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GEM DIAMONDS LIMITED

Trading Update for Q4 2014

Letšeng ends a good year with continued strong performance. Ghaghoo production ramp-up progressing.

Gem Diamonds Limited (LSE: GEMD) is pleased to report a Trading Update detailing the Company's operational and sales performance for Q4 2014 (1 October to 31 December 2014) (the Period).

Highlights:

Letšeng:

Continued strong performance at Letšeng

- 25 525 carats were recovered in Q4 2014 (28 365 carats in Q3 2014).
- The year ended very positively, with the December tender achieving an average of US\$ 2 799* per carat. This resulted in an average value of US\$ 2 140* per carat being achieved in Q4 2014 (US\$ 2 603* per carat in Q3 2014), bringing the average for 2014 to US\$ 2 540* per carat (US\$ 2 043* per carat for FY 2013).
- 13 rough diamonds achieved a value of greater than US\$ 1.0 million each during the Period, including a 112.6 carat white diamond and a 90.4 carat white diamond which sold for US\$ 5.8 million and US\$ 4.2 million, respectively.
- A 299.3 carat yellow diamond was recovered and extracted at rough valuation during the Period. It was sold into a partnership arrangement in January 2015 with Letšeng to share in 50% of the polished uplift.

*Includes carats extracted at rough valuation for polishing.

Ghaghoo:

Ghaghoo mine development progresses well with encouraging initial diamond recoveries

- A total of 10 167 carats were recovered during commissioning up to Period end, including a 20 carat white diamond, a 17 carat white diamond, and a 3 carat orange diamond which confirms the presence of valuable coloured diamonds in the orebody.
- A 35 carat diamond was recovered in January 2015, the largest diamond recovered at Ghaghoo to date.
- An initial sale of c.10 000 carats will be held in Gaborone and Antwerp during January and February 2015.
- The development of Phase 1 is progressing well and the ingress of water has been arrested and steps taken to prevent any further interruption to production from water intersections.

Financial:

Robust operational results generates positive cashflows, providing financial flexibility to meet medium to long-term objectives

- The Group ended the year with US\$ 110.7 million cash as at 31 December 2014, of which US\$ 99.4 million is attributable to Gem Diamonds.
- The Group has drawn down US\$ 37.1 million of its total available facilities of US\$ 78.7 million, resulting in a net cash position of US\$ 73.6 million at Period end.
- In December 2014, Letšeng paid dividends of US\$ 51.8 million, which resulted in a net cash flow of US\$ 32.6 million to Gem Diamonds and a cash outflow from the Group as a result of withholding taxes of US\$

3.6 million and payment of the Government of Lesotho's dividend portion of US\$ 15.6 million. In total for the year, Letšeng paid dividends of US\$ 92.0 million of which US\$ 57.9 million flowed to Gem Diamonds.

- The Group remains on track to declare a maiden dividend to shareholders following its final results announcement in March 2015.

Gem Diamonds' CEO, Clifford Elphick, commented:

"The fourth quarter of 2014 saw an encouraging end to a very positive year for Gem Diamonds, with the December Letšeng tender achieving an average of US\$ 2 799 per carat. At Letšeng, a year of solid operational performance saw an improvement over the prior year's production results, with costs well controlled. Both the implementation of the Plant 2 Phase 1 upgrade and the new Coarse Recovery Plant projects remain on track for commissioning in Q1 and Q2 of 2015 respectively – on time and budget.

At Ghaghoo the development of Phase 1 has progressed well and significant work was undertaken to arrest the fissure water intersected in the basalt country rock and to ensure that any further water ingress is handled efficiently. The production ramp-up has begun and the first sale of diamonds recovered from commissioning will take place in February. There have been some encouraging recoveries made of larger and coloured diamonds during this commissioning period.

The long term outlook for the diamond market remains strong, however during the fourth quarter the diamond market saw a weakening of prices following a year of price growth. This trend may continue into the first quarter of 2015.

