Interim Business Review

The first half of 2017 (the Period), saw an improvement in the recovery of large diamonds at the Letšeng mine with four diamonds greater than 100 carats being recovered during the Period. The demand for Letšeng's high-value diamonds remained firm, achieving an average price of US$1 779* per carat during the Period. This average price is 20% higher than that achieved for the prior six-month period (H2 2016) of US$1 480*.

Letšeng successfully implemented an updated Life of Mine plan during the Period which is designed to reduce waste mined and improve near term cash flows. Mining progressed well during the Period and is in line with this mine plan. During the Period, construction of the relocated mining complex, which is financed through bank funding, commenced. Construction progressed well and is expected to be completed in early 2018, on time and on budget. Following the disbandment of the Lesotho Parliament in early 2017, peaceful elections were concluded in June when a new government was elected. Initial engagement with the new government has commenced positively with the aim of developing effective relationships.

In February 2017, the Board decided to place the Ghaghoo mine on care and maintenance to preserve the value of the asset while continuing to monitor viable options for the mine. This decision was based on the decrease in the prices achieved for its diamonds from US$ 210 per carat in early 2015 to US$ 142 per carat at its sale in December 2016, reflecting the weak state of the diamond market for this category of diamonds. The care and maintenance status was successfully achieved during the Period, in line with management's objective to maintain the asset as a going concern. The planned annual care and maintenance cost of US$3.0 million is expected to be achieved in H2 2017.

As part of the Group's cash preservation focus, a Group-wide cost efficiency and bench-marking review has commenced and has already identified opportunities that are being actively pursued.

The Group ended the Period with a cash balance of US$20.0 million which included utilised facilities of US$34.2 million, resulting in a net debt position of US$14.2 million and unutilised facilities of US$36.2 million. Subsequent to Period end, the Group successfully restructured its existing US$35.0 million Revolving Credit Facility at the corporate office into a new US$45.0 million facility with a tenure of 3.5 years, thereby increasing the current available facilities to US$45.1 million.

During the Period, Roger Davis stepped down as Chairman of the Group and was succeeded by Harry Kenyon-Slaney who was appointed to as Chairman to the Board on 6 June 2017. Harry's wide-ranging experience, knowledge and contacts in the diamond mining industry are perfectly suited to lead Gem Diamonds forward. During the Period, the Letšeng Chief Executive Officer, Ms. Mazvi Maharasoa, retired from the organisation after 10 years of diligent service. As part of the restructuring following her retirement, a new Chief Operating Officer, Jeremy Taylor, has been appointed. Jeremy brings to Letšeng a wealth of experience that will drive Letšeng's focus on improving operational excellence.

Diamond market

The global market for both rough and polished diamonds remained cautious. Financing challenges persist and the volatile macro-economic environment continues to create challenges for the middle diamond market. In the medium to long term, rough diamond prices are expected to be supported by favourable demand/supply fundamentals, which are underpinned by a continued growth in demand from emerging markets coupled with a limited growth in supply.

Against this background, Letšeng's large, high quality goods continued to perform well, as demonstrated by the price achieved for an exceptional high-value 8.65 carat pink diamond which was sold for US$164 855 per carat, the sixth highest single diamond per carat value achieved at Letšeng. In addition, one of the large high value white diamonds achieved the highest price per carat for a Letšeng white diamond since February 2016. A moderate increase was also seen in the prices achieved for certain categories of the smaller goods.

Health, safety, corporate social responsibility and environment (HSSE)

The Group remains committed to its goal of zero harm to its people and the environment and strives to achieve its operational goals within its sustainable development framework. The Group reports a fatality and lost time injury (LTI) free Period, resulting in a Group-wide lost time injury frequency rate (LTIFR) of 0.00. The Group-wide all injury frequency rate (AIFR) is 1.69 for the Period. No major or significant environmental or stakeholder incidents were reported over the Period and the Group continues to work closely with project affected communities to implement sustainable community projects.

* Includes carats extracted for manufacturing at rough valuation

Operating review: Letšeng

Sustainability overview

- Zero LTI's
- LTIFR 0.00
- AIFR 1.67
- Zero major or significant stakeholder and environmental incidents

Operational overview

- Waste tonnes mined of 15.0 million (15.3 million tonnes in H1 2016)
- Ore treated of 3.2 million (3.3 million tonnes in H1 2016)
- Carats recovered of 50 478 (57 380 carats in H1 2016)
- Grade recovered of 1.59cpht (1.72cpht in H1 2016)
- Rough tender revenue of US$88.8 million* (US$106.2 million* in H1 2016)
- Average price of US$ 1 779* per carat achieved (US$1 899* per carat in H1 2016)
- Recovered four diamonds greater than 100 carats

** Includes carats extracted for manufacturing at rough valuation*

Operational performance

	H1 2017	H1 2016
Waste mined (tonnes)	15 004 160	15 287 897
Ore treated (tonnes)	3 178 631	3 336 300
Carats recovered	50 478	57 380
Grade recovered (cpht)	1.59	1.72
Carats sold	49 930	55 948
Average price per carat (US$)*	1 779	1 899

** Includes carats extracted for manufacturing at rough valuation*

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. The Letšeng mine, famous for its exceptional top-quality diamonds and having the highest proportion of large, high-value diamonds, is the highest average dollar per carat kimberlite diamond mine in the world.

Letšeng started mining in line with its updated mine plan during the Period with the aim to reduce and smooth the waste profile over the remaining Life of Mine. This plan had a material positive impact on the maximum annual volumes of waste stripping, improving near term cash flows. The deferral of waste resulted in a reduction of mining cash costs amounting to LSL100 million (US$7.6 million) for 2017.

Letšeng treated a total of 2.6 million tonnes of ore through its two main plants during the Period, of which 69% was sourced from the Main pipe, and 31% from the Satellite pipe. Alluvial Ventures, who operate a third plant at Letšeng, treated the balance of 0.6 million tonnes in the Period, 71% of which was sourced from the Main pipe and 29% from ore stockpiles. The contract with Alluvial Ventures was extended for a further two years, to the end of 2018.

The lower than planned ore tonnes treated during the Period was due to reduced plant availability and downtime associated with the installation and commissioning of the split front-ends for Plants 1 and 2. The availability issues have largely been addressed by mine management and the processing contractor. A significant amount of time and resources were utilised in addressing these issues and as a consequence, availability of both plants have improved towards the end of the Period.

The project to split the front ends of both plants was completed in March 2017, on time and within budget, resulting in the following benefits:

- Increased ability to set up the individual plants to treat specific material;
- Improved understanding of the performance of each plant depending on the material being treated; and
- Improved understanding of diamond damage related issues, specific to each plant.

During the Period, 50 478 carats were recovered (12% lower than H1 2016), primarily due to lower tonnages treated and lower grades recovered. The recovered grade for the Period was 1.59 carats per hundred tonnes (cpht) against an expected reserve grade of 1.63 cpht. The lower than expected grade was mainly due to the underperformance of the Main pipe contact material and internal changes in the geology of this pipe.

Recovery of large diamonds has improved, with four greater than 100 carat diamonds and two exceptional D-colour Type IIa diamonds of 98.42 and 80.58 carats being recovered during the Period. The table below shows the frequency of large diamonds recovered in the Period compared to prior years.

Frequency of recovery of large diamonds

	2008	2009	2010	2011	2012	2013	2014	2015	2016	H1 2017
Number of diamonds										
>100 carats	7	6	7	6	3	6	9	11	5	4
60-100 carats	18	11	11	22	17	17	21	15	21	8
30-60 carats	96	79	66	66	77	60	74	65	70	34
20-30 carats	108	111	101	121	121	82	123	126	83	50
Total diamonds > 20 carats	**229**	**207**	**185**	**215**	**218**	**165**	**227**	**217**	**179**	**96**

The construction of the relocated mining complex, which is required to make way for the expansion of the open pits, progressed well and the project is currently on schedule and tracking against budget. Bank funding has been secured for this project.

