20 August 2014

GEM DIAMONDS HALF YEAR 2014 RESULTS

Operational performance and project delivery drives excellent H1 results

Gem Diamonds Limited (LSE: GEMD) ("Gem Diamonds", the "Company" or the "Group") today announces its half year results for the six months ending 30 June 2014 ("H1 2014" or "the Period").

FINANCIAL RESULTS:

Excellent financial performance with significant growth in revenue, strong cash flow further enhancing the balance sheet and on track to consider declaring a maiden dividend for 2014 financial year

- Revenue of US$148.9 million, up 54% (US$96.5 million in H1 2013).
- Underlying EBITDA of US$62.2 million, up 87% (US$33.2 million in H1 2013).
- Attributable profit of US$19.7 million, up 129% (US$8.6 million in H1 2013).
- Basic EPS of 14.28 US cents, up 129% (6.23 US cents in H1 2013).
- Cash on hand of US$113.9 million as at 30 June 2014 (US$98.4 million attributable to Gem Diamonds).

OPERATIONAL RESULTS:

Extremely strong operational performance with continued focus on process improvements and growth projects set to unlock further value

Letšeng:

- Carats recovered of 54 678, up 29% (42 268 carats in H1 2013).
- Average value of US$2 747* per carat achieved for the first five tenders of 2014, up 58% (US$1 741* per carat in H1 2013).
- 3 diamonds greater than 100 carats recovered – a 162.02 carat, a 161.31 carat and a 132.55 carat, achieving a total sales value of US$21.0 million.
- Ore treated of 3.2 million tonnes, up 6% (3.0 million tonnes in H1 2013).
- Waste tonnes mined of 10.0 million tonnes, up 2% (9.9 million tonnes in H1 2013).

*Includes carats extracted for polishing at rough valuation.

Ghaghoo:

- The Phase 1 capital project completed on time and on budget.
- Processing plant being commissioned, with 2 400 carats recovered as at end of June 2014.
- Development of three production tunnels on Level 1 underway.
- Production build-up underway.

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

"The first half of 2014 was a very strong start to the year for Gem Diamonds with an exceptional performance at Letšeng. The ongoing focus on low capex, value accretive projects, resulting in increased diamond liberation and reduced diamond damage have been implemented at Letšeng and are bearing fruit. This, together with the current mine plan and the higher proportion of Satellite Pipe ore mined during the Period, has resulted in a 29% increase in

carats recovered compared to the corresponding 2013 Period. Strong sales and robust demand throughout the Period has underpinned the positive start to the year.

At Ghaghoo, good progress has been made with the mine having been built on time and on budget and commissioning has begun. The first diamonds produced during the commissioning of the plant have, as anticipated, been of a higher quality and average size than those mined during the exploration phase. A 20 carat and two 10 carat diamonds have been recovered from the first 2 400 carats recovered as at end of June 2014. This compares to the largest diamond recovered in the exploration sampling of 7 carats. During the development of the underground production level a significant ingress of water was encountered which has been dealt with quickly and efficiently. It is not anticipated that there will be any impact on the planned production targets for 2015.

Extensive mineral resource management work following the latest drilling and evaluation campaign at Letšeng has greatly enhanced the resource and reserve position of the Company, approximately doubling Letšeng's in-situ value of the reserve to US$ 4.6 billion. All of Letšeng's optimal open pit, with a life of mine of 21 years, is now fully contained in the Probable Reserve category.

The Company has increased its cash position to a Group cash balance of US$114 million which is significant given the Board's stated intention of considering paying a maiden dividend for the 2014 year."

The Company will be hosting an audio presentation on its half year results today, 20 August 2014, at 9:30 am BST.

A live audio webcast of this presentation will be available on the Company's website: www.gemdiamonds.com

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ABOUT GEM DIAMONDS:

Gem Diamonds is a leading global diamond producer of high value diamonds. The company owns 70% of the Letšeng mine in Lesotho, in partnership with the Government of Lesotho which owns the remaining 30%; and 100% of the Ghaghoo mine in Botswana. The Letšeng mine is famous for the production of large, high value, 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 twenty largest white gem quality diamonds recorded.

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

www.gemdiamonds.com

INTERIM BUSINESS REVIEW

INTRODUCTION

The first half of 2014 marked a very positive start to the year for Gem Diamonds benefitting from the culmination of a number of strategic initiatives – some of which have been a number of years in the planning and implementation. Further investment in these initiatives will deliver additional benefits.

Of these strategic initiatives, the extensive mineral resource management work conducted over the past 18 months at Letšeng has yielded great improvement to the audited Resource and Reserve statement, adding a significant amount of embedded value to the Company and seeing the whole of the Letšeng optimal pit now contained within the Probable Reserve category. Moreover, the average reserve dollar per carat value for Letšeng has increased to US$2 045 per carat – up from US$1 715 per carat – and this firm trend has been reinforced by the realisation of an average of US$2 747* per carat for the Period. It is pleasing to see that carats recovered at Letšeng showed a marked increase of 29% over the comparable Period in 2013 due to greater Satellite ore and processing enhancements, and that tonnes of ore treated were up 6% on H1 2013.

The continued trend of reducing diamond damage at Letšeng has contributed to improved revenues over the past year. Although difficult to quantify, there is little doubt that the larger diamonds, which are a key component of revenue for the Group, have shown a decrease in damage sustained during the recovery process.

The sales and marketing of Letšeng's diamonds in Antwerp continues to perform strongly, with the Letšeng tenders attracting an increasing number of the world's top diamantaires. The ability of Gem Diamonds to extract the maximum value for its production through a flexible sales strategy of tender or partnerships as well as own cutting and polishing has also contributed to the strong earnings reported during the Period.

The Group's financial position remains robust with the strong cash position increased to US$114 million as at 30 June 2014 – up from US$71 million at 31 December 2013. As previously stated, this strong cash position bodes well for the Board to consider, in March 2015, the declaration of a maiden dividend for the 2014 financial year.

DIAMOND MARKET

The first half of 2014 saw strong demand for Letšeng's rough diamonds and in particular for the large high quality diamonds for which Letšeng is famous. Letšeng held five tenders during the Period, achieving US$147.8 million* in rough sales revenue, and the fifth tender alone achieving a remarkable US$45.6 million* of revenue, with an average of US$3 277* per carat.

This brings the 12 month rolling average for Letšeng sales up to US$2 543* per carat. Letšeng sold three diamonds of over 100 carats during the Period, including a 162 carat stone which sold for US$11.1 million (US$68 687 per carat). Gem Diamonds has also announced the recovery of an exceptional 198 carat white diamond which was recovered at the end of July 2014. A picture of this remarkable diamond can be found on the Company's website.

The second half of the year should see strong pricing maintained as the Group continues to see robust long term support for diamond prices with continued growth in demand from non-traditional markets in Asia and strength in traditional markets alongside limited growth in supply.

OPERATIONS

Letšeng had an extremely good first half and carats recovered at Letšeng increased by 29% over the same Period in 2013 and ore treated was up 6%. These improved production figures were the result of treating a greater percentage of ore sourced from the Satellite pipe but also from the significant technological advances made by management in plant throughput and diamond liberation.

As part of the strategic realignment of Gem Diamonds' asset base, Letšeng negotiated a long-term contract with its mining contractor, Matekane Mining Investment Company (MMIC), which has resulted in improved unit costs with effect from 1 January 2014. This has allowed the Group to issue revised guidance for the mining waste cash costs below the previous guidance. Guidance for direct cash costs per tonne treated, as issued at the beginning of 2014, has been maintained.

*includes carats extracted for polishing at rough valuation.

