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Gem Diamonds Limited
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GEM DIAMONDS LIMITED
Trading update for Q4 2015

Gem Diamonds Limited (LSE: GEMD) ("**Gem Diamonds**" or the "**Company**" or the "**Group**") is pleased to provide the following Trading Update detailing the Group's operational and sales performance for the Period 1 October 2015 to 31 December 2015 ("**Q4 2015**") or (**the "Period**").

Letšeng:

Strong end to the year with full year production above guidance. Prices remain robust.

- Produced 29 100 carats in Q4 2015 taking full year production to 108 579 carats.
- Achieved planned waste tonnes and increased Satellite Pipe ore contribution.
- Average price of US$ 2 117* per carat achieved in Q4 2015.
- 9 rough diamonds achieved a value of greater than US$ 1.0 million each.
- A total of three diamonds of greater than 100 carats each sold in the Period.
- Zero Lost Time Injuries (LTIs) for the Period, resulting in a LTI free 2015 and a total of 430 consecutive LTI free days.

*Includes carats extracted at rough value for polishing.

Ghaghoo:

Grade remains higher than Reserve. Production slowdown planned.

- Phase 1 objectives achieved:
    - Treatment target of 2 000 tonnes per day achieved on 21 January 2016 after surge bin commissioned.
    - Operating costs trend below US$ 50 per tonne.
    - Average recovered grade of 28.6cpht (compared to the average reserve grade of 27.8cpht).
- Water fissure on Level 1 and the intersection in the ramp on Level 2 sealed.
- 95 diamonds greater than 4.8 carats each were recovered during the Period, including 9 diamonds larger than 10.8 carats, with the largest being a 34.1 carat diamond.
- 24 294 carats recovered during the Period.
- Third parcel sold in December achieving an average price of US$ 150 per carat in weaker market conditions, bringing the total average US$ per carat achieved for 2015 to US$ 162 per carat.
- Zero LTIs for the Period, resulting in an LTI free 2015 and a total of 418 consecutive LTI free days.
- Production slowdown to reduce cash outflow during current market conditions.

Financial:

Strong Balance Sheet maintained despite difficult market conditions. Dividend on track.

- The Group ended the year with US$ 85.7 million cash on hand, of which US$ 71.7 million is attributable to Gem Diamonds.
- The Group has drawn down US$ 30.4 million of its available facilities, resulting in a net cash position of US$ 55.3 million.
- During the Period, Letšeng paid dividends of US$ 19.0 million, which resulted in a net cash flow of US$ 12.0 million to Gem Diamonds and a cash outflow from the Group of US$ 7.0 million as a result of withholding taxes and payment of the Government of

Lesotho's dividend portion.

- A total of US$ 39.2 million was paid by Letšeng in 2015, resulting in a total dividend cash inflow to the Company for the year of US$ 24.7 million.
- Dividend payment for FY 2015 remains on track.

Gem Diamonds' CEO, Clifford Elphick commented:

"It is pleasing to see that the prices achieved for Letšeng' s diamonds during the fourth quarter have remained robust despite the challenging market conditions experienced throughout this Period. The large high quality diamonds, for which Letšeng is renowned, have contributed to a Q4 2015 average price of US$ 2 117 per carat which results in an average price for FY 2015 some 9% lower than FY 2014.

We continued to experience difficult underground conditions at Ghaghoo, but I am pleased to report that, following the commissioning of the surge bin on 21 January 2016, the Phase 1 planned treatment run rate of 2 000 tonnes per day was achieved. A sale of 49 120 carats achieved revenues of US$ 7.4 million at an average price of US$ 150 per carat, down from US$ 210 and US$ 165 per carat in the previous two sales held in February and July respectively. The fall in prices achieved has impacted the planned pace of the ramp up at Ghaghoo. Ghaghoo remains an important future option for the Group, however in the short term it is considered prudent to downsize the operation to minimise cash consumed by the development of this asset. Options are being assessed to expand the operation in order to achieve acceptable financial returns, as and when the diamond prices improve.