A core drilling programme will be implemented during the second half of the year to improve confidence in the geology at depth, including volume, grade, and revenue inputs of the resource.

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

Diamond sales

Four tenders were completed during H1 2017, with a total of 49 930 carats sold in Antwerp through Gem Diamonds Marketing Services, a wholly owned Gem Diamonds subsidiary. Rough tender revenue of US$88.8 million* with an average price of US$1 779* per carat was achieved, bringing the 12-month rolling US$ per carat average to US$1 625* per carat.

HSSE

No LTI's were recorded at Letšeng during the Period, resulting in an LTIFR of 0.00. The AIFR for the Period was 1.67. Letšeng continues to work towards its goal of zero harm and has implemented various health and safety management initiatives aimed at building on the existing culture of behaviour based care.

Zero significant or major environmental incidents have occurred at the operation during the Period and Letšeng is continuing with its environmental stewardship work through initiatives such as rehabilitation trials, water protection programmes and waste management plans.

Letšeng has continued with the successful implementation of its corporate social investment (CSI) plan with the focus being on small and medium enterprise development and support to projects within the affected communities. These projects include the Botha-Bothe Vegetable Project and the Dairy Project in Mokhotlong.

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

H2 2017 and onwards

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

- engage and build relationships with the newly elected government in Lesotho;
- continue to pursue and implement efficiency and cost reduction initiatives identified;
- continue work streams on enhancing value through reducing diamond damage;
- annual revision of the mining plan to further enhance value; and
- deliver the mining complex on time and on budget.

** Includes carats extracted for manufacturing at rough valuation*

Operating review: Ghaghoo

Sustainability overview

- Zero LTI's
- LTIFR 0.00
- AIFR 2.14
- Zero major or significant stakeholder or environmental incidents

Operational overview

- Operation placed on care and maintenance on 31 March 2017

Gem Diamonds owns 100% of Gem Diamonds Botswana (the Ghaghoo mine) which lies within the Central Kalahari Game Reserve. The mine was officially opened in September 2014. Owing to the suppressed diamond market for the size and quality of goods produced by Ghaghoo, the decision to place the operation on care and maintenance was taken in February 2017, with full care and maintenance status being achieved in March 2017. The mine is being maintained in such a way to ensure that when the diamond market recovers, the operation can be brought back into production. The Ghaghoo resource is significant, with over 20 million carats and an in-situ value in excess of US$4 billion.

The operational performance up until the operation was placed on care and maintenance is set out in the table below.

Operational performance

	H1 2017	H1 2016
Development mined (metres)	97	1 168
Ore treated (tonnes)	43 991	95 569
Carats recovered	8 084	20 876
Grade recovered (cpht)	18.4	21.8
Carats sold	–	30 277
Average price per carat (US$)	–	157

During the Period, an earthquake of magnitude 6.5 with an epicentre 25km from the mine, occurred. There was superficial damage to the surface infrastructure, however the earthquake damaged the seal of the underground water fissure. This led to a large influx of water into the underground workings of the mine. This water is successfully being pumped out of the mine and rehabilitation of the seal will be completed in Q3 2017.

A significant amount of work has been done to put the operation on care and maintenance. All contracts have been renegotiated and modified for the new operating environment. The majority of the once off costs relating to retrenchment and the renegotiated contracts to place the operation on care and maintenance have been incurred. Once the water fissure has been sealed, the operation's annual care and maintenance costs will return to the anticipated costs of US$3.0 million per annum.

The Company continues to evaluate the diamond market conditions for the Ghaghoo diamonds. The sale of the final c.13 000 carats on hand will be finalised in Q3 2017.

Operating review: Sales, marketing and manufacturing

Operational overview

- Sales of US$88.8 million* with an average price of US$1 779* per carat achieved for Letšeng's production
- 18 rough diamonds sold for more than US$1.0 million each at a total value of US$37.0 million
- Sales of polished diamonds contributed US$0.7 million of additional margin to the Group

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

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

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

Sales and marketing

Gem Diamonds owns 100% of Gem Diamonds Marketing Services (GDMS) which markets and sells Letšeng's rough diamond production through an electronic tender platform. The tender platform is designed to enhance engagement with customers by allowing continual access, flexibility and communication, as well as ensuring transparency during the tender process. Although viewing of Letšeng's diamonds take place in Antwerp, the electronic tender platform allows customers the flexibility to participate in each tender from anywhere in the world. This flexibility, together with the professional and transparent manner in which the tenders are managed and the reputable customers who participate in the tenders, contribute to the strategy of achieving highest market-driven prices for Letšeng's rough diamond production. A total of 367 clients viewed the diamonds during the four tenders held at the GDMS premises during the Period.

During the first half of 2017, four Letšeng tenders were held with 49 930 carats sold for a total value of US$88.8 million*, achieving an average price of US$1 779* per carat. The highest US$ per carat achieved for a rough diamond was US$164 855 per carat for an 8.65 carat pink diamond that was sold on tender. One of the large high value white diamonds achieved the highest US$ per carat for a white diamond since February 2016.

During the Period, nine diamonds totaling 464.3 carats were sold into partnership arrangements at a total rough value of US$12.5 million. In addition to the rough value, Letšeng will share in the revenue uplift at the time of the sale of the resultant polished diamonds.

Analysis and manufacturing

Rough diamonds selected for own manufacturing are analysed, planned and managed by Baobab Technologies (Baobab), a 100% owned subsidiary of Gem Diamonds. The final polished diamonds are sold by GDMS through direct selling channels to reputable high-end diamantaires.

Baobab analysed 27 of Letšeng's large, exceptional quality rough diamonds during the Period and 42 third-party diamonds.

** Includes carats extracted for manufacturing at rough valuation*

Group financial performance

Results overview

- Revenue US$92.9 million (US$109.1 million in H1 2016)
- Underlying EBITDA[1] US$13.0 million (US$43.5 million in H1 2016)
- Attributable net profit, before exceptional items[2] US$49k (US$13.4 million attributable net profit, before exceptional items[2], in H1 2016)
- Basic earnings per share 0.04 US cents before exceptional items[2] (Basic earnings per share 9.70 US cents before exceptional items[2] in H1 2016)
- Cash on hand US$20.0 million
- After the Ghaghoo once-off costs of US$3.0 million, attributable loss for the Period was US$2.9 million resulting in a loss per share of 2.11 US cents

(US$ million)	H1 2017 Pre-exceptional items	H1 2017 Exceptional Items[1]	H1 2017 Post-exceptional items	H1 2016
Revenue	92.9	–	92.9	109.1
Royalty and selling costs	(8.4)	–	(8.4)	(9.8)
Cost of sales[2]	(66.7)	(3.0)	(69.7)	(48.7)
Corporate expenses	(4.8)	–	(4.8)	(7.1)
Underlying EBITDA[3]	**13.0**	**(3.0)**	**10.0**	**43.5**
Depreciation and mining asset amortisation	(5.9)	–	(5.9)	(5.0)
Share-based payments	(0.8)	–	(0.8)	(0.9)
Other income	0.1	–	0.1	0.1
Foreign exchange gain	1.1	–	1.1	1.9
Net finance costs	(2.2)	–	(2.2)	(0.4)
Impairment[1]	–	–	–	(40.0)
Profit/(loss) before tax	**5.3**	**(3.0)**	**2.3**	**(0.8)**
Income tax expense	(1.7)	–	(1.7)	(15.1)
Profit/(loss) for the Period	**3.6**	**(3.0)**	**0.6**	**(15.9)**
Non-controlling interests	(3.5)	–	(3.5)	(10.7)
Attributable Profit/(loss)	**0.1**	**(3.0)**	**(2.9)**	**(26.6)**
Earnings/(loss) per share (US cents)	0.04	(2.15)	(2.11)	9.70
Loss per share after impairment	–	–	–	(19.23)

1 Exceptional costs relate to once-off costs associated with placing Ghaghoo on care and maintenance during the Period. In 2016 the exceptional items related to an impairment charge to the carrying value of the Ghaghoo development asset

2 Including waste stripping costs amortisation but excluding depreciation and mining asset amortisation

3 Underlying earnings before interest, tax, depreciation and mining asset amortisation (EBITDA) as defined in Note 5 of the condensed notes to the consolidated interim financial statements

During the Period, there was a continued focus on cash generation which was aided by the successful implementation of the updated Life of Mine plan at Letšeng and the decision to place Ghaghoo on care and maintenance. The updated Life of Mine plan had a positive impact on the near term cashflows as a result of optimising the waste profile by reducing the maximum annual volumes of waste stripping. The improved recovery of greater than 100 carat diamonds during the Period (four in H1 2017) was encouraging and aligned with management’s expectation that the variability in the resource would revert back to normalised levels during the year when compared to the previous year. Care and maintenance status at Ghaghoo was achieved during the Period and will result in reduced costs for the operation in the latter half of the year. As part of the Group’s continued focus on cost discipline, a Group-wide efficiency and cost reduction review has commenced and has already identified various opportunities which will be actively pursued.

