Gem Diamonds Limited (the Company) (LSE: GEMD) reports a Trading Update for the fourth quarter period, 1 October 2011 to 31 December 2011 (Q4 2011) (the period).

Key Highlights:

- Record full year carat production at Letšeng, with continued recovery of high value, exceptionally large diamonds.
- Strong cash position, with approximately US$158 million cash on hand.
- Project Kholo, Letšeng’s production expansion project, received Board approval in November 2011 and it is planned that ramp up to full expanded production capacity will occur by July 2014.

During the period:

Letšeng*:

- The Letšeng mine continued to deliver a strong operational performance in 2011, ending the year having achieved the highest carat recovery in the history of the mine and with continued recovery of high value and exceptionally large diamonds.
- The 550 carat, Type IIa, D colour, Letšeng Star was sold in October 2011 into a profit sharing arrangement for a rough value of US$16.5 million and with potential for further upside.
- Letšeng continued to market its rough diamonds on tender and to extract selected rough diamonds for own manufacturing and partnering, providing access to additional margins further down the diamond value chain.
- The average value of the exports for the period was US$2 543 per carat (US$3 291 per carat in Q4 2010).
- 10 rough diamonds achieved a value in excess of US$1 million each during the period.
- A total of 46 rough diamonds, which achieved values greater than US$20 000 per carat, were recovered in the period, totaling 184 such diamonds for the full year, which have contributed circa 70% of Letšeng’s revenue for the full year.
- 168 rough diamonds greater than 10.8 carats in size were recovered in the period.
- Letšeng exported a total of 32 353 carats for sale during Q4 2011, up 32% from Q4 2010.

Ellendale:

- Production improved significantly during the period, with November’s carat recovery being the highest of 2011.

* Includes production extracted for manufacturing at rough market valuation (further details in section 1.2 Diamond Sales and Diamonds Extracted for Manufacturing below).
• Ellendale achieved an average price of US$4,269 per carat during the period for its fancy yellow diamonds supplied under the long term off-take agreement with Tiffany & Co. (US$3,482 per carat in Q4 2010).
• For its commercial goods, Ellendale achieved an average price of US$180 per carat during the period (US$189 per carat in Q4 2010).

Ghaghoo:
• Phase 1 development of the Ghaghoo diamond mine in Botswana is progressing well and remains on budget, with the box cut and portal having been completed during the period and preparations well underway to commence the development of the decline.
• On schedule to deliver first production in mid 2013.

Cash:
• The Group has a strong cash position of approximately US$158 million cash as at 31 December 2011, of which approximately US$141 million is attributable to Gem Diamonds.
• During the 2011 year, the total dividends declared by Letšeng Diamonds were US$121.3 million, which resulted in a net cash flow of US$76.4 million to Gem Diamonds and a cash outflow from the Group of US$8.5 million as a result of withholding taxes and US$36.4 million in payments of the Government of Lesotho’s portion of the dividend.
• During the period, Letšeng Diamonds declared a dividend of Maloti 320 million (US$39.5 million) which resulted in a net cash flow of US$24.9 million to Gem Diamonds and a cash outflow from the Group of US$2.8 million as a result of withholding taxes and US$11.8 million in payments of the Government of Lesotho’s portion of the dividend.
• During November, Letšeng signed a three year revolving working capital facility of Maloti 250 million with Standard Lesotho Bank. This facility is available for draw-down from January 2012.

Health, Safety, Corporate Social Responsibility and Environment (HSSE):
• Regrettably a fatality occurred at Letšeng during November.
• Gem Diamonds works towards zero harm, however, at year end the Group-wide Lost Time Injury Frequency Rate (LTIFR) was 0.21. The Company’s target is zero.
• The All Injury Frequency Rate (AIFR) at year end was 4.50. The Company’s threshold for 2011 is 5.05.
• The Group recorded no major environmental or community related incidents during the year.

Gem Diamonds CEO, Clifford Elphick commented:

“Letšeng has continued to demonstrate its position as one of the world’s leading diamond mines. Operationally we have delivered an excellent performance and have continued to recover some of the world’s finest and largest diamonds. Through the development of our sales and marketing strategy and our cutting and polishing capabilities, we are increasingly gaining exposure to the full diamond value chain on our most valuable diamonds, working to grow and enhance our margins and increase profitability.”
The strength of our asset base has supported the approval of two key growth projects and looking forward, we believe we are well placed to deliver shareholder value through the expansion of operations at Letšeng and the development of another mine at Ghaghoo.

