GEM DIAMONDS LIMITED
H1 2015 Trading update

Gem Diamonds Limited (LSE: GEMD) is pleased to provide a Trading Update detailing the Company’s operational and sales performance for the period 1 January 2015 to 30 June 2015 (H1 2015) (the Period), ahead of its Half Yearly results which will be released on 19 August 2015.

Letšeng:

Successful delivery of projects and solid operational performance; prices achieved for high value diamonds remain firm despite difficult market conditions
- Average price of US$ 2 264 per carat was achieved in H1 2015 (US$ 2 338 per carat in H2 2014)
- 13 rough diamonds achieved a value of greater than US$ 1.0 million each
- In addition to the 314 carat Type IIa white diamond previously reported, another outstanding quality 357 carat Type IIa white diamond was recovered and is expected to be sold in Q3 2015
- Further four diamonds of over 100 carats each were sold in the Period, including a top quality 108 carat Type IIa rough diamond which sold for US$ 65 226 per carat
- The Plant 2 Phase 1 upgrade and the Coarse Recovery Plant construction were successfully completed on time and within budget. On the first day of its operation, the new XRT unit recovered a high quality 52 carat Type IIa diamond

Ghaghoo:

Recovered grade in latter part of H1 2015 was above reserve grade; recovery of larger diamonds beginning to fill gaps in size frequency distribution model
- Recovered grade fluctuated between 28 and 30 cpht in the last two months of H1 2015 (compared to the reserve grade of 27.8 cpht)
- Small size blue and pink coloured diamonds recovered; confirming presence of these valuable diamonds in the ore body
- 5 stoping tunnels opened providing increased ore availability
- A 48 carat diamond was recovered in July 2015 with an increasing number of diamonds in the 10 to 30 carat size range being recovered, albeit still below modelled frequencies
- A second parcel of 29 891 carats of commissioning phase production sold for US$ 4.9 million in July 2015 (US$ 165 per carat) in a difficult market

Financial:
- The Group had US$ 83.8 million cash on hand as at 30 June 2015, of which US$ 70.5 million is attributable to Gem Diamonds
- The Group has drawn down US$ 34.2 million of its available facilities, resulting in a net cash position of US$ 49.6 million
- A maiden annual dividend of 5 US cents per share (US$ 6.9 million) was paid on 9 June 2015
Gem Diamonds’ CEO, Clifford Elphick, commented:

“The recovery of large high quality diamonds continues to define the Letšeng mine and it is pleasing to see that prices for these goods have remained firm despite the current difficult diamond market conditions. The Plant 2 Phase 1 upgrade was completed on time and within budget and will achieve its increased head feed target of an additional 250 000 tonnes on an annualised basis. In addition, the construction of the Coarse Recovery Plant is complete, and during commissioning, the first diamonds from run of mine ore were recovered.

The development of the Ghaghoo mine is progressing slower than planned due to difficult ground conditions which have hampered slot development in the first five production tunnels and constrained production ramp-up. Specialist expertise has been employed to ensure there is no further major ingress of water as the access decline and rim tunnel on Level 1 both begin advancing through the water fissure area in order to gain access to the second production section. A second parcel of Ghaghoo commissioning goods was sold in July for US$ 4.9 million (US$ 165 per carat) in a difficult market. Encouragingly, a number of larger diamonds and small coloured diamonds have also been recovered during the Period.”

1. Diamond Market

In H1 2015 the overall diamond market experienced high inventory levels and continued liquidity concerns. This, combined with global macro-economic uncertainties, has continued to place pressure on both rough and polished diamond prices. Letšeng’s high value large production has remained resilient through the Period, however, the current market conditions have had a negative effect on the pricing achieved for the more commercial Ghaghoo production.

2. Lesotho

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

<table>
<thead>
<tr>
<th></th>
<th>Q1 2015</th>
<th>Q2 2015</th>
<th>H1 2015</th>
<th>H2 2014</th>
<th>HoH Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste stripped (tonnes)</td>
<td>5 299 922</td>
<td>6 064 862</td>
<td>11 364 784</td>
<td>9 863 293</td>
<td>15%</td>
</tr>
<tr>
<td>Ore treated (tonnes)</td>
<td>1 427 656</td>
<td>1 682 695</td>
<td>3 110 351</td>
<td>3 192 613</td>
<td>-3%</td>
</tr>
<tr>
<td>Carats recovered</td>
<td>22 472</td>
<td>27 547</td>
<td>50 019</td>
<td>53 890</td>
<td>-7%</td>
</tr>
<tr>
<td>Grade recovered (cpht)</td>
<td>1.57</td>
<td>1.64</td>
<td>1.61</td>
<td>1.69</td>
<td>-5%</td>
</tr>
</tbody>
</table>

During the Period, 11.4 million tonnes of waste was mined, up 15% compared with H2 2014. This is in line with the revised mine plan (published in March 2015), which will allow increased levels of higher grade ore from the Satellite pipe to be mined annually.

As previously reported, the Plant 2 Phase 1 upgrade was completed on schedule and within the budget of M50 million (US$ 4.2 million), with the shutdown for the changeover completed within 19 days. The shutdown of Plant 2 limited the production days available during February and March and this is reflected in the lower production figures reported for Q1 2015.
Following the upgrade, Plant 2 is operating well and is on track to achieve its increased head feed target of an additional 250 000 tonnes on an annualised basis. Letšeng is expected to deliver against the new mine plan and guidance as updated on 17 March 2015 remains unchanged.

