31 January 2013

GEM DIAMONDS LIMITED
Q4 2012 Trading Update

Gem Diamonds Limited (LSE: GEMD) reports a Trading Update for the fourth quarter period 1 October 2012 to 31 December 2012 ("Q4 2012") ("the Period").

During the Period:

Letšeng:

- An average value of US$1 703 per carat was achieved for the 3 exports during the Period (US$1 673 per carat in Q3 2012 and US$2 542 per carat in Q4 2011).
- 10 rough diamonds achieved a value in excess of US$1 million each in the Period (10 in Q3 2012 and 10 in Q4 2011), a total of 39 for the full year 2012.
- 31 rough diamonds achieved prices greater than US$20 000 per carat in the Period (34 in Q3 2012 and 46 in Q4 2011),
- A total of 171 rough diamonds greater than 10.8 carats in size were recovered in the Period (180 in Q3 2012 and 168 in Q4 2011) totalling 647 and contributing 73% of Letšeng's production value for the year.
- Operational improvements to reduce diamond breakage underway.
- Good progress with procurement of secondary crushers for use in Plants 1 and 2, which are on target for installation by the end of Q2 2013.

Ellendale:

- The sale of the Ellendale mine to Goodrich Resources Limited was completed on 31 January 2013 for a total consideration of AUD14.4 million.

Ghaghoo:

- Steady progress in the development of the sand portion of the decline tunnel, with approximately 40% complete as at end of Q4 2012.
- Construction of the Plant is substantially complete.

Group:

- Tragically one non-mining fatality occurred at Letšeng on 15 December 2012.
- 8 Lost Time Injuries (LTIs) have occurred in the Group for the year to date.
- Zero major stakeholder and environmental incidents have occurred year to date.

Cash:

- The Group has US$73.0 million cash as at 31 December 2012, of which US$67.0 million is attributable to Gem Diamonds.

Financing:

- In addition to the M250 million (US$29.5 million) 3-year unsecured revolving credit facility at Letšeng, Gem Diamonds has concluded and signed a US$20 million 3-year unsecured revolving credit facility with Nedbank Capital (a division of Nedbank Ltd), which is available for draw-down.
- As at the 31 December 2012, M25 million (US$3 million) of the Letšeng facility was drawn down and subsequently repaid in January. As at the date of this Trading Update, no amounts are drawn down under either facility.

Gem Diamonds' CEO, Clifford Elphick commented:

"We have continued to see a strong operational performance in the fourth quarter at Letšeng, in line with expectations. The fourth quarter of 2012 saw a continued strong operational performance with carats recovered increasing over the prior period. The Company also saw a steadying of diamond prices at the three Letšeng tenders held in the period. As we move into 2013, the market appears to be seeing a positive improvement over Q4 2012.

We continue to look at ways to enhance and optimize our portfolio of assets and as such are pleased to have concluded the disposal of Ellendale, allowing us to focus on our core assets. This will enable the Company to focus both capital and management resources on these assets, as we look to realise value from the world class Letšeng mine and our development project, Ghaghoo. Project Kholo remains a priority for Gem diamonds and we continue to proceed with selected critical path items ensuring that we are able to effectively accelerate progress at Letšeng when we see a sustained improvement in the global economy.

Regrettably, a non-mining fatal accident occurred at Letšeng in December 2012. A full investigation into this accident was conducted and our deepest condolences go to the family of the deceased."

1. Diamond Market

2012 was a volatile and challenging year for the diamond industry. The year began positively with diamond prices trending upwards for most of the first half of 2012. The Eurozone crisis, reduced liquidity from the lending banks, high stock levels in the manufacturing sector and low demand from the emerging markets in the East resulted in diamond prices in the third quarter of 2012 weakening to well below those seen at the start of the year. Average diamond prices for the year finished approximately 12% lower than those at the start of the year.

As the year drew to an end, there was a more positive mood as polished trading improved. Reports of reasonable year end diamond jewellery sales in the major US market and lower anticipated supply contributed to an increase in rough diamond demand and prices in the last quarter of 2012.