The fourth quarter of 2011 saw rough diamond prices down from their highs in the first half of the year due, in the main, to the continuing effects of the Eurozone crisis. However, the last two Letšeng tenders of the year saw an improvement in demand, with a modest strengthening of prices in most categories.

It is with much regret that we report that Letšeng had a fatality in the past quarter. We have taken corrective actions immediately following this. We remain committed to achieving our zero fatality target and to ensuring that a safety culture is embedded across the entire group and adhered to by all our employees and contractors.”

1. Lesotho - Letšeng Diamonds (Pty) Ltd - (Letseng)

Gem Diamonds holds a 70% shareholding in Letšeng in partnership with the Government of the Kingdom of Lesotho which owns the remaining 30%.

1.1 Production and Development

<table>
<thead>
<tr>
<th></th>
<th>Q4 2011</th>
<th>Q4 2010</th>
<th>% Change</th>
<th>FY 2011</th>
<th>FY 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste stripped (tonnes)</td>
<td>3 998 926</td>
<td>3 510 318</td>
<td>14%</td>
<td>16 932 222</td>
<td>11 676 929</td>
</tr>
<tr>
<td>Ore mined (tonnes)</td>
<td>1 545 053</td>
<td>1 674 154</td>
<td>(8%)</td>
<td>6 661 189</td>
<td>7 419 610</td>
</tr>
<tr>
<td>Ore treated (tonnes)</td>
<td>1 740 756</td>
<td>1 693 608</td>
<td>3%</td>
<td>6 805 152</td>
<td>7 557 079</td>
</tr>
<tr>
<td>Carats recovered</td>
<td>29 783</td>
<td>22 066</td>
<td>35%</td>
<td>112 367</td>
<td>90 933</td>
</tr>
<tr>
<td>Grade (cpht)</td>
<td>1.59*</td>
<td>1.30</td>
<td>22%</td>
<td>1.62*</td>
<td>1.20</td>
</tr>
</tbody>
</table>

* For the Q4 2011 and FY 2011 grade calculations, 2 171 carats which were recovered from tailings during test work have been excluded.

Letšeng continued its strong performance during the period, ending the year achieving the highest carat recovery in the history of the mine. Operations at Letšeng continued to recover high value and exceptionally large diamonds, demonstrating the strength of this unique asset.

During the period, Letšeng’s Plant 1 processed 0.72 million tonnes, Plant 2 processed 0.71 million tonnes and the Alluvial Ventures plant processed 0.32 million tonnes. Final installation and commissioning of Alluvial Ventures’ crushing equipment greatly improved their production throughput during the period. Of the total ore mined and processed for the year through all three plants, 83% was sourced from the Main pipe and 17% was sourced from the Satellite pipe.
The recovered grade continued to outperform the resource grade throughout the year, including throughout the period. This higher recovered grade can be attributed to higher than expected ore grades as well as improved blasting fragmentation and process controls. In total for the period, a 6% higher than expected average recovered grade was achieved by all the plants in.

Tonnes of waste mined have increased in line with the mine plan to increase waste stripping in the Satellite pit and the commencement of stripping a new cut in the Main pit.

For the full year 2011, Letšeng produced 98,958 carats from its Plants 1 and 2, whilst an additional 2,171 carats were recovered from the treatment of recovery tailings through Letšeng’s test plant using two X-ray technologies which formed part of the feasibility study for Project Kholo. Alluvial Ventures produced 11,238 carats, bringing Letšeng’s total production for 2011 to 112,367 carats, with a total of 107,700 carats exported for sale during 2011.

As previously announced in November 2011, the Company’s Board and the Board of Letšeng Diamonds approved Project Kholo. The planned development of Project Kholo, which entails increased production through the construction of a third processing plant and other operational improvements, will see a ramp up to full production of 10 million tonnes by July 2014.

