



Annual Report 2010

Gem Diamonds is a global diamond mining company that is pursuing a long term growth strategy through the development of its existing assets and targeted acquisitions. Under the depressed market conditions of late 2008 and early 2009, the Company focused its strategy on developing its cash generating assets and curtailing all non-essential capital and development expenditure. Following the steady improvement in the diamond market during 2010, the Company has completed the development of a growth strategy designed to take advantage of these improving conditions.

The Company's portfolio comprises producing kimberlite and lamproite mines in Lesotho and Australia, as well as development projects and exploration assets in Angola and Botswana.

With Letšeng's production of the world's most remarkable white diamonds and Ellendale's production of rare fancy yellow diamonds, Gem Diamonds remains focused on higher value diamonds. This segment of the market is expected to deliver attractive long term returns.

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## Highlights

- Lost time injury free over 14 months, in excess of 5 million man hours worked at year end
- Fatality-free for two years and nine months at year end
- Revenue of US\$266.4 million
- EBITDA of US\$82.0 million, up 47% from 2009
- Profit before tax of US\$54.5 million, up 39% from 2009
- Profit for the year of US\$36.2 million, up 43% from 2009
- Attributable profit for the year of US\$20.2 million, up 30% from 2009
- Year end cash on hand of US\$129.8 million
- Strong recovery in prices of rough diamonds particularly in the last quarter of 2010
- Mining licence awarded for the Gope deposit in Botswana, and plans are underway for construction of a mine.
- Growth plan underway for overall value increase at Letšeng
- Letšeng gained control of its own sales and marketing with strategies in place to develop its downstream activities and capabilities

## Board of Directors

### Non-Executive Directors

#### **Roger Davis (54)** *non-Executive Chairman*

Roger spent eight years at Barclays, latterly as the CEO of the UK banking operation and as a member of the Board of Barclays Plc. Under his leadership, the UK business was significantly restructured. Prior to that, he spent ten years in investment banking in London and held various positions in China and India for Flemings and BZW. Roger started his career with a 12 year service in the British Army. He joined Gem Diamonds in February 2007.

#### **Mike Salamon (55)** *Senior Independent Director*

Mike is a mining engineer with an MBA and has over 30 years experience in the mining sector. He was a founding director of Billiton and was instrumental in Billiton's IPO on the London Stock Exchange in 1997 and the subsequent merger with BHP in 2001. Mike retired from his position of Executive Director at BHP Billiton in 2006 and is now the Chairman of New World Resources, a non-Executive Director of Central Rand Gold, Ferrexpo Plc and co-President of private equity fund AMCI Capital. Mike joined Gem Diamonds in February 2008.

#### **Gavin Beevers (61)** *non-Executive Director*

Gavin was the Director of Operations at De Beers from April 2000 until his retirement in 2004. He had joined De Beers in 1979 and was based in Botswana for 11 years. Thereafter he was appointed Assistant General Manager at De Beers Marine in Cape Town until 1994, whereafter he returned to Botswana as General Manager at the Orapa and Lethlakane Mines. From January 1996 to March 2000, Gavin held the position of Deputy Managing Director of Debswana Diamond Company. Gavin joined Gem Diamonds in February 2007.

#### **Dave Elzas (44)** *non-Executive Director*

Dave has over 15 years working experience in international investment banking. Between 1994 and 2000, Dave served as a Senior Executive and subsequently Managing Director of the Beny Steinmetz Group. Dave is currently the Senior Partner and CEO of the Geneva Management Group, an international wealth management and financial services company and was appointed as a director of Zanaga Iron Ore Co. Ltd in November 2010. Dave joined Gem Diamonds in October 2005.

#### **Richard Williams MBE MC (44)** *non-Executive Director*

Richard spent 20 years in the British Army, latterly as the Commanding Officer of 22 SAS Regiment, during which time he saw service across the Middle East, Latin America and Africa. Richard has an MBA from Cranfield University and a Masters in International Security Studies from Kings College, London. Richard is the CEO of Chakata Ltd, an investment management company focused on defence and security technologies. Richard joined Gem Diamonds in February 2008.

## Board of Directors

### Executive Directors

#### **Clifford Elphick (50)** *Chief Executive Officer*

Clifford joined Anglo American Corporation in 1986 and was seconded to E. Oppenheimer and Son as Harry Oppenheimer's personal assistant in 1988. In 1990, he was appointed Managing Director of E. Oppenheimer and Son, a position he held until leaving in December 2004. During that time, Clifford was also a director of Central Holdings, Anglo American and DB Investments. Following the privatisation of De Beers in 2000, Clifford served on the De Beers Executive Committee. Clifford formed Gem Diamonds in July 2005. Clifford is also non-Executive Chairman Zanaga Iron Ore Co. Limited..

#### **Alan Ashworth (56)** *Chief Operating Officer*

Alan holds a BSc in Mining Engineering and has 35 years experience in the mining industry. During his career he has worked in various countries, including South Africa, Namibia, Botswana, Guinea, Ghana and Russia. He spent 28 years within the De Beers group, including four years as the General Manager of the Namdeb Diamond corporation and four years as the Group Manager, Operations and Head of Operations for De Beers Consolidated Mining. From March 2006 until August 2007, he was the Managing Director of Gold Fields' Ghana operations in West Africa. Alan joined Gem Diamonds in November 2007 and was appointed to the Board in April 2008.

#### **Kevin Burford (52)** *Chief Financial Officer*

Kevin has 26 years experience in the mining industry having worked for De Beers and Anglo American between 1985 and 2005, and Xstrata in 2005. Previously he was the Group Manager - Finance at De Beers where he had responsibility for the financial aspects of all De Beers' operations and exploration activities across the globe. In addition he has held strategic leadership positions covering supply chain, IT, risk management, internal audit and business strategy. Kevin completed his articles with Coopers and Lybrand in 1984 and is a registered Chartered Accountant. Kevin joined Gem Diamonds in January 2006.

#### **Glenn Turner (50)** *Chief Legal and Commercial Officer*

Glenn was called to the Johannesburg Bar in 1987 where he spent 14 years practising as an advocate specialising in general commercial and competition law, and took silk in 2002. Glenn was appointed De Beers' first General Counsel in 2002 and was also a member of the Executive Committee. Glenn was responsible for a number of key initiatives during his tenure, including overseeing De Beers' re-entry into the USA. Glenn joined Gem Diamonds in May 2006 and was appointed to the Board in April 2008.

## Chairman's Review

2010 was a year of both consolidation and planning for growth. During the year Gem Diamonds benefitted from the continuing recovery in rough and polished diamond prices and from the implementation of its new sales and marketing strategies. In the last quarter of the year prices for both Letšeng's run of mine production and Ellendale's fancy yellow diamonds achieved record prices.

The Letšeng mine in Lesotho continues to recover large diamonds of the highest quality. In the fourth quarter of 2010, Letšeng sold three exceptional white diamonds of 196 carats, 184 carats and 116 carats. In January 2011, another exceptional 196 carat white diamond was recovered from the Main pipe.

Kimberley Diamonds in Australia held the first price review under its agreement with Tiffany & Co. for the mine's rare fancy yellow diamonds, which resulted in a 25% price increase with effect from October 2010.

Operationally, 2010 was a year of consolidation for Gem Diamonds, with a continued focus on generating cashflow from its two primary assets, the Letšeng and Ellendale mines. Controlling costs continues to be a major focus for management with US dollar reported costs in both Lesotho and Australia being substantially impacted by the strength of the Lesotho loti<sup>1</sup> and Australian dollar respectively against the US dollar. The focus on cost reduction continues into 2011. A series of workstreams are in place, in order to reduce real operating costs in local currency terms at both mines through further efficiency improvements and cost savings.

The higher prices achieved for rough diamonds and the continued focus on controlling costs has meant that the Company was able to report a profit of US\$36.2 million for the full year 2010 (earnings of 15 cents per share). As at 31 December 2010, the Group had cash of US\$129.8 million on its balance sheet.

Following the aftermath of the global financial crisis, 2010 was a year when management focused on putting the building blocks in place to provide investors with a growth platform.

A pre-feasibility study is well underway for a substantial expansion programme at the Letšeng mine. This planned increase in production, and the consequent economies of scale when combined with ongoing cost savings from the cost efficiency drive will add substantial value to shareholders. In addition, initial studies into moving to an underground mine at the Satellite pipe to eliminate the current high cost of waste stripping have been completed. The studies indicate that starting an underground operation prior to the completion of the currently planned open-pit in the Satellite pipe will be value accretive to Letšeng. Work will now focus on optimising the transition timing and costs.

At the Ellendale mine, management continues to look for ways to drive down local currency costs. The results from the resource development drilling programme, which commenced in 2010, will be known midway through 2011.

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<sup>1</sup> The Lesotho loti is pegged to the South African rand

## Chairman's Review

In Botswana, it is very pleasing that the Gope project has been awarded a mining licence by the Government of the Republic of Botswana and the Board has approved the development of an underground mine. Construction of the first phase of this exciting project will commence in 2011 and the mine will come into production in 2013. Once production has started, work will commence on the feasibility of the next expansion phase.

Gem Diamonds continues to place a very high priority on Health, Safety, Corporate Social Responsibility and Environmental management (HSSE) and in 2010 achieved a company record of two consecutive fatality-free calendar years. By the end of the year, it also recorded 14 months Lost Time Injury free – another company record. These achievements are a barometer of operational efficiency and high staff morale at all of the Company's mines and were only possible due to the unwavering commitment to health, safety and environmental matters by each member of the Gem Diamonds Group, for which I would like to thank and congratulate them.

Gem Diamonds remains committed to operate to the highest environmental and ethical standards and is also firmly committed to the principles of the Kimberley Process. All diamonds sold by the Group are Kimberley Process certified.

In 2010 the foundations were laid to provide an exciting growth profile. Gem Diamonds has a strong balance sheet and is well positioned to enter the next phase in its development as a growth company.



**Roger Davis**  
*non-Executive Chairman*

14 March 2011

## Business Review

### DIAMOND MARKET

The Global Financial Crisis had an extremely negative impact on rough diamond prices. However, the action taken in 2009 to hold back rough diamond supplies by the major producers resulted in a substantially lower availability of rough diamonds than the equivalent fall in the global demand for diamond jewellery. The latter part of 2009 saw an end to the retail destocking in the important US market that had so negatively impacted US polished diamond imports during that year. In addition, the better than expected US Christmas season that year helped rough diamond prices to strengthen at the end of 2009, a trend which continued into 2010. Production in the major manufacturing centre of India has returned to pre-crash levels; increased credit was made available to the cutting centres and the continued rising demand in China and India has resulted in rough diamond prices steadily improving throughout 2010 across all categories.

Reports received subsequent to the important 2010 US Thanksgiving to Christmas season indicate strong growth in the demand for diamond jewellery. This is already having an impact on rough diamond prices as retailers restock at the beginning of 2011. Prior to this period there were concerns that rough diamond prices had pushed too far ahead of the equivalent polished prices. However, current market reports suggest that polished prices were actually undervalued and are now beginning to benefit from the underlying supply demand dynamic.

In many categories, rough diamond prices are now above their highs of 2008. No major new diamond mines have come on stream over the recent past and the positive fundamentals of a developing supply demand gap remain, especially at the top end of the market.

### SALES & MARKETING STRATEGIES

The Group has successfully implemented a new and improved sales process in order to maximise revenue for all of its rough diamond production through a combination of tenders; auctions; direct sales; off-take and partnering agreements. Further details of which are covered under the Lesotho and Australian operations respectively.

### OPERATIONAL OVERVIEW

During 2010 the Company focused on cashflow generation, controlling costs and implementing its growth strategy. Letšeng continued to show that it is a world class diamond asset, producing large diamonds of top quality and top colour. At the Ellendale mine in Australia, the E9 pipe continued to generate positive cashflow and profit. Through the year a series of workstreams and initiatives were implemented to increase efficiencies and control costs across the Group. Management's steps to drive through cost initiatives have been very effective. These efforts will continue through 2011.



## Business Review

### KEY STRATEGIC GROWTH OBJECTIVES

2011 will see the implementation of a Group-wide growth plan which will seek to add substantial value for Gem Diamonds through the following initiatives:

#### Letšeng:

A pre-feasibility study commenced in late 2010 for a growth project at Letšeng, and is anticipated to be completed by mid 2011. The main objectives of the project are to:

- increase production at Letšeng to at least 8.5 million tonnes per annum;
- increase revenue through the use of appropriate technology to reduce diamond damage;
- reduce real operating costs by Maloti 14 per tonne (US\$2 per tonne).

The current position of the pre-feasibility indicates an estimated capital cost of US\$250 million with the full project being approved in the second half of 2011 and meeting the objectives by the second half of 2014. Of this US\$35 million is planned to be spent in 2011.

Letšeng is investigating the economic viability of developing an in-country beneficiation facility to manufacture select diamonds from its production to enhance revenues and margins.

#### Gope:

The Gope deposit in Botswana provides Gem Diamonds with another growth opportunity in a stable economic location. Gem Diamonds has been granted a 25 year mining licence, and 2011 will see the commencement of the construction of an underground mine in a phased approach at an estimated capital cost of US\$85 million for the first phase. Diamond production will commence in 2013 at an initial rate of 100 000 carats per annum, being stepped up over time to a peak steady state production of 780 000 carats per annum.

#### Ellendale:

At Ellendale, the results of the Resource Extension Programme which commenced in 2010 will be available in mid 2011. The results of this programme will better define the mineral reserve and life of mine at E9; define the opportunity of recommencing mining at E4; and assessing the economic viability of the E7 and E11 lamproite pipes. Front end modifications to the E9 plant are being implemented to improve treatment of wet, high clay content type ore, and are expected to be completed in the second half of 2011.

#### Sales and marketing:

The Group has successfully implemented a new and improved sales process following the approval by the Government of the Kingdom of Lesotho of Letšeng's new sales and marketing strategy, which includes the development of Letšeng's downstream activities and capabilities which will allow for a more flexible and focused sales and marketing capability to capture additional margins and grow diamond revenues.

## Business Review

### Mergers and acquisitions:

Gem Diamonds will continue to monitor value adding opportunities outside of its current asset portfolio.

### GROUP FINANCIAL PERFORMANCE

For the 2010 year, the Group reports revenue of US\$266.4 million and earnings before interest, tax, depreciation and amortisation (EBITDA) of US\$82.0 million, pre-tax earnings from continuing operations of US\$54.5 million; profit for the year of US\$36.2 million and attributable profit of US\$20.2 million. Traditionally the second half of the year has been better than the first and again profit for the year increased by US\$30.1 million in the second half of 2010 from that reported at the first half of the year of US\$6.1 million.

(US\$ millions)	12 months ended 31 December 2010	12 months ended 31 December 2009 <sup>1</sup>
Revenue	<b>266.4</b>	243.3
Cost of sales*	(147.9)	(152.1)
Royalty and selling costs	(23.2)	(22.4)
Corporate expenses	(13.3)	(13.2)
<b>EBITDA</b>	<b>82.0</b>	<b>55.6</b>
Depreciation and amortisation	(31.8)	(25.3)
Share-based payments	(1.6)	(5.6)
Reversal of impairments	-	0.2
Other income <sup>2</sup>	2.3	0.2
Foreign exchange gain	1.1	14.3
Net finance income/(costs)	2.5	(0.2)
<b>Profit before tax</b>	<b>54.5</b>	<b>39.2</b>
<b>Attributable profit</b>	<b>20.2</b>	<b>15.5</b>
<b>Earnings per share (US cents)</b>	<b>15</b>	<b>14</b>
<b>Earnings per share - continuing operations (US cents)</b>	<b>15</b>	<b>17</b>

\* Excluding depreciation and amortisation

1. The prior period's figures have been restated for the reclassification impact of accounting for discontinued operations.

2. Included in other income is share of loss in associate of US\$0.3 million in 2010.

## Business Review

Revenue was generated primarily from the sale of rough diamonds recovered at the Letšeng and Ellendale mines.

EBITDA for the period was US\$82.0 million, up from the prior year by US\$26.4 million from US\$55.6 million and in the first half of 2010, by US\$63.5 million from US\$18.5 million. Profit attributable to shareholders for the period was US\$20.2 million, equating to 15 US cents per share on a weighted average number of shares of 138 million. Earnings per share from continuing operations amounted to 15 US cents per share.

Cost of sales for the period was US\$147.9 million before non-cash costs of depreciation of US\$25.7 million and amortisation on mining assets of US\$6.1 million.

The continued weaker trading of the US dollar against the Lesotho loti (pegged to the South African rand) and the Australian dollar, negatively impacted US dollar reported costs during the period. Both these currencies were significantly stronger than those of the prior year. The US dollar traded 13% and 15% weaker period on period against the South African rand and Australian dollar respectively. Reported US dollar costs were also impacted by local inflation of in Lesotho and Australia.

The following table details the relative exchange rates for 2010 compared to 2009:

	FY 2010	H2 2010	H1 2010	FY 2009	Variance FY 2010 to FY 2009
Lesotho loti per US\$1.00					
Average exchange rate for the year/period	7.32	7.11	7.53	8.42	(13%)
Year/period end exchange rate	6.62	6.62	7.67	7.36	(10%)
Australian dollar per US\$1.00					
Average exchange rate for the year/period	1.09	1.06	1.12	1.28	(15%)
Year/period end exchange rate	0.98	0.98	1.19	1.11	(12%)

Royalties and selling costs of US\$23.2 million mainly comprise sales commissions and royalties paid to the Lesotho Revenue Authority of 8% and to the Australian Government of 5% on the sale of diamonds in these respective territories. The effect of the new internal sales and marketing structure has reduced Letšeng's selling costs from 2.5% previously charged by a third party contractor to less than 1.5%.

Corporate expenses relate to central costs incurred by the Company and its services subsidiary, Gem Diamond Technical Services. Notwithstanding the negative impact of exchange rates (a large portion of corporate costs are based in South African rand), corporate expenses were maintained at the same level as 2009.

## Business Review

### Discontinued operations

The operations in Indonesia and the Central African Republic (CAR) were still on care and maintenance during the year. The Group is actively seeking to sell off the assets at the Indonesian operation; whereafter the Company will close that operation. As a result, the Indonesian operation has been classified as 'Assets Held for Sale' on the Group's Balance Sheet. The assets and equipment at the CAR operation were sold by year end. The CAR operation is now closed and is no longer carried on the Group's Balance Sheet. All care and maintenance costs incurred during the year at the operations in Indonesia and CAR have been disclosed separately in the Income Statement under Discontinued Operations. The Group has incurred a net cost of US\$0.1 million on these operations during the period after the sale of certain of their assets, which is disclosed in Discontinued Operations on page 130. There was no impact on the overall earnings per share.

### Share-based payments

Share-based payment costs for the year decreased to US\$1.6 million, comprising the allocation of the share option awards to staff in early 2008 and the final costs associated with the Executive Share Growth Plan which ended in February 2010, and for which no vesting took place. On 23 June 2010, the Company announced that 1.3 million options were awarded to Directors and senior employees. The share-based payment cost associated with this new award has impacted the current year's charge by US\$0.4 million.

### Forex

Foreign exchange gains relate to, gains on the conversion of US dollar revenue into local currency at Letšeng, losses on exchange rate fluctuations on Sterling denominated cash held by the Company and realised hedges entered into by Kimberley Diamonds during the period.

### Net finance income

Net finance income comprise interest received of US\$4.1 million. This was predominantly generated on surplus cash from the Letšeng operation against US\$1.6 million charged to the Income Statement, representing the impact of unwinding the current environmental provisions.

### Tax

The effective tax rate in the year for the Group is 33% from continuing operations, above the UK statutory tax rate of 28%. The increase over the statutory rate is predominately driven by the dividends declared at Letšeng during the second half of the year which resulted in a 10% withholding tax payable in Lesotho. The tax rate of the Group is driven by tax of 25% on profits generated by Letšeng Diamonds, withholding tax of 10% on dividends and deferred tax assets not recognised on losses incurred in non-trading operations.

## Business Review

### Non-controlling interests

Non-controlling interests represent 30% of the profits in Letšeng Diamonds, which are attributable to the Company's partner, the Government of the Kingdom of Lesotho.

### Blina Diamonds

During February 2010, Blina Diamonds NL (a diamond exploration company), which is a listed company on the Australian Stock Exchange and previously a subsidiary of Kimberley Diamonds, raised AU\$1.5 million by way of a share placement. Kimberley Diamonds did not participate in all of its rights to the placement and as a result, the Group's shareholding in the company decreased to 23.11%. During September 2010, Blina again raised AU\$1.5 million by way of a further share placement. Kimberley Diamonds did not participate in any of its rights to the placement and as a result, the Group's shareholding in Blina decreased to 19.52%. The initial decrease in shareholding resulted in the Group no longer consolidating the results of the operation. As the Group still participates in the financial and operating policy decisions, it maintains significant influence in Blina Diamonds NL. The investment is therefore accounted for as an associate, resulting in the Group carrying US\$ 0.3 million of its share of the losses, after realising a US\$2.7 million gain, reflected in other operating income, following its loss of control and resultant deconsolidation. Blina Diamonds NL has a 30 June year end.

### Impairments

No impairments on non-current assets were identified in the period.

### CASH AND DEBT

Australia and New Zealand Banking Group Limited (ANZ Bank) has issued performance guarantees on behalf of Kimberley Diamonds to the amount of US\$9.2million, of which US\$6.9 million is cash-backed to support environmental obligation for protection of the land on which mining, mining related activities or exploration is conducted.

The Group has US\$129.8 million cash on hand (of which US\$109.0 million is attributable and US\$5.3 million is restricted), of this US\$4.2 million was released after year end.

Group cash was supplemented by a net cash inflow from operations for the year of US\$94.0 million. Investments in property, plant and equipment amounted to US\$77.5 million. The largest component of this investment was US\$57.1 million, incurred in waste stripping at both mining operations. For Letšeng, plant and equipment investment relates to infrastructure costs associated with the life of mine extension. For Kimberley Diamonds, this relates to the increased treatment rate at the Ellendale E9 plant which required additional slimes capacity and the resource extension programme which was approved during the year.

### Inventory

Group diamond inventory from continuing operations at year end was US\$16.6 million, up from US\$14.1 million at the previous year end.

## Business Review

### OPERATIONAL REVIEWS

#### LESOTHO

Gem Diamonds owns 70% of Letseng Diamonds (Letseng) in partnership with the Government of the Kingdom of Lesotho, which owns the remaining 30%. Letseng was acquired in mid 2006 and has continued to deliver exceptional returns for its shareholders. Since Gem Diamonds took control, Letseng's annual production has risen from 55 000 carats in 2006 to 90 933 carats in 2010.

#### Sales and marketing strategy

In August 2010, Letseng gained full control of its sales and marketing for the first time due to the expiry of the previous marketing contract with its agent. Subsequently a Gem Diamonds, Antwerp based subsidiary has been responsible for the sale of Letseng's production. The new sales and marketing strategy provides Letseng with complete flexibility and control over the marketing of its rough production at a far lower marketing cost. Management believes that this new strategy has significantly contributed to the substantial price uplift achieved under these new arrangements. A key element of the new sales and marketing strategy will be to develop Letseng's downstream activities and capabilities.

Letseng generally holds ten tenders annually, two in each of the first and third quarters and three in each of the second and fourth quarters.

#### Prices achieved

The increase in prices for Letseng's unique diamonds has resulted in an average price of US\$2 149 per carat being achieved for the year, a 40% increase over the average price of US\$1 534 per carat in 2009.

The average US\$ per carat achieved for the first nine months of the year was US\$1 712 per carat. However, in the last quarter, the combination of the rollout of the new sales and marketing strategy, rising diamond prices and the sale of three exceptional white +100 carat diamonds, resulted in a very substantial uplift of 96% in prices when comparing the fourth quarter 2010 to the third quarter 2010. The fourth quarter average price of US\$3 291 per carat was the highest quarterly average price achieved for Letseng's production.

#### Diamond sales

	Year ended 31 December 2010	Year ended 31 December 2009
No. carats sold	88 564	101 599
Average US\$ per carat	2 149	1 534

In 2010, more than 500 rough diamonds greater than 10.8 carats in size (+10.8 carats), were recovered at Letseng, contributing to more than 72% of total revenue at Letseng. A total of

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104 diamonds sold at prices greater than US\$20 000 per carat, contributing revenue of US\$103.5 million; this included a 4.68 carat blue diamond which sold for a Letšeng record of US\$155 000 per carat. In the fourth quarter, three remarkable diamonds – a 196 carat, a 184 carat and a 116 carat were recovered, and sold for US\$28.5 million, equating to an average price of US\$57 400 per carat. The unique nature of Letšeng's resource with its high frequency of large diamonds is detailed in the table below.

### Frequency of recoveries of large diamonds at Letšeng

		2005	2006	2007	2008	2009	2010
>100 carats	No of diamonds	6	5	5	7	5	6
60-100 carats		7	14	9	16	10	10
30-60 carats		30	40	39	74	76	61
20-30 carats		49	47	65	88	98	89
	Total diamonds >20 carats	92	106	118	185	189	166

### Financial performance

Letšeng Diamonds continues to deliver strong operational and financial results generating revenue of US\$190.3 million from diamond sales and EBITDA of US\$89.9 million.

US\$ (millions)	Year ended 31 December 2010 <sup>4</sup>	Year ended 31 December 2009 <sup>4</sup>
<b>Sales</b>	<b>190.3</b>	<b>163.9</b>
Cost of sales*	(81.8)	(87.7)
Royalty and selling costs	(18.6)	(17.7)
<b>EBITDA</b>	<b>89.9</b>	<b>58.5</b>
<b>Physicals</b>		
Tonnes treated	7 557 079	7 549 386
Waste tonnes mined	11 676 931	8 072 032
Carats recovered	90 933	90 878
Carats sold <sup>3</sup>	88 564	101 599
<b>US\$ (per unit)</b>		
Exchange rate (average)	7.32	8.42
Average price per carat (rough)	2 149	1 534
Cash cost per tonne treated <sup>1</sup>	14.51	10.80
Operating cost per tonne treated <sup>2</sup>	10.79	11.66
Waste cash cost per tonne mined	3.01	2.59

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US\$ (millions)	Year ended 31 December 2010 <sup>4</sup>	Year ended 31 December 2009 <sup>4</sup>
<b>Local currency (per unit)</b>	<b>Lesotho loti</b>	
Cash cost per tonne treated <sup>1</sup>	106.17	90.90
Operating cost per tonne treated <sup>2</sup>	78.93	98.14
Waste cash cost per tonne mined	22.00	21.76
<b>Other operating information (US\$ m)</b>		
Waste capitalised	(40.3)	(22.4)
Waste amortised	(10.2)	(22.5)
Depreciation and amortisation	(21.5)	(17.7)
Capital expenditure	12.3	12.1

\* Excluding depreciation and amortisation

1. Cash costs represents all operating costs, excluding royalty and selling costs, depreciation, mine amortisation and all other non-cash charges.
2. Operating costs excludes royalty and selling costs and depreciation and mine amortisation, and includes inventory, waste and ore stockpile adjustments.
3. Excludes sale of polished diamonds.
4. Letšeng's revenue includes US\$8.6 million from the sale of diamonds purchased by the Group as part of its Polishing Project. Included in EBITDA is US\$2.2 million profit generated on the portion of diamonds purchased by the Group and not sold by the end of December. These values have been eliminated in the consolidated Group results.

### Costs

Local currency cash costs per tonne treated for the period were Maloti 106.17 relative to the prior period of Maloti 90.90. Unit cash costs for ore mined, waste moved and ore treated have, in local currency terms, increased slightly below inflation. However, total unit cash costs per tonne treated have increased in direct proportion to the increased waste moved in the period of 3.6 million tonnes, relative to the prior year. Total operating costs for the year decreased to Maloti 78.93 per tonne from Maloti 98.14 per tonne, mainly as a result of a decrease in waste amortisation during the period. Waste amortisation is currently only associated with the Satellite pipe. Total cash costs before the impact of waste cash costs increased from Maloti 67.64 in 2009 to Maloti 72.18 per tonne treated in 2010, reflecting a 6.7% increase.

### Operational report

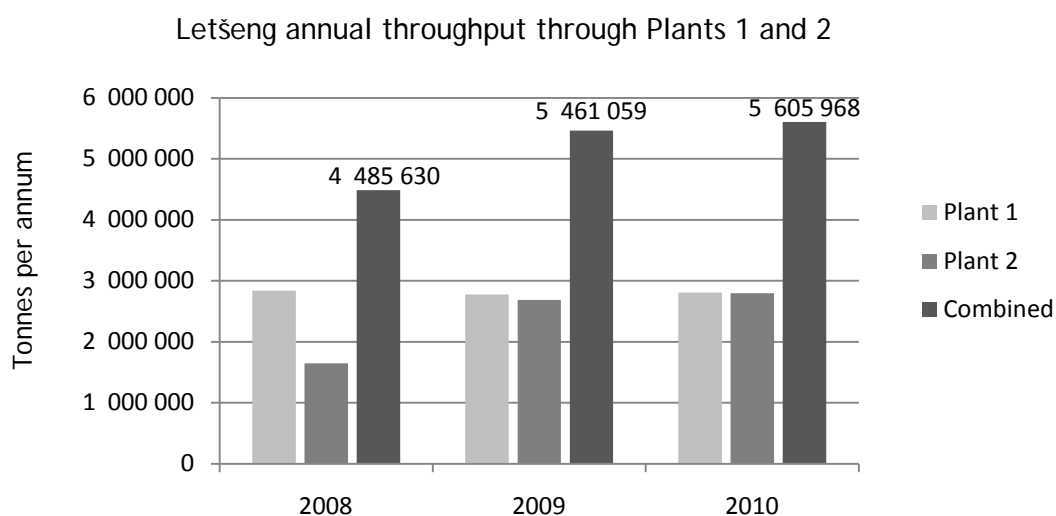
For 2010, the Letšeng mine recovered a total of 90 933 carats, an increase of 0.1% over the previous year. This was despite a higher percentage of ore being mined from the lower grade Main pipe and Alluvial Ventures' recovered grade from the stockpile being 33% below expectation at 0.47 carats per hundred tonnes; the lower recovered grade by Alluvial Ventures reduced Letšeng's overall recovered grade for the year to 1.20 carats per hundred tonnes, similar to 2009. Indications that the Main pipe was performing better than expectations were confirmed in the last quarter of the year when the Main pipe was mined



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exclusively, achieving a recovered grade of 1.47 carats per hundred tonnes. Significantly, during this time the Main pipe also produced several large, high quality diamonds.

During 2010, more ore was sourced from the Main pipe than in 2009; with 81% of the ore treated through Plants No 1 and 2 being sourced from that pipe. Both plants continue to perform consistently and above nameplate capacity.



A number of operational improvements took place during the course of 2010. Plant modifications in the first quarter of 2010 led to an increase in the recovery of fine diamonds; and improved utilisation resulted in increased plant throughput during the year, averaging 467 164 tonnes per month compared to 455 088 tonnes per month in 2009. These improvements are expected to be bedded down in a sustainable manner during 2011. In addition, further recovery process optimisation is planned during 2011, aiming to provide incremental production increases.

In 2009 the operational focus at Letšeng had been to maximise cashflow by deferring waste stripping in the Satellite pipe. As a result of this, in 2010, waste stripping (almost all of which took place in the Satellite pipe) increased by 49% to 12 million tonnes.

Cost reduction remained a focus, particularly within the mining process. During the year, redesign of the blasting pattern used in both pipes took place, with explosive consumption being reduced by 14% in ore and 8% in waste. This has resulted in annualised savings of Maloti 14.5 million due to the lower consumption of drilling and blasting consumables. The utilisation of larger trucks for waste stripping continued throughout the year after the program was initiated in late 2009. Six larger rigid frame trucks were added to the mining fleet during the year, with seven of the smaller articulated trucks being retired. The addition of the new trucks has resulted in improved availabilities and lower costs. This is reflected by the contracted loading and hauling unit cost decreasing from Maloti 13.00 per tonne in 2009 to Maloti 11.80 per tonne in 2010. The replacement program is continuing with two more rigid frame trucks scheduled to be commissioned in early 2011 and another four articulated trucks being retired.

