GEM DIAMONDS

30 July 2012

GEM DIAMONDS LIMITED
H1 2012 Trading Update

Gem Diamonds Limited (LSE: GEMD) ("Gem Diamonds", the "Group" or the "Company") reports a trading update for the half year period 1 January to 30 June 2012 ("H1 2012") ("the Period"). Gem Diamonds' financial results for the period will be detailed in its Half-yearly Results Announcement which will be released on 21 August 2012.

During the Period:
Letšeng:

- Continued strong performance with 57 116* carats recovered during H1 2012 (up 7% from H1 2011).
- The recovered grade was 1.68 cpht during H1 2012 (up 8% on H1 2011).
- An average value of US$2 133 per carat was achieved for the five exports for H1 2012 (US$3 052 in H1 2011).
- 23 rough diamonds achieved an average value in excess of US$1 million each during H1 2012 (30 in H1 2011).
- Letšeng produced a total of 82 rough diamonds that achieved prices greater than US$20 000 per carat (105 in H1 2011), which equates to 59% of Letšeng's revenue for H1 2012.
- A total of 361 rough diamonds greater than 10.8 carats in size were produced in H1 2012 (295 in H1 2011).
- A revised resource statement for Letšeng increased the resource carats by 10% and increased their value by 5%.

  * Includes 587 carats recovered in test work during the Period.

Ellendale:

- Ore mined during the Period up 234% from H1 2011, following the commissioning of the primary plant feed section of the processing plant.
- 78 881 carats recovered at Ellendale during H1 2012 (up 51% from H1 2011).
- Achieved an overall average price of US$771 per carat (US$573 per carat in H1 2011), with its fancy yellow diamonds sold to Tiffany & Co. achieving an average of US$4 315 per carat during H1 2012 (US$4 045 in H1 2011).
- A revised resource statement for Ellendale decreased the resource carats by 15% and increased their value by 16%.

Ghaghoo:

- Construction of the decline tunnel through the sand overburden has continued through the Period as the Company progresses with Phase 1 of the Ghaghoo underground mine project.
- Regrettably a sudden and rapid inrush of sand at the face of the tunnel in adverse ground conditions resulted in the tragic fatalities of two workers. After implementation of all the corrective action recommendations, the advancement of the decline tunnel is expected to re-commence in mid-August 2012.
- A revised resource statement for Ghaghoo left the resource carats unchanged but increased their value by 16%.

Group:

- A total of three Lost Time Injuries (LTIs), including the two fatalities at Ghaghoo, have occurred in the Group during the Period. Ellendale reached 1 000 LTI free days on 26 May, while on 4 May, Letšeng achieved six months LTI free.
- No major stakeholder or environmental incidents have occurred in the Period.

Cash:

- The Group has a strong cash position with US$139 million cash as at 30 June 2012, of which US$128 million is attributable to Gem Diamonds).
- A US$31 million facility is available at Letšeng, of which no amounts have been drawn down to date.
- Cash costs for the Period are in line with management estimates.
- The Directors have initiated a review of the Group's capital expenditure programme to ensure the balance sheet remains strong in the event of further deterioration in market conditions.

Gem Diamonds' CEO, Clifford Elphick commented:

"The first half of this year has been marked by strong operating performance by Gem Diamonds in light of a challenging backdrop for the diamond industry. Our flagship mine, Letšeng continued to produce some of the world's finest high quality diamonds, reporting an increase in both carats recovered and recovered grade compared to the same period in 2011 and cash costs were held in line with management estimates. The global macroeconomic climate and in particular the ongoing financial crisis in the Eurozone, continue to weigh on rough and polished diamond prices. This, together with the comparatively lower quality production from Letšeng in the Period when compared to H1 2011, which saw six exceptional diamonds recovered, is reflected in the Company's revenue generated during the Period."

"Gem Diamonds has a strong balance sheet and, with US$ 139 million of cash, no debt and strong operating cash flow, is well positioned to weather the current downturn in the market. However, in light of continued economic uncertainty, the Directors have initiated a review of the Company's capital investment plans. The review will focus on potentially extending the period over which capital is expended on its two development projects, Project Kholo at Letšeng and the Ghaghoo mine development, in order to protect the Company's strong balance sheet in the event of further deterioration in market conditions. The review will also aim to ensure that there is sufficient flexibility to allow for these projects to be accelerated should market conditions improve significantly. The Company remains committed to doubling production at Letšeng and to the development of the Ghaghoo mine and expects to provide further information on its development programme in the Half-yearly Report which will be released on 21 August 2012, once the review is complete."