### 1.2 Diamond Sales and Diamonds Extracted for Manufacturing

<table>
<thead>
<tr>
<th></th>
<th>Q4 2011</th>
<th>Q4 2010</th>
<th>% Change</th>
<th>FY 2011</th>
<th>FY 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carats sold*</td>
<td>32 353</td>
<td>24 517</td>
<td>32%</td>
<td>107 700</td>
<td>88 564</td>
</tr>
<tr>
<td>Total value (US$ millions)</td>
<td>82.3</td>
<td>80.7</td>
<td>2%</td>
<td>299.0</td>
<td>190.3</td>
</tr>
<tr>
<td>Average US$/carat*</td>
<td>2 543</td>
<td>3 291</td>
<td>(23%)</td>
<td>2 776</td>
<td>2 149</td>
</tr>
</tbody>
</table>

* Includes all carats extracted for polishing at rough valuation.

Following the sustained increase in diamond prices through the first eight months of the year, the onset of the Eurozone crisis and tightened liquidity in the diamond sector, prices fell sharply across the industry at the end of the third quarter 2011. However in the fourth quarter Letšeng saw diamond prices for it’s less than 10.8 carat diamonds recover by 4% across the board, with the better quality, less than 10.8 carat diamonds recovering by 8% on average.

More positively for Letšeng, the exceptional, larger diamonds were not as severely impacted as the smaller diamonds were in the third quarter, but also showed single digit improvements in price in the fourth quarter.

A total of 46 rough diamonds were recovered at Letšeng in the period that achieved values in excess of US$20,000 per carat. Of these, 12 rough diamonds achieved values in excess of US$40,000 per carat.
In line with the Company’s stated strategy to increase its participation in downstream cutting and polishing for own and partnered goods, for the full year 2011, a total of 1,624 carats were extracted at a rough market value of US$68.6 million. Of this, US$1.5 million remains unrecognized in revenue. Overall the margin achieved on those goods sold was in line with expectations.

During the period, the polished market remained under pressure as a result of industry illiquidity, geopolitical uncertainty and inconsistent demand from retailers. Prices achieved for the Letšeng type higher quality polished diamonds were approximately 5-10% softer in the fourth quarter of 2011 when compared to those prices achieved in July 2011. This compares to the polished diamond prices across the entire industry which fell by a reported 20-25% in the same period.

1.3 Costs

Cost management has continued to be of key focus and Letšeng has managed to maintain its costs within expected targets notwithstanding fuel and power increases experienced during the year. All costs are expected to be broadly in line with the top end of the guidance previously given for the full year 2011 as stated below:

Full Year 2011 Guidance:
Direct cash costs (before waste) per tonne treated: Maloti 83.00 - Maloti 88.00
Operating costs per tonne treated: Maloti 98.00 - Maloti 103.00
Mining waste cash costs per tonne of waste: Maloti 22.00 - Maloti 23.00

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

1.4 Guidance for 2012

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste mined (Mt)</td>
<td>17-19</td>
</tr>
<tr>
<td>Ore mined /treated (Mt)</td>
<td>6.8-7.0</td>
</tr>
<tr>
<td>Carats recovered (Kct)</td>
<td>112-114</td>
</tr>
<tr>
<td>Carats sold (Kct)</td>
<td>109-112</td>
</tr>
<tr>
<td>Direct cash costs( before waste) per tonne treated - Maloti</td>
<td>105.00-115.00</td>
</tr>
<tr>
<td>Operating costs per tonne treated¹ - Maloti</td>
<td>130.00-140.00</td>
</tr>
<tr>
<td>Mining waste cash costs per tonne of waste - Maloti</td>
<td>26.00-28.00</td>
</tr>
</tbody>
</table>
Polished Margin % 10-13
% Revenue available for manufacturing 15
Stay in business capital\(^2\) (US$m) 8-10
Project Kholo capital\(^2\) (US$m) 115

\(^1\) Operating costs excludes royalty, selling costs, depreciation and mine amortisation but includes inventory, waste and ore stockpile adjustments.
\(^2\) Foreign exchange assumptions ZAR 7.80 to the US dollar. (The Lesotho Maloti is pegged to the South African rand)

The year on year increase in unit costs from 2011 to 2012 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.

2. Australia - Kimberley Diamond Company NL - (Ellendale)

The Ellendale mine, located in Western Australia, is owned and operated by Gem Diamonds’ wholly owned subsidiary, Kimberley Diamond Company.