For 2013, although the factors that caused the volatility in the diamond prices will continue to persist for some time, prices in the first quarter of 2013 are expected to be more stable leading up to the Chinese New Year. In particular, we have seen an improvement in diamonds prices achieved at the first tender of the year, which may signal a sentiment shift within the diamond market. In the longer term, the outlook remains positive as the forecast growth in diamond demand will exceed 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

	Q4 2012	Q4 2011	% Change	FY 2012	FY 2011	% Change
Waste stripped (tonnes)	4 964 252	3 254 630*	53%	17 396 233	13 652 730*	27%
Ore mined (tonnes)	1 584 262	1 545 053	3%	6 285 127	6 661 189	(6%)
Ore treated (tonnes)	1 631 520	1 740 756	(6%)	6 551 434	6 805 152	(4%)
Carats recovered	30 181	29 783	1%	114 350	112 367	2%
Grade (cpht)	1.85	1.59**	15%	1.73	1.62**	7%

* Adjusted waste stripping figures for Q4 2011 and FY 2011 following the finalisation of the review waste mined during 2011.
** For the Q4 2011 and FY 2011 grade calculations, 2 171 carats which were recovered from tailings during test work have been excluded.

During the period, waste stripping at Letšeng increased to meet the mine plan and ensure timely exposure to Satellite ore required in 2013. During Q4 2012 both Letšeng plants 1 and 2 treated 0.7 million tonnes of ore and as planned 98% of this ore was sourced from the Main pipe. For the full year 72% of ore was sourced from the Main pipe and 28% from the Satellite pipe with both being treated through Letšeng's own plants. The balance of ore was treated through the Alluvial Ventures plant and sourced from the Main pipe.

During the Period there have been indications that recent operational improvements are beginning to bear fruit. The treatment plants' feed rates were reduced during the last month of the year in order to establish if this would have a positive effect on diamond damage. Two significant +90 carat diamonds were recovered undamaged, and the full effect of this feed rate limitation is currently being analysed. As a result, slightly less tonnage was treated in the Period.

A higher grade of 1.85 cpht was achieved during the Period due to the treatment of K6 material in the Main pipe, resulting in carat production for the fourth quarter and for the full year 2012 exceeding that of the previous year.

The quantification of the shortfall of waste tonnes mined compared to that reported (due to the survey inaccuracy which was reported in the H1 2012 trading update) has been finalised. Reporting has been rectified and mine plans for future years have taken full account of the shortfall. The updated planning and the current stripping capacity indicate that no problems are foreseen in ensuring the required future ore exposure.

2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

	Q4 2012	Q4 2011	% Change	FY 2012	FY 2011	% Change
Carats sold*	28 324	32 353	(13%)	107 617	107 700	(0.1%)
Total value (US$ millions)	48.2	82.3	(41%)	207.9	299.0	(30%)
Average US$/carat*	1 703	2 543	(33%)	1 932	2 776	(30%)

*Includes carats extracted for polishing at rough valuation

During the Period, Letšeng achieved an average value of US$ 1 703 per carat compared to US$2 543 per carat in the prior year period and US$1 673 per carat for the previous quarter. This included 200 carats valued at a rough market value of US$7.5 million that was extracted for own manufacture at the Group's diamond analysis and manufacturing operations in Antwerp. Inventory valued at US$10.4 million in the rough remains in own manufacturing work in progress or unsold at year end, with a net impact on full year attributable profit of US$4.8 million.

2.3 Manufacturing in Mauritius and Antwerp

The Group continued to invest in and build its manufacturing capability during 2012. A manufacturing operation was established in Antwerp in Q2 2012 and the establishment of the Mauritian operation commenced in H2 2012. The analytical and manufacturing capability, polished sales and partnering arrangements provides the Group with a complete understanding of the value of the Letšeng high end production as well as access to margins beyond the mine gate.