At Ghaghoo, there has been good progress in the commissioning of the plant and the recovery sort-house as well as the completion of the camp and above-ground facilities. Development of the first three production tunnels on Level 1 is underway. However, there has recently been a significant ingress of underground fissure water which has required extensive dewatering to surface and this was dealt with quickly and efficiently. The planned full production of 720 000 tonnes per annum for 2015 remains on track.

PROJECTS

In line with the stated strategy at Letšeng of incremental growth, the following two projects have been approved and are underway:

The new Coarse Recovery Plant will include X-ray Transmissive (XRT) sorters (which are expected to improve recovery of the high value type II diamonds) as well as advanced personnel scanners and hands-free and auditable recovery technology, which are anticipated to result in greatly enhanced product security and control. The construction of the new Course Recovery Plant is due for completion by H1 2015 at a total cost of Maloti (LSL)140.0 million (US$13.2 million), all of which will be funded through a bank debt facility which is already in place.

Phase 1 of the No. 2 Plant upgrade has been approved and is planned to deliver an increase in treatment capacity of 250 000 tonnes per annum and further reduce diamond damage and increase liberation. Phase 1 of project will be completed by mid-2015.

HEALTH, SAFETY, SOCIAL AND ENVIRONMENT (HSSE)

The Group continues to strive toward its goal of zero harm to its people and environment and to operate within the sustainable development framework that outlines the Group's sustainability principles. Regretfully, one fatality occurred at Ghaghoo in January 2014 and the Company expresses its sincere condolences to the bereaved. There were no other Lost Time Injuries in the Group during the Period.

Gem Diamonds continues to implement projects in the various project affected communities around its operations and to work closely with its communities to develop sustainable solutions. No major or significant environmental or social incidents were recorded over the Period.

For the Period, the Group-wide Lost Time Injury Frequency Rate (LTIFR) was 0.08 and the Group All Injury Frequency Rate (AIFR) was 2.63.

MINERAL RESOURCE AND RESERVE STATEMENT

On 16 July 2014, the Company released a revised Resource and Reserve statement which is effective 1 January 2014, and is available on the Company's website: www.gemdiamonds.com

Key comments on the 2014 Resource and Reserve Statement:

- Gross Resources (inclusive of Reserves) in aggregate for the Letšeng and Ghaghoo operations is 25.5 million carats, with an average grade of 6.35 carats per hundred tonnes at an average diamond price of US$601 per carat.
- Letšeng Indicated Resource base has increased in carat terms by 127%, from the 2013 statement, to a total of 3.2 million carats, with an average grade of 1.73 carats per hundred tonnes at an average diamond price of US$2 086 per carat. This increase in the Indicated Resource base is a result of the extension of the Indicated depth classification from 100 metres below the mining face to approximately 350 metres as a result of infill drilling programmes, improved estimation techniques and detailed geological studies, all of which contributed to increasing the confidence in the Resource.
- Due to the substantial improvement in the Indicated Resource base, a significant increase in the Letšeng Reserve base is also noted, increasing by 64% in carat terms, from the 2013 statement, to a total of 2.3 million carats. This increase in Reserves ensures that the 21 year Life of Mine open pit is wholly contained within the Reserve category.

OPERATING REVIEW: LETŠENG

The Letšeng mine is famous for its exceptional, top quality diamonds, having the highest proportion of large, high value diamonds with 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.

DIAMOND SALES

	6 months ended 30 June 2014	6 months ended 30 June 2013
Carats sold*	**53 799**	47 065
Average US$ per carat*	**2 747**	1 741

*includes carats extracted for polishing at rough valuation.

SUSTAINABILITY HIGHLIGHTS

- Zero Lost Time Injuries (LTIs) occurred.
- Zero significant stakeholder and environmental incidents.
- LTIFR 0.00.
- AIFR 1.88.

OPERATIONAL HIGHLIGHTS

- Carats recovered of 54 678 (42 268 carats in H1 2013).
- Rough tender revenue of US$147.8 million* (tender 5 alone achieved revenue of US$45.6 million*).
- 58% increase in average value of US$2 747* per carat achieved in H1 2014 (US$1 741* per carat in H1 2013).
- Grade recovered of 1.69 (1.39 cpht in H1 2013).
- Ore treated of 3.2 million (3.0 million tonnes in H1 2013).
- Waste tonnes mined of 10.0 million (9.9 million tonnes in H1 2013)

*includes carats extracted for polishing at rough valuation.

OPERATIONAL PERFORMANCE

Letšeng has had a very positive first half, with results being ahead of plan and better than the prior comparative Period. Letšeng's No. 1 and 2 Plants treated 1.34 million and 1.41 million tonnes of ore respectively in the Period, 36% of which was sourced from the Satellite pipe (compared to 2% in H1 2013) and 64% from the Main pipe. The balance of ore was treated through the Alluvial Ventures plant, 33% of which was sourced from stockpiles and 67% from the Main pipe. The Alluvial Ventures plant continued to run during the Period and the contract has been extended until 31 December 2015. These factors, together with the optimisation of the secondary and tertiary crushers installed in 2013 and significant improvements in the fragmentation of the blasting process, which increased plant liberation and throughput, resulted in Letšeng producing 54 678 carats in the Period representing a 29% increase from H1 2013.

Waste mining for the Period was 2% higher than in H1 2013 and in order to ensure the continued adherence to the mine plan and availability of ore in both pits at an improved unit cost, larger mining equipment consisting of two CAT 6030 excavators and CAT 777 rigid trucks was commissioned during May 2014.

During the Period, Letšeng successfully negotiated a new contract with its mining contractor, MMIC, effective 1 January 2014, resulting in improved unit costs for the next 8 years.

All mineral resource drilling planned for 2014 has been completed and the requirement for future drilling is being assessed.

PROJECTS

The new coarse recovery plant project remains on track for completion in the second quarter of 2015 for a total budget of LSL140.0 million (US$13.2 million), of which approximately LSL82.0 million (US$7.7 million) is expected to be spent in 2014. The full amount for this project will be funded through a debt facility which is already in place. The X-Ray Transmissive (XRT) sorters, which will ensure improved recovery of the high value type II diamonds, have been ordered. Design of the Personnel Control Centre is well advanced and the selection of the personnel X-Ray scanner supplier is planned for early in the third quarter of 2014. It is expected that this scanner, together with the significantly improved surveillance and fully hands-free and auditable diamond recovery will result in the significant security improvements expected from this project. The civil contractor will establish site during the third quarter of 2014 as planned.

Work to identify opportunities for incremental improvements to throughput and diamond breakage at both of the Letšeng plants is ongoing and the first phase of the upgrade at the No. 2 Plant has been approved for implementation. Phase 1 of the project has commenced and is planned to be complete by the first quarter of 2015 and will deliver an increase in treatment capacity of approximately 250 000 tonnes per annum, as well as further reducing diamond damage and increasing liberation. The capital cost for Phase 1 of the No. 2 Plant upgrade is LSL50.0 million (US$4.7 million), of which approximately LSL38.0 million (US$3.6 million) is expected to be spent in 2014. Phase 1 will lay the foundation for further improvements in both treatment capacity and diamond damage reduction in subsequent plant development phases which are currently being investigated.

DIAMOND SALES

Letšeng's rough diamond production is sold on tender in Antwerp by Gem Diamonds Marketing Services BVBA (Gem Diamonds Marketing Services), a wholly owned Gem Diamonds subsidiary. During the Period Gem Diamonds Marketing Services held five tenders for Letšeng's rough diamond production, two in the first quarter and three in the second quarter of 2014 resulting in total rough tender revenue of US$147.8 million*.

Reduced breakage and higher quality diamonds (largely due to the increased production from the Satellite pipe), coupled with a strong rough diamond market for large, high value diamonds, has resulted in increased overall revenues for the Period. The average value for Letšeng's rough diamond sales for the Period was US$2 747* per carat, compared with the average price of US$1 741* per carat achieved in the first half of 2013, representing an increase of 58%.