2.1 Production and Development

<table>
<thead>
<tr>
<th></th>
<th>Q4 2011</th>
<th>Q4 2010</th>
<th>% Change</th>
<th>FY 2011</th>
<th>FY 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste stripped (tonnes)</td>
<td>1 449 913</td>
<td>1 054 346</td>
<td>38%</td>
<td>6 183 668</td>
<td>4 794 748</td>
</tr>
<tr>
<td>Ore mined (tonnes)</td>
<td>1 160 472</td>
<td>1 341 247</td>
<td>(13%)</td>
<td>2 728 821</td>
<td>3 803 559</td>
</tr>
<tr>
<td>Ore treated (tonnes)</td>
<td>820 375</td>
<td>1 026 119</td>
<td>(20%)</td>
<td>3 116 017</td>
<td>4 016 338</td>
</tr>
<tr>
<td>Carats recovered</td>
<td>35 305</td>
<td>39 535</td>
<td>(11%)</td>
<td>120 302</td>
<td>166 708</td>
</tr>
<tr>
<td>Grade (cpht)</td>
<td>4.30</td>
<td>3.85</td>
<td>12%</td>
<td>3.86</td>
<td>4.15</td>
</tr>
</tbody>
</table>

In Q4 2011, the operation at Ellendale saw a significant improvement in performance over previous quarters, with 0.29 million tonnes of ore treated in November and 0.31 million tonnes treated in December, recovering 13 595 and 11 369 carats respectively. November’s carat recovery being the highest of 2011.

Ellendale’s plant has begun to operate on a more consistent basis following various plant modifications and improvements. The major wet front-end modifications commenced in the third quarter of 2011 with the expectation that this will facilitate improved production in 2012. The first scrubber was commissioned in early January 2012, with the balance of the modifications due to be completed during February 2012.
During the period, the mining contract renewal selection process was completed and a decision was taken to change mining contractors in order to improve efficiencies. Full demobilisation and mobilisation was completed by year end. The year-end stockpile level ended below target due to the change out, but contingency plans are in place to supplement plant feed by continuing with limited mining activities during the wet season.

Lee-Anne de Bruin (previously Chief Financial Officer of Kimberley Diamonds) was appointed as the new Managing Director of Kimberley Diamonds.

As reported in November, the Company continues to consider all of its options regarding its Ellendale mine asset in Australia and has appointed advisors to assist in this regard.

2.2 Rough Diamond Sales

<table>
<thead>
<tr>
<th></th>
<th>Q4 2011</th>
<th>Q4 2010</th>
<th>% Change</th>
<th>FY 2011</th>
<th>FY 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carats sold</td>
<td>40 187</td>
<td>65 290</td>
<td>(38%)</td>
<td>121 454</td>
<td>163 934</td>
</tr>
<tr>
<td>Total value (US$ millions)</td>
<td>31.8</td>
<td>30.3</td>
<td>5%</td>
<td>88.7</td>
<td>77.9</td>
</tr>
<tr>
<td>Average US$/carat</td>
<td>792</td>
<td>464</td>
<td>71%</td>
<td>731</td>
<td>475</td>
</tr>
</tbody>
</table>

In the period, Ellendale sold a total of 40 187 carats at an average price of US$792 per carat. 6 014 carats of fancy yellow diamonds were sold to Tiffany & Co. at an average price of US$4 269 per carat (US$3 482 per carat in the Q4 2010), resulting in a full year average price of US$4 409 per carat of fancy yellow diamonds sold to Tiffany & Co. (US$2 891 per carat for the full year 2010).

In the fourth quarter, 34 173 carats of commercial goods were sold at an average price of US$180 per carat (US$189 per carat in Q4 2010), resulting in an average price of US$188 per carat for the full year 2011 (US$155 per carat for the full year 2010).