Revenue

The Group continues with its objective of maximising the value achieved on rough and polished diamond sales. The Group’s revenue during the Period was primarily derived from its mining operations in Lesotho (Letšeng) and to a lesser extent through additional margin generated from its rough diamond manufacturing operation in Belgium. The market for both rough and polished diamonds remained cautious for the first six months of the year. Letšeng’s large high-quality white rough diamonds however continued to be in strong demand and the improvement in the frequency of the recovery of these types of diamonds saw four diamonds greater than 100 carats being recovered during the Period, compared to a total of five for the full 2016 year.

Group revenue of US$92.9 million in the Period was 15% lower than that achieved in H1 2016. Letšeng achieved an average of US$1 779* per carat (US$1 899* per carat in H1 2016) during the Period which was 20% higher than that achieved for the immediately preceding six-month period, H2 2016, of US$1 480*. During the Period, two of the greater than 100 carat diamonds which were recovered, were sold, with the remaining two recovered late in Q2 2017 sold after Period end. In addition to the two greater than 100 carat diamonds sold, exceptional high-value diamonds which contributed to the increased average price achieved (compared to H2 2016), included an 8.65 carat pink diamond which was sold for US$164 855 per carat and two exceptional D-colour Type IIa diamonds of 98.42 and 80.58 carats.

Letšeng revenue

	H1 2017	H1 2016
Carats sold	49 930	55 948
Average price per carat (US$)*	1 779	1 899

** Includes carats extracted for manufacturing at rough valuation*

The Group's manufacturing operation contributed additional revenue of US$3.9 million, comprising US$0.7 million polished margin and US$3.2 million from the effect of recognising Group revenue from the movement in own manufactured closing inventory for the Period. There were no sales of Ghaghoo production in the Period. The final production of c.13 000 carats is anticipated to be sold in Q3 2017.

Group revenue summary

	H1 2017	H1 2016
Sales – rough	88.8	106.2
Sales – polished margin	0.7	1.2
Sales – other	0.2	0.1
Impact of movement in own manufactured inventory	3.2	1.6
Group revenue	**92.9**	**109.1**

Royalties consist of an 8% levy paid to the Lesotho Revenue Authority on the sale of diamonds in Lesotho. Diamond selling and marketing-related expenses are incurred by the Group's sales and marketing operation in Belgium. During the Period, royalties and selling costs decreased by 14% to US$8.4 million, driven by lower sales.

Operations

While revenue is generated in US dollars, the majority of operational expenses are incurred in the relevant local currency in the operational jurisdictions. The Lesotho loti (LSL) (pegged to the South African Rand) and Botswana Pula (BWP) were stronger against the US dollar during the Period (compared to the same period in 2016) which negatively impacted the Group's US dollar reported costs. Group cost of sales for the Period was US$66.7 million, compared to US$48.7 million in H1 2016, the majority of which was incurred at Letšeng.

Exchange rates	**H1 2017**	H1 2016	% change
LSL per US$1.00			
Average exchange rate for the Period	13.21	15.41	(14%)
Period-end exchange rate	13.10	14.65	(11%)
BWP per US$1.00			
Average exchange rate for the Period	10.41	11.13	(6%)
Period-end exchange rate	10.26	10.85	(5%)
US$ per GBP1.00			
Average exchange rate for the Period	1.26	1.43	(12%)
Period-end exchange rate	1.30	1.34	(3%)

Letšeng mining operation

Cost of sales for the year was US$61.7 million, up 33.0% from US$46.4 million in H1 2016, an increase of US$15.3 million of which US$13.7 million represents an increase in waste stripping amortisation costs due to the mining mix. Total waste stripping costs amortised of US$31.7 million were incurred compared to US$18.0 million in H1 2016.

In line with the updated mine plan, 15.0 million tonnes of waste were mined during the Period. Ore tonnes treated of 3.2 million tonnes were 4.7% lower than H1 2016. Of the total ore treated, 2.6 million tonnes were treated through the Letšeng Plants, with a Satellite to Main pipe ratio of 31:69, compared to 34:66 in H1 2016. Carats recovered during the Period of 50 478 were 12.0% lower than H1 2016 driven by the lower tonnes treated.

	H1 2017	H1 2016	% change
US$ (per unit)			
Direct cash cost (before waste) per tonne treated[1]	12.23	9.48	(29%)
Operating cost per tonne treated[2]	19.81	14.26	(39%)
Waste cash cost per waste tonne mined	2.53	1.80	(41%)
Local currency (per unit) LSL			
Direct cash cost (before waste) per tonne treated[1]	161.57	146.15	(11%)
Operating cost per tonne treated[2]	261.63	219.70	(19%)
Waste cash cost per waste tonne mined	33.38	27.80	(20%)

1 Direct cash costs represent all operating costs, excluding royalty and selling costs

2 Operating costs include waste stripping cost amortised, inventory and ore stockpile adjustments, and excludes depreciation

Total direct cash costs (before waste costs) in local currency increased by 5.3% to LSL513.6 million in H1 2017 compared to LSL487.6 million in H1 2016. This resulted in a unit cost per tonne treated of LSL161.57 relative to the prior year of LSL146.15, representing an effective increase of 10.6%. This increase was impacted by local country inflation and longer hauling distances as a result of mining in deeper sections of both pits. The additional increase in the unit costs is due to the lower ore tonnes treated of 4.7% during the Period compared to H1 2016 with no commensurate saving in fixed costs.

Operating costs per tonne treated of LSL261.63 were 19.1% higher than H1 2016’s cost of LSL219.70 per tonne treated. The increase was mainly driven by higher waste amortisation costs during the Period, as a result of the different waste to ore strip ratios for the particular Satellite pipe ore mined. During the year, ore was sourced from a cut within the Satellite pipe with a significantly higher strip ratio compared to H1 2016. The amortisation charge attributable to the Satellite pipe ore accounted for 76% of the total waste stripping amortisation charge in the Period (H1 2016: 64%).

The increase in the local currency waste cash cost per waste tonne mined of 20.1% was impacted by local country inflation costs and longer haul distances for the various waste cut, in line with the new mine plan adopted.

Other operating information

(US$ million)	**H1 2017**	H1 2016
Waste cost capitalised	42.9	31.3
Waste stripping cost amortised	31.7	18.0
Depreciation and mining asset amortisation	5.9	5.0
Capital expenditure	7.2	3.7

Ghaghoo mining operation

With the ongoing difficult market conditions for Ghaghoo’s production and the Company’s focus on profitable production, the decision was made to place the operation on care and maintenance. As a result, all costs for the Period amounting to US$6.1 million have been recognised in the income statement. The majority of these costs related to the operating cost up to the date of care and maintenance of US$2.6 million and once-off costs associated to achieve care and maintenance status of US$3.0 million. These once-off costs mainly relate to retrenchment costs and costs associated with renegotiating and modifying existing contracts under the new care and maintenance environment. These once-off costs have been classified as exceptional items in the income statement, having an overall effect of US Cents 2.15 on earnings per share in the Period. The prior Period exceptional item relates to the US$40.0 million impairment on Ghaghoo’s development asset.