Based on the positive results achieved in 2014, Gem Diamonds remains on track to declare a maiden dividend to shareholders following the 2014 full year results announcement in March 2015."

1. Diamond Market

The announcement of the closure of the Antwerp Diamond Bank (ADB) in October 2014 has led to concerns over the availability of liquidity in the rough diamond market. Although the market has for a while been aware of the continuing issue of constrained liquidity, the official announcement of ADB's closure weakened market sentiment during the Period. The overall sentiment in both the rough and polished diamond market leading up to and following the Hong Kong Jewellery Show in September 2014 was cautious, resulting in downward pressure on the price of rough diamonds during the Period. Notwithstanding these market conditions, Letšeng's high value rough production remained relatively resilient during the Period, with high value large rough diamonds achieving strong prices in the quarter. It is, however, expected that this cautious approach in the market will continue into Q1 2015

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 2014	Q3 2014	QoQ % Change	Full year 2014	Full year 2013	YoY % Change
Waste stripped (tonnes)	5 075 503	4 787 791	6%	19 884 721	19 072 657	4%
Ore treated (tonnes)	1 590 855	1 601 758	-1%	6 421 704	6 225 821	3%
Carats recovered	25 525	28 365	-10%	108 569	95 053	14%
Grade recovered (cph)	1.60	1.77	-9%	1.70	1.53	11%

Improved efficiencies in the use of larger load and haul equipment which had been commissioned during Q3 2014, resulted in a 6% increase in waste being stripped in Q4 2014 compared to the previous quarter.

Letšeng's Plants 1 and 2 treated a total of 1.37 million tonnes of ore in Q4 2014, 64% of which was sourced from the Main pipe and 36% from the Satellite pipe. The balance of ore was treated through the Alluvial Ventures contractor plant, 93% of which was sourced from the Main pipe and 7% from stockpiles. For the full year 2014, a total of 69% of ore was sourced from the Main pipe and 31% from the Satellite pipe.

The increase in the total carats recovered year on year is due to the increased percentage of Satellite ore treated compared to 2013 and the grade over performance of the Reserve.

2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

	Q4 2014* (3 tenders)	Q3 2014* (2 tenders)	QoQ % Change	Full year 2014*	Full year 2013*	YoY % Change
Carats sold	31 614	23 550	34%	108 963	97 294	12%
Total value (US\$ millions)	67.7	61.3	10%	276.8	198.8	39%
Achieved US\$/ct	2 140	2 603	-18%	2 540	2 043	24%

*Includes carats extracted at rough valuation for polishing.

Three Letšeng tenders were held during the Period, achieving an average price of US\$ 2 140* per carat (compared to two tenders in Q3 2014, which achieved US\$ 2 603* per carat). This brings the 12 month rolling average to 31 December 2014 to US\$ 2 540* per carat, up 24% from US\$ 2 043* per carat in the prior year.

*Includes carats extracted at rough valuation for polishing.

During Q4 2014, 13 exceptional rough diamonds achieved prices greater than US\$ 1 million each, including a 299.3 carat yellow diamond, which was extracted in the Period and subsequently sold into a partnership arrangement in January 2015 with Letšeng to share in 50% of the polished uplift; a 112.6 carat white diamond which sold on tender for US\$ 5.8 million (US\$ 51 833 per carat); and a 90.4 carat white diamond which sold on tender for US\$ 4.2 million (US\$ 46 003 per carat).

For the full year, 1 232 carats (including the 299.3 carat yellow diamond) were extracted for manufacturing at a rough value of US\$ 17.2 million. US\$ 15.2 million (at rough value) remained in polished inventory at the end of the year, compared to US\$ 2.9 million at the end of 2013. The net impact of this polished inventory movement on the overall Group revenue in 2014 is a decrease of US\$ 12.3 million.

2.3 Projects

The new Coarse Recovery Plant project remains on track for completion in Q2 2015 for a total budget of Maloti 140.0 million (US\$ 12.1 million), of which Maloti 62.2 million (US\$ 5.7 million) was spent in 2014. The majority of the equipment is now on site, with construction underway. The Coarse Recovery Plant project will optimise the treatment of the high value, coarse fraction of ore and is expected to improve the recovery of the high value Type II diamonds and improve security measures.