In addition to the rough tenders, Gem Diamonds Marketing Services extracts select diamonds for manufacturing and sale as polished diamonds and/or for sale into Letšeng's high-value manufacturing and partnership arrangements.

HSSE

Letšeng continuously implements various initiatives to ensure a safe and secure working environment and to continuously improve on the culture of safety. In this regard, there have been no LTIs or significant or major environmental or stakeholder incidents recorded during the Period. For the Period, Letšeng's Lost Time Injury Frequency Rate (LTIFR) was 0.00 and the All Injury Frequency Rate (AIFR) was 1.88.

Laser scanners were commissioned at Letšeng at the beginning of the year to monitor pit stability. These scanners will enhance the safety and productivity of Letšeng's mining operations.

Letšeng has invested US$0.14 million towards corporate social initiatives during the Period and continues with the implementation of various projects aimed at uplifting project affected communities.

H2 2014 AND ONWARDS

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

- Continual improvement of current operations and cost optimisation;
- Delivery of the Coarse Recovery Plant;

- Delivery of Phase 1 of the No. 2 Plant upgrade;

*includes carats extracted for polishing at rough valuation.

- Optimising waste stripping profiles in order to maximise value and determine optimal timing of moving from open pit mining to underground mining in the Satellite pipe; and
- Continual refinement of future phases of incremental projects.

OPERATING REVIEW: GHAGHOO

The Ghaghoo diamond mine in Botswana is currently being developed by the Company's wholly owned subsidiary, Gem Diamonds Botswana, which is the holder of a 25 year mining licence which was awarded in January 2011. The objective of Phase 1 of the development is to confirm the grade, diamond prices and the recovery processes, including the use of autogenous milling, which is expected to increase diamond liberation. Results from Phase 1 will underpin a study aimed at defining the way forward for mining at Ghaghoo.

SUSTAINABILITY HIGHLIGHTS

- Zero significant stakeholder and environmental incidents.
- Ghaghoo achieved a 4 star rating in an external HSSE audit.
- LTIFR 0.55.
- AIFR 6.59.

DEVELOPMENT HIGHLIGHTS

- To date three production tunnels are underway on the first production level.
- 2 400 carats have been recovered during the commissioning of the plant as at 30 June 2014.

DEVELOPMENT PROGRESS

The development of the Ghaghoo mine is progressing well and on schedule with 2 400 carats having been recovered up to 30 June 2014 during the commissioning of the plant. Included in these carats produced are a 20 carat and two 10 carat diamonds (during the exploration phase, the largest diamond recovered was 7 carats). Optimisation of the treatment plant process is ongoing during the commissioning phase.

To date, three production tunnels are progressing within kimberlite on the first production level, Level 1 at 154 metres below surface, whilst an exploratory tunnel and training stope have been developed in the kimberlite on Level 0 at 130 metres below surface. High volumes of water from basalt fissures have recently been encountered on Level 1, and besides contributing to difficult mining conditions, have necessitated the procurement of additional pumping capacity and the drilling of additional dewatering bore holes. This has been dealt with quickly and efficiently and barring any further material ingress is not anticipated to impact 2015 production. Drilling of the second ventilation hole is complete and holing in is imminent. The third and final hole has been drilled to a depth of 121 metres and was completed in July 2014, well ahead of the actual requirement to have this ventilation capacity available. The rescue equipment for deployment in these shafts, in an emergency, has been delivered to the mine and is in the process of being commissioned.

A sale of Ghaghoo's initial production is scheduled to take place before year end.

As at 30 June 2014, US$82.0 million of the total capital budget of US$96.0 million had been spent. The balance of US$14.0 million will be spent in H2 2014.

HSSE

Regretfully, one fatality occurred at Ghaghoo on 11 January 2014, as previously reported. However, Ghaghoo continues to implement and improve its health and safety systems on site and during the Period the operation received a 4 star rating for its HSSE systems and implementation on site.

No significant or major environmental or stakeholder incidents were recorded at Ghaghoo for the Period.

A Community Trust has been established by the operation which includes two trustees from the project affected communities. Funds have already been allocated to the Trust which has commissioned various community projects during the Period.

Ghaghoo's Lost Time Injury Frequency Rate (LTIFR) for the Period was 0.55 and the All Injury Frequency Rate (AIFR) was 6.59.

H2 2014 AND ONWARDS

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

- Managing the transition from capital project to operating mine;
- Continuing with the build-up to an annual production rate of 60 000 tonnes per month;
- Continuing underground development to ensure production sustainability;
- Designing and developing a long-term water management system;
- Determining the next stage of the Ghaghoo expansion following a review of the economic outcome of Phase 1; and
- Optimising the sales and marketing arrangements.

OPERATING REVIEW: GEM DIAMONDS MARKETING & MANUFACTURING

Gem Diamonds Marketing Services was formed in 2010 and is responsible for implementing the Group's sales and marketing strategies. The Group maximises revenue from its production by actively marketing its rough diamonds through competitive tenders to respected international diamantaires.

As part of the strategic objective to increase revenue for its rough diamonds and to access additional margins further along the diamond pipeline, the Group established Baobab Technologies (Baobab) in 2012, an advanced analytical and manufacturing capability in Antwerp.

HIGHLIGHTS SUMMARY

- Contributed US$2.4 million in additional revenue to the Group through sales of extracted and partnered polished diamonds.
- 377 carats of Letšeng rough diamonds were extracted for own polishing and manufacture at Baobab at a rough market value of US$4.2 million.

SALES AND MARKETING

Letšeng's rough diamond production is sold on an electronic tender platform and is marketed by Gem Diamonds Marketing Services. The tender platform is designed to enhance engagement with customers by allowing continuous access, flexibility and communication, as well as ensuring transparency during the tender process. Although viewings of the diamonds take place in Antwerp over 10 tenders annually, the electronic tender platform allows customers the flexibility to participate in each tender from anywhere in the world. This contributes to the achievement of highest market-driven prices for the Group's rough diamond production. Ghaghoo's rough diamond production will similarly be sold on the same electronic platform and marketed by Gem Diamonds Marketing Services.

Rough diamonds that have been selected for polishing are manufactured at Baobab, and the resulting polished diamonds are sold through direct selling channels to high-end clients.

The Group continues to invest and increase the intellectual property in its marketing and manufacturing operations with the objective of ensuring that the highest returns are achieved on its production, in rough or polished form.

ANALYSIS AND MANUFACTURING

Baobab's advanced mapping and analysis of Letšeng's exceptional rough diamonds aids the Group in assessing the true polished value of its rough diamonds and thus drives strategic decisions to implement robust tender reserve prices in particular on its large, high value diamonds at each tender.

In order to achieve the highest value for its top-quality diamonds, the Group selectively manufactures certain of its own high-value rough diamonds through the Baobab operation and also places other exceptional diamonds into strategic manufacturing and partnership arrangements with select clients.

During the Period, Baobab received 377 carats of high-value Letšeng diamonds for manufacturing, with a rough market value of US$4.2 million. In addition, Baobab received 371 carats of high value rough diamonds from third parties for analysis and/or manufacturing, for which Baobab charges an analysis and/or manufacturing fee.

GROUP FINANCIAL PERFORMANCE

HIGHLIGHTS SUMMARY

- Revenue US$ 148.9 million – up 54%.
- Underlying EBITDA US$62.2 million – up 87%.
- Attributable net profit US$19.7 million – up 129%.
- Basic EPS 14.28 US cents – up 129%.
- Cash on hand US$ 113.9 million.