## Business Review

Electricity black-outs which were experienced during 2008 as a result of ESKOM load shedding, have dropped to minimal levels with only one power outage being experienced during 2010. In the event of ESKOM outages, on-site power generation, installed in 2009 can supply one of the two main treatment plants and the Alluvial Ventures plant. Power for the second plant can be sourced from the Lesotho Electricity Company's Muela Hydro power station.

Diamond damage is inherent in the diamond recovery process, and with Letšeng's exceptionally high value diamonds, the financial impact of diamond damage is that much more material. Crusher circuits in the treatment plant have been identified as an area where modifications may prove to be beneficial. High pressure grinding roll and cone crushing test work is being carried out in Germany and Japan respectively with encouraging early results. In addition, a high volume X-ray recovery machine that could potentially reduce diamond damage and operating costs was ordered in late 2010 for a trial period. Results from the crushing and X-ray tests are expected during the first half of 2011.

The final pit designs for both the Main and Satellite pipes were revised during the middle of the year; the key modification being an increase to the pit wall angles in the Satellite pipe. This has resulted in a 20% reduction in the life of mine stripping ratio. In order to maintain the integrity of the pit side-walls due to the steeper angles, additional geotechnical resources and survey monitoring equipment will be utilised in 2011. In 2011, a drilling programme will take place to improve information on current resources and confirm the continuity of the resource below the currently defined limits.

### Health, Safety, Corporate Social Responsibility and Environment (HSSE)

Letšeng maintained an excellent HSSE system, retaining its 4 Star rating in its external HSSE audit. The operation scored favourably in both its Environmental Management Plan (EMP) compliance and legal compliance audits and recorded zero major and/or significant environmental incidents during 2010. The operation continues to contribute to the upliftment of its project-affected communities (PACs) through infrastructure, education and small and medium enterprise (SME) development projects. The operation achieved a Lost Time Injury (LTI) free year in 2010 and has been fatality-free for two years and nine months.

### 2011 and onwards

Management is focused on extracting greater value from Letšeng through substantially increasing production. Towards this end, the Letšeng Expansion Project pre-feasibility study commenced during 2010. Engineering companies have been engaged and are performing the studies on key components of this project.

As with the majority of diamond pipes, an underground operation would continue to extract ore once the open-pit had reached its economic limit. Due to the high ratio of waste stripping required at the Satellite pipe (in excess of 7:1 over the next 12 years) a conceptual study to investigate the relative economics of moving to underground mining in order to effectively eliminate waste stripping commenced in the fourth quarter of 2010. This study has now been completed and indicates that starting an underground operation prior to the completion of the currently planned open-pit will be value enhancing to Letšeng. A project

## Business Review

team is being assembled in order to advance this study to a pre-feasibility level, including the geological drilling needed to provide an improved definition of the ore-body at depth and confirm the optimal timing for the transition.

The development of Letseng's downstream activities and capabilities, as well as in-country beneficiation will continue under the new sales and marketing strategy.

### AUSTRALIA

In December 2007, Gem Diamonds acquired Kimberley Diamond Company NL (Kimberley Diamonds). Kimberley Diamonds owns 100% of the Ellendale mine in the north of Western Australia. The Ellendale mine is a major producer of fancy and vivid yellow diamonds. Kimberley Diamonds also held a 39% interest (which reduced to 19.52% during the year) in Blina Diamonds, an Australian Stock Exchange listed alluvial diamond mining and exploration company adjacent to the Ellendale mine.

During 2010, all mining activities at Ellendale took place at the E9 pipe, which is renowned for its high percentage of fancy yellow diamonds (11% of Ellendale's total production in 2010). The lower value E4 pipe, which was placed on care and maintenance during 2009 as a result of the global financial crisis, remained as such for the whole of 2010.

### Sales and marketing strategy

In December 2009, Kimberley signed a long-term exclusive off-take agreement for the supply and sale of its fancy yellow diamond production with Laureilton Diamonds, Inc. (Laureilton), the diamond sourcing and polishing subsidiary of global high-end jeweller, Tiffany & Co. This agreement was the formalisation of a sales relationship which commenced in July 2008, and the prices achieved for Ellendale's fancy yellow diamonds through the global financial crisis have demonstrated the benefits of partnering with such a highly regarded brand and major player in the diamond jewellery and retail sector. In April 2010 Tiffany & Co. launched its exciting Yellow Diamond Collection in Japan and into the US market in September 2010 on 'Fashion's Night Out' at its flagship store on New York's 5th Avenue. The first price review between Kimberley Diamonds and Tiffany & Co. took place in September 2010 and resulted in a 25% price increase which became effective from 1 October 2010. The next pricing review takes place in March 2011 and will become effective on 1 April 2011.

Up until November 2010, Kimberley Diamonds sold its commercial production via tenders and direct sales. Gem Diamonds has now engaged with an electronic diamond auction company to market the commercial production from Ellendale using an electronic auction (eAuction) platform. The first of these sales was concluded in December 2010 and early indications are that this eAuction system delivers best fair market prices through increased customer interaction.

### Prices achieved

In 2010, Kimberley Diamonds achieved an average price of US\$475 per carat for its production, an increase of 105% from the average price of US\$232 per carat achieved in 2009.

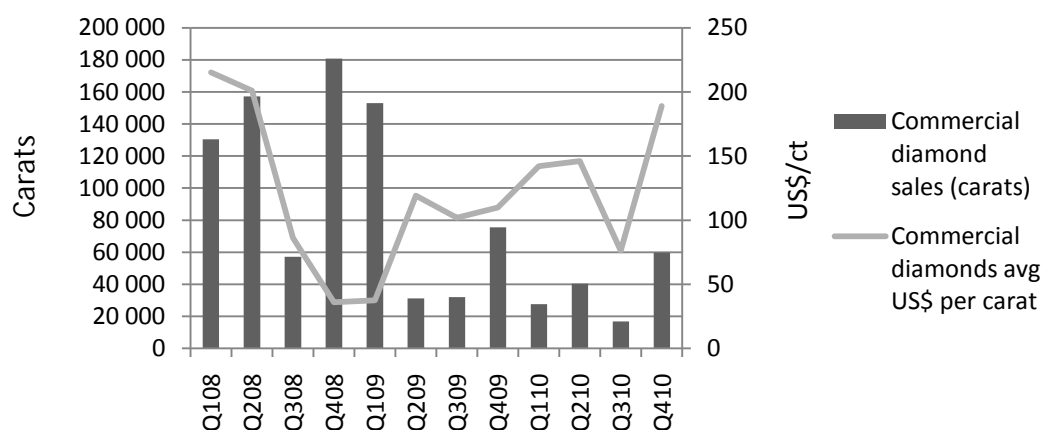
## Business Review

### Ellendale diamond sales

	Year ended 31 December 2010	Year ended 31 December 2009*
No. carats sold	163 924	312 450
Average US\$ per carat	475	232

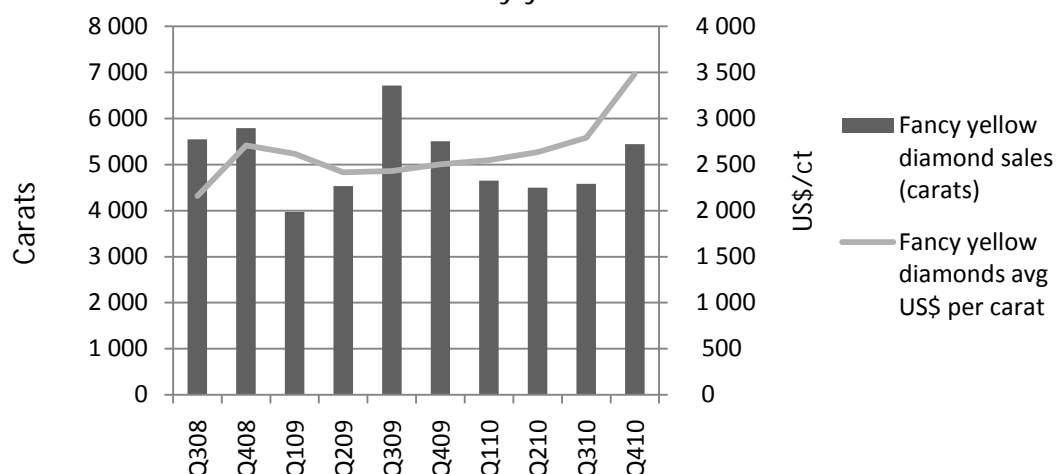
\* Prior year includes production from E4

#### Ellendale sales - commercial diamonds



\* 2008 and 2009 includes production from E4

#### Ellendale sales - fancy yellow diamonds



Kimberley Diamonds achieved an average of US\$2 891 per carat for Ellendale's rare fancy yellow diamonds sold to Tiffany & Co., representing an increase of 17% against the average price per carat of US\$2 480 in 2009. In 2010 Ellendale's commercial diamonds achieved an average price of US\$155 per carat, which represents an increase of 115% over the average price achieved in 2009 of US\$72 per carat. The full effect of the negotiated 25% price

## Business Review

increase for the fancy yellow diamonds will only be felt in 2011 as this only came into effect in the fourth quarter of 2010.

### Operational review

During 2010, Ellendale produced 166 708 carats from the E9 pipe, compared to 162 762 carats from the E9 pipe in 2009 (the published total of 198 825 carats for 2009 included some production from the E4 pipe which was shut down in the first quarter of 2009).

Carat production was below forecast, with tonnes treated and grade contributing almost equally to the negative variance. The onset of the rainy season at the end of each year necessitates treating ore sourced from stockpiled material; mining operations only recommence in mid-March after the end of the wet season. Due to the unusually high rainfall during the wet season, particularly sticky ore from the stockpile was encountered, which led to processing difficulties. The problems with sticky ore experienced at the beginning of the year continued in May and October due to unseasonal rain. This ore required blending with harder, but lower grade material, in order to attempt to maintain the planned levels of throughput. This was partially successful, but a permanent solution encompassing a change to the front end of the plant is being implemented to ensure that wet, high clay content type ore can be treated at any time without causing delays to the process.

The E9 recovered grade generally underperformed the expected grade by 9% and ongoing work on updating the resource model is planned in order to provide revised grade estimates during early 2011. Geological work is in progress to improve grade definition in the pit. The lower grade had a significant impact on the carat production for the year and is associated with plant throughput efficiencies and some changes in the internal facies and waste boundaries when compared against the resource model. A change to the mining plan resulted in the rescheduling of a waste cutback until after the wet season, pending the outcome of a revised mine design based on higher rough diamond prices.

Waste mining for the year at 4.8 million tonnes exceeded waste moved in 2009 by 21%. This increase is a consequence of the timing of waste stripping according to annual mining plans. However, waste stripping ended the year 10% below forecast due to the weather influence and the adjusted mine plan as mentioned above. During the year the west pit cut-back commenced and higher volumes of waste were stripped from the east pit in order to expose ore for mining in 2011.

### Financial performance

When compared to 2009, the current year's results only include mining from Ellendale's E9 pipe. Kimberley Diamonds generated revenue of US\$77.9 million compared to US\$64.4 million achieved in the year on a like for like basis (E9 only). Kimberley Diamonds has again generated a positive EBITDA of US\$10.4 million, although impacted negatively by a stronger Australian dollar.

## Business Review

US\$ (millions)	Year ended 31 December 2010	Year ended 31 December 2009 <sup>3</sup>
Sales	77.9	76.7
Cost of sales*	(62.6)	(61.0)
Royalty and selling costs	(4.9)	(4.7)
<b>EBITDA</b>	<b>10.4</b>	<b>11.0</b>
<b>Physicals</b>		
Tonnes treated	4 016 338	4 159 482
Waste tonnes mined	4 794 748	3 956 958
Carats recovered	166 708	198 825
Carats sold	163 926	312 450
<b>US\$ (per unit)</b>		
Exchange rate (average)	1.09	1.28
Average price per carat (rough)	475	232
Cash cost per tonne treated <sup>1</sup>	16.07	13.82
Operating cost per tonne treated <sup>2</sup>	15.61	14.71
Waste cash cost per tonne mined	2.86	2.88
<b>Local currency (per unit)</b>	<b>Australian dollar (AU\$)</b>	
Cash cost per tonne treated <sup>1</sup>	17.51	17.68
Operating cost per tonne treated <sup>2</sup>	17.01	18.82
Waste cash cost per tonne mined	3.11	3.69
<b>Other operating information (US\$ m)</b>		
Waste capitalised	(16.8)	(11.4)
Waste amortised	(13.7)	(7.9)
Depreciation and amortisation	(8.4)	(5.8)
Capital expenditure	6.5	10.4

\* Excluding depreciation and amortisation

1. Cash costs represents all operating costs, excluding royalty and selling costs, depreciation, mine amortisation and all other non-cash charges.
2. Operating costs excludes royalty and selling costs and depreciation and mine amortisation, and includes inventory, waste and ore stockpile adjustments.
3. Prior year includes production from E4 and E9.

### Costs

Local currency cash costs per tonne have been maintained at 2009 levels. Whilst there were savings associated with not treating E4 pipe ore during 2010 as compared to the first half of 2009, the higher amount of waste moved and the slightly lower tonnage of ore treated for the year (both compared to 2009), has resulted in similar cash costs per tonne of ore treated to 2009. Total operating costs per tonne of ore treated in 2010 decreased by 10% from AU\$18.82 to AU\$17.01. The costs for 2009 included a substantial stock carry charge in respect of lower value commercial goods, which were sold in the first half of 2009 and which

## Business Review

was not repeated in the 2010. Current period cash costs and operating costs per tonne are fairly similar as the waste to ore ratio in the E9 pipe is approximately 1:1.

### HSSE

Ellendale continues to achieve a high standard in HSSE management and also retained its 4 Star rating in the external HSSE audit. The operation underwent an extensive governmental compliance audit during September 2010 and received commendation on environmental practices from all the participating authorities. The operation has remained fatality-free since it was taken over by Gem Diamonds and achieved an LTI-free year in 2010. Ellendale recorded zero major environmental incidents and continues to contribute to the progress of its project-affected communities through focussing on projects related to education, SME development and regional environmental projects.

### 2011 onwards

The Resource Definition and Extension Project commenced during 2010 with drilling taking place in both the E4 and E9 pipes. Drilling results are expected to improve the grade definition and provide data on possible extensions to the existing resources. Geophysical work across the lease area has been completed and includes previously unsurveyed portions of the Blina tenements. A number of drill targets have been identified and will be followed up this year. Bulk sampling from the E7 and E11 lamproite pipes is planned for 2011 in order to provide further definition of these deposits.

### BOTSWANA

Gem Diamonds acquired Gope Exploration Company (Gope) from De Beers and Xstrata in May 2007. Gope Exploration is the holder of a mining licence covering the Gope 25 Kimberlite deposit in the Central Kalahari Game Reserve (CKGR) in Botswana.

During 2009, the Company minimised expenditure on the Gope project in the wake of the global financial crisis. However, the Company continued with studies on the geological model and diamond revenue along with a review of the mining model. A design for an underground mine was modelled in 2010, eliminating the costly overburden stripping of the open pit mine model. The revised mine plan envisages a phased approach with a preliminary underground mine planned to provide early cash flow and improve the Company's knowledge of the ore-body, diamond valuation and metallurgical characteristics.

This plan was presented to the Botswana Government in August 2010 and the negotiations with the Government of Botswana officials on mining licence terms were concluded late in 2010 and a 25 year mining licence was issued. A decline was determined as being the most cost effective access method, noting that excavating through Kalahari sand will present a number of challenges. The Company is cognisant of the environmental and social sensitivities of operating within the CKGR region and is committed to implementing a fully integrated life of mine rehabilitation plan from the outset in order to minimise any environmental impact of the mining operation and to develop a positive and long term sustainable legacy for the project-affected communities.

## Business Review

Camp construction is planned to commence during the second quarter of 2011, following which, mobilisation for the underground access is expected to begin in early third quarter of 2011. Construction of the processing plant commences in the third quarter of 2012 and production will start in the third quarter of 2013, building up to 720 000 tonnes, producing 180 000 carats per annum in 2015. Phase 1 of the mine development has a capital cost of US\$85 million of which US\$22 million has been committed for 2011. After an initial four year mining period, the mine will step up production output over a period of time to a steady state production of 3.4 million tonnes per annum, producing approximately 780 000 carats per annum.

### OTHER ASSETS

The Group is currently considering its options with regard to the Chiri project in Angola and a desktop study has been completed to review the feasibility of a small low capital mine option. The PT Galuh Cempaka mine in Indonesia remains on care and maintenance and opportunities for the sale of assets and disposal of the company continue to be investigated.

### CUTTING AND POLISHING

During the year, Gem Diamonds acquired seven rough diamonds at the Letšeng tenders, totalling US\$8.6 million. As at the end of December, one of the rough diamonds that were purchased in the third quarter of 2010 and cut and polished had not been sold and as such, is carried in the Group Balance Sheet at the cost of production and manufacturing. EBITDA in the current period for the Group has been impacted by US\$2.5 million (US\$1.3 million on attributable profit) due to the Group's elimination of this inter-group transaction.

### HSSE

Gem Diamonds continues to place a high priority on matters related to HSSE management and as such, this has been a record breaking year for the Group at all levels of operation. The Group achieved its second fatality-free calendar year, bringing the total fatality-free hours worked to 14.6 million (from April 2008). In addition, the Group completed 2010 without a LTI resulting in a reduced Lost Time Injury Frequency Rate (LTIFR) from 0.45 in 2009 to zero in 2010 with over 5.0 million man hours worked. This is the fourth year in a row that the Group has outperformed its LTIFR ceiling and the first year since listing that it has achieved a LTI free year.

All operations in the Group have maintained full compliance to their Environmental Management Plans (EMPs) and no material environmental incidents occurred in the Group as a whole.

The Global Reporting Initiative (GRI) guideline continues to be embedded throughout the organisation at all levels of operation as part of the strategy to ensure that Gem Diamonds remains a responsible corporate citizen. The Sustainable Development (SD) report on pages 31 to 68 details the Groups achievements and challenges in this regard.



## Business Review

Gem Diamonds remains committed to operate to the highest environmental and ethical standards. In compliance with the Group's HSSE policy, every operation is required to maintain a sustainable environmental management system.

More information on this can be found in the Group's Sustainability Report on pages 31 to 68.

### GOVERNANCE

Gem Diamonds is an independent company which finances its own operations via a decentralized corporate model. It does not rely upon any financial support from the Government of any country in which it operates and complies with, and benefits from, as appropriate and legitimate, all legal and regulatory requirements to operate.

No actions relating to anti-competitive behaviour, anti-trust and/or monopoly practices have been taken against Gem Diamonds.

It is now almost 11 years since the Kimberley Process was introduced to the diamond industry. The process has grown in reputation and has contributed to the virtual eradication of the trade in conflict diamonds. Gem Diamonds is firmly committed to the principles of the Kimberley Process and all diamonds sold by the Group are Kimberley Process certified.

### KEY PERFORMANCE INDICATORS

The Board and Executive Committee of Gem Diamonds monitor the Group's performance over time using a range of key performance indicators (KPIs). These KPIs are reported on regularly by management and provide a useful measure of the Group's operational, financial and safety performance. They are reported in this Annual Report to enable all stakeholders to assess the Group's performance and results on a clear and consistent basis.

#### Safety:

- Fatalities – Work related fatal accidents (ceiling 0 fatalities, achieved)
- LTIFR – Lost time injury frequency rate (ceiling 0.40, achieved 0.00)

#### Environment:

- Major environmental incidents (ceiling 0.00, achieved 0.00)

#### Operational Performance:

- Tonnes mined – (target 11.9 mt, achieved 11.2 mt)
- Ore treated – (target 11.9 mt, achieved 11.6 mt)
- Carats produced – (target 320 820, achieved 257 641 cts)
- Carats sold – (target 329 591 cts, achieved 252 490 cts)

#### Financial Performance:

- EBITDA – (budget US\$52.5 million, achieved US\$82.0 million)

## Business Review

For the period 2008 to 2010, Gem Diamonds' Executives were tasked with achieving the following:

Key Strategic Objectives 2008 - 2010		2010
1.	Maintain appropriate health and safety standards and manage environmental obligations	Achieved record safety year for the Group
2.	Identify and conclude acquisitions that are likely to have a positive influence on earnings and share price and increase the critical mass of production	Several identified, none met investment criteria
3.	Successfully implement the beneficiation process at Letšeng	Approval received from the Lesotho Government and the plan is progressing
4.	Potential acquisition of an equity stake in the Chiri project	Project was put on care and maintenance in 2009. Alternative proposals being investigated and discussed with partners
5.	Successfully conclude the Mining Licence application for Gope and secure funding and commence the project	Mining Licence awarded and plans are underway for construction of an underground mine at Gope.
6.	Successfully integrate the Kimberley Diamond acquisition	Achieved in 2008
7.	Maximise mine-gate revenue through optimised sale process	Various initiatives for optimised sales have been implemented: Letšeng has control over its own sales and marketing; and an off-take agreement for Ellendale's fancy yellow diamonds is in place with Tiffany & Co; Ellendale's commercial diamonds are being marketed through eAuction platforms.
8.	Increase the confidence in the diamond resource base	Significant improvement in confidence at Letšeng; work ongoing at Ellendale
9.	Commission the second plant at Letšeng within budget and achieve rapid production build-up	Achieved in 2008
10.	Achieve planned throughput tonnes treated at all mining operations	Achieved at Letšeng in 2010 Not achieved at Ellendale in 2010*
11.	Achieve budgeted recovery of carats at all mining operations	Not achieved for 2010 due to a change in mining mix at Letšeng, however profitability has improved in 2010.
12.	Achieve budgeted earnings before interest, tax, depreciation and amortisations (EBITDA)	Exceeded in 2010

\* Details are noted in the Kimberley Diamonds operational review in the Business Review.

## Business Review

### RISKS TO OUR BUSINESS

The Group's operational and growth performance is influenced and impacted by a number of risks. Many of these risks are beyond the control of the Group but a formal risk management process exists to assist in identifying and reviewing potential risks. Mitigating plans are formulated and reviewed regularly to understand their effectiveness and progress. The Group is focused on continuously analysing and assessing the risks faced and improving the risk management process accordingly. The following key risks have been identified by the Group. The list is by no means exhaustive and may change over a period of time, as the impact and likelihood of the risks is assessed as part of the risk management process.

#### 1. MARKET RISKS PERTINENT TO THE GROUP

The period and stability of the recovery of the financial markets and the impact on consumer preferences post the global economic crisis impacts the Group and the industry as a whole. This potentially compounds the existing short term imbalance between demand and supply and the impact that this has on the diamond pipeline. Although the Group cannot materially influence the situation, the market conditions are continually monitored to identify current trends that will pose a threat or create an opportunity for the Group.

A change in consumer preferences away from diamonds due to negative sentiment towards diamonds and/or diamond mining is a continuing risk.

#### 2. OPERATIONAL RISKS PERTINENT TO THE GROUP

##### *A major production interruption at either Kimberley Diamonds or Letšeng Diamonds*

The Group may experience material mine and/or plant shutdowns or periods of decreased production due to a number of different events. Any such events could negatively affect the Group's operations and impact both profitability and cash flows. The continual review of the likelihood of possible different events and ensuring that the appropriate management controls, processes and business continuity plans are in place mitigate this risk.

##### *Mineral resource risk*

The Group's ability to operate profitably in the medium to long term depends heavily on knowledge of the Group's mineral resource, which influences the operational mine plans and the generation of sufficient margins. Various bulk sampling programmes combined with geological mapping and modeling methods significantly improve the Group's understanding of the mineral resources and assist in mining the existing mineral resources profitably.

##### *Life of mine at Kimberley*

The Ellendale E9 pipe has a relatively short remaining life. As highlighted, the E9 operation makes an important contribution to the Group. The Group continues to review

## Business Review

the current geological information and current lamproite resources with a view of identifying opportunities to extend the life of the Kimberley Diamonds' operation.

### *Health, safety, social and environmental responsibility related risks*

The risk that a major health, safety, social or environmental incident may occur within the Group is inherent in mining operations. The Group has formulated and published policies in this regard and significant resource has been allocated to review, recommend, implement and monitor compliance throughout the various operations within the Group. Further to this, the Group engages independent third parties to review and provide assurance on processes currently in place.

### 3. POLITICAL RISKS PERTINENT TO THE GROUP

The political environments of the various jurisdictions that the Group operates within may adversely impact the ability to operate effectively and profitably. However, the geographical dispersal of the Group's operations internationally mitigates the impact of this on the Group.

### 4. FINANCIAL RISKS PERTINENT TO THE GROUP

#### *Exchange Rates*

The Group receives its revenue in US dollars while its cost base arises in local currencies based on the various countries within which the Group operates. The weakening of the US dollar relative to these local currencies and the volatility of these currencies trading against the US dollar will impact the Group's profitability. The impact of the exchange rates and fluctuations are closely monitored.

#### *Inability to achieve profitability in the medium to long term*

The financial impact of the risks that may affect the Group may individually, or in a combination, affect the ability of the Group to operate profitably in the medium to long term. The various risk management processes described above provide a substantial base from which to assess, monitor and mitigate this risk.

### 5. GROWTH PLANS

#### *Inability to achieve planned growth*

The Group's growth strategy is based on various studies, cost indications and future market assumptions. Although due process in assessing the viability, costs and implementation of these projects is undertaken, risks with regards cost overruns and /or delays may impact the effective implementation thereof.

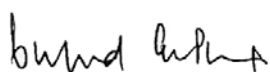
## Business Review

### EVENTS SUBSEQUENT TO THE YEAR END

No other fact or circumstance has taken place during the period covered by the financial statements and up to the date of this report which in our opinion, is of significance in assessing the state of the Group's affairs.

### CONCLUSION

2011 has begun on an extremely positive note. Not only have rough diamond prices continued to increase as a result of perceived supply shortages, but polished prices have too and volumes of trading are pleasing. Management has been concentrating on delivery of growth and control of costs. Much effort has been expended on these aspects of the Company's activities and it is pleasing to report to shareholders the fruits of these labours. The Company is very well placed with a pipeline of opportunities and a balance sheet to fund them.



**Clifford Elphick**  
*Chief Executive Officer*

14 March 2011



**Kevin Burford**  
*Chief Financial Officer*

14 March 2011



**Alan Ashworth**  
*Chief Operating Officer*

14 March 2011

## Mineral Resource Management

The Mineral Resource Management function has been developed throughout 2010 at both the Letšeng and Ellendale mines in recognition of the importance of this function in measuring the performance and ensuring the future development of the respective resource bases at both of these operations.

The Letšeng diamond resource is characterised by the coarsest diamond size frequency recognised in global kimberlite deposits. As a result of this, a very high proportion (>80%) of the resource value is contained in a relatively small proportion of the larger stone sizes, +10.8 carats. These larger diamonds occur at a grade of approximately only 0.4 carats per hundred tonnes of kimberlite, which restricts the sampling methods that can be effectively employed to define and measure this resource. The Mineral Resource Management and Development strategy at Letšeng has therefore focused firstly on large 'bulk samples' of the ore-body at current mining levels in different facies and secondly on improving the geological understanding and continuity of the ore-body at current levels and with depth.

The Ellendale diamond resource (E9 ore-body) is characterised by the highest proportion of fancy yellow diamonds occurring in global kimberlites. These high value diamonds contribute greater than 75% of the total value extracted from this resource, yet comprise approximately only 10% of the total carat production, occurring at a grade of just 0.6 carats per hundred tonnes of kimberlite. Similarly to the Letšeng resource, the Mineral Resource Management and Development strategy at Ellendale has also focused on large 'bulk samples' of the ore-body at current mining levels and development of the geological model with depth.

Resource estimates for the Gope kimberlite project were revised in April 2010 in an independent resource statement compiled by Venmyn Rand (Pty) Ltd. These figures have not been published in this report and are presented in the resource summary available on the Gem Diamonds website – [www.gemdiamonds.com](http://www.gemdiamonds.com).

### Resource Performance

The resource performance (grade and US\$ per carat revenue) is measured against the end 2009 resource statement estimates (compiled by independent Competent Persons, Venmyn Rand (Pty) Ltd).

Grade reconciliation is based on expected carat production from provenance analysis of the various facies loaded and treated on a daily basis versus actual carats recovered. The US\$ per carat revenue reconciliation is calculated in a similar manner, based on ore provenance analysis versus the actual revenue recovered from the relevant tender period. These resource measurements are important in order to highlight possible resource under/over-performance, process problems, as well as price gaps due to a changing market environment. (Note that the low grade historical stockpile treated by contractors at Letšeng is excluded from the Letšeng reconciliation).

## Mineral Resource Management

### Annual Grade Reconciliation<sup>1</sup>

- The overall Letšeng 2010 annual grade reconciliation is 98%, or just 2% below expected (1.46 carats per hundred tonnes actual versus 1.49 carats per hundred tonnes expected) which indicates that the resource has performed close to that expected from the independent resource grade estimations.
- The overall Ellendale 2010 annual grade reconciliation is 91%, or 9% below expected (4.15 carats per hundred tonnes actual versus 4.54 carats per hundred tonnes expected). The shortfall in grade was due to a combination of plant underperformance and resource model issues. Corrective procedures have been implemented in the last quarter of 2010 and an improvement is expected in the first quarter 2011.

### Annual Revenue Reconciliation<sup>1</sup>

- The overall Letšeng 2010 annual revenue reconciliation is 126%, or 26% above expected (US\$2 180/carats actual versus US\$1 737/carats expected). This increase in actual diamond prices is a function of the recovery of several large +100 carat stones during the course of the year, an improved Sales and Marketing strategy and a strong diamond pricing environment.
- The overall Ellendale 2010 annual revenue reconciliation is 106%, or 6% above expected (US\$440/carats actual versus US\$416/carats expected). A revised increased pricing structure for the last Quarter of 2010 with Tiffany & Co. in conjunction with a strong diamond price environment contributed to this revenue performance.

### Resource Development Plans

To ensure resource confidence integrity in 2011, and in the future, resource development plans initiated during 2010 will be further developed during the course of 2011. The resource development plans for both Letšeng and Ellendale will comprise increasing the number of grade samples (and reducing the sample volumes) and compositing the grade samples for revenue estimate purposes. In addition to this increased sampling campaign, infill drilling will be conducted at both operations to improve the integrity of the geological models with depth.

During the course of 2010, extensive infill geological drilling was conducted at Ellendale on both the E9 and E4 ore-bodies. In addition to this exploration, drilling on high interest lamproites and exploration targets is planned. Both of these drilling campaigns will continue in 2011.

Approximately 3 000 metres of infill geological core drilling is planned at Letšeng, the majority of which is planned for the Main Pipe for 2011.

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<sup>1</sup> All reconciliations are based on annual weighted averages

## Mineral Resource Management

### Mineral Resource Statement Reporting

The Group has changed its resource reporting cycle and has not included an updated resource statement in this Annual Report. A revised resource estimate will be completed in the first half of 2011 and updated on the Gem Diamonds website. For reference to the resource statement as at 31 December 2009, please refer to the Gem Diamonds website on [www.gemdiamonds.com](http://www.gemdiamonds.com).



# Sustainable Development Report

## Sustainable Development Report

### 1. Sustainability at Gem Diamonds

Gem Diamonds Limited (GDL) is a global diamond mining company, focussing on the high quality diamond segment of the market, in order to deliver superior returns to its shareholders, create career value for its employees, while conducting its operations in a manner which minimises its impacts on the receiving environment, Project-Affected Communities (PACs) and other stakeholders. The Group operates its assets with the understanding that a sustainable business process is of primary importance in the creation of sustainable value for all parties involved in its business, through the implementation of sound operational practices and execution of the Company's moral obligations. Gem Diamonds is committed to the development, implementation and maintenance of internationally recognised standards of health and safety, environmental, social, economic and business management and strives towards adherence to the International Finance Corporation (IFC) Environmental, Health and Safety (EH&S) standard. An IFC EH&S audit was conducted at both the Letšeng and Ellendale mines, and both operations achieved a high level of compliance to the standard. These audits will be conducted periodically for all operating sites.

