

23 May 2017

GEM DIAMONDS LIMITED Q1 2017 Trading Update

Gem Diamonds Limited (LSE: GEMD) (“**Gem Diamonds**” or the “**Company**” or the “**Group**”) provides the following Trading Update detailing the Group’s operational performance for the Period from 1 January 2017 to 31 March 2017 (“**Q1 2017**” or the “**Period**”) and sales performance to the date of this report.

Letšeng:

- Announcement today of the recovery of a 98.42 carat high quality D-colour Type II diamond which will be sold in June (see www.gemdiamonds.com for photograph).
- Sold 39 950 carats for an average price of US\$ 1 636¹ per carat for the first three tenders in 2017 (up 13% from US\$ 1 444 per carat in the previous period, Q4 2016).
- An 8.65 carat pink diamond achieved US\$ 164 855 per carat, making it the sixth highest price per carat achieved by a Letšeng rough diamond.
- A 114.38 carat Type II diamond was sold into a partnership arrangement, with Letšeng to share in additional margin on the final polished diamonds.
- 11 diamonds sold for more than US\$ 1.0 million generating revenue of US\$ 20.4 million.
- On 3 May, an exceptional 80.58 carat D-colour Type II diamond was recovered which will be sold in June.
- Zero Lost Time Injuries for the Period.

¹ Refer to section 2.1 “Letšeng rough diamond sales” for further details

Financial:

- The Group had US\$ 29.2 million cash on hand at the end of the Period of which US\$ 24.4 million is attributable to Gem Diamonds Limited.
- Bank funding for the construction of the Letšeng mining support services complex valued at M215.0 million (c. US\$ 16.0 million) was secured by Letšeng during the Period.
- US\$ 40.0 million of available facilities have been drawn down resulting in a net debt position of US\$ 10.8 million at the end of the Period.
- Including the mining support services complex facility, the Group had US\$ 29.7 million worth of undrawn and available facilities at the Period end.

Gem Diamonds’ CEO, Clifford Elphick commented:

“Letšeng has recovered larger better quality diamonds during the Period and it is encouraging that during April and May, there was a notable improvement in the size and quality of diamonds recovered at Letšeng with the US\$ per carat achieved trending positively. The market for Letšeng’s high-quality diamonds has remained firm over the Period and this is anticipated to continue into H2 of this year. In addition, the revised life of mine plan was implemented during February with the objective of reducing waste tonnes mined and improve near term cash flows, and we expect to see the benefits emerge during 2017.

The Company welcomes its new Chairman, Harry Kenyon-Slaney who will assume his position on 6 June and, again, expresses its sincere thanks to our retiring Chairman, Roger Davis, for his many years of excellent service to the Company.”

1. Diamond Market

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

2. Letšeng

	Q1 2017	Q4 2016	QoQ % Change	Q1 2016	YoY % Change
Waste stripped (tonnes)	7 811 416	7 861 775	-1%	7 056 303	11%
Ore treated (tonnes)	1 667 000	1 697 070	-2%	1 624 964	3%
Carats recovered	25 479	26 438	-4%	28 698	-11%
Grade recovered (cpht)	1.53	1.56	-2%	1.77	-13%

The revised life of mine plan, designed to reduce waste mined and improve near term cash flows, was implemented during February.

Waste mined during the Period was 7 811 416 tonnes and the overall stripping ratio was 4.39 for the Period. This is in line with the requirements of the revised mining plan.

Letšeng treated a total of 1.4 million tonnes of ore during the Period, 75% of which was sourced from the Main pipe, and 25% from the Satellite pipe. The balance of the ore (0.3 million tonnes) was treated through the Alluvial Ventures contractor plant, which was sourced from the Main pipe and low grade stockpiles.

During the Period engineering challenges were experienced at both Letšeng plants that resulted in lower than planned plant availability. As a consequence, tonnes treated in the Period were c.76 000 tonnes lower than planned. The temporary plant availability challenges are being addressed with the contracting

partner, and full year guidance remains unaltered. The contribution from the Satellite pipe is expected to meet the original target of 1.8 million tonnes for the full year.

During the Period, 25 479 carats were recovered at a grade of 1.53 cpht against an expected reserve grade of 1.61 cpht mainly due to the underperformance of the Main Pipe contact material, which resulted in a Mine Call Factor of 95%. Mining activities have moved to the centre of the Main pipe and grades are returning to expected levels. During Q2 mining in the Main pipe is moving into the higher grade K6 portion of the pipe.

The splitting of the front ends of Plant 1 and Plant 2 was completed at the end of the Period. This has facilitated the treatment of discrete ore samples based on their individual geo-metallurgical characteristics to better understand the performance of the resource.

Bank funding for the construction of the Letšeng mining support services complex valued at M215.0 million (c. US\$16.0 million) was secured by Letšeng during the Period. This facility has a tenure of five and a half years with a 13-month availability period. The funding is required to relocate the mining workshops, offices and related services within the mining area to allow the mine to effectively maintain the new and larger fleet of mining equipment as a result of the new waste cutbacks required to extend the life of the open pit in line with the revised mine plan.

2.1. Letšeng rough diamond sales

Three tenders have been held in 2017. 39 950 carats were sold for US\$ 65.4 million, achieving an average price of US\$ 1 636 per carat (full year 2016 – US\$ 1 695* 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 will be sold in the fourth tender to be held in June and has been included at an estimated value in determining the average US\$ price per carat for the first three tenders of 2017.

The current average price achieved is up 13% from the US\$ 1 444 per carat achieved in the previous period, Q4 2016.

Contributing to the achieved US\$ per carat was an 8.65 carat pink diamond which achieved US\$ 164 855 per carat, making it the sixth highest US\$ per carat achieved by a Letšeng rough diamond, together with the sale of a number of other large high value white diamonds including a 114.38 Type II carat diamond which was sold into a partnership arrangement in May.

* Includes carats extracted at rough value for polishing.

3. Ghaghoo

Care and maintenance status was successfully achieved ahead of plan on 31 March 2017.

There was no sale of Ghaghoo goods during the Period. The remaining carats on hand (c. 13 000 carats) are anticipated to be sold during Q2 2017.

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

There were no Lost Time Injuries (LTI) during the Period, resulting in a Group-wide Lost Time Injury Frequency Rate (LTIFR) of 0.00 for the Period. The Group-wide All Injury Frequency Rate (AIFR) for the Period was 2.3.

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

FOR FURTHER INFORMATION:

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This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

The Gem Diamonds Limited LEI number is 213800RC2PGGMZQG8L67.

ABOUT GEM DIAMONDS:

Gem Diamonds is a leading global diamond producer of high value diamonds. The Company owns 70% of the Letšeng mine in Lesotho and 100% of the Ghaghoo mine in Botswana. The Letšeng mine is famous for the production of large, top colour, exceptional white diamonds, making it the highest dollar per carat kimberlite diamond mine in the world. Since Gem Diamonds' acquisition of Letšeng in 2006, the mine has produced four of the 20 largest white gem quality diamonds ever recorded. The Ghaghoo mine in Botswana has been placed on care and maintenance until market conditions allow for recommencement of production. www.gemdiamonds.com