(US$ millions)	**6 months ended 30 June 2014**	6 months ended 30 June 2013
Revenue	**148.9**	96.5
Cost of sales[1]	**(67.2)**	(49.3)
Royalty and selling costs	**(13.4)**	(7.8)
Corporate expenses	**(6.1)**	(6.2)
Underlying EBITDA	**62.2**	33.2
Depreciation and mining asset amortisation	**(7.9)**	(9.1)
Share-based payments	**(0.8)**	(0.2)
Other income	**0.1**	0.8
Foreign exchange gain/(loss)	**1.3**	(0.9)
Net finance costs	**(0.1)**	(0.6)
Profit before tax	**54.8**	23.2
Income tax expense	**(20.4)**	(8.1)
Profit for the Period from continuing operations	**34.4**	15.1
Non-controlling interests	**(14.7)**	(6.5)
Attributable profit	**19.7**	8.6
Earnings per share (US cents)	**14.28**	6.23

1. Including waste amortisation but excluding depreciation and mining asset amortisation.

REVENUE

Group revenue increased by 54% driven by both increased volume of carat sales and increased diamond prices achieved. External market conditions, mining plans and management interventions during 2013 have resulted in a positive impact on the 2014 half year results. Revenue is derived from the Group's two business activities, namely its mining operations at Letšeng and its sales, marketing and manufacturing operation in Antwerp.

Mining operations revenue

The benefit of the investment in waste stripping at Letšeng in 2013 was evident through the mining of a more consistent mix of Satellite and Main pipe ore. Letšeng's No. 1 and 2 Plants treated 1.34 million and 1.41 million tonnes of ore respectively in the Period, 36% of which was sourced from the Satellite pipe (a significant increase from H1 2013 of 2%) and 64% from the Main pipe. The balance of ore was treated through the Alluvial Ventures plant.

As a result, Letšeng recovered 54 678 carats during the Period, a 29% increase from H1 2013. Together with the positive impact of the new diamond-friendly cone crushers installed during 2013 and the continuation into 2014 of the strong demand for rough diamonds experienced in 2013, Letšeng achieved an average price of US$2 747* per carat from the sale of 53 799 carats during the Period, compared to the average price of US$1 741* per carat from 47 065 carats achieved in H1 2013.

*includes carats extracted for polishing at rough valuation.

	6 months ended 30 June 2014	6 months ended 30 June 2013
Average price per carat (US$)[1]	**2 747**	1 741
Carats sold[2]	**53 799**	47 065

Letšeng financial performance US$ (millions)	**6 months ended 30 June 2014**	6 months ended 30 June 2013
Rough tender sales	**147.8**	81.9
Polished margin revenue	**2.4**	4.8
Total revenue	**150.2**	86.7
Cost of sales[3]	**(64.8)**	(47.3)
Royalty and selling costs	**(14.4)**	(7.8)
Underlying EBITDA	**71.0**	31.6
EBITDA margin	**47%**	36%

1 Includes carats extracted for polishing at rough valuation.

2 Represents all goods sold to Gem Diamonds Marketing Services in the year.

3 Including waste cost amortisation but excluding depreciation and mining asset amortisation.

Sales, marketing and manufacturing revenue

The sales, marketing and manufacturing operations continued to contribute positively to Group revenue and EBITDA during the Period.

At the end of 2013, rough diamond inventory to the value of US$2.9 million remained on hand within the Group for own manufacturing and was treated as unrealised sales from a Group perspective. During the current Period, a further 377 carats valued at a rough market value of US$4.2 million were extracted from the Letšeng exports for own manufacture. Polished diamonds with an initial rough value of US$2.2 million were sold during the Period, resulting in US$4.9 million remaining in inventory at the end of the Period, which was treated as unrealised sales from a Group perspective. The sale of the polished diamonds, together with the uplift made on previously partnered diamonds, contributed additional revenue of US$2.4 million and additional EBITDA of US$1.5 million. The net impact of the polished inventory movement between 31 December 2013 and 30 June 2014 on the overall Group revenue is a decrease of US$2.0 million.

COSTS

Operational excellence through cost reductions and enhancing production efficiency remained a key focus area for the Period.

The Lesotho loti (LSL) (pegged to the South African rand) and the Botswana pula (BWP) were significantly weaker than the prior Period, positively impacting the operations' US dollar reported costs. Conversely, the British pound (GBP) strengthened against the US dollar, negatively impacting GBP corporate costs.

Exchange rates	**6 months ended 30 June 2014**	6 months ended 30 June 2013	Variance
Average exchange rate for the Period	**10.70**	9.21	16%
Period end exchange rate	**10.64**	9.93	7%

Exchange rates	6 months ended 30 June 2014	6 months ended 30 June 2013	Variance
BWP per US$1.00			
Average exchange rate for the Period	**8.84**	8.20	8%
Period end exchange rate	**8.80**	8.57	3%
US$ per GBP			
Average exchange rate for the Period	**1.70**	1.54	10%
Period end exchange rate	**1.71**	1.52	13%

Cost of sales for the Period was US$67.2 million, compared to US$49.3 million in H1 2013. This included waste cost amortisation of US$24.4 million incurred at Letšeng and is stated before non-cash costs of depreciation of US$6.6 million and amortisation on mining assets of US$1.3 million.

Letšeng operational performance	6 months ended 30 June 2014	6 months ended 30 June 2013
Physicals		
Tonnes treated	**3 229 091**	3 036 576
Waste tonnes mined	**10 021 431**	9 856 614
Carats recovered	**54 678**	42 268

The majority of cost of sales is incurred at the Letšeng operation. Total direct cash costs (before waste) in local currency were LSL429.9 million compared to LSL 379.6 million in H1 2013. This resulted in unit costs per tonne treated for the Period of LSL133.13 relative to the prior comparative Period of LSL125.02. This net increase of 7% in unit costs is due to general inflation of approximately 6%, fuel and power increases above general inflation and increases in costs associated with Alluvial Ventures; offset by a reduction in mining and treatment costs due to operational efficiencies and revised contract rates following new negotiations with contractors. The costs associated with Alluvial Ventures are based on a percentage of revenue and have increased due to the revenue achieved from their production during the Period being higher than the comparative Period. This cost increase represents 41% of the overall unit cost increase.

Operating costs per tonne treated for the Period increased to LSL214.46 per tonne from LSL140.61 per tonne, mainly as a result of an increase in waste amortisation costs (driven by the different waste to ore strip ratios for the particular ore processed). During H1 2013, Letšeng mined almost exclusively in the Main pipe which has a lower overall waste amortisation charge than the Satellite pipe. Mining in the Main pipe also contained a portion of ore that was sourced from a cut that had no associated amortisation charge, resulting in a total waste amortisation charge in H1 2013 of US$9.0 million. In the current Period, Letšeng mined higher volumes of Satellite pipe ore (36%). In addition, the entire Main pipe ore mined carried an amortisation charge. This has increased the total waste amortisation charge for the current Period to US$24.4 million.

The decrease in the local currency waste cash cost per waste tonne mined of 1% is as a result of the newly negotiated mining contract (for eight years commencing 1 January 2014), together with the overall impact of the slightly higher tonnages of waste mined during the Period.

Following the estimation change in respect of the waste mined out of the surveying review which was disclosed in 2012, waste costs will be recovered from the mining contractor over the term of the new contract and this has been raised as a prepayment in the Statement of financial position. The impact on the waste amortisation in the current Period due to the change in estimate is a credit of US$0.5 million.