Due to the variation in operational maturity of the Group's assets, strategic priorities differ between the sites. However, Group-wide strategic priorities include continued legal compliance, the creation of a safe and healthy work environment for our employees, the reduction of resource consumption, minimisation of environmental impacts and the optimisation of community benefit derived from the mine. In addition, ensuring adequate and integrated planning and provision for ongoing and end of life of mine rehabilitation comprises a focus area for the Group.

Data presented in this report covers the Group's operations based in Lesotho (Letšeng Diamonds (Letšeng) - Letšeng operation) and Australia (Kimberley Diamond Company (KDC) - Ellendale operation), and where relevant, projects under care and maintenance or ongoing development in Indonesia (P.T. Galuh Cempaka (PTGC) - Cempaka operation), Central African Republic (CAR) (SOCEMCA - Mambéré operation), Angola (Chiri project) and Botswana (Gope Exploration Company (GEC) - Gope project), as well as the corporate offices based in the United Kingdom (Gem Diamonds Limited (GDL)) and in South Africa (Gem Diamonds Technical Services (GDTs)), over the period 1 January - 31 December 2010. Although some of the operations are not wholly owned by Gem Diamonds, the Company has full management responsibility for these operations.

### 2. Report Parameters

The Gem Diamonds Group has adopted the Global Reporting Initiative (GRI) version 3 (G3) reporting guideline as the framework for its Corporate Social Responsibility (CSR) programme. The Group published its first annual G3 based Sustainable Development (SD) report in 2008, containing information on only a limited number of performance indicators (PIs). Subsequently the GRI CSR monitoring and reporting system has been expanded on significantly during 2009 and 2010 at the operations as part of the Group's five year phased implementation programme as is depicted in the table below.

## Sustainable Development Report

Performance Indicator (PI) Category	2008 (%)	2009 (%)	2010 (%)
Economic PIs	36.4	45.5	66.6
Environmental PIs	0.0	30.9	63.6
Labour Practices & Decent Work PIs	0.0	31.3	53.3
Human Rights PIs	0.0	55.5	70.0
Society PIs	0.0	62.5	69.2
Product Responsibility PIs	0.0	0.0	0.0
<b>Total PIs</b>	<b>6.0</b>	<b>37.6</b>	<b>53.8</b>

The inclusion of the various aspects which are monitored and reported on at the operations are determined by Gem Diamonds' management, in consultation with the country management teams, in order to ensure that material aspects are adequately highlighted and addressed across the Group.

The 2010 reporting scorecard is presented on pages 63 to 68 of this report.

### 3. HSSE Governance

Health, Safety, Corporate Social Responsibility (CSR) and Environmental (HSSE) matters continue to be managed at the appropriate level in the organisation, with strategic direction being provided by the HSSE Committee. The Committee reports directly to, and provides assurance to the Gem Diamonds Board regarding the appropriateness and adequacy of HSSE management. The Committee comprises:

- GA Beevers - Chairman (non-Executive Director)
- M Salamon (Senior Independent Director)
- GE Turner (Chief Legal and Commercial Officer)

The Committee has remained unchanged since 2008. Attendance at the Committee meetings in 2010 is presented below:

Committee Member	Attendance			
	15 March 2010	8 June 2010	23 August 2010	23 November 2010
GA Beevers	●	●	●	●
M Salmon	●	●	●	●
GE Turner	●	●	●	●
Quorum Achieved	●	●	●	●

Alan Ashworth (Chief Operating Officer) and Anneli Botha (Group HSSE Manager) attend the Committee meetings for reporting purposes, while André Confavreux (Company Secretary) acts as the Committee Secretary.

### 4. 2010 Key Performance Indicators

The HSSE Committee compiles and approves a list of Key Performance Indicators (KPIs) in consultation with the Group's operations, in order to ensure the relevance of HSSE

## Sustainable Development Report

measurement and monitoring. These KPIs focus on measures that will ensure the Group's continued focus on the Triple Bottom Line and to flag risk exposures that may affect our Social Licence to Operate.

KPI Description	Target Achieved	Actual Achieved	Trend
Achieve zero fatalities	Yes	Zero	↔
Lost Time Injury Frequency Rate (LTIFR) - Threshold ceiling of ≤0.40	Yes	0.00	↓
Ensure 100% pre-employment medicals are conducted	Yes	100%	↑
Provision of Voluntary Counselling and Testing (VCT) at appropriate operations	Yes	100%	↔
Maintain at least a 4 Star Rating in the external HSSE audit	Yes	100%	↔
Ensure the development of full capability to report on selected GRI Pls by year end across the Group	Yes	100%	↑
Ensure compliance with permitted land clearance authorisations at all time	Yes	100%	↔
Ensure 85% and above compliance to rehabilitation plans	Yes	90%	↔
≤ 1 Major environmental incident in Group	Yes	Zero	↔
≤ 1 Major stakeholder complaint / incident	Yes	Zero	↔

Trend assessed in comparison with 2009 financial year. Green indicates a desirable move in trend.

### 5. Gem Diamonds HSSE Management System

The Gem Diamonds HSSE management system has been developed and continues to evolve in a manner that ensures that our vision towards sustainable development is embedded into operational practice throughout the Group. The system follows a recognised international format which is aligned with the ISO standards and the IFC EH&S guideline, but allows for appropriate variations across the operational jurisdictions, in order to ensure compliance with local legislation as well as taking due cognisance of cultural variations.

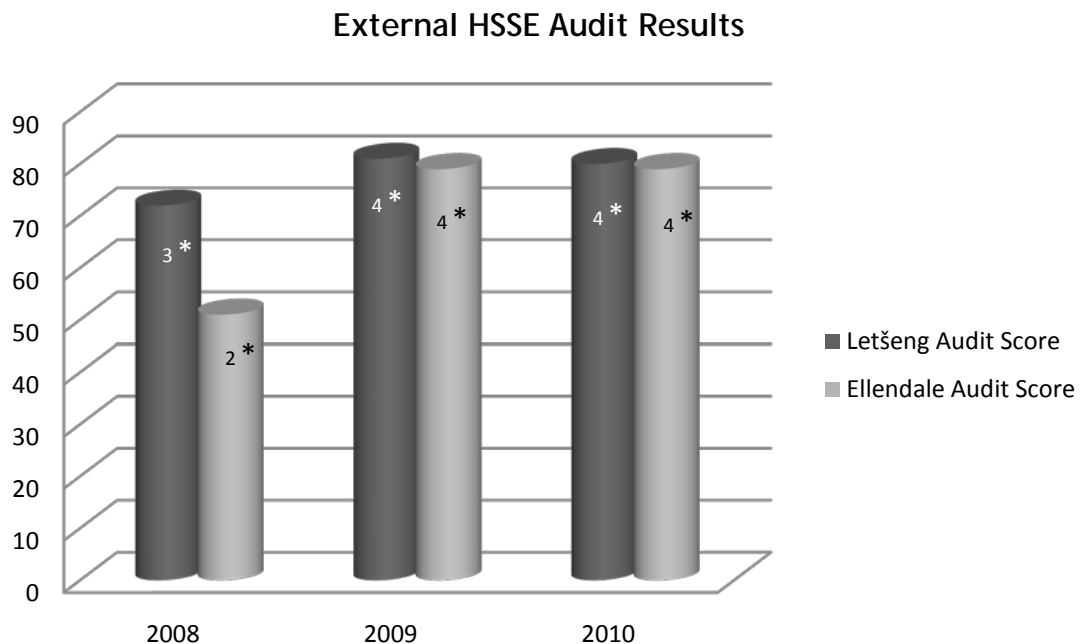
The HSSE management system focuses on ensuring that our employees' and PAC's health and safety are prioritised, that the receiving environment is maintained in an acceptable condition for current and future generations, and that the Gem Diamonds Group creates a positive legacy in its host communities. Group-level policies can be accessed on Gem Diamonds' website – [www.gemdiamonds.com](http://www.gemdiamonds.com).

#### 5.1 External Assurance

IRCA Global conducted the third set of annual external HSSE audits at Gem Diamonds' operating entities during late 2010. As in 2009, assets under care and maintenance did not

## Sustainable Development Report

undergo external audits. In order to ensure consistency of evaluation, the same audit team was used at all the operations. Letšeng and Ellendale's performance in these audits over time is indicated below.



Although the audit scores remained similar to the 2009 results, the operations' consolidation of the 2009 audit outcomes and improved HSSE management practices are evidenced in the record-breaking results achieved in 2010.

A detailed action plan has been compiled for both Letšeng and Ellendale to ensure the implementation of corrective action as required. The external audits will continue in 2011 for all operational subsidiaries.

### 6. Our People

Gem Diamonds believes that the organisation's strength lies in the high quality of people it employs and is able to retain. To this effect, the organisation places a premium priority on its employees' work satisfaction. In addition, because many of the Group's operations are set in remote locations, every effort is taken to ensure that staff are comfortable and provided with healthy activity options for after hours entertainment.

Gem Diamonds employs a total of 1735 people (including own and contractor employees) globally<sup>1</sup>, of which 86% are permanently employed and the remaining 14% are employed on a temporary basis. Seasonal variation of employment numbers is only applicable at Ellendale in Australia, as no mining is undertaken from mid-December through to March due to the local wet season, resulting in unsafe mining conditions.

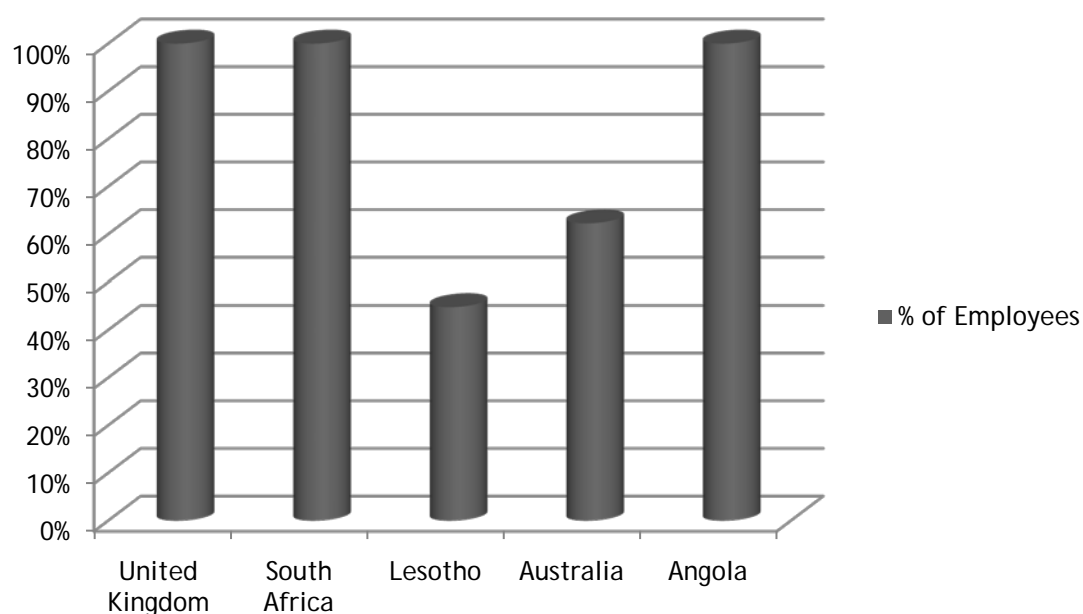
<sup>1</sup> Employment figures as at 31 December 2010.

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Country	Operation	Number of Own Employees	Number of Contractor Employees	Number of Permanent Employees	Number of Temporary Employees
United Kingdom	GDL	5	0	5	0
South Africa	GDTs	22	1	22	1
Lesotho	Letšeng	178	1 036	1 066	148
Australia	Ellendale	220	126	328	18
Indonesia	Cempaka	77	9	30	56
Botswana	Gope	4	2	6	0
Angola	Chiri	34	21	34	21
<b>Total Gem Diamonds</b>		<b>540</b>	<b>1 195</b>	<b>1 491</b>	<b>244</b>

Performance and career reviews for Gem Diamonds' employees are conducted at the major centres and operations. The format and timing of reviews are location specific.

### Performance / Career Reviews 2010



All employees, including own and contractor employees, receive comparable benefits where appropriate and as far as is practicable. Benefits received by employees vary between host countries and this variation is largely based on legislative requirements of the countries in question. Costs associated with the said benefits for contractors, are included in the total contract cost and provision of these benefits are contractually controlled. Where operations declare a profit and/or individuals meet set KPIs, discretionary performance-based bonuses are paid to employees. A total of US\$6.1 million was expended on additional employee

## Sustainable Development Report

benefits over and above salary costs. The following table represents the type of benefit per host country.

Benefit Description	United Kingdom	South Africa	Lesotho	Australia	Botswana	Angola	Indonesia
Life insurance	-	-	-	-	-	-	-
On site health care (in excess of first aid emergencies)	-	-	● ■	● ■	-	● ■	-
External health care / medical aid	/	/	/	/	/	/	/
Workman's compensation / similar	● ■	● ■	● ■	● ■	● ■	● ■	● ■
Disability / invalidity cover under workman's compensation / similar	● ■	● ■	● ■	● ■	● ■	● ■	● ■
Maternity / paternity leave	● ■	● ■	● ■	● ■	● ■	-	● ■
Retirement provision	/	/	● ■ /	● ■	/	/	● ■ /
Stock ownership / options <sup>2</sup>	● ■	● ■	● ■	● ■	● ■	● ■	● ■

● Employees ■ Contractors - Not provided / Provision included in cost to company package

1. Information regarding stock ownership / options is presented in Note 28 of the Annual Report

Retirement provision at Letseng takes the form of a mandatory defined contribution plan. A total of 91% of employees qualify for this provision and the company contributes 7.5% of salaries to each individual employees' provision. The remaining 9% of staff comprise expatriates, who do not qualify to partake in the contribution plan. These employees receive an additional salary allowance to invest into their own retirement plan in their country of origin. The Australian legislative system provides for retirement provision in the form of superannuation at a rate of 9% of employees' salaries payable by the Company, while employees may elect the percentage that they themselves contribute within certain legislated limits, depending on their salary band. 100% of employees in Australia are included in the superannuation benefit. In the CAR, the state taxes employers 18% and employees 2% of employees' gross salaries for retirement benefit provision. At the Cempaka operation, a mandatory retirement benefit of 5.74% (3.74% paid by the employer and 2% paid by the employee) is in effect for Indonesian citizens (for expat employees, provision is included in their cost to company packages). GDL, GDTS, GEC and Chiri employees' retirement contributions are included in employee's cost to company package.

Gem Diamonds believes that a successful organisation is dependent on attracting the best talent; hence the company materially exceeds minimum wages in all the host countries where it operates. Minimum wages applies only at the operational sites<sup>2</sup>. At Letseng the standard entry wage is 24% higher than the national sectoral minimum wage for unskilled labour. A variable minimum wage applies at Ellendale and in 2010, staff remuneration was a

<sup>2</sup> GDL, GDTS and Gope are excluded as minimum wages do not apply.

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minimum of 63% above the Federal Government determined minimum wage. At Chiri in Angola, the minimum wage paid to employees is 217% of the legislated standard entry wage, while employees in CAR received 350% of the legislated standard entry level wages. Cempaka's lowest paid employee category currently earns 12% more than minimum wage<sup>3</sup>.

The majority of Gem Diamonds' operations are non-unionised, although all employees have the right of freedom of association. Only Letšeng's major mining contractor has formal agreements in place with a local union. A total of 5% of staff employed at Letšeng have chosen to join this union. All of these employees are permanently employed by the contractor and no temporary employees have chosen to join this union in 2010.

A three-day strike by the mining contractor's staff occurred at Letšeng in 2010. None of Gem Diamonds' other operations recorded any industrial action.

Gem Diamonds strongly believes that working in a healthy and safe environment, is a fundamental human right. To ensure that employees are kept abreast of Safety, Health and Environmental (SHE) hazards, risks and operational changes, both Letšeng and Ellendale conduct compulsory daily tool box talks / pre-shift briefings. In addition, these meetings facilitate a rotational review of existing SHE processes and procedures and serve as a forum for discussion regarding SHE concerns and improvements. At operations that are on care and maintenance<sup>4</sup> or ongoing project development, weekly SHE meetings are undertaken. The operations recorded a 100% staff attendance at SHE meetings and 100% of staff are represented at the SHE Committee Meetings through a system of employee-elected SHE representatives.

Ongoing SHE training at the operations compliments these meetings. Group-wide, a total of 11 420 hours was spent on dedicated SHE training in order to ensure all employees obtain the required skills to undertake their work in a safe and responsible manner. Gem Diamonds believes strongly in the empowerment of staff through ongoing skills training and promotes a culture that safety and environmental duty of care starts with each individual. A breakdown by employee category is presented below.

Employee Category	Hours of Dedicated SHE Training
Senior management	252
Middle management	438
Supervisors	1 560
Remaining staff	9 170

<sup>3</sup> As compared to minimum wage for South Kalimantan.

<sup>4</sup> Operations on care and maintenance and ongoing project development include Chiri (Angola), Cempaka (Indonesia) and Mambéré (Central African Republic). The Gope project (Botswana) does not yet comprise a mine site, with only a small complement of staff based in Gaborone.

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Diversity of staff and management representation is considered to be a valuable asset to the Group to ensure diversity of opinion and management approaches. Detail pertaining to certain diversity factors relevant to the Group's operational governance bodies is presented below:

Governance Committee	Total No. of Persons	Male	Female	Minority Group / Local Persons	Expatriate Persons	Age <30	Age 31 - 50	Age >51
Letšeng Board	10	8	2	3	7	0	7	3
KDC Board	4	3	1	0	4	0	1	3
Gope Board	5	5	0	1	4	0	2	3
Cempaka Board	4	4	0	0	4	0	1	3

During 2010, Letšeng appointed its first female CEO, Ms Mazvi Maharosa, a Lesotho national, while KDC appointed its first female director, Ms Lee-Ann de Bruin.

### 7. Health and Safety Report

*I care, I protect, I achieve*



During 2010, employees of the Gem Diamonds Group completed 4.3 million man hours. As at year-end, Gem Diamonds' workforce comprised 540 own employees and 1 195 contractor employees, of which 1 491 were permanent employees, and the remaining 244 were temporary employees. Gem Diamonds regards any person at its operations as part of its own workforce and therefore ensures equal attention is afforded to everyone's health and safety. Gem Diamonds continues to promote its philosophy at the operations that no job is important enough to be done in an unsafe manner and that all accidents are preventable. This philosophy has now become part of the Group's operational culture and has resulted in 2010 being a record breaking year in terms of health and safety performance.

Incident recording and reporting is conducted in compliance with the International Standards Organisation (ISO) standard. Certain of the applicable International Labour Organisation (ILO) conventions and guidelines have been ratified by countries in which Gem Diamonds operates. However, all operations ensure as a minimum standard, compliance with the host country legislation and in addition, apply the same ISO compliant incident recording and reporting principles.

All health and safety frequency rates are calculated over 200 000 man hours.

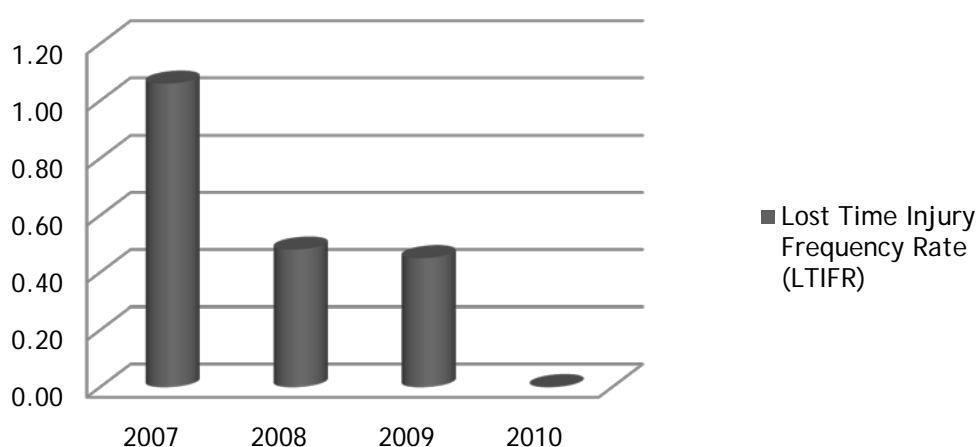


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Gem Diamonds is pleased to announce that zero fatalities occurred at its operations, bringing the total fatality-free man hours to 14.5 million<sup>5</sup>.

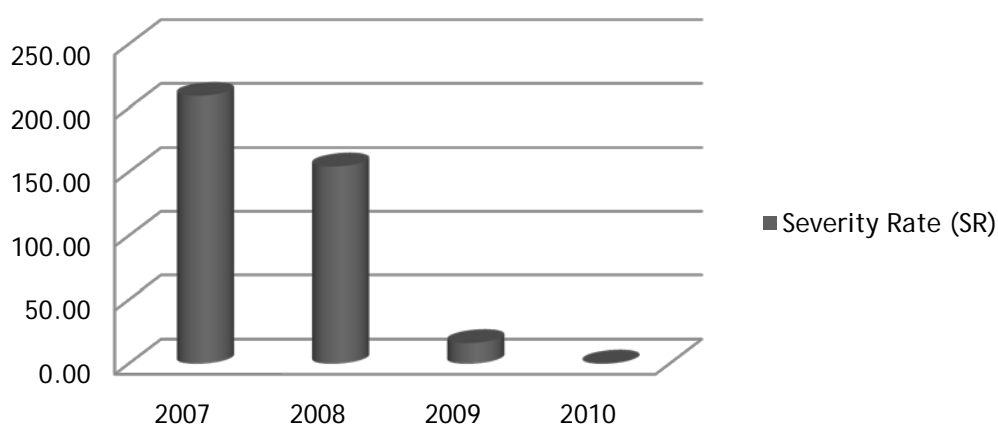
The Group-wide number of Lost Time Injuries (LTIs) has been reduced significantly since 2007. In 2010, a stringent Group-wide Lost Time Injury Frequency Rate (LTIFR) ceiling value of 0.40 was set. All expectations were surpassed when the Group achieved its first LTI-free year since listing and a total of 14 months LTI-free at the end of December 2010, over 5 million man hours.

**Group-wide LTIFR Trend 2007 - 2010**



As a result of there being no LTIs at the operations, the Group-wide Severity Rate (SR) has reduced to zero in 2010.

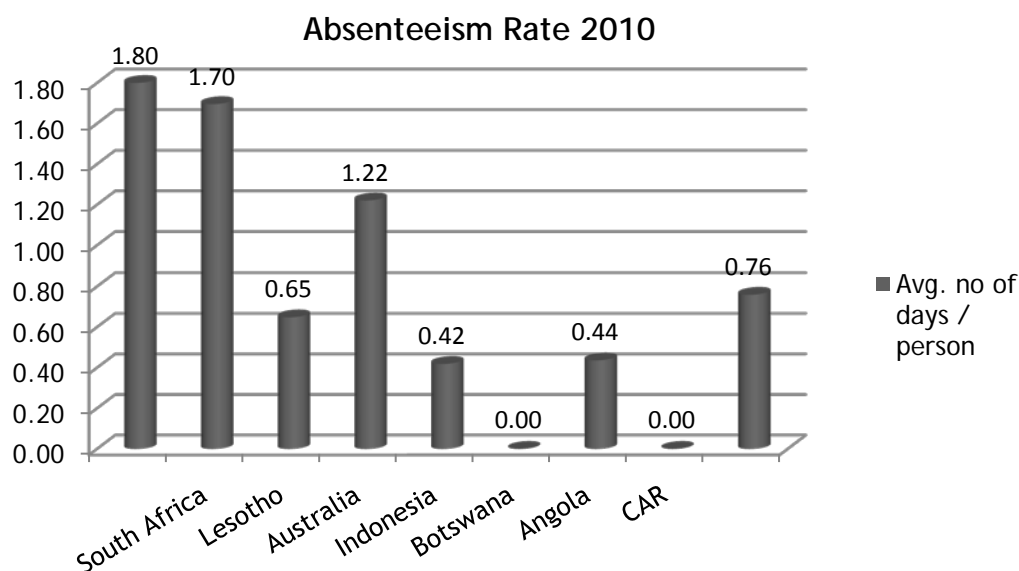
**Group-wide SR Trend 2007 - 2010**



Gem Diamonds recorded an absenteeism rate as indicated below. Since there were no injury-induced shifts or days lost, the absentee rate below only includes sick leave days and days absent without leave.

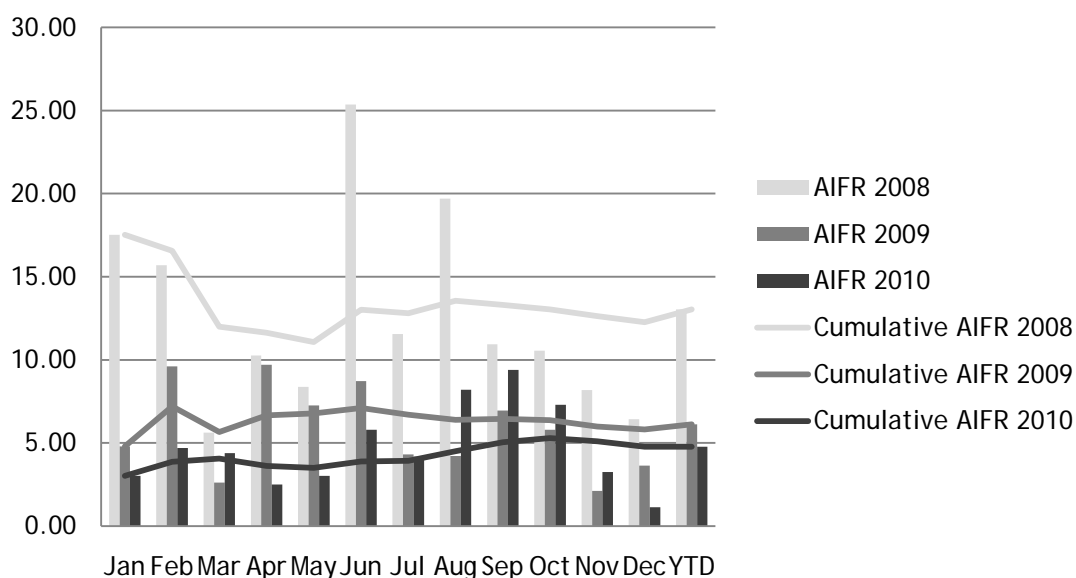
<sup>5</sup> The last fatality that occurred in the Gem Diamonds Group was recorded in March 2008.

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In order to ensure that a real risk reduction in terms of injuries at the operations is achieved, Gem Diamonds also commenced monitoring of total / all injuries in 2010. Although improved reporting of minor injuries has been recorded, it is pleasing to note that the cumulative All Injury Frequency Rate (AIFR) is continuing on a strong downward trend across all the operations. Minor injuries continue to be analysed on an ongoing basis by body part and department in order to ensure that the operations actively manage hazards before they result in major harm. Zero injuries were recorded at Cempaka, Chiri and Gope.

### Group-wide AIFR Trend 2008 - 2010



In addition to actual health and safety incidents, all operations commenced recording of near hits in 2010 as part of the monthly HSSE monitoring system. A total of 1 589 near hits were recorded in the reporting period. Staff are strongly encouraged to continuously

## Sustainable Development Report

improve on the reporting of near hits. All near hits are risk rated and high potential near hits are subjected to an incident investigation in order to develop an informed set of corrective actions that aims to ensure the elimination of the identified hazards which may result in actualised injuries and or property damage.

Due to the remote location of Gem Diamonds' operations, each site<sup>6</sup> has a fully equipped life support medical facility and is staffed by highly trained occupational medicine / medical personnel. A total of 5 688 medical cases were recorded at the operational site clinics across the Group in the reporting period.

Occupational diseases are closely monitored at the operations by the medical teams and such monitoring is based on site-specific occupational and environmental disease risk profiles. Gem Diamonds recorded zero occupational disease incidents from 2007 to 2009, but recorded two incidents of chemical burn, one case of temporary noise-induced hearing loss and the other, a case of a previous repetitive strain injury aggravated by the employee's work conditions in 2010. In order to address any system shortcomings which may have contributed to these cases, a comprehensive external occupational health assessment was undertaken at Letseng, while medical personnel at Ellendale, in consultation with external occupational health and hygiene experts, conducted a thorough occupational health assessment during the reporting period and hazard and risk exposures were detailed in the operation's task-based HSSE risk assessments. Relevant corrective actions were implemented with immediate effect in order to prevent re-occurrences and/or any other occupational diseases and conditions.

Gem Diamonds continues to monitor trends related to operation specific environmental diseases such as malaria, typhoid, cholera and gastro-intestinal diseases, in order to ensure that effective measures can be implemented to protect its employees from outbreaks of these diseases.

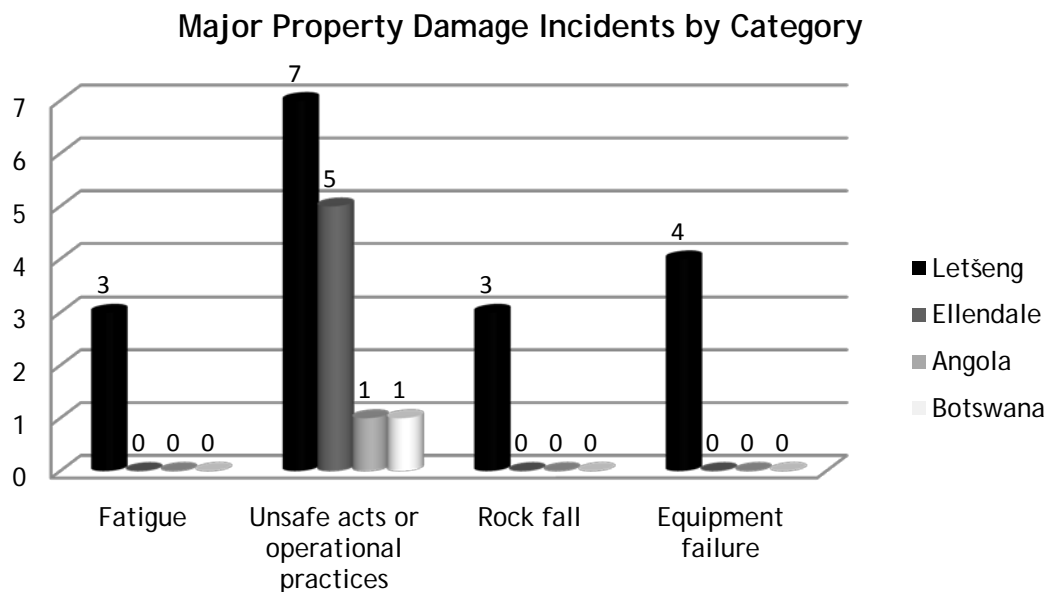
A total of 24 major property damage incidents<sup>7</sup> occurred during the reporting period over a total of 4.8 million machine hours, resulting in a Group-wide Major Property Damage Frequency Rate (MPDFR) of 1.00, an increase from the MPDFR of 0.70 recorded in 2009. These are detailed per operation based on the immediate cause that resulted in the damage.

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<sup>6</sup> Cempaka has only a first aid medical station, due to the close proximity of a government owned clinic.

<sup>7</sup> A major property damage incident comprises damage in excess of US\$5 000. This limit however, has been revised for the 2011 reporting period to US\$100 000.