Diamond manufacturing operation

The Group generated additional margin on selected high-value diamonds through its manufacturing facilities and partnership arrangements. The diamond manufacturing operation in Antwerp contributed US$0.7 million to Group revenue (through additional polished margin generated) and US$0.4 million to underlying EBITDA. Extracted diamond inventory on hand at the end of the Period was US$1.2 million compared to US$4.4 million at 31 December 2016, further increasing recognised Group revenue by US$3.2 million.

Corporate office

Corporate costs relate to central costs incurred by the Group through its technical and administrative offices in South Africa and the United Kingdom and are incurred in both South African Rand and British Pound. Corporate costs for the Period amounted to US$4.8 million (H1 2016: US$7.1 million).

The share-based payment charge for the Period amounted to US$0.8 million (H1 2016: US$0.9 million). On 4 July 2017 (post the Period end), 1 335 000 nil-cost options were granted to certain key employees and Executive Directors under the Long-term Incentive Plan of the Company with similar conditions as previous awards granted under this scheme. The charge of the new award will be recognised in the income statement from its grant date.

Underlying EBITDA[1] and attributable profit

Based on the above operating results, the Group generated an Underlying EBITDA[1] of US$13.0 million. The profit attributable to shareholders for the Period was US$49k before exceptional items, equating to an earnings per share of 0.04 US cents on a weighted average number of shares in issue of 138.3 million. After including the effect of the exceptional items of US$3.0 million, the Group's attributable loss was US$2.9 million.

The forecast effective tax rate for the full year is 32.60% and has been applied to the actual results for the Period. This rate is the result of profits generated by Letšeng being taxed at 25.0%, deferred tax assets not recognized on losses incurred in non-trading operations which is partially offset by a reduction in the deferred tax liability on unremitted earnings.

Financial position and funding review

The Group continued its prudent cash management and ended the Period with cash on hand of US$20.0 million (31 December 2016: US$30.8 million) of which US$16.1 million is attributable to Gem Diamonds and US$0.2 million is restricted. At Period end, the Group had utilised facilities of US$34.2 million, resulting in a net debt position of US$14.2 million. Furthermore, standby undrawn facilities of US$36.2 million remain available, comprising US$9.9 million at Gem Diamonds and US$26.3 million (of which US$11.0 million relates to the mining complex project funding) at Letšeng.

The Group generated cash from operating activities (pre-exceptional items) of US$37.1 million (30 June 2016: US$44.5 million) before investment in waste stripping costs at Letšeng of US$42.9 million and capital expenditure of US$8.8 million, incurred mainly at Letšeng.

After placing the Ghaghoo mine on care and maintenance, its US$25.0 million fully accessed facility was settled by utilising the available Gem Diamonds Limited US$35.0 million Revolving Credit Facility (RCF). The Gem Diamonds Limited RCF was subsequently restructured post Period end to increase it from a US$35.0 million to a US$45.0 million facility. This restructured facility consists of two tranches with the first tranche relating to the Ghaghoo US$25.0 million debt whereby quarterly capital repayments have been re-scheduled to commence in September 2018 with final repayment on 31 December 2020. The second tranche of US$20.0 million is a revolving facility and includes an upsize mechanism whereby the available facility of this tranche will increase by a ratio 0.6:1 for every repayment made under the first tranche.

During the Period, construction of the relocated mining complex, which is bank funded, commenced. The loan is an unsecured project debt facility for LSL215.0 million (US$16.4 million) which was signed jointly with Nedbank Limited and the Export Credit Insurance Corporation (ECIC). The loan is repayable in equal quarterly payments commencing in September 2018. At Period end, LSL70.1 million (US$5.4 million) has been drawn down resulting in LSL144.9 million (US$11.0 million) being available.

At Period end US$3.8 million on the LSL250.0 million (US$19.1 million) revolving credit facility at Letšeng was utilised.

During the Period, no dividends were paid by Letšeng.

Outlook

Capital and cash management discipline remains a high priority in the short term and the Company remains committed to generating cash and strengthening its balance sheet.

The various opportunities identified through the efficiency and cost reduction review will be actively pursued.

Options for the Ghaghoo asset will be considered and focus will remain on further optimising the care and maintenance costs.

1 Underlying earnings before interest, tax, depreciation and mining asset amortisation

Risks to our business

The Group is exposed to a number of risks and uncertainties that could have a material impact on its performance and long-term growth. The effective identification, management and mitigation of these risks and uncertainties are a core focus of the Group as they are key to achieving the Company's strategic objectives.

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

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

A reassessment of the principal risks and uncertainties, which have been previously reported in the Business Overview in the 2016 Annual Report, has been performed to take into account the current market and operational conditions. These may impact the Group over the medium to long term; however, the following key risks (in no particular order of priority) may impact the Group over the next six months.

Cash generation (financial risk)

The lack of cash flow generation may negatively affect the Group's ability to effectively operate, fund capital projects and repay debt.

Cash flows which were negatively impacted by lower than expected revenues achieved resulted in additional utilisation of debt facilities. This was due to a lower number of high value diamonds being recovered during the latter part of 2016 and Q1 2017 impacting the overall US$ per carat, and lower plant availability impacting tonnage treated and carats recovered. Although a significant amount of time and resources were utilised in addressing the plant availability issues which have resulted in improvements towards the end of the Period, the possibility of further unplanned maintenance issues could further impact tonnage treated in the short term. In Q2 2017, there has been an improvement in the recoveries of the larger higher value diamonds resulting in an increased overall US$ per carat, positively contributing to cash flows. The Group has the ability to reassess its capital projects and operational strategies. Strict treasury management procedures are in place to monitor cash and capital project expenditure.

In February 2017, the Board made a decision to place the Ghaghoo mine on care and maintenance to preserve the value of the asset and to reduce cash consumed. Although once off costs have been incurred during the Period to bring the operation into care and maintenance status it is expected that the reduction in cash consumption will be realised in H2 2017.

Following the placing of Ghaghoo on care and maintenance, the Company's US$35.0 million short term Revolving Credit Facility (RCF) was utilised to repay the Ghaghoo US$25.0 million long term facility. The Group successfully restructured its short term RCF into a new US$45.0 million facility, deferring debt repayment commitments. Refer to note 14, Interest-bearing loans and borrowings for details of the tenure and structure.

To further improve cash generation, a Group-wide efficiency and cost reduction review has commenced and has already identified opportunities that are being actively pursued.

Currency volatility (financial risk)

The Group receives its revenue in US dollars, while its cost base is incurred in the local currency of the various countries within which the Group operates. The volatility of these currencies trading against the US dollar impacts the Group's profitability and cash. In order to mitigate currency risk, these fluctuations are closely monitored and, when weaknesses in the local currency reach levels where it would be appropriate, the Group enters into exchange rate contracts to protect future cash flows.

Extreme volatility between the Lesotho loti and US dollar has been experienced during the Period, and this is expected to continue into H2 2017.

Rough diamond demand and prices (market risk)

While the medium to long-term fundamentals of the diamond market remain intact, with demand forecast to outpace supply, in the short term the prevailing climate of global economic uncertainty may cause some volatility in rough diamond pricing. The cautious approach adopted by rough and polished diamantaires and manufacturers is expected to continue into the second half of the year. Market conditions are constantly monitored to identify current trends that pose a threat or create an opportunity for the Group. The Group has flexibility in its sales processes.

Mineral resource risks (operational risk)

The Group's mineral resources influence the mine plans. Uncertainty or underperformance of mineral resources could affect the Group's ability to operate profitably. With Letšeng being the world's lowest grade operating kimberlite mine, the risk of resource underperformance is elevated. Various bulk sampling programmes, combined with geological mapping and modelling methods, significantly improve the Group's understanding of and confidence in optimising the mining of its resources.