Letšeng costs	6 months ended 30 June 2014	6 months ended 30 June 2013
US$ (per unit)		
Direct cash cost (before waste) per tonne treated[1]	**12.44**	13.57
Operating cost per tonne treated[2]	**20.05**	15.26
Waste cash cost per waste tonne mined	**2.30**	2.71
Local currency (per unit) LSL		
Direct cash cost (before waste) per tonne treated[1]	**133.13**	125.02
Operating cost per tonne treated[2]	**214.46**	140.61
Waste cash cost per waste tonne mined	**24.64**	25.00
Other operating information (US$ millions)		
Waste cost capitalised	**26.8**	30.6
Waste cost amortised	**24.4**	9.0
Depreciation and mining asset amortisation	**7.2**	8.4
Capital expenditure	**3.8**	6.8

1 Direct cash costs represent all operating costs, excluding royalty and selling costs, depreciation and mine asset amortisation and all other non-cash charges.

2 Operating costs exclude royalty and selling costs and depreciation and mine asset amortisation, and include inventory, waste cost amortisation and ore stockpile adjustments.

Royalties and selling costs in the Group of US$13.4 million comprise mineral extraction costs paid to the Lesotho Revenue Authority of 8% on the sale of diamonds, and diamond marketing related expenses.

Corporate expenses of US$6.1 million continue to be positively impacted by the streamlining of corporate costs undertaken in 2012 and the stronger US dollar during the Period, offset by the negative impact of the strengthening British pound against the US dollar. Corporate costs, which relate to central expenses incurred by the Group, are incurred in both South African rand and British pounds.

As a result of the factors discussed above, underlying EBITDA for the Period was US$62.2 million, up by US$29.0 million (87%) from H1 2013 of US$33.2 million.

Share-based payment costs for the Period amounted to US$0.8 million. There were two Long-term Incentive Plan (LTIP) options granted during the Period, in March and June. In March 2014, 625 000 Nil-cost options were granted to certain key employees. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. In June 2014, 609 000 Nil-cost Options were granted to the Executive Directors. The vesting of the options will be subject to the satisfaction of certain performance conditions over a three year period. The share-based payment cost associated with the new awards had a US$0.2 million impact on the current Period charge.

Net finance costs mainly comprise the unwinding of the current environmental provisions, together with interest bearing liabilities; partially offset by interest received from surplus cash from the Letšeng operation and the finance income adjustment relating to the impact of raising the non-current prepayment at fair value relating to the waste estimation change.

The effective tax rate for the Period for the Group was 37.2%, above the UK statutory tax rate of 21.5%. The tax rate of the Group is driven by tax of 25% on profits generated by Letšeng Diamonds, withholding tax of 10% on dividends from Letšeng and deferred tax assets not recognised on losses incurred in non-trading operations.

The profit attributable to shareholders for the Period was US$19.7 million (up 129% from US$8.6 million in H1 2013) equating to 14.28 US cents per share (up 129% from 6.23 US cents in H1 2013) on a weighted average number of shares in issue of 138 million.

FINANCIAL POSITION AND FUNDING REVIEW

The Group greatly enhanced its strong cash position with US$113.9 million cash on hand (net cash position of US$98.4 million after debt) at the Period end. Of the total US$113.9 million, US$98.4 million is attributable to Gem Diamonds and US$0.2 million is restricted. The increase in net cash from 31 December 2013 of US$71.2 million to 30 June 2014 of US$98.4 million was largely due to exceptional tender results and cash generation at Letšeng, together with careful cost management and continued caution being applied to capital investment decisions.

Investments in property, plant and equipment amounted to US$43.4 million, the largest component of which was US$26.8 million incurred in waste stripping at Letšeng. The Group also invested US$3.8 million at Letšeng, in connection with the coarse recovery plant, plant upgrade studies, additional resource extension drilling and other sustaining capital costs.

US$10.8 million was invested in Phase 1 development costs at Ghaghoo, bringing the total spend on the development at the end of the Period to US$82.0 million out of a budgeted US$96.0 million. The balance of all costs associated to complete Phase 1 will be spent during H2 2014.

The Group generated cash flow from operating activities of US$81.4 million before the investment in waste stripping and capital costs detailed above. During the Period, Letšeng declared dividends of US$38.7 million which resulted in a net cash flow of US$25.1 million to Gem Diamonds, and a cash outflow from the Group of US$13.6 million, as a result of withholding taxes of US$2.8 million and payments of the Government of Lesotho's portion of the dividend of US$10.8 million.

In addition to the Group's debt facilities reported at 31 December 2013, during the Period, Letšeng secured project funding of LSL140.0 million (US$13.2 million) to fund the coarse recovery plant. The facility bears interest at the South African three-month Johannesburg Interbank Agreed Rate (JIBAR) plus 4.95%. This facility is repayable in ten equal instalments of LSL14.0 million commencing on 31 March 2015 and ending on 30 June 2017. The US$25.0 million nine-month short-term unsecured facility for the remaining Phase 1 development spend at Ghaghoo which was concluded in January 2014, has been drawn down by US$16.0 million at Period end. This is due to be refinanced through a longer-term debt facility prior to its expiry in October 2014. As at Period end, the Group has a total of US$81.7 million facilities, of which US$65.7 million is available.

LOOKING AHEAD

With Ghaghoo scheduled to come into production in the second half of the year, continued focus will be on the conversion from a development project into sustaining operational activities with appropriate cost management aiming to generate a positive contribution to EBITDA. Letšeng is operationally geared to continue to mine a more consistent mix of Satellite and Main pipe ore in H2 2014, albeit at a lower percentage than H1 2014.

Following the positive operational and financial performance of the Group in the Period, a strong financial position, fully funded projects and a positive outlook on the diamond market in H2 2014, the Company is placed in an excellent position for the Board to consider, in March 2015, the declaration of a maiden dividend for the 2014 financial year.

EVENTS SUBSEQUENT TO THE PERIOD END

No other fact or circumstance has taken place during the Period covered by the financial statements and up to the date of this report which, in our opinion, is of significance in assessing the state of the Group's affairs.

RISKS TO OUR BUSINESS

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.

A reassessment of the risks, which have been previously reported in the Business Review in the 2013 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 have been identified which may impact the Group over the next six months.

1. Short term demand and prices (Market and Price Risk)

The state of the global financial markets and the impact thereof on consumer preferences impacts the Group and the industry as a whole by potentially altering demand fundamentals in the diamond pipeline. Although the Group cannot materially influence the situation, market conditions are constantly monitored to identify current trends that will pose a threat or create an opportunity for the Group. In this regard, management have taken all reasonable measures to preserve its cash position and, where necessary funding capital projects through appropriate debt facilities.

2. Exchange Rates (Financial Risk)

The Group receives its revenue in US dollars while its cost base arises in local currencies based on the various countries within which the Group operates. The weakening of the US dollar relative to these local currencies and the volatility of these currencies trading against the US dollar will impact the Group's profitability. The impact of the exchange rates and fluctuations are closely monitored. Where appropriate and at relevant currency levels, the Group enters into exchange rate contracts to protect future cash flows.

3. Expansion and Project delivery

The Group's growth strategy is based on delivery of expansion projects, premised on various studies, cost indications and future market assumptions. In assessing the viability, costs and implementation of these projects, risks concerning cost overruns and/or delays may affect the effective implementation and execution thereof. The commencement of commercial production in H2 2014 at Ghaghoo is on track to be delivered. The approach at Letšeng to implement expansion projects over a phased approach mitigates the project delivery risk.

4. Political risks

The political environments of the various jurisdictions that the Group operates within 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.

5. Mineral Resource risks

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.

6. Production interruption

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 management controls, processes and business continuity plans are in place to mitigate this risk.

Clifford Elphick
Chief Executive Officer

19 August 2014

GEM DIAMONDS LIMITED

HALF-YEARLY FINANCIAL STATEMENTS
30 JUNE 2014

CONTENTS

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 2013.

The names and functions of the Directors of Gem Diamonds are listed in the Annual Report for the year ended 31 December 2013 and there have been no changes during the Period Review.