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### 8. Economic Sustainability and Governance

Data pertaining to Gem Diamonds' financial performance is reported in the financial section of this annual report and is summarised in the Business Review report on pages 6 to 27.

Gem Diamonds continues to operate its business with the philosophy that the creation of sustainable economic growth for all shareholders and stakeholders is of vital importance. This philosophy underlies the basis of the Group's business conduct and is applied to minimise significant impacts on those who may be materially affected by our operations.

Gem Diamonds continues to comply with host country legislation in the payment of taxes and royalties.

The Government of Lesotho is a 30% shareholder in the Letšeng Diamond Company and is appropriately represented on the Board of Directors. All capital expenditure at Letšeng is written off immediately for tax purposes. No assistance was received from the Australian government in respect of KDC in 2010 and the Government is not a shareholder in the Company. No other financial assistance is received from host country governments.

None of Gem Diamonds' operations make any payments in respect of land use agreements, other than those that may be outlined in operational mine lease agreements. No in-kind contributions were made to any political parties, politicians and/or related institutions in 2010 by Gem Diamonds.

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### 8.1 Local & Regional Economic Benefit and Sustainability

The definition of local and regional varies between operations as is outlined below:

Operation	PACs	Regional	National
GDL	N/A	London	United Kingdom
GDS	N/A	Johannesburg	South Africa
Letšeng	District of Mokhotlong	Bothe Bothe	Lesotho
Ellendale	West Kimberley region incl. Broome	Western Australia	Australia
Cempaka	Banjarbaru & Banjarmasin	South Kalimantan	Indonesia
Gope	Gope, Kaudwane, Lephepe & New Xade	Ghanzi District	Botswana
Chiri	Saurimo	Lunda Sul district & Luanda	Angola
Mambéré	Likaya Village	Bangui	CAR

Gem Diamonds has spent US\$46.3 million on salaries and approximately US\$229.0 million on procurement across the operations in 2010. In as far as is practicable, skills are sourced from the local talent pools, but due to the expert skill requirements associated with mining operations, this is not always practicable. However, both Letšeng and Ellendale have localisation policies in place and their progress is tracked on a continuous basis. Gem Diamonds spent US\$4.3 million on salaries from employees sourced from the PAC, while US\$16.7 million was spent on employees from the regional talent pool as is indicated in the table below.

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Operation	PACs (US\$)	Regional (US\$)	National (US\$)
GDL	-	-	4 678 619
GDTs	-	-	4 164 804
Letšeng	38 726	318 726	4 291 959
Ellendale	4 268 806	16 406 733	30 962 298
Cempaka	-	-	651 846
Gope	-	-	787 725
Chiri	-	-	241 065
Mambéré	-	-	568 888
<b>Total</b>	<b>4 307 532</b>	<b>16 725 459</b>	<b>46 347 204</b>

In addition, local and regional procurement is prioritised to ensure that PACs derive optimal benefit from the Group's operations being located in their vicinity. All of the operating sites have compiled policies to ensure that an appropriate strategy for their specific communities is actualised. The country of Lesotho measures only approximately 30 000 km<sup>2</sup>, resulting in the country being highly dependent on South Africa for skills and services. A total of US\$25.9 million was spent on procurement in the PACs Group-wide, while US\$70.1 million was spent with regional suppliers as is indicated in the table below.

Operation	PACs(US\$)	Regional(US\$)	National(US\$)
GDL	-	-	2 477 352
GDTs	-	-	3 235 026
Letšeng	8 890 937	-	87 883 839
Ellendale	16 796 366	70 038 516	133 551 454
Cempaka	221 852	149 683	375 554
Gope	-	-	910 548
Chiri	-	-	210 188
Mambéré	-	-	369 533
<b>Total</b>	<b>25 909 155</b>	<b>70 188 199</b>	<b>229 013 494</b>

### 8.2 Bribery, Corruption & Anti-Competitive Behaviour

Zero alerts in respect of bribery, corruption and/or suspicious behaviour were reported to Gem Diamonds' independent international reporting hotline in 2010. Given the

## Sustainable Development Report

promulgation of the United Kingdom Bribery Act, policies regarding corruption and bribery have been reviewed Group-wide and all employees retrained in order to ensure a reduction in non-compliance risks. Changes to the legislation are expected to be enacted in October 2011 and as a result, these policies will be re-evaluated in early 2011 to ensure that the implementation of such changes are undertaken in an acceptable manner in each of the subsidiaries' jurisdictions.

No notices of anti-competitive behaviour, anti-trust and/or monopoly practices have been lodged against Gem Diamonds since the inception of the Company, and no legal action in this regard has ever been brought against the Group. Gem Diamonds supports a competitive business environment based on ethical and sustainable differentiation from its competitors in the rough diamond industry.

### 9. Our Communities

Gem Diamonds continues to prioritise the relationship it has with its PACs and the regions in which the Company continues to have a material impact.

#### 9.1 Corporate Social Investment

Corporate Social Investment (CSI) remains focused on health, education, infrastructure, small to medium enterprises (SMEs) and limited donations. It has to be noted that two new categories were added to the CSI classification in 2010 in order to improve recording and reporting. Both regional environmental donations and other costs associated with CSI (such as subject matter expert consulting fees) were previously included in the donations category. During late 2009 and through 2010, both Letšeng and Ellendale undertook detailed community needs analyses in order to identify where the operations could optimally contribute to the sustainable development of their communities while ensuring independence from the mining operations. A three-year strategy was developed for each operation to implement these programmes and was approved by each operation's local board.

A brief description of projects undertaken during 2010 is outlined below per operation. Group-wide expenditure (in US\$) to actualise these projects is presented below and compared with 2008 and 2009.

Year	Health	Education	Infrastructure	SMEs	Regional Environmental Initiatives	Donations	Other Costs Associated with CSI	Total
2008	29 391	124 129	993 895	5 276	-	227 780	-	1 380 471
2009	32 022	155 854	272 536	67 721	-	209 584	-	737 717
2010	8 146	257 408	251 537	51 568	27 501	95 986	12 496	704 642

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### *Health Projects*

Ellendale supports the Healthy Lifestyles project in the Bunuba Aboriginal community of Fitzroy Crossing. Alcoholism, drug use and non-completion of schooling are just some of the challenges faced by the indigenous people of the Kimberley region. In response to these social problems, the Healthy Lifestyles programme was developed by several role players in conjunction with the Government of Australia. The programme encourages young people to remain in school until year 12, maintain a drug and alcohol free lifestyle and to essentially break the poverty cycle. The programme also provides continuous education and social support to maintain these healthy lifestyles, enable community building and promote and encourage leadership development. Young men are rewarded by qualifying to join one of the local Aussie Rules football teams and partake in the CKFL Kimberley Diamonds Company Premiership Cup competition. The Ellendale Social Club Initiative (ESKI), a club functioning solely on donations from Ellendale's staff, sponsored team sportswear in 2010 which resulted in great team spirit and pride. Young women are rewarded by qualifying to join the Kimberley Girl programme, which aims to empower these girls through teaching skills such as grooming and deportment, job readiness and confidence building. Ellendale has committed AU\$25 000 for the next two to three years depending on the life of mine.

The Cempaka operation upgraded an existing maternal and paediatric healthcare facility in the Guntung Manggis village, including formalising the ablution facilities and supply of medical equipment. The facility is serviced by State paramedics and the upgrade of the facility has drastically improved the medical care for the PACs mothers and young children. The operation also donated much needed maternity ward equipment to the local hospitals of the three villages surrounding the project site.

### *Education Projects*

Since 2006, Letšeng has been offering full scholarships to Basotho students for tertiary qualifications relating to the development of Lesotho's natural resources and aims to foster social and economic development that will sustain communities well beyond the life of the mine. Applicants undergo a rigorous assessment process before bursaries are awarded in order to ensure that the students selected are worthy ambassadors for their nation and for the Company. The students attend some of the best universities in South Africa. To date, 32 scholarships have been awarded to 28 students as indicated in the table below. Four of the former students are now employed at Letšeng, while eight are in the process of completing their educational internship programmes. Two of the former students are working for other companies and the remaining 14 students continue with their studies.

Course	Diploma, B-Tech and Post Graduate Diploma Level	Degree Level	Post Graduate Degree Level
Accounting		1	3
Applied Science			1
Chemical Engineering	1	1	
Electrical Engineering		3	
Engineering Management			1



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Course	Diploma, B-Tech and Post Graduate Diploma Level	Degree Level	Post Graduate Degree Level
Environmental science / health	2	1	
General Engineering	2		
Geology		2	2
Internal Auditing	1		
Mechatronics		2	
Mineral Process Engineering			2
Mining Engineering	2	5	
<b>TOTAL</b>	<b>8</b>	<b>15</b>	<b>9</b>

Letseng hosts an annual golf day, the Letseng Diamonds Classic, to raise funds to support vulnerable children in the Mokhotlong district who are affected by HIV/Aids - either living with, or who are orphaned by the disease. In 2010, proceeds from the golf day were used to provide 180 girls with school shoes and shawls, and 142 boys with school shoes and a pair of gum boots each.

Ellendale supported the Western Australian School of Mines 2010 International Collegiate Mining Competition and New Leaders Conference and provided educational material to the Leave No Trace eco-tourism initiative. Several donations were made to other regional educational institutions and initiatives.

The Ellendale operation places a strong focus on indigenous people's employment. Throughout most of 2010, 8% of the total workforce comprised indigenous people. Ellendale has now set a target for 2011 of 15%. A total of 58 indigenous people partook in the initial screening process for the 2010 / 2011 Indigenous Trainee Programme and 15 trainees entered the programme. The intensive work readiness training and indigenous mentoring commenced in November 2010 and comprises on the job training and formal training through the completion of the Certificate 1 in Mining Resources and selected units of the Certificate 2 in Business skills. The programme is a joint venture between South Metropolitan Youth Link (SMYL) community services, Bunuba Inc. and KDC. After successful completion of the course, it is expected that a significant number of trainees will find permanent employment with Ellendale. Some trainees have expressed a desire to complete further training, while others will take the skills learnt back to their communities. It should be noted that the excellent work undertaken by the operation regarding their indigenous people's employment training programme, has resulted in commendation from the Chamber of Minerals and Energy of Western Australia. The operation also invested strongly in a complete review of the Cross Cultural Awareness training package. The revision comprised a combined effort between Ellendale staff, Bunuba custodians and the Kimberley Technical and Further Education institute (TAFE) and will be rolled out to all employees in 2011.

KDC also donated funds to the Kimberley Aboriginal Law and Culture Centre (KALACC) to facilitate Law Time retreat and ceremony for members of the Bunuba community, where community members are trained in Aboriginal common law and initiated in this respect. This

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is an important community event that ensures the passing on of Aboriginal culture and principles to younger generations.

Despite the Cempaka operation still being on care and maintenance throughout 2010, Gem Diamonds remains committed to supporting its PACs. Cempaka has donated 12 new computers and a printer to a state run elementary school in Palam village. The school has 100 learners, the majority of whom previously did not have any access to computers. Another computer was donated for administration purposes to a junior secondary school that has approximately 70 learners in the Istiaqomah village. A boundary wall was constructed around another school in the Guntung Manggis village in order to improve safety for the school-going children. The construction of a perimeter fence and main gate of Madrasah Istiaqomah in Guntung Manggis village was nearing completion by the end of December. The operation also donated a large number of text books to the two previously mentioned schools. The books cover their entire curriculum and are held in the school library in order to ensure access for all the learners. In addition, digital projectors, fans and garbage bins were provided to these two schools.

Despite the Mambéré operation in CAR being placed on care and maintenance in 2009, a donation of equipment was made to the primary school which was constructed by the operation during 2008/2009.

### *Infrastructure Projects*

Since the start of 2010, Letšeng has conducted ongoing monthly maintenance on a 28km section of the sole access road for the district of Mokhotlong - a critical socio-economic life line for the approximately 98 000 people residing in the region. Other sections of the same road were upgraded and/or maintained by Letšeng during 2010. The 18 km access road to the community owned and operated eco-tourism facilities, Molaraneng lodge and 'Mapoka camp site, constructed by Letšeng and its contractor Alluvial Ventures, in 2008, was upgraded during 2010. This road is also the only road servicing the entire Khubelu Valley village.

In 2009, Letšeng completed the construction of the 'Mapoka footbridge and in 2010, the operation completed the construction of a second footbridge, this time in the Molaraneng village. These bridges enable school children safe crossing of a local river which swells to dangerous levels during the rainy season and allows the community safe access to surrounding villages. Both these bridges were constructed as a result of ongoing stakeholder consultations.

Cempaka facilitated a major upgrade of the Bankal village mosque during 2010.

### *SME Projects*

In Lesotho, upgrades were undertaken at the Molaraneng lodge and 'Mapoka campsite to improve the efficiency of the eco-friendly energy systems in order to reduce operational costs and thereby increase the community's profit from the facilities. Letšeng continues to supplement PACs staff salaries for the operation of the lodge and campsite until the skills transfer between the temporary operators and the community is completed and the facilities

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can be independently operated by the community. During the 2010 winter, the Khubelu valley experienced a significant drought. Letšeng received a request from the Khubelu valley community to assist them in the construction of a new well. This water supply project was successfully completed in the fourth quarter of 2010.

One of the projects identified during the Letšeng community needs analysis (and subsequently included into the integrated 3 year CSI plan) is the formalisation of the wool and mohair industry in the Mokhotlong district. The project will comprise the upgrade and formalisation of existing infrastructure and systems, construction of new infrastructure and the skills development and education of subsistence farmers. Based on the current population of farmers in the district, 5 300 people could be directly (26 455 people indirectly) benefitted by the project. The project will commence in all earnest in 2011 with the construction of two woolsheds in early 2011. All equipment for these two sheds was purchased in December 2010.

The vegetable farming projects in the villages surrounding the Cempaka operation are continuing successfully. Cempaka donated funds to a local co-operative to extend the farmers' loan facility to enable farmers to purchase tools, implements, seeds, seedlings and fertilisers. The majority of the twenty previously funded farmers are now sustainably producing a variety of vegetables.

In 2009, a freshwater eel project was developed and implemented in the Guntung Manggis village close to the mine. However, the project did not achieve the desired success and sustainability, and was subsequently converted into a catfish farm in 2010 with the additional assistance of the local government. Within three months, the thirty farmers directly involved in the project were able to undertake their first harvest. The success of the project attracted attention from far and wide, resulting in the first harvest being celebrated through a formal ceremony sponsored by the local government.

### *Regional Environmental Initiative Projects*

Gem Diamonds made a significant contribution to the Jane Goodall Institute to effect the relocation of a female chimpanzee, Claudine, to the Chimp Eden Sanctuary in Nelspruit (South Africa). Claudine was rescued by operational staff in the CAR in 2008 after her family was killed in the ongoing bush meat trade. She has now been placed in a family group and will undergo rehabilitation at the sanctuary in order to give her as normal a life as is practicable after her removal from the wild. A television documentary is currently being made about her relocation / rescue mission, highlighting the plight of these critically endangered primates in Africa as a result of the ongoing bush meat trade. Throughout the rescue mission, all Convention on International Trade in Endangered Species (CITES) regulations and protocols were strictly adhered to.

Ellendale continues to support regional environmental initiatives such as Leave No Trace; Toad Busters; the Chelonia Wildlife Rescue; Rehabilitation & Release foundation; and Environs Kimberley. These initiatives are selected based on their direct positive impact on the environmental health of the project site and surrounding areas. The wallaby enclosure on site continues to serve as a pre-release facility for wallabies which have required rescue and rehabilitation.

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### *Donations*

Various donations were made during 2010 by all the operations and the focus was placed largely on cultural enhancement initiatives. This included the sponsoring of the Garduwa Festival and Boab Festival which showcases Aboriginal and other local cultures. Letšeng supported the South African Women's Association in celebration of Women's Month and the operation continued to sponsor the annual Mokhotlong High Altitude Summer Marathon.

In Botswana, Gope Exploration Company (GEC) sponsored the Western Kgalagadi Conservation Corridor (WKCC) Festival, which is organised by Conservation International, Botswana Tourism Organisation and the Western Kgalagadi Cultural Association in October 2010. The festival forms part of a comprehensive programme to establish a formally conserved wildlife corridor between the Kgalagadi Transfrontier Park and the Central Kalahari Game Reserve (CKGR), while at the same time addressing the needs of local people through the development of a viable tourism industry. The festival showcases the San culture and provides an opportunity for the nomadic community to strengthen important ties to other clans.

### **9.2 Stakeholder Communication and Engagement**

Gem Diamonds continues to place a high priority on ensuring clear, transparent and informative communication with its stakeholders, including regulators, PACs and other interested and affected parties. All of Gem Diamonds' operations continue to maintain excellent relations with their stakeholders and regularly meet with various stakeholder groups to exchange information that may be of use either in optimising benefits to stakeholders and the operations, reach agreement on mitigation measures and/or management practices related to potential negative impacts and to ensure ongoing goodwill relationships.

Limited discussions were held with the stakeholders of the Gope project during 2010, although all of the relevant stakeholders were kept abreast of progression of the issuing of the operation's mining licence. However, this will be a particular area of focus in 2011 for both GEC and Gem Diamonds as a whole. An extensive body of work was undertaken in 2010 to ensure that if and when the Government of Botswana issued GEC with a mining licence, consultations regarding the proposed Community Trust, CSI projects, PAC employment and other relevant aspects could commence with immediate effect. Gem Diamonds remains excited about continuing its excellent relations with the PACs of Gope and looks forward to delivering on promises made during the pre-feasibility and Social and Environmental Impact Assessment (SEIA) phases.

### **10. Environmental Sustainability**

Environmental sustainability remains a major area of focus for all of Gem Diamonds' operations. All operations have legally compliant Environmental Management Plans (EMPs), extensive environmental monitoring programmes and waste management programmes in

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place. Total environmental expenditure<sup>8</sup>, exclusive of general operational expenditure, amounted to US\$1.4 million in 2010.

### 10.1 Environmental Incidents

Gem Diamonds is pleased to report that for a second consecutive year, no major environmental incidents have occurred at any of the Group's operations. Three significant environmental incidents were, however, recorded at the operations in 2010.

A waste oil tank spillage comprising approximately 250 litres, occurred at Letseng in December. The oil was removed from the area and affected soils treated at the onsite soil bioremediation area.

Two incidents occurred at Ellendale during the reporting period, involving i) a tailings spill of 40 m<sup>3</sup>; and ii) the merging of water from an ephemeral wetland and the return-water dam, both of which have been reported to the relevant authorities. Clean up operations were completed to the satisfaction of all parties and as there are no enduring effects on the environment, the matters have been satisfactorily closed out.

Gem Diamonds continually assesses all environmental incidents by category and has identified a rising trend in minor hydrocarbon spillages at both Letseng and Ellendale. As a result, a 10% reduction in hydrocarbon spills was selected as a corporate KPI for 2011 in order for the operations to apply adequate focus to these types of incidents.

### 10.2 Resource Consumption and Management

Gem Diamonds remains conscious of resource consumption and as a result, has developed and implemented several optimisation programmes in 2010 - mostly related to energy consumption.

The operations continue to closely monitor the quantities of resources consumed. The major resources utilised at the operations comprise diamondiferous ore, waste rock, water and diesel.

As in 2009, mining was only undertaken at Letseng and at Ellendale's E9 section and tonnages are presented in the table below.

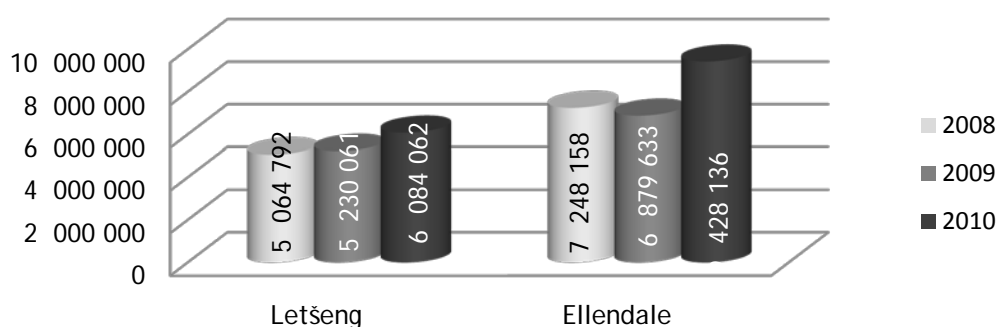
Aspect (tonnes)	Letseng			Ellendale		
	2008	2009	2010	2008	2009	2010
<b>Ore</b>	7 034 017	7 459 706	7 419 610	9 397 219	4 080 076	3 803 559
<b>Waste Rock</b>	8 719 443	8 072 032	11 676 931	14 821 017	3 956 957	4 794 748
<b>Total Mined</b>	<b>15 753 460</b>	<b>15 531 738</b>	<b>19 096 541</b>	<b>24 218 236</b>	<b>8 037 033</b>	<b>8 598 307</b>
<b>Ore Treated</b>	6 604 163	7 549 386	7 557 079	8 310 152	4 159 482	4 016 338

<sup>8</sup> Environmental expenditure is calculated as per GRI PI: EN30. Ongoing environmental rehabilitation costs are excluded from this amount.

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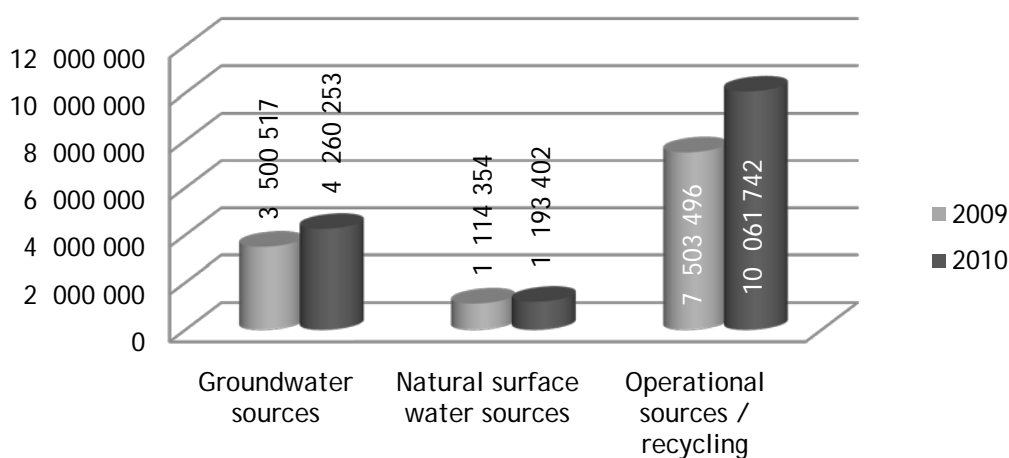
Diamond mining is regarded as one of the cleanest forms of mining as mineral liberation comprises crushing, screening, washing, and at both Letšeng and Ellendale, Dense Medium Separation (DMS). DMS is a process that utilises inert Ferro Silicon (FeSi) to separate the more dense diamonds from the lighter waste rock. These mineral liberation processes utilise large quantities of water which are contained in a closed loop system in as far as possible at Gem Diamonds' operations in order to optimise water recycling. Water consumption since 2008 at Letšeng and Ellendale is presented below. The water consumption trend at Letšeng has been consistently upward due to increased production, while Ellendale has seen an increase in water consumption in 2010 due to the construction of a new slimes dam cell – a process that consumes large volumes of water. Group-wide, water used from municipal sources comprised a low 61 m<sup>3</sup> in 2010, while Group-wide total water consumption totalled 15.5 million cubic meters, a 28% increase from 2009<sup>9</sup>.

**Water consumption (m<sup>3</sup>) 2008 - 2010**



Operations draw water from sources including groundwater, natural surface water and from operational sources (recycled process water). Total Group-wide water consumption per source is depicted below.

**Total water consumed by source (m<sup>3</sup>)  
2009 - 2010**

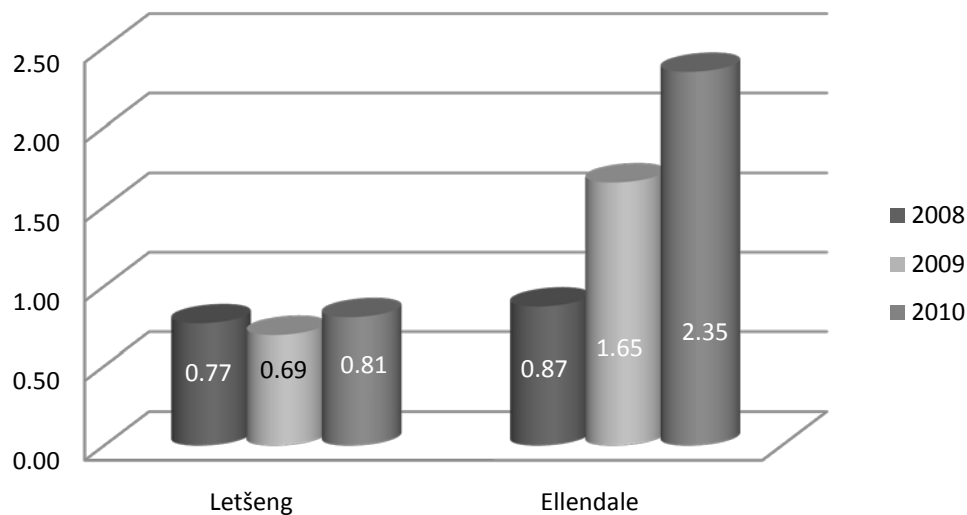


<sup>9</sup> Water consumption figures for Letšeng reported in 2008 and 2009 were updated in 2010 as part of a process to improve data monitoring and management. These updated figures are reflected in this report.

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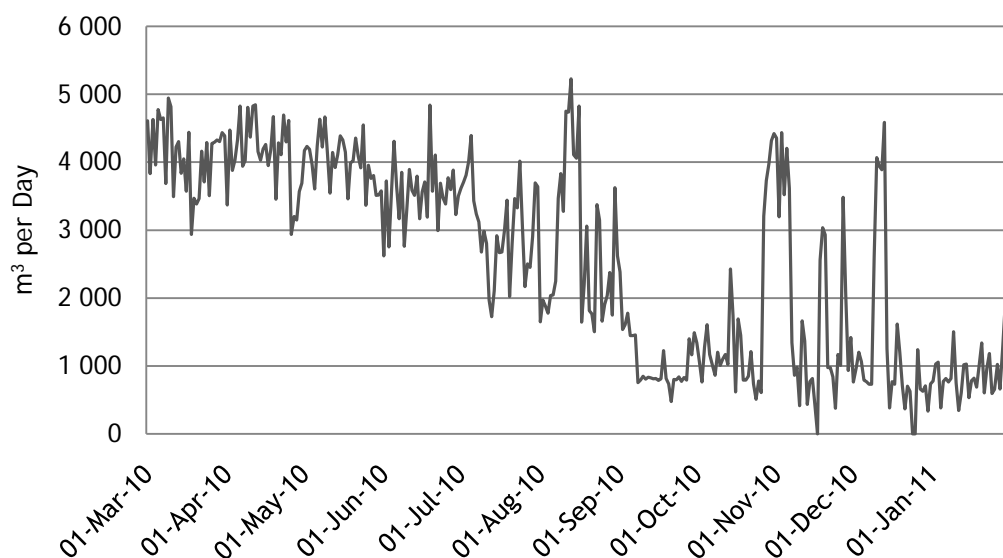
Water consumption at Gem Diamonds' operations is also monitored in respect of the volume of water utilised per tonne treated as indicated below.

**Water Consumed (m<sup>3</sup>) per tonne treated 2008 - 2010**



A major water recycling optimisation project was undertaken at Letšeng in 2010. A purpose built water purification plant was constructed to treat water from the existing slimes dam as well as water from the Main pipe open pit. As at December 2010, up to 95% of the slimes dam return water is utilised for mineral processing, as indicated in the graph below. This has dramatically reduced water consumption from the operation's clean-water dam. Some system modifications are still underway in order to ensure consistent optimisation results.

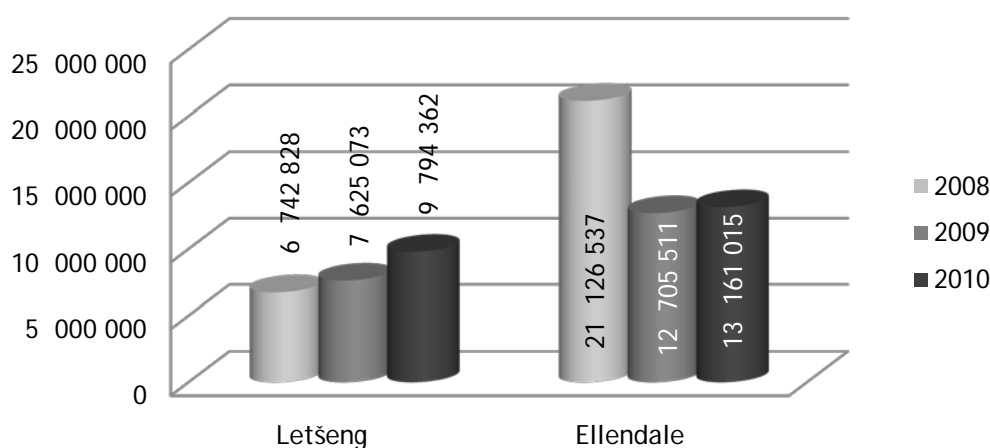
**Water consumption from clean-water dam**



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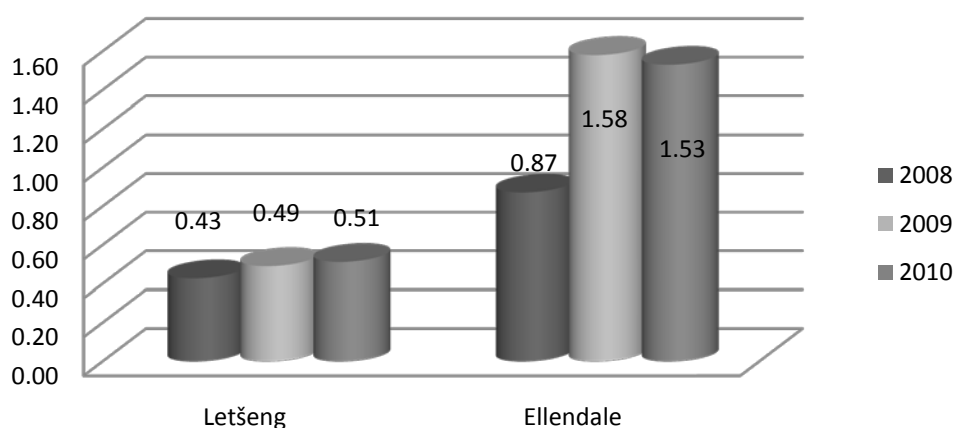
Mining at Gem Diamonds' operations is undertaken in the form of open pit mining, which comprises drilling, blasting, loading and hauling. Given this system, all of Gem Diamonds' operations consumed high volumes of diesel in 2010. In total, the Group consumed 23 million litres of diesel in 2010. Although Ellendale is a smaller operation than Letšeng, the operation consumes more diesel as all electricity is generated by means of onsite diesel generators due to the absence of bulk electricity in the vicinity of the operation.

**Diesel Consumption (ℓ) per operation  
2008 - 2010**



The volume of diesel consumed at Letšeng has been steadily increasing from 2008 to 2010 due to an expansion in production. In addition, with both the Satellite and Main pipes deepening, the volume of diesel per tonne mined has also been increasing steadily since 2008 (refer to graph below). At Ellendale, the volume of diesel consumed per annum decreased significantly from 2008 to 2009 due to the E4 operation being placed on care and maintenance. However, due to operational expansion at the E9 section, diesel consumption per tonne mined peaked in 2009. Diesel consumption at the remaining operations has been significantly reduced due to the operations and projects remaining on care and maintenance.

**Diesel Consumption (ℓ) per tonne mined  
2008 - 2010**





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Other non-renewable energy sources comprise a small portion of energy consumption, with 10.5 million litres of petrol and Liquid Petroleum Gas (LPG) being consumed Group-wide in 2010.

