

## Gemfields plc

("Gemfields" or the "Company")

### Market Update – Quarter to 30 June 2012

22 August 2012

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Gemfields plc (AIM: GEM) presents an operational update for the three month period and year ending 30 June 2012. All figures are approximate, unaudited and, unless otherwise stated, the phrase "carats" includes both emerald and beryl.

#### Highlights

- Production summary for the Kagem emerald mine:
  - The final quarter of the year saw strong production growth to 7.3 million carats (versus 4.9 million carats in the prior quarter);
  - Grade for the quarter was 181 carats per tonne (versus 236 carats per tonne in the prior quarter), with unit production costs of USD 0.57 per carat (versus USD 0.85 per carat in the prior quarter)
  - Cash rock handling unit cost were USD 3.5 per tonne (versus USD 3.7 per tonne in the prior quarter)
  - Unit ore production costs reduced by 48% from USD 200 per tonne in the prior quarter to USD 104 per tonne
- Kagem's large-scale on-going waste movement programme is progressing well to open up new areas for future ore production
- Revenue of USD 9.0 million from successful Jaipur auction of 3.47 million carats in June 2012
- At 30 June 2012, Gemfields had USD 36.7 million in cash and debt outstanding of USD 2.9 million
- The Montepuez ruby mine in Mozambique is on track to commence bulk sampling in the coming quarter
- Demand for ethical emeralds continues to remain firm across all major markets with Gemfields' next higher quality rough emerald auction scheduled to take place in Singapore between the 29 October and 3 November 2012

Ian Harebottle, CEO of Gemfields, commented:

*"On the back of solid demand for Gemfields' products, pleasing stock levels and healthy cash balances, our decision to focus primarily on mine development and waste mining during the past year is, I believe, well justified. Despite some early minor delays and slightly lower than anticipated full year production volumes, the past few quarters have continued to deliver improving production volumes, a trend that is likely to continue in the near term. This, together with the progress that has been achieved at our Mozambican ruby mine, provides management with the confidence that the coming year will continue to underpin Gemfields' ambitious growth plans."*

A graphical production update is available at [www.gemfields.co.uk](http://www.gemfields.co.uk).

#### Production Update

The 75%-owned Kagem emerald mine is presently Gemfields' only operating emerald mine and is the single largest emerald mine in the world. The key production parameters by quarter are summarised below:

## Production Performance

Quarterly Summary	Units	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	TOTAL
Gemstone Production (Emerald+Beryl)	million carats	12.8	5.9	3.5	10.8	4.9	3.9	4.9	7.3	54.1
Ore Production (Reaction Zone)	'k tonnes	19.5	16.0	12.0	21.7	24.0	17.5	20.8	40.7	172.1
Grade (Emerald+Beryl/Reaction Zone)	carats /tonne	658	369	290	500	205	222	236	181	314
Waste Mined (including TMS)	million tonnes	0.9	0.8	0.8	1.4	2.2	2.2	1.6	2.8	12.7
Stripping Ratio		48	48	66	67	92	125	78	68	74
Cash Operating Cost	USD million	3.5	3.6	3.6	3.5	7.2	7.0	6.0	9.8	44.2
Cash Rock Handling Unit Cost	USD /tonne	3.6	4.6	4.4	2.4	3.3	3.2	3.7	3.5	3.5

## Financial Performance\*

Quarterly Summary	Units	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	TOTAL
Total Operating cost	USD million	3.5	3.6	3.6	3.5	3.9	3.4	4.2	4.2	29.7
Unit Production cost per carat	USD /carats	0.27	0.62	1.03	0.32	0.79	0.87	0.85	0.57	0.55
Unit Production cost per tonne of ore	USD /tonne	178	227	298	160	162	193	200	104	173

\*Note: With effect from July 2011, Gemfields adopted a new accounting policy whereby all waste moving costs are capitalised and are then subsequently amortised when the ore corresponding to that waste is mined. As of 30 June 2012, approximately USD 14.5 million of waste moving costs have been capitalised and will be amortised later when the associated ore is mined.

The quarter to 30 June 2012 produced 7.3 million carats at a grade of 181 carats per tonne of ore and a unit production cost of USD 0.57 per carat (excluding capitalised waste moving costs).