For and on behalf of the Board

Michael Michael

Chief Financial Officer

19 August 2014

INDEPENDENT AUDITOR'S 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 year report for the six months ended 30 June 2014 which comprises 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 year 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 year report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half year report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2.1, the annual financial statements of the Group are prepared in accordance with IFRSs. The condensed set of financial statements included in this half year report has 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 set of financial statements in the half year 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 set of financial statements in the half year report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP

London

19 August 2014

INTERIM CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2014

	Notes	**30 June 2014[1] US$'000**	30 June 2013[1] US$'000
Revenue	3	**148 932**	96 466
Cost of sales		**(74 913)**	(58 117)
GROSS PROFIT		**74 019**	38 349
Other operating income		**46**	829
Royalties and selling costs	3	**(13 372)**	(7 815)
Corporate expenses		**(6 171)**	(6 394)
Share-based payments	11	**(834)**	(220)
Foreign exchange gain/(loss)		**1 260**	(914)
OPERATING PROFIT	3	**54 948**	23 835
Net finance costs		**(102)**	(605)
Finance income	9	**1 493**	584
Finance costs	9	**(1 595)**	(1 189)
PROFIT BEFORE TAX FOR THE PERIOD		**54 846**	23 230
Income tax expense	5	**(20 404)**	(8 131)
PROFIT FOR THE PERIOD		**34 442**	15 099
Attributable to:			
Equity holders of parent		**19 732**	8 611
Non-controlling interests		**14 710**	6 488
PROFIT FOR THE PERIOD		**34 442**	15 099
Earnings per share (cents)			
– Basic earnings for the Period attributable to ordinary equity holders of the parent		**14.28**	6.23
– Diluted earnings for the Period attributable to ordinary equity holders of the parent		**14.21**	6.20

[1] Unaudited

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	30 June 2014[1] US$'000	30 June 2013[1] US$'000
PROFIT FOR THE PERIOD	**34 442**	15 099
Other comprehensive income that could be classified to the income statement in subsequent periods:		
Exchange differences on translation of foreign operations[2]	**(7 063)**	(49 074)
Other comprehensive loss for the Period, net of tax	**(7 063)**	(49 074)
Total comprehensive income/(loss) for the Period	**27 379**	(33 975)
Attributable to:		
Equity holders of parent	**14 123**	(31 196)
Non-controlling interests	**13 256**	(2 779)
Total comprehensive income/(loss) for the Period, net of tax	**27 379**	(33 975)

[1] Unaudited

[2] Exchange differences on translation of foreign operations will only be reclassified to profit and loss on disposal of a subsidiary

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	**30 June 2014[1] US$'000**	31 December 2013[2] US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**377 747**	373 625
Investment property		**615**	615
Intangible assets		**19 817**	20 202
Receivables and other assets	8	**2 646**	-
Other financial assets		**21**	28
		400 846	394 470
Current assets			
Inventories		**27 729**	29 326
Receivables and other assets	8	**5 516**	6 749
Other financial assets		**13**	13
Income tax receivable		**58**	-
Cash and short-term deposits	9	**113 912**	71 178
		147 228	107 266
TOTAL ASSETS		**548 074**	501 736
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	10	**1 383**	1 383
Share premium		**885 648**	885 648
Treasury shares[3]		**(1)**	(1)
Other reserves		**(74 031)**	(69 408)
Accumulated losses		**(498 359)**	(518 091)
		314 640	299 531
Non-controlling interests		**73 381**	70 879
TOTAL EQUITY		**388 021**	370 410
Non-current liabilities			
Trade and other payables		**1 374**	1 109
Provisions		**23 554**	23 186
Deferred tax liabilities		**63 015**	64 824
		87 943	89 119
Current liabilities			
Interest-bearing loans and borrowings	12	**15 927**	-
Trade and other payables		**41 151**	37 086
Income Tax Payable		**15 032**	5 121
		72 110	42 207
TOTAL LIABILITIES		**160 053**	131 326
TOTAL EQUITY AND LIABILITIES		**548 074**	501 736

[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 2014

				Attributable to equity holders of the parent					
				Other Reserves					
	Issued capital	Share premium	Own Shares[2]	Foreign currency translation reserve	Share based equity reserve	Accumulated (losses)/ retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2014	**1 383**	**885 648**	**(1)**	**(116 241)**	**46 833**	**(518 091)**	**299 531**	**70 879**	**370 410**
Profit for the Period	–	–	–	–	–	**19 732**	**19 732**	**14 710**	**34 442**
Other comprehensive loss	–	–	–	**(5 609)**	–	–	**(5 609)**	**(1 454)**	**(7 063)**
Total comprehensive (loss)/income	–	–	–	**(5 609)**	–	**19 732**	**14 123**	**13 256**	**27 379**
Share-based payments (Note 11)	–	–	–	–	**986**	–	**986**	–	**986**
Dividends Paid	–	–	–	–	–	–	–	**(10 754)**	**(10 754)**
Balance at 30 June 2014[1]	**1 383**	**885 648**	**(1)**	**(121 850)**	**47 819**	**(498 359)**	**314 640**	**73 381**	**388 021**
Balance at 1 January 2013	**1 383**	**885 648**	**(1)**	**(62 799)**	**45 669**	**(539 261)**	**330 639**	**70 993**	**401 632**
Profit for the Period	**–**	**–**	**–**	**–**	**–**	**8 611**	**8 611**	**6 488**	**15 099**
Other comprehensive loss	**–**	**–**	**–**	**(39 807)**	**–**	**–**	**(39 807)**	**(9 267)**	**(49 074)**
Total comprehensive (loss)/income	–	–	–	(39 807)	–	8 611	(31 196)	(2 779)	(33 975)
Share-based payments (Note 11)	–	–	–	–	348	–	348	–	348
Balance at 30 June 2013[1]	**1 383**	**885 648**	**(1)**	**(102 606)**	**46 017**	**(530 650)**	**299 791**	**68 214**	**368 005**

[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 2014

	Notes	30 June 2014[1] US$'000	30 June 2013[1] US$'000
CASHFLOWS FROM OPERATING ACTIVITIES		**81 399**	36 476
Cash generated by operations	13.1	**86 089**	45 667
Working capital adjustments	13.2	**5 943**	(5 385)
		92 032	40 282
Interest received		**1 015**	584
Interest paid		**(259)**	(555)
Income tax paid		**(11 389)**	(3 835)
CASHFLOWS USED IN INVESTING ACTIVITIES		**(43 372)**	(40 342)
Purchase of property, plant and equipment	7	**(16 580)**	(14 971)
Waste cost capitalised	7	**(26 812)**	(30 582)
Proceeds from sale of property, plant and equipment		**20**	919
Cash received from disposal of subsidiary		**-**	4 292
CASHFLOWS USED IN FINANCING ACTIVITIES		**5 173**	(2 713)
Financial liabilities raised/(repaid)		**15 927**	(2 713)
Dividends paid to non-controlling interests		**(10 754)**	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**43 200**	(6 579)
Cash and cash equivalents at the beginning of the Period		**71 178**	70 842
Foreign exchange differences		**(466)**	(2 874)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**113 912**	61 389
Cash and cash equivalents at end of the Period held with banks		**113 734**	61 248
Restricted cash at end of the Period		**178**	141
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	9	**113 912**	61 389

[1] Unaudited

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2014

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 19 August 2014, is unaudited and does not constitute statutory financial statements. The report of the auditors on the Group's 2013 Annual Report and Accounts was unqualified.

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 2014 (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 2013.

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 3 to 15. The financial position of the Group, its cashflows and liquidity position are described in the Interim Business Review on pages 10 to 15.

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 2013, except for the adoption of new Standards and Amendments as of 1 January 2014. These new Standards and Amendments do not impact the financial statements of the Group and are noted below:

Investment entities - Amendments to IFRS 10, IFRS 12 and IAS 27
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since none of the entities in the Group qualify to be an investment entity under IFRS 10.