2.4 Project Kholo

In line with previous announcements, the Company has executed a more cautious approach to the Letšeng expansion project, Project Kholo. However, in order to continue on the Company's growth strategy, the main elements of Project Kholo have still been pursued, albeit on a more appropriate timetable. In particular, good progress has been made with the procurement of new secondary crushers for the existing Plants 1 and 2. It is expected that these crushers will contribute significantly to reducing diamond damage and hence improving revenue, and are on target for installation by the end of Q2 2013. The design and costing of a new appropriately sized recovery plant is also well advanced.

Work is ongoing in terms of revising Project Kholo implementation options, production levels and waste stripping profiles together with revising the indicative costs and timelines and these will be provided during the course of Q2 2013.

2.5 Costs

Cost management has continued to be a key focus area and Letšeng has managed to maintain its costs within expected targets notwithstanding the fuel and power increases experienced during the year. Costs are expected to be within the guidance given in November 2012, with operating costs per tonne treated expected at the lower end of full year guidance, as stated below:

Full Year 2012 Guidance (as reported in the IMS published on 12 November 2012):
Direct cash costs (before waste) per tonne treated: Maloti 104.00 – Maloti 110.00
Operating costs per tonne treated: Maloti 128.00 – Maloti 135.00
Mining waste cash costs per tonne of waste: Maloti 24.00 – Maloti 26.00

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

2.6 Letšeng guidance for 2013

	2013
Waste tonnes mined (Mt)	15 -17
Ore treated (Mt)	6.5 – 7.0
Carats recovered (Kct)	115 - 130
Carats sold (Kct)	110 - 125

	2013
Direct cash costs (before waste) per tonne treated (Maloti)	115 - 130
Mining waste cash costs per tonne of waste mined (Maloti)	27 - 30
Operating costs per tonne treated[1] (Maloti)	140 - 170
Polished Margin %	10-13%
Stay in business capital[2] (US$m)	13 - 15

1. Operating costs per tonne excludes royalty, selling costs, depreciation and mine amortisation, but includes inventory, waste and ore stockpile adjustments.
2. Foreign exchange assumptions ZAR 8.50 to the US dollar (the Lesotho Maloti is pegged to the South African rand).

The year on year increase in unit costs from 2012 to 2013 is largely driven by above inflation fuel and power cost increases, general inflation, an increase in the average mining haul distance and planned increased revenue from Alluvial Ventures.

3. Australia

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

3.1 Sale of Ellendale mine

Following the announcement on 3 December 2012 and subsequent completion of the due diligence process, Gem Diamonds has concluded the sale of its 100% interest in the Ellendale Mine (through the sale of a wholly owned subsidiary, Kimberley Diamond Company NL ("Kimberley Diamonds")) to ASX listed company Goodrich Resources Limited ("Goodrich"), for a total consideration of AUD14.4 million. The consideration comprises a cash payment of AUD3.2 million and the repayment of a secured loan by Kimberley Diamonds of AUD11.2 million (payable in installments over 23 months following completion).

The sale was completed on 31 January 2013 and was effective as at 31 December 2012.

3.2 Production

	Q4 2012	Q4 2011	% Change	FY 2012	FY 2011	% Change
Waste stripped (tonnes)	1 340 791	1 449 913	(8%)	6 532 941	6 183 668	6%
Ore mined (tonnes)	1 263 591	1 160 472	9%	4 666 138	2 728 821	71%
Ore treated (tonnes)	977 633	820 375	19%	4 171 291	3 116 017	34%
Carats recovered	35 435	35 305	0%	155 996	120 305	30%
Grade (cpht)	3.62	4.30	(16%)	3.74	3.86	(3%)

Ellendale’s fourth quarter operational performance continued in the same vein as the third quarter. The modification to the plant (replacement of the second sand screw) was undertaken in December 2012 and some tonnage was lost due to the change out, although as a result of the major plant modifications and improvements implemented in late 2011 and continued into early 2012, ore treated for both the Period and the full year is well ahead of Q4 2011 and full year 2011. The recovered grade reduced in the quarter due to a change in mix of ore.