Letšeng’s Plants 1 and 2 treated a total of 2.6 million tonnes of ore during the Period, 67% of which was sourced from the Main pipe and 33% from the Satellite pipe. The balance of the ore (0.5 million tonnes) was treated through the Alluvial Ventures contractor plant, 80% of which was sourced from the Main pipe and 20% from stockpiles. Total treated tonnes were down 3% against H2 2014 due to the aforementioned shutdown. For the Period, the grade was down 5% against H2 2014 due to more Satellite pipe higher grade ore having been treated in H2 2014.

Although the power supply situation within South Africa and neighbouring states continues to be unreliable, with frequent and numerous power outages, the impact upon operations at Letšeng has been minimal due to the additional on-site back-up power generating capacity installed in 2014.

2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

<table>
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<tr>
<th></th>
<th>H1 2015</th>
<th>H2 2014</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carats sold</td>
<td>46 961</td>
<td>55 164</td>
<td>-15%</td>
</tr>
<tr>
<td>Total value (US$ millions)</td>
<td>106.3</td>
<td>129.0</td>
<td>-18%</td>
</tr>
<tr>
<td>Achieved US$/ct</td>
<td>2 264</td>
<td>2 338</td>
<td>-3%</td>
</tr>
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As previously reported, a strategic revision to the number, composition and timing of the Letšeng tenders was made, with eight tenders now being held during the year (instead of 10). During the Period, Letšeng held four tenders, achieving an average price of US$ 2 264* per carat (compared to US$ 2 338* per carat in H2 2014). This brings the 12 month rolling average to US$ 2 304* per carat.

Letšeng’s small commercial production from the second and third exports, which had been held over for sale in June 2015, achieved US$ 7.7 million (compared to the estimated value of US$ 7.3 million which was reported in the Sales and Operational Update on 21 May 2015).

In H1 2015, 237 carats were extracted for manufacturing at a rough value of US$ 3.0 million. US$ 6.9 million (at rough value) remained in polished inventory at the end of the Period.

* Includes carats extracted at rough valuation for polishing.

2.3 Projects

The construction of the Coarse Recovery Plant was completed on schedule and within the budget of M140 million (US$ 11.7 million) by the end of Q2 2015. Commissioning continues and the first diamonds have been recovered from run of mine ore.
3. Botswana

Gem Diamonds’ wholly-owned subsidiary, Gem Diamonds Botswana, is currently developing the Ghaghoo mine (Ghaghoo) in Botswana.

During the Period, 132,125 tonnes of ore were treated, sourced mainly from Level 0, whilst work continued in establishing the production section on the first production level (Level 1) and ramping up to steady state production. Extraction of ore from Level 0 was completed in early June and since then all ore has been sourced from Level 1.

Five tunnels on Level 1 have now been fully developed to the northern orebody-country rock contact, with development having commenced on the next two tunnels. Slot development and opening has progressed steadily, albeit slower than anticipated due to localised difficult ground conditions, but has now been completed from Tunnel 1 to Tunnel 5 which will allow the retreat of the production faces back along these tunnels. The slower than anticipated progress in the slot opening has constrained the production ramp-up.

Development of the decline down to the Level 2 production level progressed to a point, but then was halted just short of the same main water fissure that was intersected on Level 1. Both the decline and the rim tunnel on Level 1 need to advance through the fissure in order for development to continue in order to allow access to the second production section. Specialists have been deployed to ensure that the fissure is fully sealed prior to the tunnels advancing, and work is progressing slowly and carefully in order to avoid any further major ingress of water.

As the tonnage of ore from underground increases, the processing plant will continue to ramp up to the name plate capacity of 60,000 tonnes per month. In both May and June, over 32,000 tonnes of ore per month were treated, with recovered grades in excess of the modelled reserve grade of 27cpht being consistently achieved, resulting in a total recovery of 35,283 carats for the Period. Optimisation of processing and recovery efficiencies within the plant is on-going.

With the increasing tonnage being treated and the plant running more consistently, it has been encouraging to see the gaps in the larger sizes of the size frequency distribution starting to be filled. During the Period, eight diamonds larger than 10.8 carats were recovered, including a 41 carat and a 35 carat diamond. In July a 48 carat diamond was recovered, the largest diamond recovered at Ghaghoo to date. Importantly, a number of fancy colour diamonds, ranging from Blues, Pinks, Orange, Lilacs and Yellows, although predominantly in the smaller sieve sizes, were also recovered during the Period.

The second sale of Ghaghoo commissioning production took place in July, achieving a total value of US$ 4.9 million (US$ 165 per carat). Although this was below the average price achieved for the first sale of US$ 210 per carat (total value of US$ 2.1 million) during the Period, the production was not comparable from a quality perspective and this, together with a declining market for these goods, had a negative effect on the price achieved.

It is anticipated that the next Ghaghoo sale will take place before the end of the year and will include a higher proportion of diamonds from the main body of the VKSE phase of the kimberlite ore.

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

For the Period, no lost time injuries were recorded, resulting in a Group-wide Lost Time Injury Frequency Rate (LTIFR) of 0.00 and the Group All Injury Frequency Rate (AIFR) was 3.26.

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

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

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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. Since Gem Diamonds’ acquisition of Letšeng in 2006, the mine has produced four of the twenty largest white gem quality diamonds ever 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.

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