The Company has again continued to demonstrate it's ability to generate cash flows at Group level even in difficult market conditions. The company paid a maiden dividend during 2015, and is on track to recommend payment of a dividend for the 2015 financial year."

1. Diamond Market

The diamond market remained weak during the Period as it had done for much of 2015. The slowdown in Chinese retail demand, liquidity constraints and high polished inventory levels, particularly in the manufacturing sector, together with a strong US dollar contributed to a cautious approach being adopted in both the manufacturing and retail sectors. Although these challenging market conditions continued impacting the price achieved for the Ghaghoo production, the prices achieved for the large, high value rough production from Letšeng remained comparatively firm during the Period, achieving an average of US$2 117* per carat.

Initial data from the 2015 holiday season retail sales in the United States has been positive and the general sentiment in the diamond market going into 2016 has improved. The reduction in the supply of rough diamonds from the major producers, together with the reduction of prices seen in 2015 (and more recently at the first De Beers sight of 2016) and concerted consumer marketing efforts have helped to improve sentiment. Gem Diamonds' first Letšeng tender of 2016, currently underway in Antwerp, has been well attended and sentiment is upbeat.

2. Letšeng

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

2.1 Production

	Q4 2015	Q3 2015	QoQ % Change	Full year 2015	Full year 2014	YoY % Change
Waste stripped (tonnes)	6 401 631	6 244 432	3%	24 010 847	19 884 725	21%
Ore treated (tonnes)	1 810 935	1 758 295	3%	6 679 581	6 421 704	4%
Carats recovered	29 100	29 460	-1%	108 579	108 569	-
Grade recovered (cpht)	1.61	1.68	-4%	1.63	1.69	-4%

During the Period, 6.4 million tonnes of waste were mined bringing the total for the year to 24.0 million tonnes. This is in line with the revised life of mine plan which allows for increased levels of higher grade ore from the higher value Satellite Pipe to be mined annually.

Letšeng's Plants 1 and 2 treated a total of 1.53 million tonnes of ore during the Period, of which 79% was sourced from the Main Pipe and 21% from the Satellite Pipe. This brought the total of ore treated through Letšeng's plants to 5.6 million tonnes for the year. The balance of the ore (0.28 million tonnes) for the Period was treated through the Alluvial Ventures Plant, bringing the total tonnes treated by this contractor to 1.1 million tonnes. The higher production levels achieved, particularly in Q4 2015, results from the Plant 2 Phase 1 upgrade which was implemented at the beginning of the year.

As a result of the positive progress made in the Satellite Pipe waste stripping, the year to date contribution of ore from the Satellite Pipe was 1.90 million tonnes against the forecast of 1.80 million tonnes.

2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

	Q4 2015*	Q3 2015*	QoQ % Change	Full year 2015	Full year 2014	YoY % Change
Carats sold	30 357	25 460	19%	102 778	108 963	-6%
Total value (US$ millions)	64.3	65.6**	-2%	236.3	276.8	-15%
Achieved US$/ct	2 117*	2 578**	-18%	2 299	2 540	-9%

*Includes carats extracted at rough value for polishing.
** Includes the sale of an exceptional 357 carat white diamond in September 2015 for US$19.3 million.

Two Letšeng tenders were held in the Period, achieving an average price of US$ 2 117* per carat (Q4 2014 - US$ 2 140), bringing the 12 month rolling average at 31 December 2015 to US$ 2 299* per carat.

66 carats were extracted for own manufacturing during the Period at a rough value of US$ 0.6 million.

For the full year, 336 carats were extracted for manufacturing at a rough value of US$ 4.6 million. US$ 6.2 million (at rough value) remained in polished inventory at the end of the year, compared to US$ 15.0 million at the end of 2014. The net impact of this polished inventory movement on the overall Group revenue in 2015 is an increase of US$ 8.8 million.