The short-term volatility in the mineral resource is evidenced by the lower number of high quality diamonds which were recovered in 2016. During the Period, an increase in the recovery of these higher value diamonds contributed to an improved US$ per carat in line with expectations.

A major production interruption (operational risk)

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

Country and political risks (operational risk)

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 can be exposed to a rapidly changing environment. Changes to the political environment and regulatory developments are closely monitored. Where necessary, the Group engages in dialogue with relevant government representatives to remain well informed of all legal and regulatory developments impacting its operations.

Following the disbandment of the Lesotho Parliament in early 2017, peaceful elections were concluded in June 2017 where a new government was elected. Engagement with the new government has commenced positively with the aim of developing effective relationships.

Clifford Elphick
Chief Executive Officer

16 August 2017

Half-yearly financial statements

30 June 2017

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 2016.

The names and functions of the Directors of Gem Diamonds are listed in the Annual Report for the year ended 31 December 2016 and updates have been disclosed in the Interim Business Review on pages 1 to 11.

For and on behalf of the Board

Michael Michael
Chief Financial Officer

16 August 2017

Independent Review Report to the Members of Gem Diamonds Limited

We have been engaged by Gem Diamonds Limited (the Company) to review the condensed consolidated set of financial statements of the Company and its subsidiaries (the Group) in the Half-yearly Report for the six months ended 30 June 2017 which comprises the interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of financial position, interim consolidated statement of changes in equity, interim consolidated statement of cash flows and the related explanatory notes. We have read the other information contained in the Half-yearly Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

The Half-yearly Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-yearly Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority. As disclosed in note 1.2.1 in the 2016 audited annual financial statements, the Annual Financial Statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS). The condensed consolidated set of financial statements included in this Half-yearly Report have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

Our responsibility

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

Scope of review

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

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the Half-yearly Report for the six months ended 30 June 2017 are not prepared, in all material respects, in accordance with International Accounting Standard 34 and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London

16 August 2017

Interim Consolidated Income Statement

for the six months ended 30 June 2017

	Notes	30 June 2017[1] Before exceptional item US$'000	30 June 2017[1] Exceptional item US$'000	30 June 2017[1] Total US$'000	30 June 2016[1] Before exceptional item US$'000	30 June 2016[1] Exceptional item US$'000	30 June 2016[1] Total US$'000
Revenue	3	**92 908**	–	**92 908**	109 140	–	109 140
Cost of sales		**(72 458)**	**(2 971)** [2]	**(75 429)**	(53 649)	–	(53 649)
Gross profit/(loss)		**20 450**	**(2 971)**	**17 479**	55 491	–	55 491
Other operating income		**131**	–	**131**	69	–	69
Royalties and selling costs		**(8 397)**	–	**(8 397)**	(9 782)	–	(9 782)
Corporate expenses		**(4 937)**	–	**(4 937)**	(7 214)	–	(7 214)
Share-based payments	13	**(842)**	–	**(842)**	(914)	–	(914)
Foreign exchange gain		**1 079**	–	**1 079**	1 936	–	1 936
Impairment of asset		–	–	–	–	(40 000) [2]	(40 000)
Operating profit/(loss)	3	**7 484**	**(2 971)**	**4 513**	39 586	(40 000)	(414)
Net finance costs		**(2 218)**	–	**(2 218)**	(422)	–	(422)
Finance income		**285**	–	**285**	972	–	972
Finance costs		**(2 503)**	–	**(2 503)**	(1 394)	–	(1 394)
Profit/(loss) before tax		**5 266**	**(2 971)**	**2 295**	39 164	(40 000)	(836)
Income tax expense	7	**(1 717)**	–	**(1 717)**	(15 052)	–	(15 052)
Profit/(loss)		**3 549**	**(2 971)**	**578**	24 112	(40 000)	(15 888)
Attributable to:							
Equity holders of parent		**49**	**(2 971)**	**(2 922)**	13 417	(40 000)	(26 583)
Non-controlling interests		**3 500**	–	**3 500**	10 965	–	10 965
Earnings/(loss) per share (cents)							
– Basic earnings/(loss) for the Period attributable to ordinary equity holders of the parent		**0.04**	–	**(2.11)**	9.70	–	(19.23)
– Diluted earnings/(loss) for the Period attributable to ordinary equity holders of the parent		**0.04**	–	**(2.11)**	9.70	–	(19.23)

[1] *Unaudited*
[2] *Refer to Note 4, Exceptional items*

Interim Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2017

	30 June 2017[1] US$'000	30 June 2016[1] US$'000
Profit/(loss) for the Period	**578**	(15 888)
Other comprehensive income that could be classified to the income statement in subsequent periods		
Exchange differences on translation of foreign operations	**6 880**	11 488
Other comprehensive income net of tax	**6 880**	11 488
Total comprehensive income/(expense)	**7 458**	(4 400)
Attributable to:		
Equity holders of parent	**4 797**	(21 512)
Non-controlling interests	**2 661**	17 112
Total comprehensive income/(expense) net of tax	**7 458**	(4 400)

[1] *Unaudited*

Interim Consolidated Statement of Financial Position

as at 30 June 2017

	Notes	**30 June 2017[1] US$'000**	31 December 2016[2] US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**281 921**	257 199
Investment property		**615**	615
Intangible assets		**14 572**	14 014
Receivables and other assets	10	**27**	31
		297 135	271 859
Current assets			
Inventories		**34 293**	30 911
Receivables and other assets	10	**5 695**	6 557
Income tax receivable		**2 385**	4 636
Cash and short-term deposits	11	**20 046**	30 787
		62 419	72 891
Total assets		**359 554**	344 750
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	12	**1 386**	1 384
Share premium		**885 648**	885 648
Treasury shares[3]		**(1)**	(1)
Other reserves		**(134 937)**	(143 498)
Accumulated losses		**(613 251)**	(610 329)
		138 845	133 204
Non-controlling interests		**73 284**	70 623
Total equity		**212 129**	203 827
Non-current liabilities			
Interest-bearing loans and borrowings	14	**5 354**	–
Trade and other payables		**1 709**	1 409
Provisions		**17 968**	16 630
Deferred tax liabilities		**69 297**	65 676
		94 328	83 715
Current liabilities			
Interest-bearing loans and borrowings	14	**28 895**	27 757
Trade and other payables		**23 903**	29 012
Income tax payable		**299**	439
		53 097	57 208
Total liabilities		**147 425**	140 923
Total equity and liabilities		**359 554**	344 750

[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 2017

	Issued capital US$'000	Share premium US$'000	Own Shares[2] US$'000	Other reserves US$'000	Accu-mulated losses US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
	Attributable to equity holders of the parent							
Balance at 1 January 2017	**1 384**	**885 648**	**(1)**	**(143 498)**	**(610 329)**	**133 204**	**70 623**	**203 827**
Total comprehensive income/(expense)	**–**	**–**	**–**	**7 719**	**(2 922)**	**4 797**	**2 661**	**7 458**
(Loss)/profit for the Period	**–**	**–**	**–**	**–**	**(2 922)**	**(2 922)**	**3 500**	**578**
Other comprehensive income/(expense)	**–**	**–**	**–**	**7 719**	**–**	**7 719**	**(839)**	**6 880**
Share capital issued (Note 12)	**2**	**–**	**–**	**–**	**–**	**2**	**–**	**2**
Share-based payments (Note 13)	**–**	**–**	**–**	**842**	**–**	**842**	**–**	**842**
Balance at 30 June 2017[1]	**1 386**	**885 648**	**(1)**	**(134 937)**	**(613 251)**	**138 845**	**73 284**	**212 129**
Balance at 1 January 2016	1 383	885 648	(1)	(163 420)	(439 764)	283 846	59 923	343 769
Total comprehensive income/(expense)	–	–	–	5 071	(26 583)	(21 512)	17 112	(4 400)
Loss/(profit) for the Period	–	–	–	–	(26 583)	(26 583)	10 695	(15 888)
Other comprehensive income	–	–	–	5 071	–	5 071	6 417	11 488
Share-based payments (Note 13)	–	–	–	954	–	954	–	954
Dividends paid (Note 8)	–	–	–	–	(11 755)	(11 755)	(6 246)	(18 001)
Balance at 30 June 2016[1]	1 383	885 648	(1)	(157 395)	(478 102)	251 533	70 789	322 322