Gem Diamonds' operations consumed a total of 151 757 614 KWh electricity from third party bulk electricity suppliers (i.e. indirect energy) as compared to 1 071 240 KWh in 2009 and 1 053 519 KWh in 2008. At Ellendale, 21 262 588 KWh electricity was generated by use of the onsite diesel generators in 2010. No other direct energy is produced and none of the electricity generated by Ellendale is sold.

Gem Diamonds' operations consumed a total of 508 768 litres of oils, while 1 156 tonnes of ferro-silicon (FeSi) was used in the dense media plants in 2010.

### 10.3 Biodiversity

Gem Diamonds' operations are set in some of the most beautiful areas within varied and pristine biomes. As a responsible corporate citizen, Gem Diamonds takes the utmost care to minimise its operational footprints and to develop and implement extensive and well researched Environmental Management Plans (EMPs) and programmes to ensure its negative impacts on the receiving environment and its biodiversity are minimised.

Operation	Biome	Total Land Owned / Leased (in hectares) (end 2010)	Area Disturbed (in hectares) (end 2009)	Additional Area Disturbed in 2010 (in hectares)	Percentage of Total Land Disturbed (end 2010)
Letšeng	Alpine	1 674	203	35	14.2%
Ellendale	Tropical Savannah	70 280	1 213	13	1.7%
Cempaka	Marsh land	747	314*	-	42.0%
Chiri	Savannah	103	3	-	2.9%
Gope	Desert	4 500	2	-	0.04%
Mambéré	Riverine and tropical rainforest	85 500	3	-	0.004%
<b>TOTAL</b>		<b>162 804</b>	<b>1 738</b>	<b>48</b>	<b>1.10%</b>

\* Detailed surveys conducted at Cempaka to determine the exact area of land that was disturbed by mining activities and has led to adjustments from those reported in the 2009 Sustainable Development report.

Gem Diamonds has conducted extensive investigations into the operations' impact on biodiversity. Apart from diamond mining being a clean form of mining, the geochemistry of the Letšeng and Ellendale deposits are largely benign to the environment. There are no leachates at these operations which may result in negative environmental impacts. All mining waste material is contained according to host country legislation as well as international best practice standards where applicable. The only potentially negative environmental impact which may result from the mining waste material, is from suspended solids that may be released in water discharges from the operations.

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No water sources are significantly<sup>10</sup> affected through withdrawal of water at any of Gem Diamonds' operations. At Letšeng, water is abstracted from the purpose-built clean-water dam which contains all surface runoff water generated at the site and which forms part of the operation's closed loop water system. The dam has a 4.5 million m<sup>3</sup> capacity. At Ellendale, water is abstracted from the Grant aquifer. The Grant aquifer is an extensive regional aquifer, underlying in excess of 300 000 km<sup>2</sup> of the Canning basin in Western Australia. The water table is situated at 50 meters below ground level (mbgl) and extends to approximately 350 mbgl in the vicinity of Ellendale. The aquifer extends to as much as 2 400 mbgl in other areas. Based on the operation's detailed current groundwater model, the operation would withdraw only 0.002% of the affected aquifer compartment should the total authorised volume be abstracted per annum. Ellendale currently abstracts only about 10% of its authorised quantities.

Neither of these water bodies support any endangered fauna and/or flora, nor do they comprise sources to any RAMSAR<sup>11</sup> listed wetlands.

2010 was a year in which extensive focus was given to the development of integrated rehabilitation plans. Each operating site compiled a comprehensive plan that optimises ongoing rehabilitation during the operational phase in such a manner that it will effortlessly integrate with the End of Life of Mine (ELOM) closure objectives and plan. This has the benefit that the environment is restored to the ELOM objective state as soon as is practicable, as well as limit the cost implications and escalations of leaving rehabilitation until the post-operational phase. In addition, it enhances the care with which new land is disturbed as the cost implications become tangible. Due to the short remaining life of mine at Ellendale, rehabilitation has been a particular focus at this operation. Environmental rehabilitation liability as at 31 December 2010 is presented in the table below.

Operation	Site Total (US\$)
Chiri	240 000
Ellendale	18 233 130
Gope	43 059
Mambéré	-
Cempaka	1 483 917
Letšeng	13 525 996
<b>TOTAL</b>	<b>33 526 102</b>

During 2010, ongoing rehabilitation was undertaken at both Ellendale and Cempaka. However, due to the long turnaround time of this rehabilitation and restoration, no areas have achieved signed off closure with the competent authorities. At the Mambéré operation in CAR, final sign-off from the competent authorities was achieved subsequent to full restoration of the previously disturbed areas.

<sup>10</sup> Definition of significant as stated in the GRI guideline is applied.

<sup>11</sup> Ramsar Convention: An intergovernmental treaty on The Conservation on Wetlands of International Importance.

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At Ellendale, approximately 750 ha of the mining lease at the E4 operation is overlapped by the Oscar Range Conservation Park. This conservation park was established post the granting of the mining licence and covers a total area of 41 371 ha. This area is accessed by a limited number of employees for environmental monitoring purposes only.

The Gope project site is located in the CKGR. As a result, the SEIA that was completed and approved in August 2008 was undertaken in such a manner as to ensure that the operation would comply with the IFC EH&S standard. Special care was taken to ensure that every possible measure is implemented to mitigate negative impacts on bio-diversity and the project-affected communities. A total of 212 animal species were identified within the Gope Project Site, of which five species are listed as vulnerable species on the red data list in Botswana (International Union for the Conservation of Nature and Natural Resources (IUCN) red data list). These species are White-headed vulture (*Aegypius occipitalis*), Lappet-Faced Vulture (*Aegypius tracheliotos*), White-backed Vulture (*Gyps africanus*), Lesser Kestrel (*Falco naumanni*) and Lion (*Panthera Leo*). Most of the other species are widespread and found through most of Botswana – species linked to the habitat types available in the Gope Project Site are unlikely to be restricted in range of habitat preferences since there are no significantly restricted habitat characteristics found within the Gope Project Site.

At Letšeng, a total of six endangered species occur, including Aloe Marlothi (*Sebaea marlothii*), Crane's bill (*Geranium multisectum & pulchrum*), *Rhodohypoxis deflexa*, *Moraea alticola* and *Agrostis subulifolia*. Four vulnerable species, including the Bald Ibis (*Geronticus calvus*), Cape vulture (*Gyps coprotheres*), Black harrier (*Circus maurus*) and the Lesser kestrel (*Falco naumanni*) have been identified, while 129 species of least concern have been identified.

At Ellendale, one species, Gouldian Finch (*Erythrura gouldiae*) has been recorded as being endangered, three as vulnerable, Wambenger (*Phascogale tapoatafa pirata*), Bilby (*Macrotis lagotis*) and Ghost Bat (*Macroderma gigas*), while six have been classed as near threatened: Common Bentwing-bat (*Miniopterus schreibersii*), Star Finch (*Neochmia ruficauda*), Grey Falcon (*Falco hypoleucos*), Bush Stone-curlew (*Burhinus grallarius*), Chestnut-backed Button Quail (*Turnix castanota*) and the Australian Bustard (*Ardeotis australis*). Another 175 species of least concern have been identified.

### 10.4 Waste Management

All of Gem Diamonds' operations are located in remote areas resulting in the need to optimise waste management at source. All operations have detailed waste management plans in place which stringently follow the standard waste hierarchy.

The following waste disposal (in kilograms) took place in 2010.

Waste Type	Letšeng	Ellendale	Cempaka	Gope	Mambéré	Chiri
General Waste	138 349	1 078 000	7 344	-	1 200	3 600
Industrial Waste	137 500	760 000	-	-	-	6 100
Medical Waste	190	-	-	-	-	-

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Hazardous Waste	4 428	-	-	-	-	-
Waste Incinerated	18 299	-	-	-	-	-
Waste Recycled	82 338	62 628	-	-	-	-

During 2010, only Ellendale undertook on-site land filling of domestic and general waste material that could not be recycled, while at Letšeng, such wastes are incinerated. Medical waste, when generated at the operations, is disposed of at licensed facilities - Seboche Hospital (Lesotho) and Derby Hospital (Australia). Limited radioactive sources are present at both Letšeng and Ellendale and all related legislation is closely followed in the removal of these sources from Gem Diamonds' sites. During 2010, no radioactive material was removed from any of Gem Diamonds' operations.

No transboundary movement of hazardous waste took place in 2010 and therefore the Basel Convention was not applicable to Gem Diamonds' operations during the reporting period.

The following mining waste disposal (in tonnes) was recorded in 2010. No mining waste was generated at any of the other operations as no active mining took place during the reporting period.

Waste Type	Letšeng	Ellendale
Slimes (Fines) Disposed	1 861 035	1 538 565
Tailings (Coarse) Disposed	3 619 820	2 478 308
Waste Rock Disposed	11 676 931	4 794 748

All mining waste structures, including waste rock dumps, tailings dumps and slimes dams, are designed and maintained to international best practice standards. All the structures are monitored according to host country legislative requirements.

### 10.5 Emissions

Gem Diamonds believes that each individual and organisation has a role to play in combating climate change in order to leave a planet for our future generations that can sustainably provide for them. Extensive research was undertaken over a two year period at the Letšeng operation, where a number of fuel additives were tested in order to determine the best strategy going forward. Results have shown that a fleet-wide fuel saving of between 8% - 10% (depending on the type of equipment) would be achieved, resulting in a major cost saving to the operation. This would result in a direct carbon emission saving of up to 2 612 tonnes carbon equivalent (CO<sub>2</sub>e) and a reduction of up to 35% in opacity, amongst other emission reductions. In late 2010, the additive project was rolled out site wide at Letšeng and will be duplicated at other operations over time, where feasible. This is the first project of its kind at a mine in Southern Africa.

Letšeng has also undertaken several other projects focussing on energy conservation. These include the installation of Power Factor Correction (PFC) equipment to improve the operation's electricity power factor from 84.5% to 95%. This has resulted in a 10% reduction in the demand requirement. In addition, improved metering was installed to ensure appropriate recording of electricity consumption and a sequential load control system was

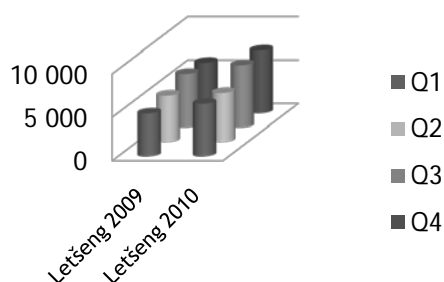
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installed. Energy consumption in respect of heating has been reduced by 25% through the installation of heater time controllers, while a 50% energy saving will be achieved once all heaters have been removed from the operation and replaced with under tile heating. Letšeng has replaced the light bulbs in approximately 600 accommodation units with 6 watt micro chip technology Light Emitting Diode (LED) lights which will reduce interior lighting energy consumption by as much as 80%. Traditional street lighting was replaced with high mast LEDs, resulting in a 50% energy saving on this lighting category. In addition, the particular LEDs being used at Letšeng are 92% recyclable, with zero heavy metals and other harmful chemical components. In late 2010, both Ellendale and Gope were investigating the implementation of the similar technology. These initiatives will result in a significant cost saving to the operation, while reducing the total energy consumption at the operation by approximately 19%.

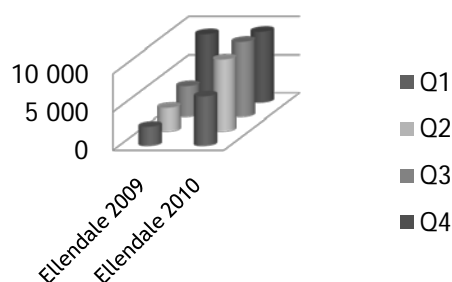
Ellendale partakes in the Australian government facilitated Energy Efficiency Opportunities (EEO) initiative. The operation has identified and publicly reported on three significant opportunities that are currently being investigated. These comprise the modification and/or retrofitting of pumps in the operation's groundwater abstraction borefield in order to optimise pumping efficiencies; the automation of the 13 mobile lighting plants currently in operation at the E9 section and the conversion of in-cabin air conditioners on the operation's mining fleet to enable operators to switch off the vehicle's engines while maintaining an acceptable cabin temperature.

The operation's carbon footprint related to direct emissions in 2010 is presented below.

**Letšeng Carbon Footprint  
2009 - 2010 (tonnes)**



**Ellendale Carbon Footprint  
2009 - 2010 (tonnes)**



A marked increase in carbon footprint was recorded at Ellendale due to production increases which came into effect in 2009, coupled by changes in the reporting parameters stipulated by the Australian government, such as the inclusion of stationary equipment.

### 10.6 Effluents

Both Letšeng and Ellendale have been designed as such to contain all water in closed loop systems to optimise water recycling and to limit any impacts associated with suspended solids on the receiving environment.

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However, starting in late 2009 and continuing into early 2010, dewatering of the Main pipe at Letšeng was undertaken in preparation to restart mining in the Main pipe. A total of 1 159 647 m<sup>3</sup> water was released over 12 months. Water was released into a series of three settling ponds located in the Khubelu valley and treated with a chemically inert flocculent in order to enhance the settling of suspended solids to ensure compliance with the legislated limit. The flow of this release was carefully controlled to ensure that the impact on the receiving Khubelu river system was limited to within acceptable levels. In addition, daily monitoring of the effluent for various chemical parameters was undertaken to ensure compliance. Throughout the 12 months of controlled release, only one uncontrolled release incident occurred. No negative environmental impacts resulted.

During the construction of the new Patiseng valley slimes dam, two incidents were recorded where water was released in an uncontrolled manner from settling ponds downstream of the construction site. There were no negative impacts upon the receiving environment.

The only effluent release at Ellendale is detailed in section 10.1.

### 11. Legal Compliance

Compliance to host country legislation is regarded as a minimum standard for all Gem Diamonds' operations. To this effect, both Letšeng and Ellendale have compiled detailed SHE legal registers during 2010. Letšeng undertook its first external legal compliance audit and scored high in terms of the level of compliance, with no major non-compliances being identified. However, some areas for improvement were identified and are systematically being addressed at operational level as a matter of priority. Ellendale will conduct its first external legal compliance audit in early 2011. It has to be noted that an extensive SHE audit was conducted by relevant government departments at the Ellendale operation and only minor notices for improvement were raised as a result, with no legal non-compliances noted.

One labour dispute was brought against Letšeng in 2010 and at the time of compilation of this report the matter was still before the courts.

Ellendale recorded one case brought against the Company through dispute resolution mechanism in November. The matter was settled between the Company and the labour broker of the contract employee in question.

Three workman's compensation claims were lodged against Letšeng in 2010 for injuries that occurred in 2008 and 2009. Letšeng places a high priority on exercising appropriate and responsible duty of care and hence, these claims were processed and payments made to the former employees in a speedy manner. Ellendale recorded zero workman's compensation claims in 2010.

None of Gem Diamonds' subsidiaries, nor the parent company itself, were issued with fines and/or sanctions for legal non-compliances, other than the cases outlined above.

## Sustainable Development Report

### 12. Human Rights

Gem Diamonds takes the upholding of human rights of its employees and communities very seriously. To this effect, human rights training is included in each operation's employee induction programme in order to ensure that all staff (own and contractor employees - including security personnel) are aware of the Company's high standard in this regard and clearly understand their duty of care to their fellow employees and the PACs. Gem Diamonds has ensured that only reputable and often multi-national firms, are appointed to manage operational security. This is done to ensure that appropriate respect for human rights forms part of security personnel's training.

Gem Diamonds strongly supports a policy of non-discrimination across all the factors of diversity and as a result, zero incidents of discrimination were reported, proving that the policies are achieving their aim.

Where operations are located in developing nations, a risk of practices related to child labour and forced and/or compulsory labour exists. The Company strongly opposes any such practices at its operations and as such, all operations have implemented culturally relevant policies to ensure that such practices never occur. No reports of child, forced and/or compulsory labour were recorded to date in the history of the Company.

No incidents were recorded of violations of indigenous people's rights. Gem Diamonds continues to work closely with indigenous communities to ensure optimisation of the positive legacy that its operations result in / will result in to these peoples.

Ellendale continues to work closely with the community elected Bunuba Elders to ensure that all traditions, rights, sacred places and other aspects of significance are adhered to, while operating on their traditionally owned land. Pre-feasibility investigations commenced in 2010 to potentially re-open the E4 mining area and to undertake further exploration of known targets in the KDC mining lease area. A section of the area under investigation is in close proximity to the buffer zone of the Devonian Reef Conservation Park, which holds special significance for the Bunuba People. An extensive cultural and heritage survey was conducted late in the year to ensure that the Elders were given an opportunity to assess the potentially affected area and to identify any areas of cultural and/or heritage significance. This process was facilitated by a highly qualified archaeological and anthropological team. Agreement was reached with the Elders during the assessment regarding which areas could be disturbed and which areas were required to remain undisturbed. In addition, the Elders developed a set of guidelines and mitigation strategies for the operation to adhere to in respect of any developments in the vicinity of the Oscar Range Conservation area.

An extensive body of work related to the optimisation of benefit to the PACs of the Gope project was undertaken in 2010 as part of GEC's preparation for the Mining Licence application. The majority of the PACs are strongly in favour of the mine being established at Gope and it is Gem Diamonds' belief that the Social Licence to Operate which was so generously extended by the people of the CKGR during and subsequent to the completion of the SEIA phase of the project, will continue to expand once the operation's community trust agreement is finalised and CSI project implementation commences in 2011.

## Sustainable Development Report

There were no relocations of communities carried out in 2010 and none are anticipated in 2011 as no communities reside in such close proximity to our operations. The nomadic Bushmen community who live in the Gope area have indicated on numerous occasions that they have never historically settled, nor plan to settle, within the area earmarked for the mining infrastructure. They have also indicated that none of their livelihood resources will be impacted by the mining operation. In order for this to continue to be the case, a detailed squatter management plan is being compiled by GEC in order to ensure that project induced in-migration by persons other than those historically residing at Gope, does not negatively impact these residents.

### 13. Product Responsibility

Gem Diamonds continues to comply with all the Kimberley Process initiative (KP) requirements. KP undertook audits at both Letseng and Ellendale during 2010 and both operations were commended for their level of compliance. Also refer to the Business Review page 6 to page 27 regarding Gem Diamonds' participation in the KP.

### 14. 2011 Key Performance Indicators

As part of Gem Diamonds' ongoing drive for continued improvement and the philosophy of proactive evolution of HSSE management, the following KPIs have been set for the 2011 financial year:

KPI	Group Target
Pre-employment medicals	100% of staff
Fatalities	Zero Fatalities
Lost Time Injury Frequency Rate (LTIFR)	Zero
All Injury Frequency Rate (AIFR)	Not exceeding 5.05
Provision of Voluntary Counselling and Testing (VCT)	Develop and implement an improved HIV/Aids awareness, education and Voluntary Counselling and Testing (VCT) at affected and relevant operations.
Annual re-induction	Ensure that 100% of operational staff undergo annual re-inductions.
External HSSE audit score	Existing operations: Maintain at least a 4 Star Rating. New operations: Achieve at least a 3 Star Rating.
Sustainable Development Reporting	Ensure the development of full capability to report on selected GRI Pls by year end across the Group.
Environmental incidents	Zero major environmental incidents for the Group as a whole. No more than one significant environmental incident per operation. Reduce the number of hydrocarbon related spills by 10% per operation.
Environmental optimisation programmes	Develop and implement at least one environmental optimisation initiative per operation.
Land clearance	Ensure compliance with permitted land clearance authorisations at all times.



## Sustainable Development Report

Rehabilitation plan	Ensure the full integration of the rehabilitation plan and mine plan, and ensure at least 90% adherence to this plan.
Employee localisation	Each site to adhere to operation specific employee localisation targets.

### Reporting Scorecard

Performance Indicator (PI) categories are abbreviated and referenced in the report as follows:

EC: Economic PIs

EN: Environmental PIs

LA: Labour Practices and Decent Work PIs

HR: Human Rights PIs

SO: Society PIs

PR: Product Responsibility PIs

MM: Mining and Metals Sector Supplement Commentary/PIs

The level of reporting is indicated as follows:

● Full reporting of PI

⊙ Partial reporting of PI

○ Not included

Performance Indicator	Reported on in 2010 Report	Level of Reporting	Reference
Economic Performance Indicators			
EC1: Direct economic value generated and distributed.	Yes	●	Section 8, p.42
EC2: Financial implications, other risks and opportunities for the organisation's activities due to climate change.	No	○	-
EC3: Coverage of the organisation's defined benefit plan obligations.	Yes	●	Section 6, p.34
EC4: Significant financial assistance received from government.	Yes	●	Section 8, p.42
EC5: Range of ratios of standard entry level wage compared to local minimum wage.	Yes	●	Section 6, p.36
EC6: Policy, practices and proportion of spending on locally based suppliers.	Yes	●	Section 8.1, p.43
EC7: Procedures for hiring local and proportion of senior management hired from the local community.	No	○	-
EC8: Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement.	Yes	●	Section 9.1, p.45
EC9: Understanding and describing significant indirect economic impacts, including the extent of impacts.	No	○	-

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Performance Indicator	Reported on in 2010 Report	Level of Reporting	Reference
Environmental Performance Indicators			
EN1: Materials used by weight or volume.	Yes	●	Section 10.2, p.51
EN2: Percentage of materials used that are recycled input materials.	No	○	-
EN3: Direct energy consumption by primary energy source.	Yes	●	Section 10.2, p.54
EN4: Indirect energy consumption by primary source.	No	○	-
EN5: Energy saved due to conservation and energy improvements.	Yes	●	Section 10.2 & 10.5, p.51 and p.58
EN6: Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives.	No	○	-
EN7: Initiatives to reduce indirect energy consumption and reductions achieved.	Yes	●	Section 10.2 & 10.5, p.51 and p.58
EN8: Total water withdrawal by source.	Yes	●	Section 10.2, p.51
EN9: Water sources significantly affected by withdrawal of water.	Yes	●	Section 10.3, p.56
EN10: Percentage and total volume of water recycled or reused.	Yes	●	Section 10.2, p.52
EN11: Location and size of land owned, leased, managed in, or adjacent to protected areas and areas of high biodiversity value outside protected areas.	Yes	●	Section 10.3, p.55
EN12: Description of significant impacts of activities on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Yes	●	Section 10.3, p.55
MM1: Amount of land (owned or leased, and managed for production activities or extractive use) disturbed or rehabilitated.	Yes	●	Section 10.3, p.55
EN13: Habitats protected or restored.	No	○	-
EN14: Strategies, current actions and future plans for managing impacts on biodiversity.	Yes	●	Section 10.3, p.56
MM2: The number and percentage of total sites identified as requiring biodiversity management plans according to stated criteria, and the number (percentage) of those sites with plans in place.	No	○	-
EN15: Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Yes	●	Section 10.3, p.57
EN16: Total direct and indirect greenhouse gas emissions by weight.	Yes	●	Section 10.5, p.59
EN17: Other relevant indirect greenhouse gas emissions.	No	○	-
EN18: Initiatives to reduce greenhouse gas emissions and reductions achieved.	No	○	-
EN19: Emissions of ozone depleting substances by weight.	No	○	-
EN20 and MM: NOx, SOx and other significant	No	○	-

## Sustainable Development Report

Performance Indicator	Reported on in 2010 Report	Level of Reporting	Reference
air emissions by type and weight.			
EN21: Total water discharge by quality and destination.	Yes	●	Section 10.6, p.59
EN22: Total weight of waste by type and disposal method.	Yes	●	Section 10.4, p.57
MM3: Total amounts of overburden, rock, tailings and sludges and their associated risks.	Yes	●	Section 10.4, p.58
EN23: Total number and volume of significant spills.	Yes	●	Section 10.1, p.51
EN24: Weight of hazardous waste transported, imported, exported or treated.	Yes	●	Section 10.4, p.58
EN25: Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by discharges of water and runoff.	Yes	●	Section 10.6, p.59
EN26: Initiatives to mitigate environmental impacts or products and services and extent of impact mitigation.	No	○	-
EN27: Percentage of products sold and their packaging materials that are reclaimed by category.	No	○	-
EN28: Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Yes	●	Section 10.1 & 11, p.51 and p.60
EN29: Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	No	○	-
EN30: Total environmental protection expenditures and investments by type.	Yes	●	Section 9.1 & 10 p.45 and p.50

Performance Indicator	Reported on in 2010 Report	Level of Reporting	Reference
Labour Practices and Decent Work Performance Indicators			
LA1: Total workforce by employment type, employment contract and region.	Yes	●	Section 6, p.35
LA2: Total number and rate of employee turnover by age group, gender and region.	No	○	-
LA3: Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Yes	●	Section 6, p.35
LA4: Percentage of employees covered by collective bargaining agreements.	Yes	●	Section 6, p.37
LA5: Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	No	○	-
MM4: Number of strikes and lockouts exceeding one week's duration, by country.	No	○	Section 6, p.37
LA6: Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	Yes	●	Section 7, p.38
LA7: Rates of injury, occupational diseases,	Yes	●	Section 7, p.38

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Performance Indicator	Reported on in 2010 Report	Level of Reporting	Reference
lost days and absenteeism, and number of work related fatalities by region.			
LA8: Education, training, counselling, prevention and risk control programmes in place to assist workforce members, their families or community members regarding serious diseases.	No	○	-
LA9: Health and safety topics covered in formal agreements with trade unions.	No	○	-
LA10: Average hours of training per year per employee by employee category.	Yes	●	Section 6, p.37
LA11: Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	No	○	-
LA12: Percentage of employees receiving regular performance and career development reviews.	Yes	●	Section 6, p.35
LA13: Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group members, and other indicators of diversity.	Yes	●	Section 6, p.38

Performance Indicator	Reported on in 2010 Report	Level of Reporting	Reference
<b>Human Rights Performance Indicators</b>			
HR1: Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	No	○	-
HR2: Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	No	○	-
HR3: Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Yes	●	Section 12, p.61
HR4: Total number of incidents of discrimination and actions taken.	Yes	●	Section 12, p.61
HR5: Operations identified in which the right to exercise freedom of association and collective bargaining may be a significant risk, and actions taken to support these rights.	Yes	●	Section 12, p.61
HR6: Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.	Yes	●	Section 12, p.61
HR7: Operations identified as having significant risk for incidents of forced labour or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour.	Yes	●	Section 12, p.61
HR8: Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human	Yes	●	Section 12, p.61

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Performance Indicator	Reported on in 2010 Report	Level of Reporting	Reference
rights that are relevant to operations.			
MM5: Total number of operations taking place in or adjacent to Indigenous Peoples' territories, and number and percentage of operations or sites where there are formal agreements with Indigenous Peoples' communities.	No	○	-
HR9: Total number of incidents of violations involving rights of indigenous people and actions taken.	Yes	●	Section 12, p.61

Performance Indicator	Reported on in 2010 Report	Level of Reporting	Reference
<b>Society Performance Indicators</b>			
SO1: Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting.	Yes	●	Section 9, p.45
MM6: Number and description of significant disputes relating to land use, customary rights of local communities and Indigenous Peoples.	Yes	●	Section 8, p.42
MM7: The extent to which grievance mechanisms were used to resolve disputes relating to land use, customary rights of local communities and Indigenous Peoples, and the outcomes.	Yes	●	Section 9.2, p.50
MM8: Number (and percentage) of company operating sites where artisanal and small-scale mining (ASM) takes place on, or adjacent to, the site; the associated risks and the actions taken to manage and mitigate these risks.	No	○	-
MM9: Sites where resettlement took place, the number of households resettled in each, and how their livelihoods were affected in the process.	Yes	●	Section 12, p.62
MM10: Number and percentage of operations with closure plans.	No	○	-
SO2: Percentage and total number of business units analysed for risks related to corruption.	No	○	-
SO3: Percentage of employees trained in organisation's anti-corruption policies and procedures.	Yes	●	Section 8.2, p.44
SO4: Actions taken in response to incidents of corruption.	Yes	●	Section 8.2, p.44
SO5: Public policy positions and participation in public policy development and lobbying.	No	○	-
SO6: Total value of financial and in-kind contributions to political parties, politicians and related institutions by country.	Yes	●	Section 8, p.42
SO7: Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes.	Yes	●	Section 8.2, p.45
SO8: Monetary value of significant fines and total number of non-monetary sanctions for	Yes	●	Section 11, p.60

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Performance Indicator	Reported on in 2010 Report	Level of Reporting	Reference
non-compliance with laws and regulations.			

Performance Indicator	Reported on in 2010 Report	Level of Reporting	Reference
<b>Product Responsibility Performance Indicators</b>			
PR1: Life cycle stages in which health and safety impacts of products and services are assessed for improvement and percentage of significant products and services categories subject to procedures.	No	○	-
PR2: Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	No	○	-
PR3: Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	No	○	-
PR4: Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.	No	○	-
PR5: Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	No	○	-
PR6: Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship.	No	○	-
PR7: Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes.	No	○	-
PR8: Total number of substantiated complaints regarding breaches of customer privacy and loss of customer data.	No	○	-
PR9: Monetary value of significant fines and non-compliance with laws and regulations concerning the provision and use of products and services.	No	○	-

## Directors' Report

The Directors have pleasure in submitting the financial statements of the Group for the year ended 31 December 2010. For the purpose of DTR 4.1.8R this report will be deemed the 'management report' plus any cross-references made herein.

### PRINCIPAL ACTIVITIES

The Company is a global diamond mining company, listed on the premium market of the London Stock Exchange. More detailed information on the Group's operations, activities and financial performance is incorporated into this report by reference and can be found in the Business Review on pages 6 to 27.

### REVIEW OF THE BUSINESS, FUTURE DEVELOPMENTS AND POST BALANCE SHEET EVENTS

As a BVI registered company, Gem Diamonds Ltd is not required to comply with the Companies Act 2006, however the Directors have voluntarily elected to conform to Section 417 of the Companies Act 2006, which requires that the Directors present a Business Review in this report to inform shareholders of the Company and help them assess how the Directors have performed their duty to promote the success of the Company. Information that fulfils this requirement can be found in the sections set out below and is incorporated by reference in this report:

- The Chairman's Review on pages 4 to 5;
- The Business Review on pages 6 to 27 which covers factors likely to affect the future development, performance and position of the Company's business and incorporating the Key Performance Indicators (KPIs) together with the Key Operational Statistics; the principal risks and uncertainties on pages 25 to 26;
- The discussion of Corporate Social Responsibility (CSR), including matters related to environmental, health and safety, as well as social and community risk, is addressed in the Sustainable Development report on pages 31 to 68; and
- The disclosure of contractual arrangements below.

The Business Review has been prepared to provide the Company's shareholders with a fair review of the business of the Company and a description of the principal risks and uncertainties facing it. It may not be relied upon by anyone, including the Company's shareholders, for any other purpose.

The Business Review and other sections of this report contain forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties and future assumptions because they relate to events and/or depend on circumstances that may or may not occur in the future and could cause actual results and outcomes to differ materially from those expressed or implied by the forward-looking statements. No assurance can be given that the forward-looking statements in the Business Review will be realised. Statements about the Directors' expectations, beliefs, hopes, plans, intentions and strategies are inherently subject to change and they are based on expectations and assumptions as to future events, circumstances and other factors which are in some cases outside the Company's control. The information contained in the Business Review has been prepared on the basis of the knowledge and information available to Directors at the date of its preparation and the Company does not undertake any obligation to update or revise

## Directors' Report

this Business Review during the financial year ahead. It is believed that the expectations set out in these forward-looking statements are reasonable but they may be affected by a wide range of variables which could cause actual results or trends to differ materially. In particular, the forward-looking statements should be read in the context of the specific risk factors affecting the Company identified in the Business Review. The Company's shareholders are cautioned not to place undue reliance on the forward-looking statements. Shareholders should note that the Business Review has not been audited or otherwise independently verified.