Offsetting financial assets and financial liabilities - Amendments to IAS 32
These amendments clarify the meaning of ‘currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

Recoverable amount disclosures for non-financial assets - Amendments to IAS 36
These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or

reversed during the Period. The Group early adopted these disclosure requirements in the annual consolidated financial statements for the year ended 31 December 2013.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2014

2. Basis of preparation and accounting policies (continued)

IFRIC 21 Levies

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively.
It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 Income Taxes) and fines or other penalties for breaches of legislation.
The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognised before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in interim financial statements.
This standard has not resulted in any adjusting impact on the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. Segment information

For management purposes, the Group is organised into geographical units as the Group's 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 are:

- Lesotho (diamond mining activities)
- Botswana (diamond mining activities)
- Belgium (sales, marketing and manufacturing of diamonds)
- Mauritius (manufacturing of diamonds)
- BVI, RSA and UK (technical and administrative services)

The Mauritius and Belgium operations have been aggregated into one operating segment, as management monitors these two operations as one, due to the similarity of their services provided.

Management monitors the operating results of the geographical units separately (except for Belgium and Mauritius) 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.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2014

3. Segment information (continued)

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

6 months ended 30 June 2014[1]	Lesotho (US$'000)	Botswana (US$'000)	Belgium and Mauritius (US$'000)	BVI, RSA and UK (US$'000)	Total (US$'000)
Revenue					
Total revenue	**148 124**	**-**	**148 219**	**4 026**	**300 369**
Inter-segment	**(146 644)**	**-**	**(917)**	**(3 876)**	**(151 437)**
External customers	**1 480**	**-**	**147 302**	**150**	**148 932**
Segment operating profit/(loss)	**64 200**	**(357)**	**(940)**	**(7 955)**	**54 948**
Net finance income/ (costs)	**781**	**4**	**-**	**(887)**	**(102)**
Profit before tax					**54 846**
Income tax expense					**(20 404)**
Profit for the Period					**34 442**

6 months ended 30 June 2013[1]	Lesotho (US$'000)	Botswana (US$'000)	Belgium and Mauritius (US$'000)	BVI, RSA and UK (US$'000)	Total (US$'000)
Revenue					
Total revenue	85 615	–	95 570	4 529	185 714
Inter-segment	(83 861)	–	(889)	(4 498)	(89 248)
External customers	1 754	–	94 681	31	96 466
Segment operating profit/(loss)	30 351	232	(104)	(6 644)	23 835
Net finance (costs)/income	(429)	4	–	(180)	(605)
Profit before tax					23 230
Income tax expense					(8 131)
Profit for the Period					15 099

	Lesotho (US$'000)	Botswana (US$'000)	Belgium and Mauritius (US$'000)	BVI, RSA and UK (US$'000)	Total (US$'000)
Segment assets					
At 30 June 2014[1]	**326 488**	**124 611**	**15 323**	**81 652**	**548 074**
At 31 December 2013[2]	340 853	107 004	11 209	42 670	501 736
Segment liabilities					
At 30 June 2014[1]	**55 459**	**22 964**	**807**	**17 808**	**97 038**
At 31 December 2013[2]	42 922	5 632	650	17 298	66 502

[1] Unaudited

[2] Audited

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2014

3. Segment information (continued)

Included in revenue is revenue from a single customer which amounted to US$22.3 million (30 June 2013: US$11.8 million) arising from sales reported in the Lesotho and Belgium segments.

Segment liabilities do not include net deferred tax liabilities of US$63.0 million (31 December 2013: US$64.8 million).

Operating profits have increased compared to the corresponding prior Period as a result of higher diamond prices achieved and increased number of carats recovered and sold. Royalties and selling costs, being variable costs, have increased as a direct result of the increase in revenue. Costs increased mainly as a result of mining during the Period taking place in both the Main pipe and the Satellite pipe which have higher associated waste amortisation cost compared to the prior Period where mining only took place in the Main pipe which has a lower associated waste amortisation cost compared to the Satellite pipe.

4. SEASONALITY OF OPERATIONS

The Groups' sales environment with regards 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.

5. INCOME TAX EXPENSE

	30 June 2014[1] US$'000	30 June 2013[1] US$'000
Income statement		
Current		
– Overseas	**(18 372)**	(102)
Withholding tax		
– Overseas	**(2 895)**	(47)
Deferred		
– Overseas	**863**	(7 982)
	(20 404)	(8 131)

[1] Unaudited

The forecast effective tax rate for the full year for the Group is 37.2%, which has been applied to the actual results of the interim Period. This is above the UK statutory tax rate of 21.5% and is predominantly driven by deferred tax assets not recognised on losses incurred in non-trading operations. The tax rate of the Group is driven by tax of 25% on profits generated by Letšeng Diamonds, withholding tax of 10% on dividends from Letšeng Diamonds and deferred tax assets not recognised on losses incurred in non-trading operations.

6. DIVIDENDS PAID AND PROPOSED

The Directors intend to consider the declaration of the Company's maiden dividend (in March 2015) based on the full year 2014 results. The dividend policy will be determined based on, and 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. There have been no dividends paid or declared during the Period.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2014

7. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired assets of US$16.6 million (30 June 2013: US$15.0 million), the majority of which related to the continued Phase 1 development at Ghaghoo and costs incurred at Letšeng in connection with the coarse recovery plant upgrade studies and resource extension drilling.

Furthermore, deferred stripping at Letšeng of US$26.8 million (30 June 2013: US$30.6 million) was capitalised.

Borrowing costs of US$0.1 million incurred in respect of the Ghaghoo facility (Refer to Note 12, Interest bearing loans and borrowings) were capitalised to the development asset. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 2.1%.

In addition to the above, foreign exchange movements on translation were US$(4.1) million (30 June 2013: US$(53.5) million).

Depreciation and mining asset amortisation of US$7.9 million (30 June 2013: US$10.1million) was charged to the income statement during the Period.

Amortisation of the deferred stripping asset (waste cost amortisation) of US$24.4 million (30 June 2013: US$9.0 million) was charged to the income statement during the Period. The increase in the amortisation is directly related to the areas that were mined during the Period and their associated waste to ore strip ratios.

8. RECEIVABLES AND OTHER ASSETS

	30 June 2014[1] US$'000	31 December 2013[2] US$'000
Non-current		
Prepayments	**2 646**	-
	2 646	-
Current		
Trade receivables	**99**	1 002
Prepayments	**1 780**	739
Deposits	**447**	230
Other receivables	**327**	134
VAT receivable	**2 863**	4 644
	5 516	6 749

[1] Unaudited

[2] Audited

A total prepayment of US$3.4 million (comprising a non-current portion of US$2.6 million and a current portion of US$0.8 million) has been reallocated from property, plant and equipment. This represents the current value of waste costs to be recovered from the mining contractor over the term of the new contract (8 years from 1 January 2014) as a result of the estimation change in respect of the waste mined out of the surveying review 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$0.5 million and a finance income adjustment of US$0.5 million in the Period.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2014

9. CASH AND SHORT TERM DEPOSITS

	30 June 2014[1] US$'000	31 December 2013[2] US$'000
Cash on hand	**5**	9
Short term bank deposits	**27 567**	48 445
	27 572	48 454
Bank balances	**86 340**	22 724
Cash and short term deposits	**113 912**	71 178

[1] Unaudited
[2] Audited

At 30 June 2014, the Group had restricted cash of US$0.2 million (31 December 2013: US$0.2 million).

Finance income relates to interest earned on cash and short term deposit balances and the impact of raising the non-current prepayment at fair value (Refer to Note 8, Receivables and other assets). The interest earned has increased due to the increased cash generation during the Period.