[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 2017

	Notes	**30 June 2017[1] US$'000**	30 June 2016[1] US$'000
Cash flows from operating activities		**34 202**	44 454
Cash generated by operations	15.1	**42 070**	59 463
Working capital adjustments	15.2	**(7 967)**	(529)
		34 103	58 934
Interest received		**285**	1 089
Interest paid		**(1 890)**	(1 839)
Income tax received/(repaid)		**1 704**	(13 730)
Cash flows used in investing activities		**(51 685)**	(45 599)
Purchase of property, plant and equipment	9	**(8 808)**	(5 982)
Ghaghoo costs capitalised	9	**–**	(8 375)
Letšeng waste cost capitalised	9	**(42 877)**	(31 269)
Proceeds from sale of property, plant and equipment		**–**	27
Cash flows from/(used in) financing activities		**6 346**	(20 669)
Financial liabilities raised		**49 318**	–
Financial liabilities repaid		**(42 972)**	(2 667)
Net financial liabilities raised/(repaid)		**6 346**	(2 667)
Dividends paid to equity holders of the parent		**–**	(11 755)
Dividends paid to non-controlling interests		**–**	(6 247)
Net decrease in cash and cash equivalents		**(11 137)**	(21 814)
Cash and cash equivalents at beginning of Period		**30 787**	85 719
Foreign exchange differences		**396**	2 551
Cash and cash equivalents at end of Period		**20 046**	66 456
Cash and cash equivalents at end of Period held with banks		**19 879**	63 785
Restricted cash at end of Period		**167**	2 671
Cash and cash equivalents at end of Period	11	**20 046**	66 456

[1] *Unaudited*

Condensed Notes to the Consolidated Interim Financial Statements

for the six months ended 30 June 2017

1. Corporate information

1.1 Incorporation and authorisation

The holding company, Gem Diamonds Limited (the Company), was incorporated on 29 July 2005 in the British Virgin Islands. The Company's registration number is 669758.

The financial information shown in this report relating to Gem Diamonds Limited and its subsidiaries (the Group) was approved by the Board of Directors on 16 August 2017, is unaudited and does not constitute statutory financial statements. The report of the auditors on the Group's 2016 Annual Report and Accounts was unqualified.

The Group is principally engaged in operating of diamond mines.

2. Basis of preparation and accounting policies

2.1 Basis of presentation

The condensed consolidated interim financial statements for the six months ended 30 June 2017 (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 2016.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Interim Business Review on pages 1 to 11. The financial position of the Group, its cash flows and liquidity position are described in the Interim Business Review on pages 6 to 11.

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 2016, except for the adoption of new standards and amendments as of 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Condensed Notes to the Consolidated Interim Financial Statements continued

for the six months ended 30 June 2017

2. Basis of preparation and accounting policies (continued)

2.2 Significant accounting policies (continued)

Standards issued but not effective

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

Standard, amendment interpretation			Effective date*
IFRS 2	*Classification and measurement of Share-based Payment Transactions*	Amendments to IFRS 2 in relation to the classification and measurement of share-based payment transactions. The Group will assess the impact prior to the effective date.	1 January 2018
IFRS 9	*Financial Instruments*	Classification and measurement of financial assets and financial liabilities that replaces IAS 39. The Group will assess the impact prior to the effective date.	1 January 2018
IFRS 15	*Revenue from Contracts with Customer*	The new revenue standard introduces a single, principles- based, five-step model for the recognition of revenue when control of a good or service is transferred to the customer. The Group is currently reviewing the potential impact of IFRS 15.	1 January 2018
IFRS 16	*Leases*	The new standard requires lessees to recognise assets and liabilities on their balance sheets for most leases, many of which may have been off balance sheet in the past. The Group will assess the impact prior to the effective date.	1 January 2019

**Annual periods beginning on or after*

3. Segment information

For management purposes, the Group is organised into geographical units as its risks and required rates of return are affected predominantly by differences in the geographical regions of the mines and areas in which the Group operates. Other regions where no direct mining activities take place are organised into geographical regions in the areas where the operations are managed. The main geographical regions and the type of products and services from which each reporting segment derives its revenue from are:

- Lesotho (diamond mining activities);
- Botswana (diamond mining activities through Ghaghoo, which was placed on care and maintenance in February 2017, and sales and marketing of diamonds through Gem Diamonds Marketing Botswana (Proprietary) Limited);
- Belgium (sales, marketing and manufacturing of diamonds); and
- BVI, RSA and UK (technical and administrative services).

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

Segment performance is evaluated based on operating profit or loss. Inter-segment transactions are entered into under normal arm's-length terms in a manner similar to transactions with third parties. Segment revenue, segment expenses and segment results include transactions between segments. Those transactions are eliminated on consolidation.

Segment revenue is derived from mining activities, polished manufacturing margins and Group services.

Condensed Notes to the Consolidated Interim Financial Statements continued

for the six months ended 30 June 2017

3. Segment information (continued)

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

Six months ended 30 June 2017[1]	Lesotho US$'000	Botswana US$'000	Belgium US$'000	BVI, RSA and UK[2] US$'000	Total US$'000
Revenue					
Total revenue	**88 068**	**–**	**92 776**	**4 913**	**185 757**
Inter-segment	**(87 713)**	**–**	**(388)**	**(4 748)**	**(92 849)**
External customers	**355**	**–**	**92 388**	**165[2]**	**92 908**
Segment operating profit/(loss)	**16 328**	**(5 824)**	**109**	**(6 100)**	**4 513**
Net finance costs					**(2 218)**
Profit before tax					**2 295**
Income tax expense					**(1 717)**
Profit for the Period after exceptional item					**578**

[1] Unaudited
[2] No revenue was generated in BVI

Six months ended 30 June 2016[1]	Lesotho US$'000	Botswana US$'000	Belgium US$'000	BVI, RSA and UK[2] US$'000	Total US$'000
Revenue					
Total revenue	105 709	–	113 488	4 922	224 119
Inter-segment	(104 932)	–	(5 213)	(4 834)	(114 979)
External customers	777	–	108 275	88[2]	109 140
Segment operating profit/(loss)	46 856	(39 050)[3]	(912)	(7 308)	(414)
Net finance costs					(422)
Loss before tax					(836)
Income tax expense					(15 052)
Loss for the period					(15 888)

[1] Unaudited
[2] No revenue was generated in BVI
[3] The operating loss on the Botswana segment mainly relates to the impairment provided for on the Ghaghoo development asset (refer to Note 4, Exceptional items)

	Lesotho US$'000	Botswana US$'000	Belgium US$'000	BVI, RSA and UK US$'000	Total US$'000
Segment assets					
At 30 June 2017[1]	**341 332**	**5 095**	**4 693**	**8 434**	**359 554**
At 31 December 2016[2]	309 469	6 190	5 996	23 095	344 750
Segment liabilities					
At 30 June 2017[1]	**46 372**	**4 855**	**73**	**26 826**	**78 126**
At 31 December 2016[2]	39 677	33 182	591	1 797	75 247

[1] Unaudited
[2] Audited

Included in revenue is revenue from a single customer which amounted to US$30.0 million (30 June 2016: US$24.2 million) arising from sales reported in the Lesotho and Belgium segments.

Segment assets and liabilities do not include net deferred tax liabilities of US$69.3 million (31 December 2016: US$65.6 million).

The prior Period operating loss included an exceptional item of US$40.0 million impairment charge. Pre-exceptional items, operating profits have decreased in the current Period due to lower carats recovered and lower prices achieved at Letšeng together with an increase in mining costs.