Acquisitions together with disposals, and changes to companies undertaken during the year, (such as they were) including post balance sheet events, are included in the Business Review on pages 6 to 27.

### RESULTS AND DIVIDENDS

The Group's financial results are set out in the Financial Information section on pages 8 to 11.

The current focus of the Group is on internal growth and surplus cash is invested into its capital projects, thus the Board recommends that no final dividend be declared, in accordance with the intention set out previously. The Board keeps the Company's dividend policy under review. The factors which are most likely to influence a change in its current policy will be the Company's financial and cash position. Other factors may also have a bearing and these will be taken into account at the time.

### EXPLORATION AND RESOURCE DEVELOPMENT

The Group carries out exploration and resource development activities that are necessary to support and expand its operations. A number of these projects continue to remain on care and maintenance and work on these has not yet re-commenced. More details on this can be found on pages 28 to 30.

### FINANCIAL RISK MANAGEMENT

The Group's key risks are detailed on page 25 and 26 of the Business Review.

### CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

A review of Health, Safety, Corporate Social Responsibility and Environmental performance and community participation is presented in the Sustainable Development report on pages 31 to 68.

### POLITICAL AND CHARITABLE DONATIONS

No political donations were made in 2010. The Group's Corporate Social Investment (CSI) expenditure supports initiatives that benefit the project-affected communities in the areas of health, education, infrastructure development, development of small to medium enterprises (SME's) and general donations to relevant causes in project-affected



## Directors' Report

communities. In 2010, the Company contributed approximately US\$704 642 to these social initiatives.

### EMPLOYEE POLICIES AND INVOLVEMENT

This report is to be read with the information on employment matters contained in the Sustainable Development Report on pages 34 and 38. The Group's employment practices have been developed to ensure that the Group attracts and retains the required calibre of management and staff by creating an environment that incentivises enhanced performance. The health, safety and effective performance of employees, together with the maintenance of positive employee relations are of key importance across the Group's operations.

Employees' engagement continues to be a focus of the Group. Employees are kept informed of the performance and objectives of the Group through direct involvement and access to the Group's website, published information and the circulation of press cuttings and Group announcements.

It is the Group's policy to communicate openly with employees and encourage consultation between employees and management. The Company always seeks to have a direct relationship between its employees and business function management, founded on quality, leadership, effective communication and trust.

The Group sets guidelines and frameworks in respect of Company policy on remuneration, performance management, career development and succession planning, recruitment and expatriate employment and for the alignment of human resources management and policy with international best practice. Each operating unit manages its human resources requirements locally, within the Group's guidelines and framework.

### CORPORATE GOVERNANCE

A report on Corporate Governance and compliance with the provisions of the Combined Code is set out on pages 87 to 100.

### DISCLOSURE OF INFORMATION TO AUDITORS

The lead audit partner is based in London, UK and supported by a second audit partner based in Johannesburg, South Africa. As required under section 418 of the Companies Act 2006, to which the Directors have voluntarily elected to conform, each Director confirms that to the best of his knowledge and belief, there is no information relevant to the preparation of the auditor's report of which the Company's auditors are unaware and that each Director has taken all reasonable steps as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 6 to

## Directors' Report

27. The financial position of the Company, its cashflows and liquidity position are described in the Business Review on pages 8 to 11. In addition, Note 27 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit risk and liquidity risk.

After making enquiries which include reviews of forecasts and budgets, timing of cash flows, borrowing facilities and sensitivity analyses and considering the uncertainties described in this report either directly or by cross reference, the Directors have a reasonable expectation that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual report and accounts of the Company.

### DIRECTORS

The Directors, as at the date of this report, are listed on pages 2 and 3 together with their biographical details. Details of Directors' interests in shares and share options of the Company can be found in the Remuneration Report on pages 75 and 86.

### DIRECTORS WHO HELD OFFICE DURING THE YEAR

Name	Date of appointment
<b>Executive Directors</b>	
CT Elphick	20 January 2006
AR Ashworth	22 April 2008
KM Burford	20 January 2006
GE Turner	22 April 2008
<b>Non-Executive Directors</b>	
RW Davis	1 February 2007
GA Beevers	1 February 2007
DJ Elzas	18 October 2005
M Salamon	3 February 2008
RJ Williams	3 February 2008

There has been no change in the above appointments since 1 January 2010 to the date of this report.

### RE-ELECTION OF DIRECTORS

The Articles of Association (81) provide that a third of Directors retire by rotation and being eligible, offer themselves for re-election. At this year's AGM K Burford, M Salamon and RJ Williams will retire by rotation and being eligible, offer themselves for re-election. Each has been the subject of a Board evaluation and their performance is judged as being constructive and proactive.

## Directors' Report

### ANNUAL GENERAL MEETING (AGM)

Details of the resolutions which will be put to the Annual General Meeting are given in the notice of the AGM, which is contained in a separate document from the Annual Report.

### SHARE CAPITAL

Details of the authorised and issued share capital of the Company, including the rights pertaining to each share class, are set out in Note 18 to the Financial Statements.

### MAJOR INTERESTS IN SHARES

On 7 March 2011, the following major interests (at or above 3%) in the issued Ordinary Shares of the Company had been notified to the Company in accordance with the DTR 5:

	Number of Ordinary Shares	% Shareholding
Graff Diamonds International Ltd	17 469 028	12.63
Capital Group Companies Inc	16 201 215	11.72
Lansdowne Partners Ltd	15 853 693	11.47
Black Rock Inc	15 168 202	10.97
FIL Limited / FMR LLC	12 833 727	9.29
Gem Diamonds Holdings Ltd	9 325 000	6.74
JP Morgan Asset Management	6 597 922	4.77
Legal and General Investment Management Limited	5 138 732	3.72
JO Hambro Capital Management	4 649 205	3.36
TT International Investment Management	4 481 939	3.24

### DIRECTORS INTERESTS

No Director had, at any time during the year, a material interest in any contract of significance in relation to the Company's business.

Subsequent to the year end, a deposit, acting as additional security for a loan owing by a Director to a financial institution in connection with the Director's relocation, was cancelled and all funds were released.

### CREDITORS' PAYMENT PRACTICE

In view of the international nature of the Group's operations there is no specific Group-wide policy in respect of payments to suppliers. Individual operating companies are responsible for agreeing terms and conditions for their business transactions and ensuring

## Directors' Report

that suppliers are aware of the terms of payment. It is Group practice that payments are made in accordance with those terms, provided that all trading terms and conditions have been met by the supplier. Trade creditors at 31 December 2010 represented 4 days of the Company's annual purchases.

### ELECTRONIC COPIES OF DOCUMENTS

Copies of the 2010 Annual Report, HSSE policies and other corporate publications, reports, press releases and announcements are available on the Company's website at [www.gemdiamonds.com](http://www.gemdiamonds.com).

### AUDITORS

A resolution will be put to the shareholders at the forthcoming Annual General Meeting to re-appoint Ernst & Young LLP as the Company's auditors and to authorise the Board to determine the auditor's remuneration.

By order of the Board

*André Confavreux*

André Confavreux  
*Company Secretary*

14 March 2011

## Remuneration Report

### ROLE OF THE REMUNERATION COMMITTEE

The Remuneration Committee (the Committee) is a formal committee of the Board. Its terms of reference are available on the Company's website and conform to the Combined Code.

The principal roles of the Committee are to:

- Consider and scrutinise all elements of the Company's executive remuneration policy;
- Determine individual remuneration packages within that policy for the executive Directors and certain senior executives;
- Monitor and recommend the level and structure of remuneration for senior management;
- Approve the design of performance-related pay schemes operated by the Company and approve total annual payments; and
- Review the design of all share-based incentive plans and approve the awards to be made.

The Committee's policy is to facilitate an open and transparent dialogue with shareholders on remuneration matters.

### COMPOSITION OF THE COMMITTEE

The Committee comprises the following members:

- Richard Williams MBE MC: Committee Chairman
- Roger Davis
- Dave Elzas
- Mike Salamon

The Chief Executive Officer and the Chief Financial Officer also attend Committee meetings by invitation and assist the Committee in its deliberations, except when issues relating to their own remuneration are discussed.

### ADVISORS TO THE COMMITTEE

Kepler Associates, appointed by the Committee in February 2010, provided independent remuneration advice to the committee and attended committee meetings during 2010. Kepler replaced the Human Capital Resources Division of Ernst & Young LLP as it was felt not in accordance with best practice for Ernst & Young to continue to provide such non-audit services. Kepler Associates provide no other services to the Company.

### ATTENDANCE COMMITTEE'S MEETINGS DURING 2010

Four meetings were held during the year.

	Number of meetings attended
RJ Williams	4
RW Davis	4
DJ Elzas	3
M Salamon	4

## Remuneration Report

A review of the Committee's terms of reference and the Committee's effectiveness was carried out in March 2010. There were no material issues identified or action arising there from.

### ACTIVITIES OF THE COMMITTEE

During the year, the Committee met four times and it:

- Reviewed senior executive remuneration in light of developments in best practice and market trends;
- Introduced amendments to the ESOP which followed consultation with the Company's major shareholders and shareholder approval at the AGM in June 2010;
- Reviewed the outcome of specific incentive plans particular to the Company's operations.

### EXECUTIVE REMUNERATION POLICY

The Company's remuneration policy is designed to provide a level of remuneration which attracts, retains and motivates executives of a suitable calibre to execute the Company's business strategy and maximise long term shareholder wealth.

It is intended that, as far as possible, remuneration policies and practices will conform to best practice in the markets in which the Company operates and will be aligned with shareholder interests and promote effective management of business risk. The Committee takes into account the UK Listing Rules, the provisions of the Combined Code and the guidance provided by institutional investor representative bodies in determining executive remuneration arrangements. In deciding upon the appropriate structure and quantum of remuneration, the Committee reviews remuneration practices at comparator companies, comprising mining companies and UK-listed companies of a similar size and complexity, to ensure remuneration policies reflect, as appropriate, prevailing industry and market conditions. Furthermore, remuneration policies have and will continue to take account of pay and employment conditions elsewhere in the Company.

The remuneration policy is supported by the following principles:

- Base reward should be set at a level which is competitive with comparator companies;
- A significant proportion of total remuneration should be 'at risk' and conditional on the performance of the Group; and
- Performance-related payments should be subject to the satisfaction of challenging performance targets over the short and long term, taking into account the prospects for the Group, the prevailing economic environment and the relative performance of comparator companies.

### ELEMENTS OF EXECUTIVE DIRECTORS' REMUNERATION

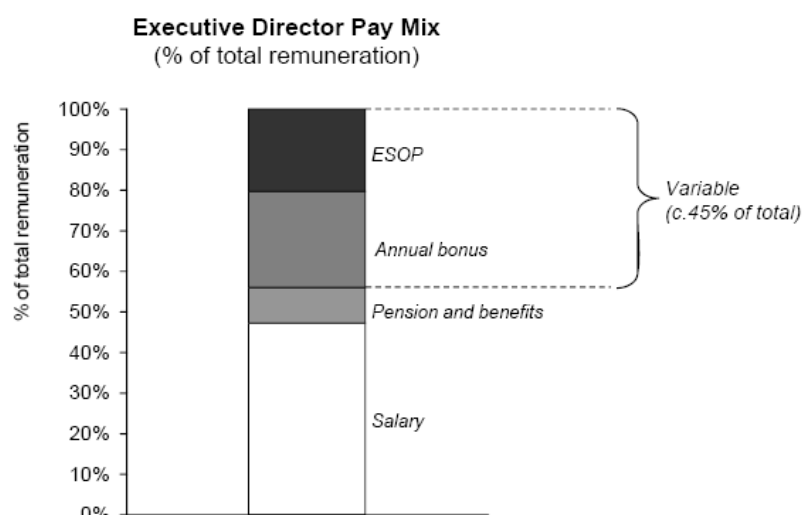
The remuneration package for the Executive Directors comprises the following elements:

- Base salary;
- A cash allowance in lieu of pension and other benefits;

## Remuneration Report

- Participation in short term incentives in the form of an annual bonus; and
- Participation in long term incentives in the form of the Employee Share Option Plan.

In 2010 the Executive Directors' total compensation was in the following proportions.



### Base salary

Base salaries are reviewed annually with any changes normally taking effect from 1 April. This review takes into account individual performance, experience and market competitiveness. In assessing market competitiveness, the Committee benchmarks salaries against comparable roles at mining companies and UK-listed companies of similar size. In approving the Executive Directors' salary changes, the Committee took into account general pay conditions across the Group. The Committee reviewed base salaries during March 2011 and approved the following – Clifford Elphick (£412 000); Alan Ashworth (£305 066); Kevin Burford (£276 000) and Glenn Turner (£276 000) effective 1 April 2011.

### Pensions and other benefits

Executive Directors do not receive any non-cash benefits as part of their employment. The Executive Directors receive a cash allowance in lieu of pension equivalent to 14% and 12.5% of base salary for the Chief Executive Officer and other Executive Directors respectively. In addition, the Executive Directors receive a cash payment in lieu of other non-cash benefits, equivalent to 5.5% and 6% of base salary for the Chief Executive Officer and other Executive Directors respectively.

### Annual Bonus

Executive Directors and Senior Executives participate in a discretionary annual bonus arrangement designed to focus participants on business-critical outcomes. The maximum bonus payable under the annual bonus scheme for Executive Directors is 100% of base salary.

## Remuneration Report

Specific corporate and individual objectives are discussed and agreed at the start of each year, and levels of attainment evaluated by the Committee. For 2010, Executive Director bonuses were linked to the following targets:

- Operational performance, including Health, Safety, Corporate Social Responsibility and Environment (30%);
- Business development (30%); and
- Financial performance of the Company (40%).

The Committee assessed the degree to which the bonus targets had been achieved and approved bonuses for 2010 of 80% for the Chief Operating Officer and between 50% and 65% of base salary for the remaining Executive Directors, allocated approximately in the proportion to each of the above categories.

### Employee Share Option Plan (ESOP)

The ESOP was first introduced in 2007. At the 2010 AGM, shareholders approved changes to the ESOP which the Committee believes improves the robustness of the scheme. The key features of the 2010 ESOP awards are summarised below.

The ESOP provides for annual grants of performance shares and fair market value options (options), the relative proportions of which are determined by the Committee on the occasion of each grant.

ESOP awards may be up to 100% of salary in performance shares, or up to 200% of salary in options, or a mix of performance shares and options subject to the condition that in any one year the combined fair value of the share and option grant is no more than the fair value of an award of 100% of salary in performance shares. 2010 ESOP awards granted to the Executive Directors comprised 33% of salary in performance shares and 67% of salary in options.

Vesting of ESOP awards is subject to the achievement of challenging performance conditions based on the Company's three year relative total shareholder return (TSR).

TSR performance is measured relative to two comparator groups as follows:

- 50% of the award vests according to performance relative to the FTSE 250 Index (excluding investment trusts)
- 50% vests according to performance relative to a peer group of global diamond mining and exploration companies.



## Remuneration Report

The constituents of the diamond-sector peer group are:

### 2010 Grant

African Diamonds Limited;\*  
Shore Gold Inc.;  
Petra Diamonds Limited;  
Namakwa Diamonds Limited;  
Mountain Province Diamonds Inc.;  
Rockwell Diamonds Inc.;  
Trans Hex Group Limited; and  
Vaalidiam Resources Limited.

### 2008 Grant

African Minerals Limited;  
Harry Winston Corporation;  
Shore Gold Inc.;  
Petra Diamonds Limited;  
Namakwa Diamonds Limited;  
Mountain Province Diamonds Inc.;  
Rockwell Diamonds Inc.;  
Trans Hex Group Limited; and  
Vaalidiam Resources Limited.

\* In light of the takeover of African Diamonds Limited by Lucara in December 2010, the Committee will consider a possible replacement.

The Committee believes an element based on a broad market index helps provide robustness in light of the small number of companies in the diamond mining comparator group and uses the FTSE 250 for 2008 and 2010 ESOP awards as it captures companies with whom Gem Diamonds competes for capital.

The Committee considers TSR relative to a global diamond mining peer group to be an appropriate performance measure given the extent to which the Company's share price and those of its peers are significantly influenced by diamond prices.

The Committee recognises that the number of mining comparators in this specialised market is limited and has replaced the TSR ranking methodology with a TSR percentage outperformance methodology for ESOP awards granted from 2010, which it believes is more robust given the small number of relevant diamond mining comparators.

ESOP awards will vest (at 25%) only if the Company's TSR is in line with average (or benchmark) performance, with full vesting if Gem Diamonds' 3-year TSR exceeds that of its benchmark by 12% per annum, which the Committee believes is broadly equivalent to upper quartile performance. There will be straight-line pro rata vesting for performance between Benchmark and Benchmark +12% per annum.

For 2010 awards, 'Benchmark' performance is based on the published FTSE250 excluding Investment Trusts Index (for that element of ESOP awards) and the average TSR of the diamond mining and exploration companies, weighted by their market capitalisation at the start of the three-year performance period (for the other 50% of ESOP awards). Weighting diamond mining comparator TSRs by their market capitalisation helps reduce the sensitivity of ESOP outcomes to the smaller comparator companies in the group which are likely to have more volatile TSRs than the Company. A summary of the vesting schedule is provided below:

## Remuneration Report

	Relative TSR performance vs. Diamond Mining Group (applies to 50% of award)	Relative TSR performance vs. FTSE250 (excl IT) Index (applies to 50% of award)
Stretch (100% vesting)	Benchmark +12% p.a.	Benchmark +12% p.a.
Threshold (25% vesting)	Benchmark	Benchmark

Additionally, for any ESOP awards to vest, the Committee must satisfy itself that the recorded TSR is a fair reflection of the underlying business performance of the Company over the performance period.

In the event that the TSR calculation is affected by a significant corporate event which the Committee considers materially distorts the performance comparison, the Committee may make suitable adjustments, provided that it is satisfied that any new or varied performance conditions would be no less demanding. The Committee may also adopt different performance conditions during the life of the ESOP and may vary the ratio of performance shares and options.

Dividends accrue on performance shares (but not options) during the vesting period.

In the event of a change of control, awards would vest according to performance up to the date of the change of control. In addition, share-based, but not option-based, awards would be pro-rated for time based on the proportion of the vesting period elapsed at the date of the event, with Committee discretion to treat otherwise.

### Dilution

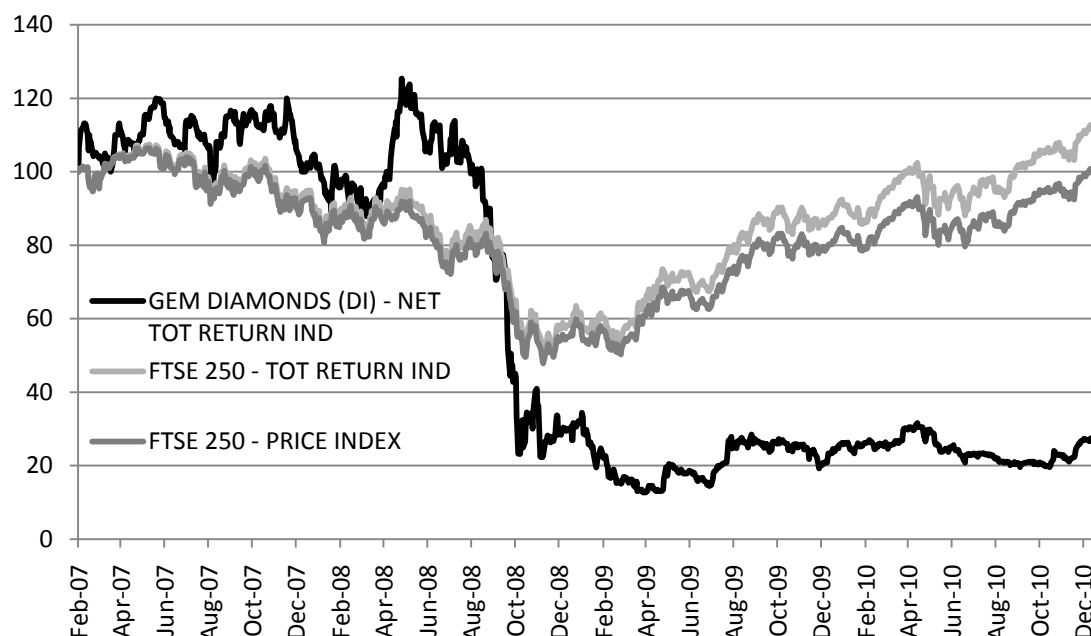
ESOP awards may be satisfied with newly-issued shares subject to aggregate dilution limits. The issue of shares to satisfy awards under the Company's share schemes will not exceed 10% of the Company's issued ordinary share capital in any rolling 10 year period. As of 31 December 2010, 1 693 580 shares (1.22% of issued share capital) have been, or may be issued, pursuant to all awards made.

### Performance graph

The graph below shows the total shareholder return on a holding of the Company's ordinary shares compared to a hypothetical holding of shares in the FTSE250 index. The FTSE250 has been selected as it comprises companies which represent possible alternative investment opportunities for the Company's shareholders. The Company's comparative performance declined at the beginning of the fourth quarter of 2008 as a result of the significant impact of the global economic downturn on the diamond mining sector. TSR is calculated using one month average share prices and if applicable includes reinvested net dividends paid during the performance period.

## Remuneration Report

Total Shareholder Return Performance: GEM DIAMONDS vs FTSE 250 since Gem Diamonds' IPO in February 2007



### EXECUTIVE DIRECTORS

#### ENTITLEMENTS UNDER SERVICE CONTRACTS

The details of service contracts and appointment letters are as follows:

#### THE EXECUTIVE DIRECTORS' SERVICE CONTRACTS:

Director	Contract date	Unexpired term	Notice period	Contractual termination payment
CT Elphick	13 February 2007	Rolling contract	6 months	Pay salary and benefits on summary termination
KM Burford	13 February 2007	Rolling contract	6 months	
GE Turner	1 July 2008	Rolling contract	6 months	
AR Ashworth	1 March 2008	Rolling contract	6 months	

There are no special provisions in the contracts extending notice period on a change of control or other corporate event.

### NON-EXECUTIVE DIRECTORS

The Chairman and Executive Directors approve the fees of the non-Executive Directors. The Committee approves the fees of the Chairman.

## Remuneration Report

The fees for non-Executive Directors are set at the level considered necessary to obtain the services of individuals with the relevant skills and experience to bring added depth and breadth to the composition of the Board. Fees take into account the number of meetings, the time required for reading Board and other papers, the duties associated with membership or chairmanship of Board committees and fees paid by comparable companies.

The non-Executive Director fees were reduced by 25% effective 1 April 2009 to £90 000 for the Chairman and £52 000 for all other non-Executive Directors. Fees were reviewed in March 2011 and fees to the Chairman of the Board and all other non-Executive Directors will remain unchanged.

The non-Executive Directors are not eligible to participate in the annual bonus, ESOP, or any other performance related incentive.

The appointment of non-Executive Directors, who do not have service contracts, typically runs for three years after which the Director will be required to retire at the Annual General Meeting (AGM) held in the third calendar year following the AGM at which the Director was elected. However, the Board may invite the Director to serve for an additional period subject to re-election by shareholders. Different provisions apply if the Director remains in office for a period longer than nine years, consistent with the Combined Code.

### Non-Executive Directors' appointment terms:

Director	Appointment date	Unexpired term	Notice period	Contractual termination payment
RW Davis	1 February 2007	Rolling appointment	3 months	No provision for Payment of compensation
DJ Elzas	1 February 2007	Rolling appointment	3 months	
GA Beevers	1 February 2007	Rolling appointment	3 months	
M Salamon	3 February 2008	Rolling appointment	3 months	
RJ Williams	3 February 2008	Rolling appointment	3 months	

### EMOLUMENTS AND COMPENSATION

Details of the remuneration settled in cash or at a cash cost to the Company of each Director who has served in the year are shown below. The following table and accompanying notes have been audited.

## Remuneration Report

### DETAILS OF THE DIRECTORS' REMUNERATION:

	Salary and fees <sup>(1)</sup>	Cash payments in lieu of non-cash benefits <sup>(2)</sup>	Bonuses <sup>(3)</sup>	Total 2010 <sup>(4)</sup>	Full year Total 2009
	£	£	£	£	£
<b>Executive</b>					
CT Elphick <sup>(5)</sup>	390 000	76 050	260 000	726 050	640 150
AR Ashworth	288 773	53 423	236 944	579 140	457 967
KM Burford	261 261	48 333	133 980	443 574	414 303
GE Turner	261 261	48 333	160 776	470 370	414 303
<b>Non-Executive<sup>(6)</sup></b>					
RW Davis	90 000	-	-	90 000	97 500
GA Beevers	52 500	-	-	52 500	56 875
DJ Elzas	52 500	-	-	52 500	56 875
M Salamon	52 500	-	-	52 500	56 875
RJ Williams	52 500	-	-	52 500	56 875

(1) All salaries and fees are paid in cash.

(2) Payments are made in cash to Directors who may purchase benefits.

(3) Bonuses are in respect of 2010, to be paid in 2011.

(4) The Directors' total emoluments for the year do not include any fair value share option/award charges.

(5) Highest paid Director.

(6) The fees payable to non-Executive Directors are not broken down to reflect particular responsibilities.

(7) No Director received or is due to receive any compensation for loss of office during the year.

(8) Although the Company's reporting currency is US dollars, these figures are stated in Sterling as the Directors' emoluments are paid in this currency.

(9) No Director received any expense allowances.

(10) There were no payments to former Directors of the Company.

(11) Apart from private company interests listed in the Prospectus dated 1 April 2009, no Executive Director holds any significant executive directorship or appointments outside the Group with the exception of Clifford Elphick who was appointed non-Executive Chairman of Jumelles Holdings Limited in 2009 and Zanaga Iron Ore Co. Limited which listed on the AIM Market of the London Stock Exchange in November 2010. Dave Elzas was also appointed a director of Zanaga Iron Ore Co. Limited in November 2010. Any fees paid to Clifford Elphick or Dave Elzas in fulfilling these external roles are retained by them.

### ENTITLEMENTS UNDER LONG TERM INCENTIVES

ESOP awards were made post the announcement of results and the adoption of the revised rules at the AGM on 9 June 2010.

There were no long term incentives awarded to Directors during 2009. 2008 awards were in the form of performance shares only. Nothing is payable on grant and no exercise price is payable to acquire the shares underlying these awards (save for nominal value where shares are newly issued).

## Remuneration Report

### Details of awards to Directors under the ESOP

#### ESOP Awards of performance shares made to Executive Directors in 2008 and 2010

Director	Performance shares* as at 1 January 2010	Exercised in the year	Granted in the year	Lapsed in year	Performance shares as at 31 December 2010	Exercise price US\$	Market value at date of grant £	Date of grant	Earliest normal exercise date	Expiry date
CT Elphick	34 667	-	-	-	34 667	0.01	356 387	30 April 2008	30 April 2011	30 April 2018
	-	-	57 000	-	57 000	0.01	131 670	23 June 2010	23 June 2013	23 June 2020
AR Ashworth	43 057	-	-	-	43 057	0.01	297 100	30 April 2008	30 April 2011	30 April 2018
	-	-	42 600	-	42 600	0.01	98 406	23 June 2010	23 June 2013	23 June 2020
KM Burford	24 009	-	-	-	24 009	0.01	246 813	30 April 2008	30 April 2011	30 April 2018
	-	-	38 600	-	38 600	0.01	89 166	23 June 2010	23 June 2013	23 June 2020
GE Turner	24 009	-	-	-	24 009	0.01	246 813	30 April 2008	30 April 2011	30 April 2018
	-	-	38 600	-	38 600	0.01	89 166	23 June 2010	23 June 2013	23 June 2020

\* conditional right to acquire shares

2008 ESOP awards vest 50% on the Company's 3-year TSR rank relative to the FTSE250 and 50% on the Company's 3-year TSR rank relative to the diamond mining comparator group; there is nil vesting below median, 30% vesting at median, rising on a straight-line basis to full vesting from upper quartile.

#### ESOP awards of options for Executive Directors in 2010.

Director	Options* as at 1 January 2010	Exercised in the year	Granted in year	Lapsed in year	Options as at 31 December 2010	Exercise price	Date of grant	Earliest normal exercise date	Expiry date
CT Elphick	-	-	114 000	-	114 000	231p	23 June 2010	23 June 2013	23 June 2020
AR Ashworth	-	-	85 200	-	85 200				
KM Burford	-	-	77 200	-	77 200				
GE Turner	-	-	77 200	-	77 200				

\*Option is a right to acquire shares granted under the plan including, unless indicated otherwise, a nil-cost option. The market price of an ordinary share at the year end was 251.75 pence. The highest and lowest prices in the year were 300 pence and 184 pence.

## Remuneration Report

Details of the vesting conditions, which are subject to audit, for awards made under the ESOP are included on pages 78 to 80 of the Annual Report and a full set of the rules will be available for inspection at the AGM.

### ESGP Awards made to the Executive Directors in 2007

Executive	Date of grant	Proportion of the pool subject to award %	The share price on admission (pence)	Date that qualifying conditions must be met
CT Elphick		8.33	950	
AR Ashworth	20 December 2007	6.20	950	14 February 2010
KM Burford		8.33	950	
GE Turner		8.33	950	

The ESGP was a separate remuneration arrangement adopted at the time of the IPO in 2007. Vesting of ESGP awards was subject to targets for share price growth in the three year period following submission. Awards began to vest if the share price increased by 100% (measured from a price of 950 pence) in the three years following Admission with maximum vesting if the share price increased by 200%.

Dependent on share price growth, a fixed number of shares would have been issued to form a 'pool' for the benefit of participants. The Company made a single grant of awards under the ESGP in 2007 which entitled participants to an award of shares from the pool. The total pool of shares at maximum vesting was equivalent to 10% of the issued share capital as at the date of Admission. The Company's share price was such that there was no vesting on the third anniversary and consequently the entitlements lapsed.

### DIRECTORS' SHAREHOLDINGS AND INTERESTS IN SHARES

Details of interests in the share capital of the Company of those Directors in office as at 31 December 2010 are given below. It is confirmed that there were no changes to the Directors' holdings between 31 December 2010 and the date of this report. No Director was interested in the shares of any subsidiary company.

In addition to these interests in shares, the Executive Directors, along with other employees, also have conditional rights to acquire shares under the Company's long term incentive plans, disclosed in Note 28.

## Remuneration Report

### Executives

	Number of shares held at 1 January 2010	Number of shares held at 31 December 2010 <sup>3</sup>
CT Elphick <sup>(1)</sup>	9 325 000	9 325 000
AR Ashworth	21 900	21 900
KM Burford	458 333	458 333
GE Turner <sup>(2)</sup>	600 000	400 000

(1) Clifford Elphick is interested in these ordinary shares by virtue of his interest as a potential beneficiary in a discretionary trust which has an indirect interest in those ordinary shares.

(2) Glenn Turner disposed of 200 000 shares on 26 March 2010.

(3) There has been no change in these figures since the end of the year and date of the notice of the AGM.

### Non-Executives

#### Non-Executive Directors' Shareholdings and interests in shares

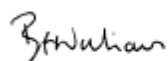
	Number of shares held as at 1 January 2010	Number of shares as at 31 December 2010 <sup>1</sup>
RW Davis	1 267 752	1 267 752
GA Beevers	145 164	145 164
DJ Elzas	144 664	144 664
M Salamon	316 944	316 944
RJ Williams	164 664	164 664

(1) There has been no change in these figures since the end of the year and date of the notice of the AGM.

### PENSIONS

No pension contributions were made to any registered pension scheme or pension fund in respect of Executive Directors during the year, and no retirement benefits were paid.

By order of the Board



**Richard Williams**

*Chairman, Remuneration Committee*

14 March 2011



## Corporate Governance Report

### UK CORPORATE GOVERNANCE CODE COMPLIANCE

This report addresses the status of the Company's compliance with the principles and provisions of the Combined Code, and details the key policies, processes and structures that apply to the Company.