The previously announced large-scale waste movement programme to open up new areas for future ore production continues. This programme has gained pace with over 8.7 million tonnes of rock having been moved in the past four quarters. Whilst the stripping ratio has come down over the last two quarters, management anticipates that this will increase in the near term as larger areas of overburden are mined in order to further increase the levels of ore available for future mining and as the push-back project is accelerated. Management expects an overall increase in operating efficiencies and performance as the stripping ratio stabilises in the medium term and as Kagem is able to mine both waste and ore more efficiently.

Approximately 1.9 million tonnes of waste were moved by the contractor during the quarter (compared to 0.7 million tonnes in the previous quarter), with cash rock handling unit costs decreasing to USD 3.5 per tonne in the current quarter (compared to USD 3.7 in the prior quarter).

Kagem's key annual production parameters are summarised below:

Kagem Annual Production Summary	UNITS	YEAR						
		to 30 Jun 2006	to 30 Jun 2007	to 30 Jun 2008	to 30 Jun 2009	to 30 Jun 2010	to 30 Jun 2011	to 30 Jun 2012
Gemstone Production (Emerald+Beryl)	million carats	10.2	9.4	9.9	28	17.4	33.0	21.1
Ore Production (Reaction Zone)	'000 tonnes	22	29	42	80	61	69	103
Grade (Emerald+Beryl/Reaction Zone)	carats/tonne	462	325	233	349	286	478	205
Waste Mined (incl. TMS)	million tonnes	1.8	2.8	5.1	4.0	2.5	3.9	8.7
Waste+TMS: Reaction Zone	stripping ratio	83	96	120	50	42	57	85
Total Rock Handling	million tonnes	1.8	2.8	5.1	4.1	2.6	3.9	8.8

As a direct result of the short term focus on waste mining and the previously reported delays, the year ending 30 June 2012 saw annual production of 21.1 million carats, a 36% decrease in the record breaking 33.0 million carats produced in the prior year. The grade for the year to 30 June 2012 ended at 205 carats per tonne, versus 478 in the prior year. While the achieved grade remains somewhat below historic levels, such fluctuations are common within gemstone mining, generally averaging out over time. The past three quarters have delivered constantly improving production volumes, a trend that is likely to continue in the near term. Unit production costs increased 73% from USD 0.43 to USD 0.74 per carat and unit rock handling costs fell 50% from USD 3.53 to USD 1.78 per tonne (note the asterisk under the “Financial Performance” table above).

Gemfields’ trial underground mining project achieved 92 metres of horizontal advance during the quarter ending 30 June 2012 from 88 blasts (versus 73.9 metres in the quarter ending March 2012). The total linear development to date is 470.9 metres (versus 378.9 meters at 31 March 2012). A total of 1,560 tonnes of ore was produced during the quarter (versus 1,040 tonnes in the prior quarter) with 40 tonnes of waste removal. Production mining has been the focus following the successful completion of the second escape route. Approximately 147,805 carats were produced by the underground operation in the quarter ending 30 June 2012, versus 141,315 carats in the prior quarter.

Despite the slightly reduced demand experienced for some of the lower quality goods placed on offer during the Company’s previous auction held in Jaipur in June 2012, demand for ethical emeralds continues to remain firm across all major markets. Gemfields next higher quality rough emerald auction is scheduled to take place in Singapore between 29 October and 3 November 2012.

Illegal mining activity within the boundaries of the Kagem mining licence is not yet fully resolved and Gemfields continues to work with key ministries to alleviate this challenge.

Start-up operations at *Montepuez Ruby Mining Lda*, (Gemfields’ 75% owned ruby project in Mozambique) are progressing to schedule, with a core team and equipment operational and on site. Various targets have been identified and bulk sampling is set to commence in earnest during the coming quarter.

## **Cash Balances**

At 30 June 2012, Gemfields had USD 36.7 million in cash (and debt outstanding of USD 2.9 million).

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### **Notes to Editors:**

Gemfields plc is a leading gemstone miner listed on the AIM market of the London Stock Exchange (ticker: `GEM'). The Company's principal asset is the 75% owned Kagem emerald mine in Zambia, the world's single largest emerald mine. In addition to the Kagem emerald mine, Gemfields has a 50% interest in the Kariba amethyst mine in Zambia.

The Company also owns controlling stakes in a highly prospective ruby deposit in Mozambique and licences in Madagascar including ruby, emerald and sapphires deposits.

In July 2009 Gemfields commenced a formal auction programme for its Zambian emeralds. To date, the Company has held 10 auctions which have generated revenues totalling USD 133.7 million.