Condensed Notes to the Consolidated Interim Financial Statements continued

for the six months ended 30 June 2017

4. Exceptional items

	30 June 2017[1] US$'000	30 June 2016[1] US$'000
Ghaghoo	**2 971[2]**	40 000[3]

[1] *Unaudited*

[2] **Ghaghoo – exceptional costs**
The Ghaghoo mine was placed on care and maintenance in February 2017. No impairment charge was recognized during the current Period. The costs incurred in the Period included development costs, retrenchment costs, once-off costs to renegotiate contracts and once-off costs associated with the additional water pumping and sealing of the fissure as a result of the earthquake, have been classified as exceptional costs.

[3] **Ghaghoo – impairment**
In the prior Period, the Group recognised a consolidated income statement impairment charge of US$40.0 million (post-tax) for the Ghaghoo asset. At 31 December 2016, the asset was impaired by a further US$130.8 million.

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

Underlying EBITDA is shown, as the Directors consider this measure to be a relevant guide to the performance of the Group and excludes such non-operating costs as listed below. The reconciliation from operating profit to underlying EBITDA is as follows:

	30 June 2017[1] US$'000	30 June 2016[1] US$'000
Operating profit	**7 484**	39 586
Other operating income	**(131)**	(69)
Share-based payments	**842**	914
Foreign exchange gain	**(1 079)**	(1 936)
Depreciation and mining asset amortisation (excluding waste stripping cost amortised)	**5 912**	4 993
Underlying EBITDA before exceptional item	**13 028**	43 488

[1] *Unaudited*

6. Seasonality of operations

The Group's sales environment regarding 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.

Condensed Notes to the Consolidated Interim Financial Statements continued

for the six months ended 30 June 2017

7. Income tax expense

	30 June 2017[1] US$'000	30 June 2016[1] US$'000
Income statement		
Current		
– Overseas	**(283)**	(7 957)
Withholding tax		
– Overseas	**(71)**	(1 516)
Deferred		
– Overseas	**(1 363)**	(5 579)
	(1 717)	(15 052)

[1] *Unaudited*

The forecast effective tax rate for the full year is 32.60% and has been applied to the actual results, excluding exceptional items, for the Period. The exceptional items (refer to Note 4, Exceptional items), have been excluded from the forecast effective tax rate for the full year and taxed separately. There is no tax effect on the exceptional items.

Following the placing of the Ghaghoo mine on care and maintenance, the 2017 full year tax rate will no longer be reconciled to the statutory UK corporation tax rate of 19.25%, but to the statutory Lesotho corporation tax rate of 25.0%, as this is the jurisdiction in which the majority of the Group's taxes are incurred.

The forecast effective tax rate for the full year is above the Lesotho statutory tax rate primarily as a result of deferred tax assets not recognised on losses incurred in non-trading operations, which is partially offset by a reduction in the deferred tax liability on unremitted earnings.

8. Dividends paid and proposed

	30 June 2017[1] US$'000	30 June 2016[1] US$'000
Dividends on ordinary shares declared and paid		
Final ordinary dividend for 2016: Nil (2015: 5 US cents per share)	–	6 915
Final special dividend for 2016: Nil (2015: 3.5 US cents per share)	–	4 840
Total	–	11 755

[1] *Unaudited*

There were no dividends proposed for the 2016 financial year. The dividend policy is dependent on the results of the Group's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at that time.

The 2015 dividends were approved on 7 June 2016 and a final cash dividend of 8.5 US cents per share was paid to shareholders on 16 June 2016.

Condensed Notes to the Consolidated Interim Financial Statements continued

for the six months ended 30 June 2017

9. Property, plant and equipment

During the Period, the Group invested US$8.8 million (30 June 2016: US$6.0 million) into property, plant and equipment, of which US$7.2 million (30 June 2016: US$3.7 million) related to Letšeng and US$1.6 million (30 June 2016: US$ 1.9 million) related to Ghaghoo.

Letšeng's capital spend was incurred mainly on the commencement of the mining support services complex construction (US$5.1 million), rehabilitation of the fresh water dam (US$0.4 million) and installation of the split front-ends for Plants 1 and 2 (US$0.2 million).

At Ghaghoo, the majority of the capital spend was incurred on the construction of the slimes dam (US$1.5 million) prior to placing the operation on care and maintenance.

Letšeng further invested US$42.9 million (30 June 2016: US$31.3 million) in deferred stripping costs which were capitalised.

Borrowing costs of US$0.1 million incurred in respect of the LSL 215.0 million (US$16.4 million) Letšeng facility (refer to Note 14, Interest-bearing loans and borrowings) have been capitalised. The weighted average rate used to determine the amount of borrowing costs eligible for capitalisation was 3.40%.

In addition to the above, foreign exchange movements on translation affecting property, plant and equipment were US$10.6 million (30 June 2016: US$16.7 million).

Depreciation and mining asset amortisation of US$5.8 million (30 June 2016: US$5.0 million) was charged to the income statement during the Period.

At Letšeng, amortisation of the deferred stripping asset (waste stripping cost amortisation) of US$31.7 million (30 June 2016: US$18.0 million) was charged to the income statement during the Period. The amortisation is directly related to the areas that were mined during the Period and their associated waste to ore strip ratios.

10. Receivables and other assets

	30 June 2017[1] US$'000	31 December 2016[2] US$'000
Non-current		
Other receivables	**27**	31
	27	31
Current		
Trade receivables[3]	**538**	1 187
Prepayments	**682**	756
Deposits	**141**	135
Other receivables	**401**	334
VAT receivable	**3 933**	4 145
	5 695	6 557

[1] *Unaudited*
[2] *Audited*
[3] *Trade receivables as at 31 December 2016 mainly related to the margins recognised on partnership arrangements for which proceeds were received post year end. As at Period end, the value of these receivables was lower than at 31 December 2016.*

Condensed Notes to the Consolidated Interim Financial Statements continued

for the six months ended 30 June 2017

11. Cash and short-term deposits

	30 June 2017[1] US$'000	31 December 2016[2] US$'000
Cash on hand	**1**	2
Bank balances	**17 144**	15 762
Short-term bank deposits	**2 901**	15 023
Cash and short-term deposits	**20 046**	30 787

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

At 30 June 2017, the Group had restricted cash of US$0.2 million (31 December 2016: US$3.1 million).

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

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

12. Issued capital and reserves

	30 June 2017[1]		31 December 2016[2]	
	Number of shares '000	US$'000	Number of shares '000	US$'000
Authorised – ordinary shares of US$0.01 each				
Balance at beginning of Period/year	**200 000**	**2 000**	200 000	2 000
Increase in authorised shares	**–**	**–**	–	–
Balance at end of Period/year	**200 000**	**2 000**	200 000	2 000
Issued and fully paid				
Balance at beginning of Period/year	**138 361**	**1 384**	138 296	1 383
Allotments during the Period/year	**205**	**2**	65	1
Balance at end of Period/year	**138 566**	**1 386**	138 361	1 384

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

13. Share-based payments

There were no option awards granted during the current Period. Post Period end, on 4 July 2017, there was a share option awarded (refer to Note 18 Events after reporting Period).