The Company has fully complied with the best practice governance provisions as set out in Section 1 of the 2008 Combined Code for the year up to 31 December 2010 with two exceptions and notes below these periods during the year when it was not fully compliant:

- As previously advised the position of Lord Renwick on the Audit Committee was taken by Roger Davis on 25 August 2009. As Roger Davis is also Chairman of the Board, this was not in compliance with Section C.3.1 of the Combined Code. This situation will continue for the foreseeable future but will be kept under review. In this regard the Chairman is considered to be independent.
- At the time of Lord Renwick's resignation it was decided that his position on the Nominations Committee would not be filled as the conduct and performance of the Committee was seen as working effectively with its present membership (Roger Davis, Clifford Elphick and Mike Salamon) and the Committee did not feel that filling the vacancy in the short-term, simply to comply with Combined Code A.4.1. would improve the effectiveness of the Committee. The situation was last reviewed in November 2010 when it was decided to make no change.

### BOARD OF DIRECTORS

#### The role of the Board

The Board is responsible to shareholders for the performance and governance of the Company within a framework of policies and controls which provide for effective risk identification, assessment and management. The Board provides leadership and articulates the Company's objectives and strategy to achieve those objectives. The Board sets standards of conduct which provide an ethical framework for all of the Company's business functions. While the Board focuses on strategic issues, financial performance, risk management and critical business issues, it also has a formal schedule of matters that it does not delegate. These reserved matters, which are documented in a comprehensive list of authorisation levels and prior approval requirements for key corporate decisions and actions, are reviewed and updated annually by the Board. Such matters reserved to the Board include, but are not limited to, approval of budgets and business plans, major capital expenditure, major acquisitions and disposals and bank borrowing.

Whilst all Directors have equal responsibility in law for managing the Company's affairs, it is the role of the executive management to run the business within the parameters laid down by the Board and to produce clear, accurate and timely reports to enable the Board to monitor and assess management's performance. The executive management draws on the expertise and experience which the non-Executive Directors bring from their various business careers.

## Corporate Governance Report

All Directors are free to express their views and may ask that these be recorded in the minutes where appropriate. The Company maintains at its expense, a Directors and Officers liability insurance policy to provide an indemnity in certain circumstances for the benefit of Directors and other Group personnel. The insurance policy does not provide cover where the Director or Officer has acted fraudulently or dishonestly.

The composition of the Board and changes during the year are as follows:

- The Board, chaired by Roger Davis, is nine in number, comprising four Executive Directors and five non-Executive Directors.
- The four Executive Directors are Clifford Elphick (Chief Executive Officer); Kevin Burford (Chief Financial Officer); Alan Ashworth (Chief Operating Officer); and Glenn Turner (Chief Legal and Commercial Officer).
- The non-Executive Directors possess a range of experience and are of a calibre to bring independent judgement to bear on issues of strategy, performance, and resources that are vital to the success of the Company. They comprise Roger Davis (Company Chairman and Chairman of the Nominations Committee); Gavin Beevers (Chairman of the Health, Safety, Social and Environment (HSSE) Committee); Dave Elzas (Chairman of the Audit Committee); Mike Salamon (Senior Independent Director) and Richard Williams MBE MC (Chairman of the Remuneration Committee).
- All of the non-Executive Directors are regarded as independent by the Board as defined in the Combined Code (A.2.2), as was the Chairman on his appointment.

### Attendance at Board meetings and Committees of the Board

Four scheduled Board meetings were held during 2010. Attendance by Directors at Board and Committee meetings is shown below. All Board meetings were held in the United Kingdom.

There are six formally constituted committees of the Board, each of which has formal terms of reference. Those for the Audit; Remuneration; HSSE and Nomination Committees' can be viewed on the Company's website, [www.gemdiamonds.com](http://www.gemdiamonds.com).

### ATTENDANCE AT BOARD AND COMMITTEE MEETINGS DURING 2010

Number of meetings held	Board	Audit	Remuneration	HSSE	Nominations
	4	4	4	4	2
<b>Director</b>					
RW Davis	4	4	4	N/A	2
CT Elphick	4	N/A	N/A	N/A	2
GA Beevers	4	N/A	N/A	4	N/A
DJ Elzas	3	3	3	N/A	N/A
M Salamon	4	N/A	4	4	2
RJ Williams	4	4	4	N/A	N/A
AR Ashworth	4	N/A	N/A	N/A	N/A
KM Burford	4	N/A	N/A	N/A	N/A
GE Turner	4	N/A	N/A	4	N/A

## Corporate Governance Report

A further three ad hoc meetings, and one resolution in writing, were held to issue formal approvals or deal with relevant Board matters which had been delegated.

Before each Board meeting the non-Executive Directors meet independent of the Executive Directors, in accordance with a practice which many listed companies have adopted. During the year there were four such meetings.

### Chairman and Chief Executive

A clear separation is maintained between the responsibilities of the Chairman and the Chief Executive. This separation was established during 2007 with the appointment of Roger Davis as Chairman. The Chairman is responsible for leading the Board and its effectiveness and setting of its agenda, and ensures a constructive and open relationship between the Executive and non-Executive Directors.

The Chief Executive is responsible for the overall performance of the Company, including responsibility for arranging the effective day-to-day management of the Company.

Led by the Chief Executive Officer, the executive management is responsible for developing strategy for consideration by the Board as a whole. It is the executive management's responsibility to implement that strategy, once approved, and furnish the Board with information reasonably required to monitor the efficient and effective conduct of the business.

### Board balance and independence

The Company complies with the requirement of the Combined Code that there should be a balance of Executive and non-Executive Directors such that no individual or group can dominate the Board's decision-taking.

Of the current five non-Executive Directors, all are considered by the Board to be independent of management.

Mike Salamon is the Senior Independent non-Executive Director. His role and responsibilities as the Senior Independent Director are detailed in and formalised by Board resolution and, in summary, are that he should be available to shareholders to discuss their concerns where the normal channels would not be appropriate for this purpose; to have contact with analysts and major shareholders to obtain a balanced understanding of their issues and concerns; where relevant to lead the Board and Director performance evaluation; and provide a sounding board for the Chairman.

The non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered. To enable the Board to discharge its duties, all Directors receive appropriate and timely information and briefing papers are distributed to all Directors. The letters of appointment of the non-Executive Directors are available for inspection at the place of business of the Company in London.

## Corporate Governance Report

The Board reviews annually the composition and Chairmanship of its primary committees, namely the Audit, Remuneration, Nomination and the HSSE Committees.

### Appointments to the Board

The Combined Code requires there to be a formal, rigorous and transparent procedure for the appointment of new Directors, which should be made on merit and against objective criteria. Since 2007, recruitment to the Board has been on the basis of recommendation, thus no outside consultants have been employed. The 'pool' of appropriately qualified individuals is small and suitable candidates are known to the management. The Nomination Committee's section of this report is set out on page 98.

### Information and professional development

All Directors are aware that they may take independent professional advice, at the expense of the Company, in the furtherance of their duties, subject to prior consultation with the Chairman. To date they have not found the need so to do. All Directors have access to management and to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that all governance matters are complied with, and assists with professional development as required.

Arrangements have been approved by the Board to ensure that new Directors should receive a full, formal and tailored induction on joining the Board. In addition, ongoing support and resources are provided to Directors in order to enable them to extend and refresh their skills, knowledge and familiarity with the Company. Professional development and training is provided in three complementary ways: regular updating with information on changes and proposed changes in laws and regulations affecting the Company or its businesses; arrangements, including site visits, to ensure Directors are familiar with the Company's operations particularly its commitment to and application of the Company's Corporate Social Responsibility policies, which includes health and safety; and opportunities for professional and skills training such as Committee Chairmanship and formal professional seminars designed by appropriate advisors.

### Performance evaluation

In 2008, the first Board Performance evaluation was undertaken. The review facilitated debate around identified key issues.

During 2009 the recommendations of the 2008 evaluation were implemented and in November 2009 Board members were asked and confirmed their satisfaction with the implementation of the recommendations.

The results of the 2009 evaluation were disseminated to all Board members. Where specific issues were raised, none of which were identified as significant, these were referred to the responsible director(s).

In 2009 an individual performance evaluation was undertaken. This comprised a structured review with each director, by an outside consultant, the results of which were given to the

## Corporate Governance Report

Chairman. In respect of the Chairman, the results were discussed with the Senior Independent Director. The results were discussed with each member of the Board individually.

In 2010 a board evaluation was carried out. It was by way of a questionnaire. The conclusions will be advised to each Board member and corrective action, if required, taken. The topics covered included, but were not limited to, board composition, dynamics, expertise, support, risk management, remuneration and strategy.

In accordance with best practice there will be a Board Evaluation carried out in 2011.

The terms of reference and performance of each primary committee were reviewed and changes were made, if appropriate. The company's terms of reference were compared to best practice models.

The Board has formally reviewed succession plans for key executive management roles and the Chairman. This is regarded as an important feature of the Nomination Committee's function and is reviewed at least annually to ensure its appropriateness.

### Re-election of Directors

Under the Combined Code, Directors should offer themselves for re-election at regular intervals and there should be a planned and progressive refreshing of the Board.

At the Annual General Meeting (AGM) three Directors will retire, in accordance with the Company's Articles of Association. The whole board was elected at the AGM in 2008. Sufficient biographical and other information is provided to enable shareholders to make an informed decision.

### Conflicts of Interest

The Board maintains a register of 'Conflicts of Interest' which it reviews annually. Should any conflict of interest arise between annual reviews, Directors are on notice to advise the Board and the Board will normally exercise its authority and record such conflicts.

### Dealings in shares

The Company has a policy based on the Model Code, published in the Listing Rules, which covers dealings in securities and applies to all Directors, persons discharging managerial responsibilities and employee insiders. This policy was last reviewed in November 2010 and had been circulated to all insiders.

### REMUNERATION

Whilst the Board is ultimately responsible for Directors' remuneration, the Remuneration Committee, consisting of independent non-Executive Directors, is responsible for determining the remuneration and conditions of employment of Executive Directors and the

## Corporate Governance Report

Chairman in his absence. The details of all Directors' Remuneration are covered in the Remuneration Report on pages 75 to 86.

### ACCOUNTABILITY AND AUDIT

#### Financial reporting

The Board is conscious of its responsibility to present a balanced and clear assessment of the Company's position and prospects and the Board is satisfied that it has met this obligation. This assessment is primarily provided in the Business Review contained in this report. The Statement of Directors' Responsibilities is set out on page 102.

#### Information and financial reporting systems

Financial reporting to the Board is continuously modified and enhanced to cater for changing circumstances. The Company's comprehensive planning and financial reporting procedures include detailed operational budgets for the year ahead and a three-year rolling plan (Plan). The Board reviews and approves the annual budget and Plan. The Plan and budgets are prepared in cooperation with all group functions on the basis of known economic assumptions. Performance is monitored and relevant action taken throughout the year through the monthly reporting of key performance indicators and updated forecasts for the year, together with information on the key risk areas.

In addition, routine management reports on an operational and consolidated basis, including updated forecasts for the year, are prepared and presented to the Board and form a cornerstone of the system of internal control. Detailed consolidated management accounts, together with an executive summary, are circulated prior to each scheduled Board meeting. Between Board meetings summary update reports covering matters such as operational performance, sales figures, cash and progress of strategic issues are circulated to the Board members and senior executives.

#### Internal control

The Board of Directors is responsible for the Company's system of internal control, which is embedded in all key operations. An ongoing process, in accordance with the revised Guidance of the Turnbull Committee on Internal Control published in October 2005, has been established for identifying, evaluating and managing the significant risks faced by the Company. The Board relies on reviews undertaken by the Audit Committee (in relation to the Company's compliance with the Turnbull Guidance) throughout the year and up to the date of the approval of the Annual Report and Financial Statements. Regular management reporting, providing a balanced assessment of key risks and controls, is an important component of Board assurance.

The Audit Committee reviewed the process by which risks are identified and assessed the effectiveness of the system of internal control by considering the regular reports from management on the operation of the risk assessment process throughout the Company. These included the key risks identified, mitigating actions and controls, management representations and assertions, and reports covering the independent assessment of

## Corporate Governance Report

internal control systems from Internal Audit, and other assurance providers such as health, safety, social and environmental.

The principal aim of the system of internal control is the management of business risks that are significant to the fulfilment of the Company's business objectives with a view to enhancing over time the value of the shareholders' investment and safeguarding the assets. The internal control systems have been designed to manage rather than eliminate the risk of failure; to achieve business objectives; and provide reasonable but not absolute assurance that the Company's business objectives will be achieved within the risk tolerance levels identified by the Board. The Directors confirm that they have reviewed the effectiveness of the system of internal control and have not identified any significant failings or weaknesses.

### Risk management

The Board considers effective risk management as an essential element of professional management and has implemented a structured and comprehensive system across the Company utilising the services of KPMG Services (Proprietary) Ltd. The Company's risk management policy aims to cover and review at least annually, all significant business risks faced by the Company, including operational, financial, commercial, legal, regulatory and compliance risks, which could undermine the Company's ability to achieve its business objectives. The Group's key risks are listed in pages 25 to 26 in the Business Review.

The Company's approach to risk management is value driven and has the stated objective of ensuring an environment in which it can grow shareholder value through developing and protecting the Company's assets, the environment in those locations in which it operates, its reputation and its staff. The process is thorough and robust and is an essential element of the Company's approach to business planning.

Each operating unit carries out a comprehensive annual risk review and updates its risk register accordingly. Objectives in the business plan are aligned with risks and a summary of the key risks, related internal controls, accountabilities and further mitigating actions, is reviewed and approved by the respective Audit Committee / Board for effectiveness.

Progress against plans, significant changes in the business risk profile and actions taken to address controls and mitigate risks are reported at each operating unit board and thereafter to the Group's Audit Committee and as appropriate to the Board.

The output of the process has been reviewed by the Company and the respective operating units and accords with the latest guidance of the Turnbull Committee.

### Investment appraisal

A budgetary process and authorisation levels regulate capital expenditure. For expenditure beyond specified levels, detailed written proposals are submitted to the Board. There is an approval procedure for investment appraisal which includes a detailed calculation of return based on assumptions that are consistent with those included in management reports. Reviews are carried out after the project is complete and, for some projects, during the

## Corporate Governance Report

development period of the investment, to monitor progress against plan and all major overruns are investigated. Commercial, legal and financial due diligence work, using outside consultants as appropriate, is undertaken in respect of acquisitions and disposals.

### Internal audit

Internal audit is an important element of the overall process by which the Audit Committee and the Board obtains the assurance it requires that risks are being properly identified, managed and controlled. An internal audit function was established in 2007. A risk-based internal audit programme was prepared for 2010 and approved by the Audit Committee and reports on achievement of the programme and findings were presented to the Audit Committee for consideration and approval.

The programme covers all operating units, focusing in particular on the more significant risks and related internal controls identified in the risk self-assessment process. Findings and agreed actions are reported to management and the Audit Committee.

The internal audit function is provided by KPMG Services (Proprietary) Ltd as an outsourced service provider.

### Whistleblowing programme

There is a formal mechanism to report fraud, suspected corruption and irregularities. There are independently operated confidential free phone hotlines in each country in which the Company operates, through which employees can report any breach of the Company's business principles, including but not limited to bribery, breaches of ethics and fraud.

All incidents reported are fully investigated and the results are reported to the local boards and to the Group's Audit Committee. The Whistleblowing procedures are routinely reviewed to make sure they are effective and up to date.

### External audit

A principle of the Combined Code is that the Board should establish formal and transparent arrangements for considering how it should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the external auditors, Ernst & Young LLP. These responsibilities are delegated to and are discharged by the Audit Committee whose work is described on pages 96 to 98.

## RELATIONS WITH SHAREHOLDERS

### Dialogue with shareholders

The Board places importance on effective communication with shareholders and, assisted by the Investor Relations Manager, maintains regular dialogue with and gives briefings to analysts and institutional investors. Presentations are given by the Executive Directors after the Company's announcement of the year end and half year results. Any concerns raised by a shareholder in relation to the Company and its affairs are communicated to the Board as



## Corporate Governance Report

a whole as issues arise and a summary of shareholders views is presented at each Board meeting by the Investor Relations Manager.

Care is taken to ensure that any price-sensitive information is released to all shareholders, institutional and private, at the same time, in accordance with the Disclosure and Transparency Rules and with group policy. This policy was most recently reviewed by the Board in November 2010 and updated as appropriate. It has been circulated to each operation. The insider list is routinely reviewed and kept up to date.

The Investor Relations Manager keeps in contact with the Company's institutional and other shareholders plus industry experts on a day to day basis. It is his task to ensure a good flow of reliable information between the Company and its investors.

The Senior Independent Director, Mike Salamon, is available to shareholders if they have concerns which contact through the normal channels has failed to resolve or for which such contact would be inappropriate.

All shareholders can access the Annual and Half Year Reports; IMS; Trading Updates; and other published and current information about the Company through the Company's website at [www.gemdiamonds.com](http://www.gemdiamonds.com).

### Constructive use of the AGM

All Directors attend the AGM, where shareholders are invited to ask questions during the meeting and to meet Directors after the formal proceedings have ended. Shareholders at the meeting will be advised as to the level of proxy votes received, plus percentages for and against in respect of each resolution. The results of the resolutions will be announced through the Regulatory News Service and on the Company's website.

The Board uses the AGM to communicate with institutional and private investors and welcomes their participation. At the AGM the Group Chairman and the Chairman of the Audit, Remuneration, Nomination and HSSE Committees will be present to answer questions. Details of the resolutions to be proposed at the AGM can be found in the Notice of the Meeting. In accordance with the Combined Code, notice of the AGM and related papers will be sent to shareholders a minimum of 20 working days before the meeting which is due to be held on Tuesday 7 June 2011.

### COMMITTEES

#### Board committees

Subject to those matters reserved for its decision, the Board delegates certain responsibilities to a number of primary committees - the Audit, Remuneration, Nomination and HSSE Committees. The terms of reference of these Committees are available on the Company's website.

The terms of reference of each committee and the performance of each were reviewed during the year and changes were made, if appropriate. The terms of reference for each

## Corporate Governance Report

committee requires members to be re-nominated after 3 years. This was done in respect of Mike Salamon (HSSE; Nominations; and Remuneration Committees); Glenn Turner (HSSE Committee), and Richard Williams (Audit Committee).

### Audit Committee

The Audit Committee's primary role is to ensure the integrity of financial reporting and the audit process; and that an appropriate risk management and internal financial control system is maintained. In doing so, the Audit Committee assists the Board of Directors in discharging its responsibilities with regard to financial reporting, external and internal audits and controls. These include but are not limited to reviewing the annual financial statements and reviewing significant financial reporting judgements; considering the scope of the Company's annual external audit and the extent of non-audit work undertaken by external auditors; approving and monitoring the effectiveness of the internal audit programme and reviewing its material findings; advising on the appointment of external auditors, overseeing this relationship including remuneration and terms of engagement, monitoring independence, annual review of auditor's performance; and reviewing the effectiveness of the Company's internal financial control and risk management systems.

The Combined Code recommends that all members of the Audit Committee should be non-Executive Directors, all of whom are independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement. The Audit Committee comprises three non-Executive Directors, Dave Elzas (Chairman of the Committee), Roger Davis and Richard Williams MBE MC. Dave Elzas is considered to be independent. The association of Dave Elzas and GMG in no way compromises his independence. The fees for the work performed by GMG for the Company are immaterial in relation to the overall income of GMG. Dave Elzas with his experience in running several businesses and being a partner of GMG is seen as having appropriate financial experience as referred to in C.3.1.

The Committee met four times in the year. Four meetings are scheduled for 2011. The Chief Executive, the Chief Financial Officer and a representative of the Company's internal and external auditors normally attend each meeting. Other Directors of the Company and Senior Executives may, by invitation, also attend and speak, but not vote at any meeting of the Audit Committee.

Audit Committee functions in 2010 included:

- Reviewing, for submission to the Board, the 2009 annual financial statements, the 2010 interim results and the external auditor's detailed reports thereon;
- Reviewing the appropriateness of the Company's accounting policies;
- Reviewing Management Reports prior to approval of the interim and annual accounts and before the audit. The Management Report covers areas involving significant judgement, estimation or uncertainty, including assessment of fair values, impairment of goodwill, quality of earnings, taxation, treasury, reserves and resources, legal matters and the appropriateness of preparing the financial statements on a going-concern basis, which would be assessed;

## Corporate Governance Report

- Reviewing the external auditor's plan and scope for the audit of the Group's financial statements, and approved their remuneration both for audit and non-audit work, and their terms of engagement;
- Recommending to the Board the re-appointment of the external auditors following an evaluation of their effectiveness and confirmation of auditor objectivity and independence;
- Reviewing reports from the external auditor on issues arising from their work;
- Reviewing management's assessment of the internal control framework;
- Examining the effectiveness of the Company's risk management system, including its risk management process and profile, and the Company's internal control systems. The Committee received reports of the internal control environment in place at its subsidiaries which were considered to be effective;
- Approving the statement on the process by which the Committee and the Board review the effectiveness of internal control;
- Reviewing the nature and limits of the Company's insurance policies which were considered to be appropriate;
- Reviewing and approved the internal audit plans for 2011 and the effectiveness of the internal audit function;
- Evaluating the performance of the Committee and its terms of reference;
- Reviewing the Whistleblowing arrangement throughout the Company and received reports and consequential action;
- Reviewing the assessment of 'going concern' and the related disclosure in the Annual Report; and
- Reviewing and approved the adoption of a Policy on the provision for non-Audit Services.

### *Audit Committee Meetings*

Following each Audit Committee meeting, separate meetings were held with each of the following on their own:

- The external auditors;
- Internal auditors; and
- The executive management.

### *Auditor's independence and non-audit work*

The Audit Committee has a formal policy governing the conduct of non-audit work by the external auditors which ensures that the Company is in compliance with the requirements of the Code and the Ethical Standards for Auditors published by the Auditing Practices Board.

The auditors are permitted to provide non-audit services that are not in conflict with auditor independence. Periodic reports are made to the Audit Committee detailing non-audit fees paid to the external auditors.

## Corporate Governance Report

During the year Ernst & Young performed the following non-audit work – tax advisory services and tax consultancy services, which was in accordance with the Group's policy. The fees for such work amounted to US\$168 180, representing 12% of the audit fees.

The Company is very conscious of ensuring that when commissioning non-audit services there is no conflict which could compromise the auditor's independence. Therefore it only uses services which will be facilitated by the existing relationship with the Company.

### Recommendation of Auditor

The Committee's assessment of the external auditor's performance and their independence, underpins its recommendation to the Board to propose to shareholders the re-appointment of Ernst & Young LLP as auditors until the conclusion of the AGM in 2012. This assessment includes a review of Ernst & Young's policies for maintaining independence, including the policy for rotation of audit partners. This requires a new lead audit partner to be appointed every 5 years. In accordance with this policy there will be a new lead audit partner after the 2010 audit. Resolutions to authorise the Board to re-appoint and determine their remuneration will be proposed at the AGM on 7 June 2011.

### Remuneration Committee

The details of the Remuneration Committee and its operation can be found on pages 75 to 76 of the Directors Remuneration Report.

### Nominations Committee

The Nominations Committee comprises two non-Executive Directors and one Executive Director. The non-Executive Directors are Roger Davis (Chairman of the Committee) and Mike Salamon (Senior Independent Director) with Clifford Elphick as the Executive Director. The terms of reference provide for a formal and transparent procedure. The Committee has responsibility to identify, evaluate and recommend candidates for Board vacancies and to make recommendations on Board composition and balance. Two meetings were held in 2010. All recommendations for Board appointments are made on merit and against objective criteria. So far the committee has not employed outside consultants as appropriate candidates were known to the Board.

Nominations Committee functions in 2010 included:

- Succession planning;
- The composition of various committees;
- Board composition;
- The effectiveness of the Nominations Committee (there were no matters of note arising from the exercise); and
- Assess the effectiveness of those seeking re-election at the AGM and make recommendations to the Board.

## Corporate Governance Report

### HSSE Committee

In addition to the formal committees recommended by the Code, the Board has established an HSSE Committee. It assists the Board in developing and monitoring policies and guidelines for the management on corporate social responsibility and sustainable development matters, including health, safety, CSI and environmental issues, and to ensure their implementation as well as correct and legal maintenance throughout the Group. Additionally, the HSSE Committee has developed a system of internal controls and risk management policies and procedures which aim to ensure the Group's strategy is cognisant of and takes account of the best corporate social responsibility practice, the details of which are more fully described in the Sustainability Development Report to be found on pages 31 to 68. The HSSE Committee provides the Board with additional focus and guidance on key global HSSE issues. Four meetings were held in 2010.

The Committee comprises Gavin Beevers (non-Executive Director, who chairs the Committee) Mike Salamon and Glenn Turner (Chief Legal and Commercial Officer). The primary purpose of the Committee is to:

- Have oversight of and provide advice to the Board and, as necessary, to the Audit Committee, on all Corporate Social Responsibility matters which will embrace such issues as safety and sustainability including health, environment and community matters, and particularly as pertaining to the risk and management of these issues within the Group;
- Have oversight of and provide advice to the Board on the Group's compliance with applicable legal and regulatory requirements associated with Corporate Social Responsibility which includes safety and sustainability;
- Periodically assess the effectiveness of management's attitudes and approach towards, and activities in, managing safety and sustainability related risk as part of Corporate Social Responsibility;
- Review significant safety and environmental incidents and consider causative factors, consequences and actions including the impact on employees and third parties and reputational risk;
- Review the Group's performance indicators in connection with safety and sustainability matters;
- Review the Group's public disclosures on safety and sustainability matters and approve these as necessary; and
- Report to the Board on developments, trends and / or forthcoming significant legislation on safety and sustainability matters which may be relevant to the Group's operations, its assets or employees.

HSSE Committee functions in 2010 included:

- Visiting and inspecting most of the Group's operating sites either individually or together;
- Monitoring and evaluating audit reports on the implementation and effectiveness of HSSE policy, HSSE governance and HSSE performance;
- Monitoring and evaluating reports on HSSE incidents and the results of investigations into HSSE incidents;

## Corporate Governance Report

- Receiving legal advice on HSSE obligations and HSSE governance arrangements across the business;
- Reviewing the HSSE Committee's effectiveness and terms of reference (which are available on the Company's website);
- Monitoring and evaluating new developments, issues and/or relevant legislation on HSSE matters;
- Reviewing and updating the HSSE policies (which are available on the Company's website); and
- Reviewing expenditure and progress on community projects and approved CSI expenditure.

By order of the Board

*André Confavreux*

André Confavreux  
*Company Secretary*

14 March 2011

## **GEM DIAMONDS LIMITED**

### **ANNUAL FINANCIAL STATEMENTS**

**31 DECEMBER 2010**

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## Responsibility Statement of the Directors in Respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with International Financial Reporting Standards (IFRS).

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole.

The management report (entitled Business Review) includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Information, including accounting policies, has been presented in a manner that provides relevant, reliable, comparable and understandable information and additional disclosures have been provided when compliance with the specific requirements in IFRS have been insufficient to enable users to understand the financial impact of particular transactions, other events and conditions on the Group's financial position and financial performance. Where necessary, the Directors have made judgements and estimates that are reasonable and prudent.

The Directors of the Company have elected to comply with certain Listing Rules (LR) which would otherwise only apply to companies incorporated in the UK - namely:

- ▶ a) the directors' statement under LR 9.8.6R(3) (statement by the directors that the business is a going concern);
- ▶ b) the directors' remuneration disclosures made under LR 9.8.8R(2) - (5) and (11) - (12); and
- ▶ c) the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 of the United Kingdom pertaining to directors' remuneration that UK quoted companies are required to comply with.



**Kevin Burford**  
*Chief Financial Officer*

14 March 2011



## Independent Auditor's Report to the Members of Gem Diamonds Limited

We have audited the Group financial statements of Gem Diamonds Limited (the Company) and its subsidiaries (together 'the Group') for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRSs).

This report is made solely to the Company's members in accordance with the terms of our letter of engagement dated March 2010 (Addendum to the engagement 15 February 2011). Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 102, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

In addition the company has also instructed us to:

- ▶ Report as to whether the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the financial statements.
- ▶ Report as to whether the information given in the Corporate Governance Statement with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.
- ▶ Report as to whether the section of the Directors' Remuneration Report that is described as audited has been properly prepared in accordance with the basis of preparation described therein.
- ▶ Review certain elements of the report to shareholders by the board on directors' remuneration, which for a premium listed UK incorporated company is specified for review by the Listing Rules of the Financial Services Authority.
- ▶ Report if we are not satisfied that:
  1. adequate accounting records have been kept (including returns from those branches which have not been visited); or

## Independent Auditor's Report to the Members of Gem Diamonds Limited

2. the accounts are in agreement with the records and returns; or
  3. we have obtained all the information and explanations which we consider necessary for the purpose of the audit.
- Review the directors' statement in relation to going concern as set out on page 71, which for a premium listed UK incorporated company is specified for review by the Listing Rules of the Financial Services Authority.

### Scope of the audit and the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances, and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended; and
- have been properly prepared in accordance with IFRSs.

### Opinion on other matters as per our terms of engagement with the Company

In our opinion:

- the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the financial statements;
- the information given in the Corporate Governance Statement set out on pages 92 to 93 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements; and
- the part of the Remuneration Report of the Company that has been described as audited has been properly prepared in accordance with the basis of preparation as described therein.

### Matters on which we report by exception

We have nothing to report in respect of the following:

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code, specified in for our review.

Under the terms of our engagement we agreed to report to you if, in our opinion:

- adequate accounting records have not been kept, (including returns from those branches which have not been visited); or
- the accounts are not in agreement with the records and returns; or

## Independent Auditor's Report to the Members of Gem Diamonds Limited

- we have not obtained all the information and explanations which we consider necessary for the purpose of the audit; or
- certain disclosures of directors' remuneration which the Company has made voluntarily as if it were subject to UK companies legislation are not made; or
- the directors' statement, set out on page 71, in relation to going concern.

Ernst & Young LLP  
1 More London Place  
London  
14 March 2011

## CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

(US\$'000)	Notes	2010	2009*
<b>CONTINUING OPERATIONS</b>			
Revenue	2	266 376	243 338
Cost of sales		(177 833)	(175 622)
<b>GROSS PROFIT</b>		<b>88 543</b>	<b>67 716</b>
Other operating income	3	2 569	250
Royalties and selling costs		(23 225)	(22 411)
Corporate expenses		(15 109)	(14 937)
Share-based payments	28	(1 644)	(5 620)
Reversal of impairment		-	170
Foreign exchange gain		1 137	14 310
<b>OPERATING PROFIT</b>	3	<b>52 271</b>	<b>39 478</b>
Net finance income / (costs)	4	2 470	(224)
Finance income		4 102	2 851
Finance costs		(1 632)	(3 075)
Share of post tax loss of associate	7	(261)	-
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>54 480</b>	<b>39 254</b>
Income tax expense	5	(18 207)	(10 214)
<b>PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS</b>		<b>36 273</b>	<b>29 040</b>
<b>DISCONTINUED OPERATIONS</b>			
Loss after tax for the year from discontinued operations	6	(90)	(3 671)
<b>PROFIT FOR THE YEAR</b>		<b>36 183</b>	<b>25 369</b>
<i>Attributable to:</i>			
Equity holders of parent		20 185	15 531
Non-controlling interests		15 998	9 838
<b>PROFIT FOR THE YEAR</b>		<b>36 183</b>	<b>25 369</b>
<i>Earnings per share (cents)</i>	8		
- Basic profit for the year attributable to ordinary equity holders of the parent		15	14
- Diluted profit for the year attributable to ordinary equity holders of the parent		14	13
<i>Earnings per share for continuing operations (cents)</i>			
- Basic profit for continuing operations attributable to ordinary equity holders of the parent		15	17
- Diluted profit for continuing operations attributable to ordinary equity holders of the parent		15	16

\* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 6, Discontinued Operations).