"Our view on the long term outlook for the diamond market remains positive, with supply forecast to remain tight and growing demand in key markets expected to put upward pressure on diamond prices."

1. Diamond Market

The year began positively with diamond prices continuing to increase following the 30% downward price correction in September last year. However, since May, the diamond market has experienced challenging trading conditions due to reduced liquidity on the back of the continuing Eurozone crisis and reduced demand in the emerging markets in the East (particularly India) which has resulted in increased stock levels of rough and polished diamonds in the manufacturing sector. May and June saw the first negative movements in the Company's rough market price indices, as prices declined across the sector. Prices for the larger high end diamonds remained mostly unaffected during the Period and held their value, whilst prices for the smaller lower quality production dropped off from May. However, the market has become more cautious and together with the traditional slowing of the market in July and August (American and European holidays) diamond prices across the board are expected to weaken slightly.

The diamond market is expected to continue its short term volatility; however the longer term outlook still remains positive as the growth in demand for diamonds continues to exceed the growth in supply.

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

	H1 2012	H1 2011	% Change
Waste stripped (tonnes)	7 818 727	8 543 937**	-8%
Ore mined (tonnes)	3 285 827	3 480 798	-6%
Ore treated (tonnes)	3 373 110	3 392 188	-1%
Carats recovered	57 116*	52 798	8%
Grade recovered (cpht)	1.68	1.56	8%

* Includes 587 carats recovered in test work during the Period.
** A survey error for recording waste mined during 2011 and prior has been identified and a review of the implications thereof will be resolved in H2 2012.

Overall for the Period, total tonnes mined and treated through all plants were marginally lower than in H1 2011 as a result of a two day production loss due to the Lesotho general elections and a power outage when the power supply was interrupted during a snow storm. Mining of the high grade K6 facies in the Main pipe has been delayed to the second half of the year.

During the Period, both Letšeng's Plant 1 and 2 processed 1.4 million tonnes each and the Alluvial Ventures plant processed 0.6 million tonnes. Of the total ore processed through all three plants for the Period, 67% was sourced from the Main pipe and 33% was sourced from the Satellite pipe. The plants have run well during the Period, achieving good plant availabilities and recovering 57 116 carats. The continued outperformance of the resource in terms of grade has been included in the revised resource statement published on 25 July 2012 (refer below to 6. Mineral resources and reserves).

Tonnes of waste mined during the Period were marginally below target due to lower than planned fleet availability earlier in the Period. In order to achieve the planned annual waste profile, additional waste stripping equipment was brought to site and commissioned in April.

The deep drilling programme to extend the resource at Letšeng continues to produce encouraging results, with kimberlite being intersected at 204m below the current Inferred resource limit in the Satellite Pipe and 321m below the current inferred resource limit in the Main Pipe.

2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

	H1 2012	H1 2011	% Change
Carats exported*	58 725	52 314	12%
Carats extracted for polishing	150	300	-50%
Total value (US$ millions)*	125.2	160.6	-22%
Achieved US$/ct*	2 133	3 052	-30%

*Includes carats extracted for polishing at rough valuation

During the Period, Letšeng achieved an average value of US$2 133 per carat for its exports. This includes 150 carats that were extracted for manufacturing at a fair market value for rough diamonds of US$3.5 million, all of which remained in inventory at the end of the Period. The development of the manufacturing and downstream sales initiative is progressing well, with the group setting up manufacturing operations in Antwerp and the establishment of the in-country facility in Lesotho progressing according to plan.

Diamond prices for Letšeng's quality diamonds remained robust for the first four months of 2012. For the reasons noted in the Diamond Market comment (Section 1. above), both rough and polished diamond prices moved negatively mid-way through the second quarter. The price reduction was more prevalent in the diamonds categories below 10 carats in size. The larger higher value production, which was not as prevalent in the production in H1 2012 as they had been in H1 2011 (as a result of differing mining mix and the natural variability experienced in a low grade ore body), have been very stable in price for the last 12 months but began to soften in June 2012.

