Loss)/profit before tax from continuing operations	**(836)**	40 744
Profit before tax from discontinued operation	**–**	668
Adjustments for:		
Depreciation and amortisation on property, plant and equipment	**5 182**	5 639
Impairment of asset	**40 000**	–
Waste stripping cost amortisation	**17 975**	24 414
Finance income	**(972)**	(913)
Finance costs	**1 394**	1 508
Mark to market revaluations	**–**	(238)
Unrealised foreign exchange differences	**(5 674)**	(289)
Profit on disposal of property, plant and equipment	**(14)**	(256)
Gain on disposal of subsidiary	**–**	(1 670)
Movements in prepayments	**83**	73
Other non-cash movements	**1 411**	155
Share-based equity transaction	**914**	828
	59 463	70 663
16.2 Working capital adjustments		
Decrease/(increase) in inventories	**4 263**	(9 429)
Decrease/(increase) in receivables	**1 482**	(4 766)
(Decrease)/increase in trade and other payables	**(6 274)**	4 802
	(529)	(9 393)

[1] *Unaudited*

17. Commitments and contingencies

The Board has approved capital projects of US$6.1 million (31 December 2015: US$5.3 million) of which US$4.9 million (31 December 2015: US$5.2 million) have been contracted at 30 June 2016.

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 ongong employee-related legal costs approximating US$0.8 million (31 December 2015: US$0.6 million) and tax claims within the various jurisdictions in which the Group operates approximating US$1.3 million (31 December 2015: US$1.3 million).

Condensed Notes to the Consolidated Interim Financial Statements continued

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18. Financial instruments

Set out below is an overview of financial instruments, other than the non-current and current portions of the prepayment disclosed in Note 11, Receivables and other assets which do not meet the criteria of a financial asset. These prepayments are carried at amortised cost.

	30 June 2016[1] US$'000	31 December 2015[2] US$'000
Financial assets		
Cash (net of overdraft)	**66 456**	85 719
Receivables and other assets	**4 784**	5 360
Other financial assets	**–**	10
Total	**71 240**	91 089
Total non-current	**14**	317
Total current	**71 226**	90 722
Financial liabilities		
Interest-bearing loans and borrowings	**28 869**	30 421
Trade and other payables	**28 619**	33 366
Total	**57 488**	63 787
Total non-current	**24 606**	26 220
Total current	**32 882**	37 567

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

The carrying amounts of the Group's financial instruments held approximate their fair value.

Fair value hierarchy

All financial instruments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

There were no transfers between Level 1 and Level 2 fair value measurements or any transfers into or out of Level 3 fair value measurements during the Period.

Other risk management activities

The Group is exposed to foreign currency risk on future sales of diamonds at Letšeng and Ghaghoo. In order to reduce this risk, the Group enters into forward exchange contracts to hedge this exposure. The Group performs no hedge accounting. During the current Period, the Group did not enter into any new forward exchange contracts due to the strong US dollar being favourable to the Group's revenue.

19. Related parties

	Relationship
Jemax Management (Proprietary) Limited	Common director
Jemax Aviation (Proprietary) Limited	Common director
Gem Diamond Holdings Limited	Common director
Government of Lesotho	Non-controlling interest

	30 June 2016[1] US$'000	30 June 2015[1] US$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	**715**	721
Short-term employee benefits	**2 573**	2 554
	3 288	3 275
Fees paid to related parties		
Jemax Aviation (Proprietary) Limited	**(50)**	(42)
Jemax Management (Proprietary) Limited	**(36)**	(46)
Royalties paid to related parties		
Government of Lesotho	**(8 415)**	(8 502)
Lease and licence payments to related parties		
Government of Lesotho	**(120)**	(120)
Sales to/(purchases) from related parties		
Jemax Aviation (Proprietary) Limited	**(76)**	9
Jemax Management (Proprietary) Limited	**(3)**	–
Amount included in trade receivables owing by/(to) related parties		
Jemax Aviation (Proprietary) Limited	**15**	(10)
Jemax Management (Proprietary) Limited	**(7)**	(8)
Amounts owing to related party		
Government of Lesotho	**(2 112)**	(3 025)
Dividends paid		
Government of Lesotho	**(6 247)**	–

[1] *Unaudited*

20. 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.

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BASTION GRAPHICS