2.3 Costs

Letšeng has managed to maintain its costs within expected targets. Costs are in line with the full year 2015 guidance and are expected to be approximately in line with the figures below:

Direct cash costs (before waste) per tonne treated: Maloti 146
Operating costs per tonne treated[1]: Maloti 212
Mining waste cash costs per tonne of waste: Maloti 28

[1] Operating costs excludes royalty, selling costs, depreciation and mine amortisation but includes inventory, waste and ore stockpile adjustments.

2.4 Letšeng guidance

	FY 2016
Waste tonnes mined (Mt)	29 - 32
Total ore treated (Mt)	6.8 - 7.0
Satellite ore contribution (Mt)	1.65
Carats recovered (Kct)	107 - 109

Carats sold (Kct)	107 - 110
Direct cash costs (before waste) per tonne treated (Maloti)	145 - 155
Mining waste cash costs per tonne of waste mined (Maloti)	28 - 30
Operating costs per tonne treated (Maloti)	200 - 220
Stay in business capital (US$m)	8 - 10

3. Ghaghoo

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

	Q4 2015	Q3 2015	Full Year 2015
Ore treated (tonnes)	85 046	109 751	326 922
Carats recovered	24 294	31 923	91 499
Grade recovered (cpht)	28.6	29.1	28.0

During the Period, Ghaghoo treated 85 046 tonnes and recovered 24 294 carats achieving a recovered grade of 28.6cpht, above the Reserve grade. The majority of the ore treated during the Period was sourced from tunnels one to five on Level 1. During the Period, 503 metres of tunnelling was completed with development well advanced in the next series of tunnels on Level 1.

Following the sealing-off of the water fissure on Level 1, the planned intersection on the decline to Level 2 has also been sealed.

As part of the treatment plant optimisation, a 100 tonne per hour surge bin, positioned ahead of the Autogenous Mill to enhance the Mill's performance, was commissioned on 21 January 2016. Post commissioning, the plant achieved its targeted treatment rate of 2 000 tonnes per day, confirming the plant's ability to run at its nameplate capacity of 60 000 tonnes per month.

A parcel of 49 120 carats was sold for US$ 7.4 million in December 2015 (US$ 150 per carat), bringing the total average US$ per carat achieved for the year to US$ 162 per carat.

Based on the prices achieved in the December 2015 sale, and the currently depressed state of the rough diamond market for Ghaghoo's production, various options have been reviewed with the aim of minimising operating losses during 2016. It is considered prudent to downsize current production to achieve a modified target of approximately 300 000 tonnes for 2016.

Underground mining conditions experienced during the development phase at Ghaghoo have continued to be difficult. At the end of November 2015, caving at the end of tunnels 2 and 3 propagated through to surface. Although this was anticipated to occur as the volume of ore extracted underground increased, it occurred some 6 months earlier than expected. Due to the safety procedures in place, no injuries were sustained nor was there any damage to equipment, and operations at the mine continued. Actions required to create a buffer zone to limit sand dilution were put in place, and underground mining was then resumed. It has now become apparent that the area subject to dilution risk is greater than originally advised and the buffer zone has been increased following reassessment by management, and confirmed by independent experts. This will result in the deferment of extraction of approximately 300 000 tonnes of ore.

Reverting back to the original Phase 1 production levels of 60 000 tonnes per month, or expanding beyond that production level, will be largely dependent upon an improvement in the diamond pricing environment. Options are being assessed to expand the operation in order to achieve acceptable financial returns, as and when diamond prices improve.

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

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

During 2015, the Group remained LTI free. This is the second time in its history that the Group achieved this outstanding record. The Group extended its current LTI free period to over 418 days as at the end of the Period. For 2015, the Group All Injury Frequency Rate was 2.75.

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

Zero major or significant environmental incidents have occurred across the Group for the year.

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About Gem Diamonds:

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

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

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