GEM DIAMONDS

28 January 2014

GEM DIAMONDS LIMITED
Q4 2013 Trading Update

Gem Diamonds Limited (LSE: GEMD) reports a Trading Update for the fourth quarter period 1 October 2013 to 31 December 2013 (Q4 2013) (the Period).

During the Period:

Letšeng:

The Satellite pipe delivered exceptional quality diamonds in Q4 2013, with Letšeng achieving revenue of US$ 75.6 million in Q4 2013.

- An average value of US$ 2 533 per carat was achieved for the 3 exports in Q4 2013 (US$ 2 022 per carat in Q3 2013 and US$ 1 741 per carat in H1 2013).
- 27 227 carats recovered in Q4 2013, up 7% on Q3 2013.
- 11 rough diamonds achieved a value in excess of US$ 1 million each during the Period, (totalling 27 for the full year).
- 35 rough diamonds achieved a value in excess of US$ 20 000 per carat during the Period (totalling 96 for the full year).
- A total of 215 rough diamonds greater than 10.8 carats in size were exported in the Period, equating to 82% of Letšeng's revenue for the Period. (566 diamonds greater than 10.8 carats have been exported for the full year, totalling 75% of Letšeng's revenue for the full year).
- In October 2013 a 12.47 carat blue diamond sold for US$ 7.5 million, a Letšeng record of US$ 603 047 per carat.

Ghaghoo:

Continued progress at Ghaghoo, which offers strong growth potential:

- A total of 1 096 development meters of tunnel have been completed to date.
- Kimberlite has been intersected on Level 0 and the main decline is 50m from the break-off to the first production level, Level 1.
- Construction of the Plant is essentially complete, with commissioning planned for Q2 2014.

Group

- It is with great regret that the Company announces that on 11 January a fall of ground incident occurred in Level 0 of the underground development at Ghaghoo which resulted in an employee losing his life. The Inspector of Mines has conducted an enquiry and has granted permission for construction operations to resume.
- Three Lost Time Injuries (LTIs) occurred in the Group for the full year 2013.
- The Letšeng mine was awarded a 5-star rating at its 2013 IRCA audit for health and safety.
- Zero major stakeholder and environmental incidents have occurred for the full year 2013.
- Continued implementation of international best practice regarding environmental and social responsibility.

Cash:

- The Group maintains its strong cash position with US$ 71.2 million cash as at 31 December 2013, of which US$ 62.6 million is attributable to Gem Diamonds. (US$ 61.5 million as at 30 June 2013, of which US$ 55.6 million was 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$ 23.9 million) facilities.
- A further US$ 25 million credit facility with Nedbank Limited has been concluded for Ghaghoo. This facility will be utilised to fund the remainder of the Ghaghoo capital development.
- During the Period, total dividends declared by Letšeng were US$ 20.0 million, which resulted in a net cash flow of US$ 12.6 million to Gem Diamonds and a cash outflow from the Group as a result of withholding taxes of US$ 1.4 million and payments of the Government of Lesotho's portion of the dividend of US$ 6.0 million.

Gem Diamonds' CEO, Clifford Elphick commented:

"It is with great sadness that the Company reports a fatal accident at the Ghaghoo mine which resulted in the death of one of our employees, Segolane Mashumba in January 2014. Our condolences go out to his family. This is a tragic accident given the outstanding safety record of the Group in 2013, where only 3 lost time injuries were reported for the year and where the Letšeng mine achieved the highest IRCA audited rating for health, safety and environment. Health and safety continues to be a core focus for the Company as we strive to adhere to international health and safety best practices.

It is pleasing to see the stronger Letšeng diamond prices achieved for the Period which were 25% up on the prior quarter. As mining at Letšeng has moved more into the Satellite pipe in Q 4 2013, we have seen an expected improvement on the quality of diamonds produced. This, together with a strong market saw the final tender of 2013 realise over US$ 3 000 per carat. This firmer trend in rough prices for Letšeng's high value diamonds looks set to continue into the beginning of 2014.