Waste stripping in Q4 2012 was down some 8% over Q4 2011 and was in line with the mine plan for the Period. For the full year 2012, waste stripping is ahead of the full year 2011.

3.3 Rough Diamond Sales

	Q4 2012	Q4 2011	% Change	FY 2012	FY 2011	% Change
Carats sold	41 976	40 187	4%	157 796	121 454	30%
Total value (US$ millions)	30.5	31.8	(4%)	113.6	88.7	28%
Average US$/carat	727	792	(8%)	720	731	(2%)

In Q4 2012, 4 644 carats of qualifying fancy yellow diamonds were sold to Tiffany & Co. at an average price of US$5 091 per carat (US$4 269 per carat in the fourth quarter of 2011), resulting in an average of US$4 393 per carat for the full year 2012 (US$4 409 per carat for the full year 2011). The increase in price in the fourth quarter reflects the new floor index that was implemented to the existing pricing mechanism on 1 October 2012.

37 332 carats of commercial goods were sold at an average price of US$184 per carat in Q4 2012, compared to US$180 per carat in Q4 2011, resulting in an average of US$181 per carat for the full year 2012 (US$188 per carat for the full year 2011).

3.4 Costs

Costs are estimated to be within guidance previously given in November 2012, with operating costs per tonne treated and mining waste cash costs per tonne of waste expected to be at the lower end of guidance:

Full Year 2012 Guidance (as reported in the November 2012 IMS):
Direct cash costs (before waste) per tonne treated: AUD16.00 – AUD18.00
Operating costs per tonne treated: AUD21.00 – AUD23.00
Mining waste cash costs per tonne of waste: AUD4.60 – AUD4.90

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

In line with International Financial Reporting Standards, the trading results of KDC for the year will not form part of the Group’s continuing operations but will be shown separately under discontinued operations.

The loss on disposal of the asset will result in a non-cash impairment currently estimated to be between US$60 – US$80 million, which will be included in the accounts for the year ended 31 December 2012 when these are finalised.

4. Botswana

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

Development of the decline tunnel through the sand overburden continues to progress slowly through areas of harder material. Efforts to improve the tunneling rate, including the successful introduction of blasting, are being made. As at 31 December approximately 206 meters (40%) of the decline tunnel had been completed, with 298 meters remaining to reach basalt country rock, which is expected to be completed towards the end of Q2 2013. The next stage of development (of approximately one year) will see the completion of the basalt section of the decline, flat waste development and ore development before commencing with production.

Pre-project preparation, including surface works, for the commencement of sinking the ventilation shaft is well progressed and it is anticipated that work on this will commence in Q2 2013.

Construction of the processing plant is substantially complete.

5. Other operations

As announced in the November 2012 IMS, the Company has withdrawn from its Chiri project in Angola.

Since its inception, US$14.4 million has been spent on the Chiri project and following the Company's withdrawal from Angola during the Period, this amount will be fully written off.

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

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

Tragically, a fatal accident occurred at Letšeng on 15 December 2012 when part of a wall holding a clothes line collapsed onto an employee working in the operation's laundry courtyard. The employee was stabilised on site and transported to a government hospital, where she unfortunately later passed away. The full incident investigation was completed and extensive remedial actions developed and implemented. The Company extends its deepest condolences to the family of the deceased.

Zero major environmental or stakeholder incidents were recorded across the Group for the year to date, while 5 significant environmental incidents occurred in 2012. Zero significant stakeholder incidents were recorded.

8 Lost Time Injuries (LTIs), of which 3 were fatalities, have occurred in the Group in 2012. The Group-wide Lost Time Injury Frequency Rate (LTIFR) at year end was 0.30, while the Group-wide All Injury Frequency Rate (AIFR) was 4.53.

On 4 November 2012 Letšeng achieved 12 months LTI free, while Ellendale has continued to remain fatality free throughout its entire life of mine.

For further information:

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

Pelham Bell Pottinger
Charles Vivian / James MacFarlane
Tel: +44 (0) 207 861 3232

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