Implementation of the Plant 2 Phase 1 upgrade project (which is planned to deliver an increase in treatment capacity of 250 000 tonnes per annum, as well as further reducing diamond damage), commenced in Q3 2014 and is on track to be completed at the end of Q1 2015 following a planned three week implementation shutdown. Maloti 9.8 million (US\$ 0.9 million) of the total project capital cost of Maloti 50.0 million (US\$ 4.3 million) was spent in 2014. Subsequent phases of the Plant 2 upgrade project will be considered once Phase 1 has been implemented and plant performance has been evaluated.

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 power cost increases experienced during the year. Costs are in-line with the full year 2014 guidance and are expected to be approximately in line with the figures below:

Direct cash costs (before waste) per tonne treated: Maloti 137

Operating costs per tonne treated*: Maloti 215

Mining waste cash costs per tonne of waste: Maloti 24

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

2.6 Letšeng guidance for 2015

	FY 2015
Waste tonnes mined (Mt)	20 - 22
Ore treated (Mt)	6.3 – 6.5
Carats recovered (Kct)	100 – 105
Carats sold (Kct)	100 – 105
Direct cash costs (before waste) per tonne treated (Maloti)	145 – 155
Mining waste cash costs per tonne of waste mined (Maloti)	28 - 30

	FY 2015
Operating costs per tonne treated ¹ (Maloti)	195 – 215
Stay in business capital (US\$m)	8 – 10
Project 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. Letšeng project capital includes the coarse recovery plant and the first phase Plant 2 upgrade and second phase feasibility studies. Exchange rates applied at Maloti 11.00.

3. Botswana

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

Development of Phase 1 at Ghaghoo has continued to progress well. Three kimberlite tunnels on the first main production level (Level 1) have been fully developed to the northern orebody-country rock contact, while the fourth tunnel is nearing completion. Development of the access ramp to Level 2 has commenced and is scheduled to reach Level 2 by June 2015. Development of the ventilation system is progressing satisfactorily.

The sealing of fissure water intersected in the basalt country rock has been completed and a significant amount of work has been done to provide adequate water storage and pumping facilities underground so that any potential further water intersections can be handled efficiently. Six de-watering boreholes from surface are now in place and operating satisfactorily.

The training stope and access tunnels in the kimberlite on Level 0 have continued to provide ore for the plant during the commissioning period and will continue to do so until replaced by steady state production from Level 1 later in 2015.

As at the end of the December 2014, 48 023 tonnes of ore had been treated, with 10 167 carats having been recovered. The recovered grade during the commissioning period has averaged just over 21cpht compared to an expectation of c.27cpht. Grade was negatively impacted by highly diluted ore derived from the margins of the pipe and normal plant inefficiencies during early commissioning. During the latter part of the Period, following commissioning processes at the treatment plant, the grade improved as expected and management anticipates that reserve grades will be achieved as both the plant and mining operations achieve steady state.

An initial sale of c.10 000 carats recovered from all ore during commissioning will be held in Gaborone and Antwerp during January and February 2015.

As the operation is in its commissioning phase, with planned ramp-up scheduled for the first part of the year, guidance with respect to operating costs, production and development will be provided after the achievement of steady state production at the end of Q2 2015.

4. Health, Safety, Social and Environment (HSSE):

The Group continues to strive toward its goal of zero harm to its people and environment and to operate within the Group's sustainable development framework.

For the whole of 2014, the Group-wide Lost Time Injury Frequency Rate (LTIFR) was 0.2 and the Group All Injury Frequency Rate (AIFR) was 3.0.

Gem Diamonds continues to work closely with its project affected communities to ensure that the social projects implemented continue to be sustainable.

Zero major or significant environmental incidents have occurred across the Group during 2014.

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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 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 bringing the Ghaghoo mine into production, 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.

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