It is also a great milestone for the Company to see that at Ghaghoo, the kimberlite has been intersected and the main decline is now less than 50 meters from the break off to the first production level. In addition, a separate US$ 25 million facility has been signed for capital expenditure at Ghaghoo and the Group ended 2013 with a strong cash position some US$ 10 million higher than at the half year."

1. Diamond Market

The diamond market again relied on the US as the main centre for the sale of polished diamonds through the December holiday period. Although the holiday sales were ahead of last December much of the increased sales was attributed to heavy discounting and aggressive sales promotions. Ahead of the Chinese New Year market focus has now shifted to the Asian market. The demand for rough diamonds remained healthy during the Period, with relatively high prices achieved for Letšeng's production, in particular the high quality large rough diamonds. Although positive sentiment is expected to continue into the first quarter of 2014, sustained liquidity constraints, made worse by two major banks in Belgium recently announcing the tightening of their lending criteria, are expected to result in the continuation of the cautious approach adopted by most industry participants in both the rough and polished market.

2. Lesotho

Gem Diamonds holds a 70% shareholding in Letšeng Diamonds (Pty) Ltd ("Letšeng"). The Government of the Kingdom of Lesotho owns the remaining 30%.

2.1 Production

	Q4 2013	Q3 2013	% Change
Waste stripped (tonnes)	4 079 676	5 136 368	(21%)
Ore mined (tonnes)	1 756 516	1 668 160	5%
Ore treated (tonnes)	1 621 815	1 569 532	3%
Carats recovered	27 227*	25 559*	7%
Grade (cpht)	1.68*	1.63*	4%

*Includes 1 604 carats recovered from recovery tailings for the full year 2013.

During the Period, waste stripping at Letšeng was in line with the mine plan and the requirements to access Satellite pipe ore. During Q4 2013, Letšeng's plants 1 and 2 treated 0.7 million and 0.6 million tonnes of ore respectively, 52% of which was sourced from the Satellite pipe. The balance of ore was treated through the Alluvial Ventures plant and sourced from the Main pipe. For the full year 2013, 84% of ore was sourced from the Main pipe and 16% was sourced from the Satellite pipe.

Improved plant availabilities and improvements to the cone crushers which were installed earlier in the year, led to tonnes treated being higher in Q4 2013. This increase in tonnes treated, as well as increased tonnes of the higher grade Satellite ore being treated, has resulted in an increase in carats recovered during Q4 2013 over Q3 2013.

The Alluvial Ventures contract was scheduled to come to an end at the end of 2013, however Alluvial Ventures continues to operate whilst an extension to the contract is being reviewed.

2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

	Q4 2013	Q3 2013	% Change
Carats sold*	29 825	20 405	46%
Total value (US$ millions)	75.6	41.3	83%
Average US$/carat*	2 533	2 022	25%

*Includes carats extracted for polishing at rough valuation

During Q4 2013, Letšeng held 3 tenders which, together with the diamonds extracted for own manufacture, achieved an average value of US$ 2 533 per carat, bringing the full year 2013 average to US$ 2 043 per carat. For the first tender of 2014 these strong prices continued, with Letšeng achieving an average of US$ 2 673 per carat. This brings the 12 month rolling average to US$ 2 180 per carat.

In October 2013 a 12.47 carat blue diamond sold for US$ 7.5 million, a Letšeng record of US$ 603 047 per carat; and an 83 carat white diamond sold for US$ 4.8 million, US$ 59 173 per carat. In November 2013 a 73.37 carat white diamond sold for US$ 3.2 million, US$ 43 766 per carat; and a 32.41 carat white diamond sold for US$ 1.7 million, US$ 53 039 per carat. In December 2013 a 78.69 carat white diamond sold for US$ 5.2 million, US$ 65 954 per carat; and a 55.57 carat white diamond sold for US$ 3.1 million, US$ 57 228 per carat.