2.3 Costs

The significant improvement in production performance in the last quarter has had a positive impact on the overall annual unit operating costs compared to the revised guidance issued in November 2011. All costs are estimated to be below the lower end of this guidance:

Full Year 2011 Guidance (as reported in November 2011):
Direct cash costs (before waste) per tonne treated: AUD20.00 - AUD21.50
Operating costs per tonne treated: AUD25.50 - AUD26.50
Mining waste cash costs per tonne of waste: AUD4.10 - AUD4.30

Operating costs excludes royalty, selling costs, depreciation and mine amortisation but includes inventory, waste and ore stockpile adjustments.
2.4 Guidance for 2012

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste mined (Mt)</td>
<td>3.8-4.2</td>
</tr>
<tr>
<td>Ore treated (Mt)</td>
<td>3.5-3.8</td>
</tr>
<tr>
<td>Carats recovered (Kct)</td>
<td>160-170</td>
</tr>
<tr>
<td>Carats sold (Kct)</td>
<td>155-165</td>
</tr>
<tr>
<td>Direct cash costs before waste per tonne treated - AUD</td>
<td>18.50-19.50</td>
</tr>
<tr>
<td>Operating costs per tonne treated(^1) - AUD</td>
<td>23.00-24.50</td>
</tr>
<tr>
<td>Mining waste cash costs per tonne of waste - AUD</td>
<td>4.40-4.70</td>
</tr>
</tbody>
</table>

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

3. Botswana - Gem Diamonds Botswana - (Ghaghoo)

The Ghaghoo diamond mine in Botswana is currently being developed by the Company’s wholly owned subsidiary, Gem Diamonds Botswana.

Progress on the surface infrastructure continued well during the period, with most of the accommodation facilities, utilities and other services having been completed. The box cut and portal were also completed during this period and development of the decline, using an open face tunnel shield through the sand, commenced in January 2012, having been delayed due to excessive rainfall during December 2011. Notwithstanding this delay, Phase 1 of the Ghaghoo project is still anticipated to be completed on time (mid 2013) and within budget.

For the full year 2011, capital expenditure at Ghaghoo was US$19 million and it is planned that US$44 million will be spent in 2012 and US$22 million in 2013, with production commencing in 2013.

4. Other Assets

During the period, and as previously reported in the Interim Management Statement in November 2011, Gem Diamonds completed the sale of its 80% interest in its Indonesian alluvial diamond mining company, PT Galuh Cempaka, on 28 October 2011, for a total consideration of US$5 million.
The Chiri project in Angola remains under review; however opportunities continue to be explored in terms of the future of Gem Diamonds’ involvement in this project. Negotiations with the Company’s partner have been extended to 31 May 2012.

5. Health, Safety, Corporate Social Responsibility and Environment

The health and wellbeing of Gem Diamonds’ employees, the appropriate management of the environment in which the Company operates and the continuation of sound stakeholder interaction, remain a top priority across all operations within the Group.

Regrettably, a fatality occurred at Letšeng on 4 November 2011 in a vehicle maintenance workshop. A detailed root cause analysis was undertaken by an external, independent consultancy as part of the incident investigation process. Relevant immediate, medium and long term corrective actions were implemented.

As at 31 December 2011, Ellendale achieved a Lost Time Injury (LTI) free year and has now remained LTI free since August 2009.

Group-wide, for the full year 2011, 5 LTIs occurred, resulting in a Lost Time Injury Frequency Rate (LTIFR) of 0.21. The full year All Injury Frequency Rate (AIFR) is 4.50, which remains below the AIFR ceiling for 2011 of 5.05.

At year end across the Group, Corporate Social Investment projects were successfully implemented according to project plans and the Company continued to make a positive contribution to project affected communities during 2011. The Group has recorded zero major environmental or community incidents for 2011.

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About Gem Diamonds:

Gem Diamonds is a leading global diamond producer of high value diamonds. Its production portfolio comprises kimberlite and lamproite mines in Lesotho and Australia, and a kimberlite mine development project in Botswana. Both producing mines are world-leaders in the production of the
highest quality, highest value gems: remarkable white diamonds from the Letšeng mine in Lesotho and fancy yellow diamonds from the Ellendale mine in Australia. This production positions the Company strongly in a segment of the market expected to generate attractive returns over the long term.

Gem Diamonds has a clear and consistent growth strategy based on the development of its existing assets and maximising its revenue from its rough diamonds by pursuing cutting and polishing initiatives further down the diamond pipeline. The strategy has been implemented with a view to maximizing the returns from the Company's existing assets based on the favourable supply demand dynamics which are forecast over the longer term.

www.gemdiamonds.com