29 July 2013

GEM DIAMONDS LIMITED
H1 2013 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 2013 ("H1 2013") ("the Period"). Gem Diamonds' financial results for the period will be detailed in its Half Year 2013 Results Announcement which will be released on 15 August 2013.

During the Period:

Letšeng:

- Installation of the four cone crushers in Letšeng's Plants 1 and 2, aimed at reducing diamond damage, was completed on time and on budget.
- 3 diamonds over 100 carats in size were recovered during the Period: a 164 carat white diamond (which was sold for US$ 9 million into a partnership arrangement); a 103 carat yellow diamond (which sold for US$ 810 000); and a 100 carat white diamond (which sold for US$ 6.45 million in July 2013).
- Mining was conducted almost exclusively in the lower value, lower grade Main pipe:
  - An average value of US$1 741 per carat was achieved for the first 5 tenders of 2013 (US$ 1 690 per carat in H2 2012).
  - 9 rough diamonds achieved a value in excess of US$ 1 million each.
  - 44 rough diamonds achieved prices greater than US$ 20 000 per carat.
  - A total of 252 rough diamonds greater than 10.8 carats in size were recovered, equating to 67% of Letšeng's revenue for the Period.
- Subsequent to Period end, the July tender achieved an average of US$ 2 202 per carat.

Ghaghoo:

- The decline tunnel progressed into competent basalt following completion of the sand portion and the open face tunnel shield was successfully removed in early July 2013.
- Construction of the Plant is complete, with commissioning planned to commence in Q2 2014 to coincide with the ore becoming available.

Cash:

- The Group maintains its strong cash position with US$ 61.5 million cash as at 30 June 2013, of which US$ 54.6 million is attributable to Gem Diamonds.
- As at Period end no draw-downs have been made on either of the US$ 20 million or Maloti 250 million (US$ 25 million) facilities.
- Subsequent to the Period end, on 19 July 2013, Kimberley Diamond Company made an early repayment of Au$ 10.5 million to Gem Diamonds for the outstanding portion of the loan which formed part of the sale of the Ellendale mine in January 2013.

Gem Diamonds' CEO, Clifford Elphick commented:

"Letšeng continues to demonstrate that it is a high quality mine following the recovery of three diamonds weighing in excess of 100 carats each. We are now focused on moving mining operations to the higher value, higher grade satellite pipe, which should positively impact revenues during H2 2013. The secondary and tertiary cone crushers have now been installed and are expected to reduce diamond breakage and we continue to evaluate other low cost initiatives focused on realizing additional value from our Letšeng mine through Project Kholo Optimised."

1. Diamond Market

The year started positively for the rough diamond market. Rough prices benefitted from improved polished trading conditions after reasonable end of year holiday season sales and expectations that rough diamond supply would reduce in the short term.

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 2013	H2 2012	% Change
Waste stripped (tonnes)	9 856 614	9 577 506	3%
Ore mined (tonnes)	3 074 456	2 999 302	3%
Ore treated (tonnes)	3 036 576	3 178 324	(4%)
Carats recovered	42 268	57 234	(26%)
Grade recovered (cpht)	1.39	1.80	(23%)

Waste stripping progressed well during H1 2013, with emphasis placed on waste stripping in the Satellite pipe to allow for access to Satellite pipe ore during H2 2013.

Tonnes of ore treated were lower than planned during the Period due to downtime required for the installation of the secondary and tertiary cone crushers within the treatment plants, as well as various periods of test work in the early part of the year (during which, treatment rates were capped) aimed at reducing diamond breakage. The reduced tonnage treated, together with the lower grade ore from the Main pipe and mining in an area with a high internal basalt content, resulted in lower carats recovered.

2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

	H1 2013*	H2 2012*	% Change
Carats sold	47 065	48 892	(4%)
Total value (US$ millions)	81.9	82.6	(1%)
Achieved US$/ct	1 741	1 690	3%

*Includes carats extracted for polishing at rough valuation

During the Period, Letšeng held five rough tenders which, together with the diamonds extracted for own manufacture, achieved an average value of US$ 1 741 per carat.

249 carats valued at a rough market value of US$ 3.3 million were extracted from the Letšeng production for manufacture through the Group's own manufacturing operations in Antwerp. Of these diamonds extracted, US$ 1.1 million remained in inventory at the end of the Period, compared to US$ 10.4 million at the end of December 2012.

The sale of polished diamonds contributed additional revenue of US$ 4.9 million (including margin made on partnered diamonds), resulting in additional EBITDA of US$ 3.5 million.

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 2013. All full year costs are expected to be broadly in line with guidance previously provided.

2.4 Revised Guidance for Letšeng for Full Year 2013

Due to the initiatives taken during the Period to address diamond damage (tonnage loss due to crusher installation and limited throughput tests) and mining in an area in the Main pipe that had a high internal basalt content, the impact thereof has resulted in lower than planned carat recoveries. Waste stripping has progressed well which will release Satellite ore for treatment in the latter part of H2 2013. Although higher grade recoveries are expected in H2 2013, this won't be sufficient to recover the full shortfall and as a result revised production guidance is presented below.

	2013
Waste mined (Mt)	16 - 19
Ore treated (Mt)	6.2 - 6.5
Carats recovered (Kct)	95 - 105
Carats sold (Kct)	95 - 105
Direct cash costs before waste per tonne treated (Maloti) – unchanged from previous guidance given	115.00 – 130.00

Mining waste cash costs per tonne of waste mined (Maloti) – unchanged from previous guidance given	27.00 – 30.00
Operating costs per tonne treated[1] (Maloti) – unchanged from previous guidance given	140.00 – 170.00

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

3. Botswana

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

During H1 2013 good progress was made in the development of the access decline, with the 462 meter sand portion of the decline tunnel being completed at a depth of 80 meters below the surface, and the decline has now entered into more competent basalt country rock. The open face tunnel shield, which was used in the construction of the sand portion of the decline, was removed in early July 2013.

Over the next 12 months a further 514 meters of basalt tunnel development, followed by ore tunnel development, will take place.

The mining support infrastructure, camp, treatment plant and the other services are already in place and the first diamonds will be recovered in H2 2014. Thereafter a steady state production rate of 230 000 carats per annum, at a mining rate of 720 000 tonnes per annum, is planned.

4. Mineral Resource Statement

An updated Mineral Resource and Reserve Statement detailing the Group's mineral resources and reserves will be published shortly. This document will be available on Gem Diamonds' website: www.gemdiamonds.com.

5. Health, Safety, Social and Environment

Two Lost Time Injuries (LTIs) occurred in the Group during the Period, resulting in a Lost Time Injury Frequency Rate (LTIFR) of 0.17. For the Period, both the LTIFR and All Injury Frequency Rate (AIFR) remain well below the full year 2012 rates.

Zero major stakeholder and environmental incidents have occurred during the Period.

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About Gem Diamonds:

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

www.gemdiamonds.com