The expense recognised for employee services received during the year is shown in the following table:

	30 June 2017[1] US$'000	30 June 2016[1] US$'000
Equity-settled share-based payment transactions – charged to the income statement	**842**	961
Reversal of previous expense due to forfeiture – credited to the income statement	**–**	(47)
	842	914
Equity-settled share-based payment transactions – capitalised	**–**	40
	842	954

[1] *Unaudited*

Condensed Notes to the Consolidated Interim Financial Statements continued

for the six months ended 30 June 2017

14. Interest-bearing loans and borrowings

	Effective interest rate %	Maturity	**30 June 2017[1] US$'000**	31 December 2016[2] US$'000
Non-current				
LSL215.0 million bank loan facility				
Tranche 1	South African JIBAR + 3.15%	30 September 2022[3]	**2 683**	–
Tranche 2	South African JIBAR + 6.75%	31 March 2022[3]	**2 671**	–
			5 354	–
Current				
LSL140.0 million bank loan facility	South African JIBAR + 4.95%	30 June 2017[4]	–	2 047
LSL250.0 million bank loan facility	Lesotho prime	30 June 2018[5]	**3 816**	–
US$25.0 million bank loan facility	London US$ three-month LIBOR + 5.5%	31 January 2019[6]	–	25 710
US$35.0 million bank loan facility	London US$ three-month LIBOR + 5.3%	31 January 2019[6]	**25 079**	–
			28 895	27 757

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

[3] **LSL215.0 million (US$ 16.4 million) bank loan facility at Letšeng Diamonds**
This loan comprises two tranches of debt as follows:
- Tranche 1: South African Rand denominated ZAR180.0 million (US$13.7 million) debt facility supported by the Export Credit Insurance Corporation (ECIC) (five years tenure);
- Tranche 2: Lesotho Loti denominated LSL35.0 million (US$2.7 million) term loan facility without ECIC support (five years and six months tenure)

The loan is an unsecured project debt facility which was signed jointly with Nedbank and the ECIC on 22 March 2017 for the total funding of the construction of the Letšeng mining support services complex. The loan is repayable in equal quarterly payments commencing in September 2018.

At Period end LSL70.1 million (US$5.4 million) had been drawn down, resulting in LSL144.9 million (US$11.0 million) available to be drawn down under this facility.

The South African Rand based interest rates for the facility at 30 June 2017 are:
- Tranche 1: 10.48%;
- Tranche 2: 14.08%

Total interest for the Period on this interest-bearing loan was US$0.1 million, and has been capitalised to the cost of the project.

[4] **LSL140.0 million (US$10.7 million) bank loan facility at Letšeng Diamonds**
This loan was a three-year unsecured project debt facility which was signed jointly with Standard Lesotho Bank and Nedbank Limited for the total funding of the Coarse Recovery Plant. Final repayment was made on 10 February 2017 and the facility was closed on that date.

[5] **LSL250.0 million (US$19.1 million) bank loan facility at Letšeng Diamonds**
This loan is a three-year unsecured revolving working capital facility, signed jointly with Standard Lesotho Bank and Nedbank Capital, which was renewed in July 2015. The facility bears interest at the Lesotho prime rate.
At Period end LSL50.0 million (US$3.8 million) had been drawn down, resulting in LSL200.0 million (US$15.3 million) available to be drawn down under this facility. The South African Rand based interest rate for this facility at 30 June 2017 is 11.75%.

[6] **US$25.0 million / US$35.0 million bank loan facility at Gem Diamonds Limited**
The US$25.0 million was a six-and-a-half-year project debt facility for the Ghaghoo asset. At 31 December 2016, this facility was fully drawn down. In February 2017, this facility was fully repaid in line with placing the Ghaghoo asset on care and maintenance.

Condensed Notes to the Consolidated Interim Financial Statements continued

for the six months ended 30 June 2017

14. Interest-bearing loans and borrowings (continued)

The US$35.0 million loan is a three-year revolving credit facility (RCF) with Nedbank Capital which was renewed on 29 January 2016 for a further three years. The facility was accessed in order to settle the Ghaghoo US$25.0 million loan. At Period end, US$25.1 million had been drawn down, resulting in US$9.9 million available to be drawn down under this facility. The US$ based interest rate for this facility at 30 June 2017 is 6.6%.

The Gem Diamonds Limited US$35.0 million RCF was restructured post Period end to increase the facility to US$45.0 million. This restructured facility consists of two tranches:

- Tranche 1: relates to the Ghaghoo US$25.0 million debt whereby capital repayments have been re-scheduled to commence in September 2018 with a final repayment due on 31 December 2020.
- Tranche 2: this tranche of US$20.0 million relates to an RCF and includes an upsize mechanism whereby this tranche will increase by a ratio 0.6:1 for every repayment made under Tranche 1. This will result in the available facility increasing to US$35.0 million once Tranche 1 is fully repaid.

15. Cash flow notes

		30 June 2017[1] US$'000	30 June 2016[1] US$'000
15.1	**Cash generated by operations**		
	Profit before tax and exceptional items	**5 266**	39 164
	Exception items[2]	**(2 971)**	(40 000)
	Adjustments for:		
	Depreciation and amortisation on property, plant	**5 789**	5 182
	Waste stripping cost amortisation	**31 681**	17 975
	Impairment of asset	**–**	40 000[2]
	Finance income	**(285)**	(972)
	Finance costs	**2 503**	1 394
	Unrealised foreign exchange differences	**(1 995)**	(5 674)
	Profit on disposal of property, plant and equipment	**-**	(14)
	Movements in prepayments	**99**	83
	Other non-cash movements	**1 141**	1 411
	Share-based equity transaction	**842**	914
		42 070	59 463
15.2	**Working capital adjustments**		
	(Increase)/Decrease in inventories	**(2 001)**	4 263
	Decrease in receivables	**2 189**	1 482
	Decrease in trade and other payables	**(8 155)**	(6 274)
		(7 967)	(529)

[1] *Unaudited*
[2] *Refer to Note 4, Exceptional items*

Condensed Notes to the Consolidated Interim Financial Statements continued
for the six months ended 30 June 2017

16. Commitments and contingencies

The Board has approved capital projects of US$16.0 million (31 December 2016: US$23.2 million), mainly relating to the Letšeng mining support services complex, of which US$14.9 million (31 December 2016: US$3.3 million) have been contracted at 30 June 2017.

The Group has conducted its operations in the ordinary course of business in accordance with its understanding and interpretation of commercial arrangements and applicable legislation in the countries where the Group has operations. In certain specific transactions, however, the relevant third party or authorities could have a different interpretation of those laws and regulations that could lead to contingencies or additional liabilities for the Group. Having consulted professional advisers, the Group has identified possible disputes relating to ongoing employee-related legal costs approximating US$1.0 million (31 December 2016: US$0.5 million) and tax claims within the various jurisdictions in which the Group operates approximating US$1.0 million (31 December 2016: US$1.0 million).

17. Related parties

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

	30 June 2017[1] US$'000	30 June 2016[1] US$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	**609**	715
Short-term employee benefits	**1 383**	2 573
	1 992	3 288
Fees paid to related parties		
Jemax Aviation (Proprietary) Limited	**(55)**	(50)
Jemax Management (Proprietary) Limited	**(51)**	(36)
Royalties paid to related parties		
Government of Lesotho	**(7 030)**	(8 415)
Lease and license payments to related parties		
Government of Lesotho	**(138)**	(120)
Purchases from related parties		
Jemax Aviation (Proprietary) Limited	**90**	(76)
Jemax Management (Proprietary) Limited	**(4)**	(3)
Amount included in trade receivables owing by/(to) related parties		
Jemax Aviation (Proprietary) Limited	**37**	15
Jemax Management (Proprietary) Limited	**(10)**	(7)
Amounts owing to related party		
Government of Lesotho	**(2 551)**	(2 112)
Dividends paid		
Government of Lesotho	**–**	(6 247)

[1] *Unaudited*

Condensed Notes to the Consolidated Interim Financial Statements continued

for the six months ended 30 June 2017

18. Events after the reporting Period

There were two events which took place between the Period end and the approval of the financial statements which are of significance in assessing the state of the Group's affairs:

- In July, the Gem Diamonds Limited US$35.0 million revolving credit facility was restructured to increase the facility from US$35.0 million to US$45.0 million (refer to Note 14 Interest-bearing loans and borrowings). Following the restructure, US$1.1 million was drawn down, resulting in US$18.8 million available to be drawn down under this facility;
- In July, 1 335 000 nil-cost options were granted to certain key employees and Executive Directors under the Long-term Incentive Plan of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. The satisfaction of certain performance as well as service conditions are classified as non-market conditions. 185 000 of the options granted relate to market conditions. The options vest after a three year period and are exercisable between 4 July 2020 and 3 July 2027. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £0.86 (US$1.11) and the option grants are settled by issuing shares.

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