Finance costs include interest incurred on bank overdraft and borrowings, provision for interest on potential tax liabilities which are under dispute and the unwinding of rehabilitation provisions.

10. ISSUED CAPITAL AND RESERVES

	30 June 2014[1]		31 December 2013[2]	
	Number of shares '000	**US$'000**	Number of shares '000	US$'000
Authorised – ordinary shares of US$0.01 each				
As at Period/year end	**200 000**	**2 000**	200 000	2 000
Issued and fully paid				
Balance at beginning of Period/year	**138 270**	**1 383**	138 267	1 383
Allotments during the Period/year	**-**	**-**	3	-
Balance at end of Period/year	**138 270**	**1 383**	138 270	1 383

[1] Unaudited
[2] Audited

11. SHARE-BASED PAYMENTS

There were two options granted during the current Period:

Employee Share Option Plan for March 2014 Long-term Incentive Plan (LTIP)

In March 2014, 625 000 Nil-cost options were granted to certain key employees under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options which vest over a three year period in tranches of a third of the award each year are exercisable between 19 March 2017 and 18 March 2024. If the performance or service conditions are not met, the options lapse. As the performance conditions are non-market based they 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 £1.74 (US$2.87).

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2014

11. SHARE-BASED PAYMENTS (continued)

Employee Share Option Plan for June 2014 (LTIP)

In June 2014, 609 000 Nil-cost options were granted to the Executive Directors under the 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. Of the 609 000 Nil-cost options, 152 250 relates to market conditions with the remaining 456 750 relating to non-market conditions. The options which vest are exercisable between 10 June 2017 and 9 June 2024. 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. At each financial year end the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required. The fair value of the Nil-cost options relating to non-market conditions is £1.61 (US$2.70). 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.

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

	LTIP June 2014
Employee Share-Option Plan	
Dividend yield (%)	**–**
Expected volatility (%)	**37.25**
Risk-free interest rate (%)	**1.94**
Expected life of option (years)	**3.00**
Weighted average share price (US$)	**2.70**
Fair value of Nil-cost Options (US$)	**1.83**
Model used	**Monte Carlo**

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

	30 June 2014[1] US$'000	30 June 2013[1] US$'000
Equity-settled share based payment transactions – charged to the income statement	**834**	1 385
Reversal of previous expense due to forfeiture – charged to the income statement	**-**	(1 165)
	834	220
Equity-settled share based payment transactions – capitalised	**152**	128
	986	348

[1] Unaudited

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2014

12. INTEREST BEARING LOANS AND BORROWINGS

	30 June 2014[1] US$'000	31 December 2013[2] US$'000
Interest-bearing loans and borrowings	**15 927**	-

[1] Unaudited

[2] Audited

The interest bearing loans and borrowings, disclosed under current liabilities, relates to amounts draw down on the US$25.0 million nine-month unsecured facility with Nedbank Capital for the completion of the Ghaghoo Phase 1 development expenditure. This facility expires in October 2014 and is due to be refinanced through a longer-term debt facility prior to its expiry. At Period end US$16.0 million had been drawn down against this facility, resulting in US$9.0 million being available at Period end. The amount disclosed is reflected net of the unamortised portion of the initial structuring fee.

In addition, at 30 June 2014, the Group has the following available facilities which remain unchanged from that disclosed in the 2013 Annual Report:

- US$20.0 million three-year unsecured revolving credit facility with Nedbank Capital which is due for renewal in January 2016. No amounts have been drawn down during the Period.
- Through its subsidiary Letšeng Diamonds, a LSL250.0 million (US$23.5 million) three-year revolving working capital facility with Standard Lesotho bank which is due for renewal in November 2014. No amounts have been drawn down during the Period.

The Group entered into the following new facility during the Period:

- Through its subsidiary Letšeng Diamonds, a LSL140.0 million (US$13.2 million) three-year unsecured Project debt facility jointly with Standard Lesotho Bank and Nedbank was concluded on 26 June 2014 for the total funding of the coarse recovery plant. The facility bears interest at the South African three-month Johannesburg Interbank Agreed Rate (JIBAR) plus 4.95%. No amounts have been drawn down during the Period.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2014

13. CASHFLOW NOTES

13.1 Cash generated by operations

	30 June 2014[1] US$'000	30 June 2013[1] US$'000
Profit before tax for the Period from continuing operations	**54 846**	23 230
Adjustments for:		
Depreciation and amortisation on property, plant and equipment	**7 851**	9 223
Waste amortisation	**24 386**	9 894
Reversal of impairment of assets	**-**	(99)
Finance income	**(1 493)**	(584)
Finance costs	**1 595**	1 189
Movement in provisions	**-**	(964)
Mark to market revaluations*	**-**	4 502
Unrealised foreign exchange differences	**(3 426)**	(422)
Profit on disposal of property, plant and equipment	**(20)**	(704)
Movements in prepayments	**78**	65
Other non-cash movements	**1 438**	117
Share-based equity transaction	**834**	220
	86 089	45 667

*This relates to the revaluation of the mark to market forward exchange contract in the previous Period. There were no forward exchange contracts entered into during the current Period.

13.2 Working capital adjustments

	30 June 2014[1] US$'000	30 June 2013[1] US$'000
Decrease in inventories	**1 195**	739
Decrease/(increase) in receivables	**2 862**	(1 684)
Increase/(decrease) in trade and other payables	**1 886**	(4 440)
	5 943	(5 385)

[1] Unaudited

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2014

14. COMMITMENTS AND CONTINGENCIES

The Board has approved capital projects of US$40.5 million (31 December 2013: US$43.9million) in respect of the continued development of Ghaghoo and the various projects at Letšeng of which US$19.2 million (31 December 2013: US$3.9million) has been contracted.

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 approximating US$3.6 million (31 December 2013: US$3.6 million) and tax claims within the various jurisdictions in which the Group operates approximating US$1.3 million (31 December 2013: US$1.2 million).

15. 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 8, Receivables and other assets which do not meet the criteria of a financial asset. These prepayments are carried at amortised cost.

	30 June 2014[1] US$'000	31 December 2013[2] US$'000
Financial assets		
Cash (net of overdraft)	**113 912**	71 178
Receivables	**4 711**	6 749
Other assets	**34**	41
Financial liabilities		
Interest bearing loans and borrowings	**15 927**	-
Trade and other payables	**42 525**	38 195

[1] Unaudited

[2] Audited

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

Other risk management activities

The Group is exposed to foreign currency risk on future sales of diamonds at Letšeng Diamonds. 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 forward exchange contracts due to the strong US dollar being favourable to the Group's revenue.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2014

16. 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
Geneva Management Group (UK) Limited	Common director

	30 June 2014[1] US$'000	30 June 2013[1] US$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	**687**	403
Short-term employee benefits	**2 762**	4065
	3 449	4468
Fees paid to related parties		
Jemax Aviation (Proprietary) Limited	**(37)**	(43)
Jemax Management (Proprietary) Limited	**(51)**	(51)
Royalties paid to related parties		
Government of Lesotho	**(12 171)**	(6 562)
Lease and licence payments to related parties		
Government of Lesotho	**(116)**	(49)
Sales to/(purchases) from related parties		
Jemax Aviation (Proprietary) Limited	**41**	100
Jemax Management (Proprietary) Limited	**(6)**	-
Geneva Management Group (UK) Limited	**-**	(3)
Amount included in trade receivables owing by/(to) related parties		
Jemax Aviation (Proprietary) Limited	**9**	7
Jemax Management (Proprietary) Limited	**(9)**	(16)
Amounts owing by/(to) related party		
Government of Lesotho	**(4 420)**	(1 690)
Dividends paid		
Government of Lesotho	**(10 754)**	-

[1] Unaudited

17. 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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