In addition, the recently implemented capability of studying the large high end diamonds using advanced technology provides Gem Diamonds with a complete understanding of the value of this large stone production. This information is used to actively assess the most value accretive channel in which to place these diamonds for sale — whether through rough sale, own manufacturing or partnered manufacturing.

2.3 Costs (Local currency)

Cost management continues to be a key focus for Letšeng and the operation has maintained its costs within the expected targets for the first half of 2012. All costs are expected to be broadly in line with the guidance previously provided.

2.4 Project Kholo

Good progress has been made on Project Kholo with the detailed design phase having continued in conjunction with the commencement of the early works. Site work commenced in January 2012 with geotechnical drilling, which confirmed the suitability of the ground conditions for construction of the third processing plant. The tender process for the early earthworks was completed on schedule and awarded in early April and the successful contractor has commenced work on schedule. The early works on accommodation have been completed. The design phase of the project has now also been completed.

Work on increasing the power supply to the mine has commenced, with the design engineers and environmental consultants having been appointed. Good progress has also been made with the design and the environmental approval process is ahead of schedule.

Due to the continuing challenging market conditions and their anticipated impact on the diamond market, the Directors have initiated a review of the project with the possibility of extending the period over which the capital is expended on Project Kholo in order to maintain a strong balance sheet in the event of further deterioration in market conditions.

A review of the Project Kholo development timeline will be provided in the Half-yearly Report which will be released on 21 August 2012.

3. Australia

The Ellendale mine ("Ellendale"), located in Western Australia, is owned and operated by Gem Diamonds' wholly owned subsidiary, Kimberley Diamond Company NL.

3.1 Production

	H1 2012	H1 2011	% Change
Waste stripped (tonnes)	3 091 828	2 303 449	34%
Ore mined (tonnes)	2 042 693	611 953	234%
Ore treated (tonnes)	2 073 793	1 441 506	44%
Carats recovered	78 881	52 349	51%
Grade recovered (cpht)	3.80	3.63	5%

Ellendale has had a much improved H1. The commissioning of the primary feed section of the processing plant in January and February 2012 has had a large impact on the tonnes treated relative to the poor performance in H1 2011. Average tonnes treated have been circa 0.3 million tonnes per month compared to the H1 2011 of 0.2 million tonnes per month. This increased throughput has positively impacted carats recovered and sold in the Period.

Ore and waste mined is 76% above the H1 2011 levels. This is largely due to the wet season mining which was able to be carried out from January to March of 2012. Historically, as was the case in 2011, Ellendale has not mined during this period. As a result, the improved production achieved in H1 2012 has led to a review of the full year forecast which is set out below in 3.4 Revised Guidance for Ellendale for Full Year 2012.

3.2 Rough Diamond Sales

	H1 2012	H1 2011	% Change
Carats sold	74 580	57 874	29%
Total sales value (US$ millions)	57.5	33.2	73%
Achieved US$/ct	772	573	35%

Ellendale sold a total of 74 580 carats at an average price of US$772 per carat during the Period.

10 667 carats of fancy yellow diamonds were sold to Tiffany & Co. at an average price of US$4 315 per carat (US$4 044 per carat in H1 2010). The fancy yellow diamonds continue to be priced monthly against an agreed composite index.

63 913 carats of commercial diamonds were sold at an average price of US$180 per carat (US$195 per carat in H1 2011). The commercial diamonds continue to be sold on an electronic auction platform in Antwerp. Viewings for these commercial diamonds now take place in two jurisdictions, Belgium and Israel. The multi-jurisdictional viewings have had a positive effect on the auction dynamics, although due to recent market uncertainty prices have fallen off at the end of the Period.

3.3 Costs (Local currency)

Cost management continues to be a key focus for Ellendale. As a result of the revised production and the impact of mining during the wet season, revised cost guidance has been provided with reference to mining waste cash costs per waste tonne mined and operating costs per tonne treated. Direct cash costs have been maintained within expected targets. The cost guidance is set out in the table below.