478 carats valued at a rough market value of US$ 6.0 million were extracted in the year from the Letšeng exports for manufacture through the Group's own manufacturing operations in Antwerp. US$ 13.4 million (at rough value) of diamonds were sold, including the carry-over of prior year inventory. At the end of the Period, US$ 2.9 million remained in inventory, compared to US$ 10.4 million at the end of December 2012. The sale of these polished diamonds together with the margin made on partnered diamonds, contributed additional revenue of US$ 5.4 million, resulting in additional EBITDA of US$ 3.7 million.

2.3 Projects

The new Coarse Recovery Project was approved in November 2013, subject to funding for an estimated US$14.0 million to cover the full capital costs. This project will use the latest X-Ray Transmissive (XRT) technology to treat the high value coarse fraction of the ore, to ensure greater recovery of the high value type II diamonds. The project will also include security improvements and advanced technology diamond accounting of all diamonds recovered by these units. Detailed design and procurement commenced in January 2014, with construction scheduled to start in Q3 2014 and plant handover scheduled for Q2 2015.

Work to identify incremental improvements to throughput and breakage at both of Letšeng plants is ongoing. Results are encouraging and this work will be progressed during early 2014 and evaluated and prioritized for further development and possible implementation.

2.4 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 within the full year 2013 guidance previously given and are expected to be approximately in line with the figures below:

Direct cash costs (before waste) per tonne treated: Maloti 128
Operating costs per tonne treated: Maloti 153
Mining waste cash costs per tonne of waste: Maloti 27

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

2.6 Letšeng guidance for 2014

	FY 2014
Waste tonnes mined (Mt)	15 – 18
Ore treated (Mt)	5.5 – 5.8

	FY 2014
Carats recovered (Kct)	90 - 95
Carats sold (Kct)	94 - 99
Direct cash costs (before waste) per tonne treated (Maloti)	127 - 135
Mining waste cash costs per tonne of waste mined (Maloti)	28 - 31
Operating costs per tonne treated[1] (Maloti)	190 - 220
Stay in business capital (US$m)	6 - 10
Expansion capital (US$m)	18 - 20

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

The year on year increase in direct cash unit costs from 2013 to 2014 is largely driven by above inflation fuel and power cost increases, general inflation and an increase in the average mining haul distance. The increase in operating costs per tonne treated is largely driven by the additional waste amortisation associated with the increased mining in the Satellite pipe in 2014 (relative to 2013) as the Satellite pipe has a higher waste strip ratio than the Main pipe.

3. Botswana

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

It is with great sadness that the Company announces that a fall of ground incident occurred at Ghaghoo on 11 January, in which one of our employees, Segolame Mashumba, tragically lost his life. The Botswana Inspector of Mines has conducted an enquiry into the incident (and will issue his report in due course). Permission has been granted for mining operations to resume and operations have indeed resumed.

Good progress continues to be made with the tunnels and a major milestone was achieved when Level 0 intersected the kimberlite on 26 November (approximately 134m below surface). A further 65m of development is required to reach the old sample tunnels which, once intersected, will be examined for safety ahead of commencing production on Level 1.

The main decline is 50m away from the break-off to the first production level, Level 1 (154m below surface); and development of the rim and access tunnels are expected to commence mid- February 2014.

Commercial commencement of production remains on schedule for early H2 2014; ramping up to the planned steady state annual production rate by year end (220 000 carats per annum, extracted from 720 000 tonnes of ore).

The mining support infrastructure, camp, treatment plant (final commissioning is scheduled for early in Q2 2014) and the other services are in place and are operating well.

As at 31 December 2013, US$ 71.2 million of the total capital budget of US$ 96.0 million had been spent to date.

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

Three Lost Time Injuries (LTIs) occurred in the Group for the full year 2013, resulting in a Group-wide Lost Time Injury Frequency Rate (LTIFR) to end December of 0.13, while the Group-wide All Injury Frequency Rate (AIFR) was 2.40. Both the LTIFR and AIFR remain well below the 2012 rates.

Pleasingly, the Letšeng mine achieved a 5-star rating in the 2013 IRCA audit for health and safety.

Zero major environmental or stakeholder incidents have occurred for the year.

For further information:

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

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 70% of the Letšeng mine in Lesotho and 100% of 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