3.4 Revised Guidance for Ellendale for Full Year 2012:

	2012
Waste mined (Mt)	5.0 – 5.5
Ore treated (Mt)	3.9 – 4.2
Carats recovered (Kct)	165 - 175
Carats sold (Kct)	160 - 170
Direct cash costs before waste per tonne treated (AUD) – unchanged from previous guidance given	18.50 – 19.50
Mining waste cash costs per tonne of waste mined (AUD)	4.80 – 5.10
Operating costs per tonne treated[1] (AUD)	24.00 – 25.50

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

In November 2011, the Company announced that it was considering all of its options regarding its Ellendale mine asset in Australia. Gem Diamonds has now suspended the formal process but continues to explore all options to maximise value at Ellendale.

4. Botswana

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

Phase 1 of the Ghaghoo underground mine in Botswana has continued during the Period and construction of the decline tunnel using an open face tunnel shield through the sand overburden remains ongoing. The progress rate of the decline through an area of unconsolidated sand, interspersed with unanticipated harder material, has been slower than planned, with approximately 150 meters of tunnel completed to date. A further 350 meters are required to reach the basalt country rock. Thereafter 650 meters of basalt development is required to reach the planned bottom of the decline.

Regrettably an incident, involving a sudden and rapid inrush of sand at the face of the tunnel development resulted in two fatalities on the site. The incident was fully investigated and the Department of Mines has given permission for the project to continue once further and additional safety precautions have been put in place. Once completed, tunnel development is expected to re-commence in mid-August 2012 and will continue to progress through the sand until basalt country rock is reached. The Directors have initiated a review of the Ghaghoo project with the possibility of extending the project's construction period to ensure flexibility in the Company's capital expenditure profile and maintain its strong balance sheet in the event of any further deterioration in market conditions.

The project is presently on budget with approximately US$ 39 million of the overall budget of US$ 85 million already spent.

A review of the Ghaghoo timeline will be provided in the Half-yearly Report which will be released on 21 August 2012.

5. Other operations

The Chiri Project in Angola remains on care and maintenance and Gem Diamonds continues to assess the opportunity for a mining project at Chiri. Negotiations are ongoing with the Company's partners and are expected to be concluded by September 2012.

6. Mineral resources and reserves

An updated Mineral Resource and Reserve Statement detailing the Group's mineral resources and reserves was published on 25 July 2012. This document is available on Gem Diamonds' website: www.gemdiamonds.com.

7. Health, safety, corporate social responsibility and environment:

The health and wellbeing of Gem Diamonds' employees and contractors, the appropriate management of the environment in which we operate, and the continuation of sound community relations, remain a top priority across all of Gem Diamonds' operations.

Our condolences go to the families of the two workers who were fatally injured at the Ghaghoo mine in Botswana. The incident has been fully investigated by internal and external experts and Gem Diamonds has committed to a corrective action management plan which has been developed to further ensure the safety of all workers and to prevent the recurrence of similar incidents. The Company will continue to assess ways to enhance health and safety procedures across all its operations. Similarly, a continual review of all Gem Diamonds' social and environmental impacts remains ongoing and opportunities to further minimise impacts and improve benefits will be assessed and implemented as appropriate.

Both Letšeng and Ellendale achieved excellent safety records in the first half of 2012, with Ellendale reaching 1 000 LTI-free days and Letšeng achieving 6 months LTI-free in May.

No major or significant environmental or stakeholder incidents were recorded across the Group.

For further information:

Gem Diamonds Limited

Sherryn Tedder, Investor Relations
Tel: +27 (0) 11 560 9600
Mob: +27 (0) 83 943 4505

Kim O'Farrell, Media Relations
Tel: +44 (0) 203 043 0280
Mob: +44 (0) 77 6506 1316

Pelham Bell Pottinger
Charles Vivian / James MacFarlane
Tel: +44 (0) 207 337 1500861 3232

About Gem Diamonds:

Gem Diamonds is a leading global diamond producer of high value diamonds. The company owns two producing mines, the Letšeng mine in Lesotho and the Ellendale mine in Australia, as well as the Ghaghoo mine, currently in development 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 to double its production capacity and to develop the Ghaghoo mine. 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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