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

(US\$'000)	2010	2009
<b>PROFIT FOR THE YEAR</b>	<b>36 183</b>	<b>25 369</b>
Exchange differences on translation of foreign operations	35 783	46 056
<b>Other comprehensive income for the year</b>	<b>35 783</b>	<b>46 056</b>
<b>Total comprehensive income for the year</b>	<b>71 966</b>	<b>71 425</b>
<i>Attributable to:</i>		
Equity holders of parent	46 178	48 163
Non-controlling interests	25 788	23 262
<b>Total comprehensive income for the year</b>	<b>71 966</b>	<b>71 425</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

(US\$'000)	Notes	2010	2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	414 017	356 554
Investment property	10	617	-
Investment in associate	7	1 257	-
Intangible assets	11	31 154	27 990
Other financial assets	13	13 506	12 578
		<b>460 551</b>	<b>397 122</b>
<b>Current assets</b>			
Inventories	15	35 237	31 395
Receivables	16	7 191	6 995
Other financial assets	13	45	535
Income tax receivable		121	92
Cash and short term deposits	17	129 849	113 827
		<b>172 443</b>	<b>152 844</b>
Assets of disposal group classified as held for sale	6	3 082	140
<b>TOTAL ASSETS</b>		<b>636 076</b>	<b>550 106</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	18	1 383	1 383
Share premium		885 648	885 648
Own shares <sup>1</sup>		(1)	(1)
Other reserves	18	1 325	(26 551)
Accumulated losses		(489 075)	(509 260)
		<b>399 280</b>	<b>351 219</b>
<b>Non-controlling interests</b>		<b>84 791</b>	<b>68 043</b>
<b>TOTAL EQUITY</b>		<b>484 071</b>	<b>419 262</b>
<b>Non-current liabilities</b>			
Trade and other payables	20	685	1 584
Provisions	21	32 510	30 183
Deferred tax liabilities	14	71 012	60 549
		<b>104 207</b>	<b>92 316</b>
<b>Current liabilities</b>			
Interest bearing loans and borrowings	19	-	204
Trade and other payables	20	44 274	36 842
Income tax payable		1 648	1 274
		<b>45 922</b>	<b>38 320</b>
Liabilities directly associated with the assets of the disposal group classified as held for sale	6	1 876	208
<b>TOTAL LIABILITIES</b>		<b>152 005</b>	<b>130 844</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>636 076</b>	<b>550 106</b>

1. Being shares held by Gem Diamonds Limited Employee Share Trust.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

(US\$'000)	Issued capital <sup>2</sup>	Share premium <sup>2</sup>	Own shares <sup>1</sup>	Attributable to the equity holders of the parent			Non-control ling interests	Total equity
				Other reserves <sup>2</sup>	(Accumu- lated losses) / retained earnings	Total		
Balance at 1 January 2010	1 383	885 648	( 1)	(26 551)	(509 260)	351 219	68 043	419 262
Profit for the year	-	-	-	-	20 185	20 185	15 998	36 183
Other comprehensive income	-	-	-	25 993	-	25 993	9 790	35 783
<b>Total comprehensive income</b>	-	-	-	25 993	20 185	46 178	25 788	71 966
Share-based payments (Note 28)	-	-	-	1 766	-	1 766	-	1 766
Revaluation through other reserves	-	-	-	117	-	117	-	117
Dividends paid	-	-	-	-	-	-	(9 040)	(9 040)
<b>Balance at 31 December 2010</b>	<b>1 383</b>	<b>885 648</b>	<b>(1)</b>	<b>1 325</b>	<b>(489 075)</b>	<b>399 280</b>	<b>84 791</b>	<b>484 071</b>
Balance at 1 January 2009	629	787 487	( 2)	(64 929)	(524 791)	198 394	48 068	246 462
Profit for the year	-	-	-	-	15 531	15 531	9 838	25 369
Other comprehensive income	-	-	-	32 632	-	32 632	13 424	46 056
<b>Total comprehensive income</b>	-	-	-	32 632	15 531	48 163	23 262	71 425
Share capital issued	754	108 016	1	-	-	108 771	-	108 771
Transaction costs on share capital issued	-	(9 855)	-	-	-	(9 855)	-	(9 855)
Share-based payments	-	-	-	5 746	-	5 746	-	5 746
Dividends paid	-	-	-	-	-	-	(3 287)	(3 287)
<b>Balance at 31 December 2009</b>	<b>1 383</b>	<b>885 648</b>	<b>( 1)</b>	<b>(26 551)</b>	<b>(509 260)</b>	<b>351 219</b>	<b>68 043</b>	<b>419 262</b>

1. Being shares held by Gem Diamonds Limited Employee Share Trust.

2. Refer to Note 18, Issued Capital and Reserves for further detail.

## CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

(US\$'000)	Notes	2010	2009
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>		<b>93 996</b>	<b>47 451</b>
Cash generated by operations	22.1	102 565	74 736
Working capital adjustments	22.2	803	(2 503)
		<b>103 368</b>	<b>72 233</b>
Interest received		4 045	2 851
Interest paid		(61)	(1 918)
Income tax paid		(13 356)	(25 715)
<b>CASHFLOWS USED IN INVESTING ACTIVITIES</b>		<b>(77 211)</b>	<b>(61 027)</b>
Purchase of property, plant and equipment		(77 556)	(58 856)
Proceeds from sale of property, plant and equipment		938	20
Proceeds from disposal of other financial assets		-	321
Purchase of other financial assets		(86)	(6 301)
Cash (disposed of) /received from disposal of subsidiary	22.3	(369)	3 789
Rights participation in associate		(138)	-
<b>CASHFLOWS (USED IN)/ FROM FINANCING ACTIVITIES</b>		<b>(9 244)</b>	<b>54 130</b>
Proceeds from share capital issued		-	108 771
Transaction costs from share capital issued		-	(9 855)
Repayment of bonds		-	(15 760)
Financial liabilities repaid		(204)	(25 739)
Dividends paid to non-controlling interests		(9 040)	(3 287)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>7 541</b>	<b>40 554</b>
Cash and cash equivalents at the beginning of the year - continuing operations		113 827	61 436
Cash and cash equivalents at the beginning of the year - discontinuing operations		15	-
Foreign exchange differences		8 544	11 852
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>129 927</b>	<b>113 842</b>
Cash and cash equivalents at end of the year held with banks		124 587	108 727
Restricted cash at end of the year	17	5 340	5 115
Less: cash and cash equivalents from discontinued operations at end of the year		(78)	(15)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>17</b>	<b>129 849</b>	<b>113 827</b>



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 1. NOTES TO THE FINANCIAL STATEMENTS

### 1.1. Corporate information

#### 1.1.1. Incorporation

The holding company, Gem Diamonds Limited (the 'Company'), was incorporated on 29 July 2005 in the British Virgin Islands. The Company's registration number is 669758.

These financial statements were authorised for issue by the Board on 14 March 2011.

#### 1.1.2. Operational information

The Company has the following investments directly in subsidiaries at 31 December 2010:

Name of company	Share holding	Cost of investment	Country of incorporation	Nature of business
<b>Subsidiaries</b>				
Gem Diamond Technical Services (Proprietary) Limited <sup>1</sup>	100%	US\$17	RSA	Technical, financial and management consulting services to the diamond industry.
Gem Equity Group Limited <sup>1</sup>	100%	US\$50 000	BVI	Dormant investment company holding 1% in Gope Exploration Company (Proprietary) Limited, 2% in Gem Diamonds Marketing Services BVBA and 0.1% in Calibrated Gem Botswana (Proprietary) Limited
Letšeng Diamonds (Proprietary) Limited <sup>1</sup>	70%	US\$126 000 303	Lesotho	Diamond mining and holder of mining rights.
Gope Exploration Company (Proprietary) Limited <sup>1</sup>	100%	US\$27 752 144	Botswana	Diamond mining; evaluation and development; and holder of mining licences and concessions.
BDI Mining Corp <sup>1</sup>	100%	US\$82 064 783	BVI	Investment company holding 80% in PT Galuh Cempaka.
Gem Diamonds Australia Holdings <sup>1</sup>	100%	US\$293 960 521	Australia	Investment company holding 100% in Kimberley Diamonds Limited.
Gem Diamonds Investments Limited <sup>1</sup>	100%	US\$17 510 827	UK	Investment holding company holding 100% in each of Gem Diamonds Technology (Mauritius) Limited, Gem Diamonds Technology DMCC and Calibrated Diamonds Investment Holdings (Proprietary) Limited; 99.9% in Calibrated Gem Botswana (Proprietary) Limited and 98% in Gem Diamonds Marketing Services BVBA, a marketing company that sells the Group's diamonds on tender in Antwerp.

1. No change in the shareholding since the prior year.

During the year, the shareholding in Gem Diamond Centrafrique SARL was disposed of.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 1.1. Corporate information (continued)

### 1.1.3. Segment information

For management purposes, the Group is organised into geographical units as the Group's risks and required rates of return are affected predominantly by differences in the geographical regions of the mines and areas in which the Group operates. Other regions where no direct mining activities take place are organised into geographical regions in the areas where the projects are based. The main geographical regions are:

- Lesotho (Mining activities)
- Australia (Mining activities)
- Botswana (Mining activities)
- BVI, RSA, UK and Belgium (Provision of technical and administrative services. Includes beneficiation projects currently being established and selling of the Group's diamonds on tender).

Management monitors the operating results of the geographical units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. However, Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Inter-segment transactions are entered into under normal arm's length terms in a manner similar to transactions with third parties. Segment revenue, segment expenses and segment results include transactions between segments. Those transactions are eliminated on consolidation.

Segment revenue is derived from mining activities and group services.

The following table presents revenue and profit, asset and liability information regarding the Group's geographical segments:

Year ended 31 December 2010 (US\$'000)	Lesotho	Australia	Botswana	BVI, RSA, UK and Belgium	Total
<b>Sales</b>					
Total sales	189 080	77 961	-	96 291	363 332
Inter-segment sales	(88 096)	-	-	(8 860)	(96 956)
Sales to external customers	100 984	77 961	-	87 431	266 376
<b>Results</b>					
Depreciation and amortisation <sup>1</sup>	34 124	21 724	-	1 875	57 723
Share-based equity transactions	92	195	-	1 357	1 644
Segment operating profit / (loss)	68 047	4 638	(48)	(20 366)	52 271
Net finance income /(cost)	2 318	(43)	2	193	2 470
Share of loss of associate	-	(261)	-	-	(261)
Profit before tax from continuing operations	70 365	4 334	(46)	(20 173)	54 480
Segment assets	410 811	91 078	52 775	77 439	632 103
Investment in associate	-	891	-	-	891
Total segment assets	410 811	91 969	52 775	77 439	632 994
Segment liabilities	31 607	42 604	220	4 687	79 118

<sup>1</sup> Depreciation and amortisation includes property, plant and equipment depreciation, mining assets amortisation and waste amortisation. US\$10.2 million and US\$13.7 million of waste cost amortised at Lesotho and Australia respectively, is included in cost of sales.

### Other segment information

Capital expenditure					
- Property, plant and equipment	52 567	23 938	1 840	1 838	80 183

Operating profit for each operating segment does not include finance income (US\$4.1 million) and finance costs (US\$1.6 million).

Annual revenue from two customers amounted to US\$91.5 million arising from sales reported in the Lesotho and Australia segments.

Segment assets do not include assets of the disposal group classified as held for sale (US\$3.1 million).

Segment liabilities do not include deferred tax liabilities (US\$71.0 million) and liabilities directly associated with the assets of the disposal group classified as held for sale (US\$1.9 million).

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 1.1.3. Segment information (continued)

Year ended 31 December 2009* (US\$'000)	Lesotho	Australia	Indonesia	Botswana	BVI, RSA and UK	Total
<i>Sales</i>						
Total sales	163 881	76 705	-	3	11 690	252 279
Inter-segment sales	-	-	-	-	(8 941)	(8 941)
<b>Sales to external customers</b>	<b>163 881</b>	<b>76 705</b>	<b>-</b>	<b>3</b>	<b>2 749</b>	<b>243 338</b>
<i>Results</i>						
Depreciation and amortisation	42 635	13 822	-	-	1 775	58 232
Share-based equity transactions	189	219	-	-	5 212	5 620
<b>Segment profit / (loss)</b>	<b>40 104</b>	<b>8 090</b>	<b>-</b>	<b>(10)</b>	<b>(8 706)</b>	<b>39 478</b>
<b>Segment assets</b>	<b>341 872</b>	<b>76 078</b>	<b>2 986</b>	<b>48 904</b>	<b>80 126</b>	<b>546 980</b>
<b>Segment liabilities</b>	<b>25 231</b>	<b>35 804</b>	<b>3 679</b>	<b>1 373</b>	<b>4 000</b>	<b>70 087</b>

<sup>1</sup> Depreciation and amortisation includes property, plant and equipment depreciation, mining assets amortisation and waste amortisation. US\$22.5 million and US\$7.9 million of waste cost amortised at Lesotho and Australia respectively, is included in cost of sales.

### *Other segment information*

#### Capital expenditure

- Property, plant and equipment	34 425	20 692	-	3 874	1 467	60 458
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\* Prior year figures have been restated for the reclassification impact for accounting for discontinued operations (Refer Note 6, Discontinued Operations).

Profit for each operating segment does not include finance income (US\$2.9 million) and finance costs (US\$3.1 million).

Segment assets do not include assets of the disposal group classified as held for sale (US\$0.1 million).

Segment liabilities do not include deferred tax liabilities (US\$60.5 million) and liabilities directly associated with the assets of the disposal groups classified as held for sale (US\$0.2 million).

## 1.2. Summary of significant accounting policies

### 1.2.1. Basis of presentation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements have been prepared under the historical cost basis, except as modified by the revaluation of available-for-sale financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss. The accounting policies have been consistently applied except for the adoption of the new standards and interpretations detailed below.

The functional currency of the Company and certain of its subsidiaries is the US dollar, which is the currency of the primary economic environment in which the entities operate. All amounts are expressed in US dollars. The financial statements of subsidiaries whose functional and reporting currency is in currencies other than the US dollar have been converted into US dollars on the basis as set out in Note 1.2.14. Foreign currency translation reserve.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1.2.25. Critical accounting estimates and judgements.

The Group has also adopted the following standards and interpretations from 1 January 2010:

#### **IFRS 2 Share-Based Payment - Group cash-settled share-based payment transactions**

The Standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group or any additional disclosure requirements.

#### **IFRS 3 Business Combinations (revised)**

IFRS 3 (revised) introduces significant changes in the accounting for business combinations occurring after 1 January 2010. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results. The change in accounting policy was applied prospectively and all acquisition-related costs have been expensed in the current year. There were no acquisitions in the current year and therefore no further impact on profit.

## 1.2.1. Basis of presentation (continued)

### IAS 27 Consolidated and separate financial statements (amended)

This amendment requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The amendment had no effect on the financial position or performance of the Group.

### IFRIC 17 Distribution of non-cash assets to owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position or performance of the Group.

### IFRIC 18 Transfer of Assets from customers

This amendment clarifies the requirements for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The amendment had no effect on the financial position or performance of the Group.

### Improvements to IFRSs

In May 2009 the International Accounting Standards Board issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group and did not have any additional disclosure requirements other than those detailed below.

### IFRS 8 Operating segment information

Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 1.1.3.

### IAS 7 Statement of cashflows

Explicitly states that only expenditure that results in recognising an asset can be classified as a cashflow from investing activities. The Group has complied with this amendment in preparing its cashflow statement.

### IAS 18 Revenue

The IASB has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity:

- has primary responsibility for providing the good or services;
- has inventory risk;
- has discretion in establishing prices;
- bears the credit risk

The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements.

### IAS 36 Impairment of assets:

The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

The amendments to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 2	Share based payments (Scope of IFRS 2 and revised IFRS 3)
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IAS 1	Presentation of Financial Statements
IAS 17	Leases
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 1.2.1. Basis of presentation (continued)

Standard or Interpretation			Effective Date*
IFRS 9	Financial instruments	(Phase 1 of new standards to replace IAS39)	January 2013
IAS 24	Amendments to IAS 24	- Related Party Disclosure	January 2011
IAS 32	Amendment to IAS 32	- Classification of Rights Issue denominated in a Foreign Currency	February 2010
IFRIC 14	Amendments to IFRIC 14	- Prepayments of a minimum Funding Requirement	January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments		July 2010
Improvements to IFRS (May 2010)			July 2010

\*Annual periods beginning on or after.

The Group has not early adopted any of these standards or amendments. The Directors do not anticipate that the adoption of these standards will have a material impact on the Group's financial statements in the period of initial application once adopted.

## Business environment and country risk

The Group's operations are subject to country risk being the economic, political and social risks inherent in doing business in certain areas of Africa, Indonesia and Australia. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange rate fluctuations and the enforceability of contract rights.

The consolidated financial information reflects management's assessment of the impact of these business environments on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

## 1.2.2. Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 6 to 27. The financial position of the Company, its cashflows and liquidity position are described in the Business Review on pages 8 to 11. In addition, Note 27, Financial Risk Management, includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit risk and liquidity risk.

After making enquiries which include reviews of forecasts and budgets, timing of cash flows, borrowing facilities and sensitivity analyses and considering the uncertainties described in this report either directly or by cross reference, the Directors have a reasonable expectation that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual report and accounts of the Company.

These financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities as they fall due for the foreseeable future.

Refer to Note 27, Financial Risk Management for statements on the Company's objectives, policies and processes for managing its capital; details of its financial instruments and hedging activities; its exposures to market risk in relation to commodity price and foreign exchange risks; cashflow interest rate risk; credit risk and liquidity risk.

## 1.2.3. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

### *Basis of consolidation from 1 January 2010*

#### Subsidiaries

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intragroup balances and transactions, including unrealised profits arising from them, are eliminated in full.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 1.2.3. Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it (i) derecognises the assets (including goodwill) and liabilities of the subsidiary; (ii) derecognises the carrying amount of any non-controlling interest; (iii) derecognises the cumulative translation differences, recorded in equity; (iv) recognises the fair value of the consideration received; (v) recognises the fair value of any investment retained; (vi) recognises any surplus or deficit in profit or loss; (vii) reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

#### Non-controlling interests

Non-controlling interests represent the equity in a subsidiary not attributable, directly and indirectly, to the parent company and is presented separately within equity in the consolidated statement of financial position, separately from equity attributable to owners of the parent. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

#### *Basis of consolidation prior to 1 January 2010*

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

Non-controlling interest represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented separately within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent shareholders.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

When the company loses control of a subsidiary but retains significant influence, the subsidiary is deconsolidated and any resultant gain or loss is recognised in the income statement. On the loss of control of a subsidiary, any investment retained in the former subsidiary will be fair valued at this date and accounted for as an associate going forward.

#### Associates

Associates are all entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method, except when the asset is classified as held-for-sale. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the Group's share of the profits or losses of the associate from the date acquired. The use of the equity method is discontinued from the date the Group ceases to have significant influence over an associate or it becomes a subsidiary.

The excess of the cost over the Company's interests in the net fair value of an associate's identifiable assets, liabilities and contingent liabilities, at the date of acquisition, is accounted for as goodwill and is included in the carrying amount of the associate. Any impairment losses are deducted from the carrying amount of the investment in associate. Distributions received from the associate reduce the carrying amount of the investment in associate.

Where necessary, adjustments are made to the financial statements of associates to bring their accounting policies into line with those used by the Group.

Profits and losses resulting from transactions with associates are recognised only to the extent of unrelated investors' interests in the associate.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 1.2.4. Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

- acquisition of rights to explore;
- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- conducting market and finance studies.

Administration costs that are not directly attributable to a specific exploration area are charged to the income statement. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.

Exploration and evaluation expenditure is capitalised as incurred. Capitalised exploration expenditure is recorded as a component of property, plant and equipment at cost less accumulated impairment charges. As the asset is not available for use, it is not depreciated.

All capitalised exploration and evaluation expenditure is monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest in conjunction with the group of operating assets (representing a cash generating unit (CGU)) to which the exploration is attributed. To the extent that exploration expenditure is not expected to be recovered, it is charged to the income statement. Exploration areas where reserves have been discovered, but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway as planned.

### 1.2.5. Development expenditure

When proved reserves are determined and development is sanctioned, capitalised exploration and evaluation expenditure is reclassified within property, plant and equipment to development expenditure. As the asset is not available for use, during the development phase, it is not depreciated. On completion of the development, any capitalised exploration and evaluation expenditure already capitalised to development expenditure, together with the subsequent development expenditure, is reclassified within property, plant and equipment to mining assets and depreciated on the basis as laid out in Note 1.2.6. Property, plant and equipment.

All development expenditure is monitored for indications of impairment annually.

### 1.2.6. Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition and construction of the items, amongst others, professional fees, and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

Subsequent costs to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off, and the cost of the item can be measured reliably. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation commences when an asset is available for use. Depreciation is charged so as to write off the depreciable amount of the asset to its residual value over its estimated useful life, using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group.

Depreciation methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each balance sheet date. The following methods and useful lives were applied during the period:

Item	Method	Useful life
Mining assets	Straight line	Lesser of life of mine and period of lease
Decommissioning assets	Straight line	Lesser of life of mine and period of lease
Leasehold improvements	Straight line	Lesser of 3 years and period of lease
Plant and equipment	Straight line	3 - 10 years
Finance lease assets	Straight line	Lesser of period of lease or 5 years
Other assets	Straight line	2 - 5 years

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 1.2.6. Property, plant and equipment (continued)

Pre-production mine stripping costs are capitalised to development costs. Stripping costs incurred during the production phase to remove additional overburden or waste ore are deferred when they give access to future economic benefits and charged to operating costs using the expected average stripping ratio over the average life of the area being mined. The average stripping ratio is calculated as the number of tonnes of waste material expected to be removed during the life of area, per tonne of ore mined.

The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the ore body divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Changes in the stripping ratio are accounted for prospectively as a change in estimate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset. These are included in the income statement.

### 1.2.7. Investment property

Investment property is initially recognised using the cost model. Subsequent recognition is at cost less accumulated depreciation and less any accumulated impairment losses. Rental income from investment property is recognised on a straight line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging the lease are capitalised to investment property and depreciated over the lease term. Depreciation is calculated on a straight line basis as follows:

Investment property	No depreciation is provided for due to depreciable amount being zero.
Initial direct costs capitalised to investment property	5 years

### 1.2.8. Business combinations, goodwill and other intangible assets

#### Business combinations and goodwill

##### *Business combinations from 1 January 2010*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements are accounted for separately from the business combination in accordance with their nature and applicable IFRSs. Identifiable intangible assets, meeting either the contractual-legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition-date fair value can be measured reliably.

If the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in profit and loss.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 1.2.8. Business combinations, goodwill and other intangible assets (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (or groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### *Business combinations prior to 1 January 2010*

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest is accounted for using the parent-entity extension method, whereby the difference between the consideration paid and the book value of the share in net assets acquired is recognised in goodwill.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. If the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, the difference is recognised as profit and loss. Goodwill recognised as an asset as at January 2010 is recorded at its carrying amount and is not amortised. Any goodwill asset arising on the acquisition of equity accounted entities is included within the cost of those entities.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying amount being reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

The carrying amount of goodwill allocated to cash generating units is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.

Contingent consideration was recognised if, and only if, the Group has a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

#### **Concessions and licences**

Concessions and licences are shown at cost. Concessions and licences have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of concessions and licences over the shorter of the life of mine or term of the licence once production commences.

### 1.2.9. Impairments

#### **Non-financial assets**

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets that were previously impaired are reviewed for possible reversal of the impairment at each reporting date.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the income statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 1.2.9. Impairments (continued)

#### Financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets are impaired.

#### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cashflows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date, any subsequent reversal of an impairment loss is recognised in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

#### *Available-for-sale financial investments*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

### 1.2.10. Other financial assets

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

When financial assets are recognised initially, they are measured at fair value plus (in the case of investments, not at fair value though profit or loss) directly attributable costs.

#### Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held-for-trading, and those designated at fair value through profit or loss. Upon initial recognition, a financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorised as held-for-trading unless they are designated as hedges. Gains and losses on investments held for trading are recognised in profit or loss. Assets in this category are classified as current assets if they are either held-for-trading or are expected to be realised within twelve months of the balance sheet date.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment, if the time value of money is significant. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cashflows, discounted at an appropriate interest rate. The amount of the provision is recognised in the income statement.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 1.2.10. Other financial assets (continued)

#### **Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the time value of money is significant, held-to-maturity investments are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

#### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in profit or loss.

#### **Cashflow hedges**

For cashflow hedges, the effective portions of the fair value gains and losses are recognised in equity until the hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. Then any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction is eventually recognised in the income statement or included in the initial measurement of covered assets and liabilities. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement and then the gains and losses are recognised in earnings or included in the initial measurement of covered assets or liabilities. The ineffective portion of fair value gains and losses is reported in earnings in the period to which they relate.

Hedge accounting is applied provided certain criteria are met. At the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, its risk management objective and its strategy for undertaking the hedge is documented. A documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the cashflows of the hedged items, is also prepared.

#### **Fair value**

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cashflow analysis or other valuation models.

#### **Amortised cost**

Held to maturity investments and loans and receivables are measured at amortised cost. This is computed using the effective interest rate method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

### 1.2.11. Inventories

Inventories, which include rough diamonds, ore stock piles and consumables, are measured at the lower of cost and net realisable value. The amount of any write-down of inventories to net realisable value and all losses, are recognised in the period the write-down or loss occurs. Cost is determined as the average cost of production, using the 'first-in-first-out method'. Cost includes directly attributable mining overheads, but excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs to be incurred in marketing, selling and distribution.

### 1.2.12. Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at amortised cost. Cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less.

For the purpose of the cashflow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 1.2.13. Issued share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

## 1.2.14. Foreign currency translations

### Presentation currency

The results and financial position of the Group's subsidiaries which have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- balance sheet items are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as a separate component of equity.

Details of the rates applied at the respective balance sheet dates and for the income statement transactions are detailed in Note 18, Issued capital and reserves.

### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Non-monetary items that are measured in terms of cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary items for each balance sheet presented are translated at the closing rate at the date of that balance sheet.

## 1.2.15. Share-based payments

Employees (including Senior Executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity settled transactions). In situations where some or all of the goods or services received by the entity as consideration for equity instruments cannot be specifically identified, they are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date. For cash-settled transactions, the liability is re-measured at each reporting date until settlement, with the changes in fair value recognised in profit or loss.

### Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 1.2.15. Share-based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately.

### 1.2.16. Financial liabilities

#### Interest-bearing borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement, unless capitalised in accordance with Note 1.2.23. Finance costs, over the period of the borrowings, using the effective interest rate method.

Bank overdrafts are recognised at amortised cost.

#### Fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

### 1.2.17. Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of a past event;
- a reliable estimate can be made of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance costs.

### 1.2.18. Restoration and rehabilitation

The mining, extraction and processing activities of the Group normally give rise to obligations for site restoration and rehabilitation. Rehabilitation works can include facility decommissioning and dismantling; removal and treatment of waste materials; land rehabilitation; and site restoration. The extent of the work required and the estimated cost of final rehabilitation, comprising liabilities for decommissioning and restoration, are based on current legal requirements, existing technology and the Group's environmental policies and is reassessed annually. Cost estimates are not reduced by the potential proceeds from the sale of property, plant and equipment.

Provisions for the cost of each restoration and rehabilitation program are recognised at the time the environmental disturbance occurs. When the extent of the disturbance increases over the life of the operation, the provision is increased accordingly. Costs included in the provision encompass all restoration and rehabilitation activity expected to occur. The restoration and rehabilitation provisions are measured at the expected value of future cashflows, discounted to their present value. Discount rates used are specific to the country in which the operation is located. The value of the provision is progressively increased over time as the effect of the discounting unwinds, which is recognised in finance charges. Restoration and rehabilitation provisions are also adjusted for changes in estimates.

When provisions for restoration and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset where it gives rise to a future benefit and depreciated over future production from the operation to which it relates.

### 1.2.19. Taxation

Income tax for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 1.2.19. Taxation (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax is provided except where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

#### Royalties

Royalties and revenue-based taxes are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under Government authority and the amount payable is based on taxable income - rather than based on quantity produced or as a percentage of revenue. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions and disclosed as part of selling and distribution costs. The royalties incurred by the Group are considered not to meet the criteria to be treated as part of income tax.

### 1.2.20. Employee benefits

Provision is made in the financial statements for all short-term employee benefits. Liabilities for wages and salaries, including non-monetary benefits, benefits required by legislation, annual leave, retirement benefits and accumulating sick leave obliged to be settled within 12 months of the reporting date, are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled. Benefits falling due more than 12 months after the balance sheet date are discounted to present value. The Group recognises an expense for contributions to the defined contribution pension fund in the period in which the employees render the related service.

#### Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation. These liabilities are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled.

### 1.2.21. Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c) There is a change in the determination of whether fulfillment is dependent on a specific asset; or
- d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

#### Group as a lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of finance charges, are included in financial liabilities.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 1.2.21. Leases (continued)

The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. When the Group is a party to a lease where there is a contingent rental element associated within the agreement, a cost is recognised as and when the contingency materialises.

#### Group as a lessor

Assets leased out under operating leases are included in investment property. Rental income is recognised on a straight line basis over the lease term. Refer to Note 1.2.7 Investment property for further information on the treatment of investment property.

### 1.2.22. Revenue

Revenue is measured at fair value of the consideration received or receivable and comprises the fair value for the sale of goods, net of value-added tax, rebates and discounts and after eliminated sales within the Group. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. Revenue is recognised as follows:

#### Sale of goods

Sales of diamonds and other products are recognised when the significant risks and rewards of ownership have been transferred to the customer and can be measured reliably and receipt of future economic benefits is probable.

#### Rendering of service

Sales of services are recognised in the accounting period in which the services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

#### Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate method

#### Dividends

Dividends are recognised when the amount of the dividend can be reliably measured and the Group's right to receive payment is established.

### 1.2.23. Finance costs

Finance costs are generally expensed as incurred, except where they relate to the financing of construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use. Finance costs are capitalised up to the date when the asset is ready for its intended use.

### 1.2.24. Dividend distribution

Dividend distributions to the Group's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

### 1.2.25. Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and judgements and form assumptions that affect the reported amounts of the assets and liabilities, the reported revenue and costs during the periods presented therein, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the financial results or the financial position reported in future periods are discussed below.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 1.2.25. Critical accounting estimates and judgements (continued)

#### Life of mine

There are numerous uncertainties inherent in estimating ore reserves and the associated life of mine. Therefore the Group must make a number of assumptions in making those estimations, including assumptions as to the prices of commodities, exchange rates, production costs and recovery rates. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of ore reserves and may, ultimately, result in the ore reserves being restated.

#### Exploration and evaluation expenditure

This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether economically viable extraction operations are viable where reserves have been discovered and whether indications of impairment exist. Any such estimates and assumptions may change as new information becomes available.

### 1.2.25. Critical accounting estimates and judgements (continued)

#### Development expenditure

Judgement is applied by management in determining when a project has reached a stage at which economically recoverable reserves exist and that development may be sanctioned. Management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure.

#### Property, plant and equipment - recoverable amount

The calculation of the recoverable amount of an asset requires significant judgements, estimates and assumptions, including future demand, technological changes, exchange rates, interest rates and others.

#### Impairment of goodwill

The Group determines if goodwill is impaired at least on an annual basis. This requires an estimation of the fair value of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cashflows from the cash-generating unit and a market related pre-tax discount rate in order to calculate the present value of those cashflows.

#### Impairment of assets

The Group assesses each cash generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term diamond prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as management's best estimate of the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mine assets is generally determined as the present value of estimated future cashflows arising from the continued use of the asset using assumptions that an independent market participant may take into account. Cashflows are discounted by an appropriate discount rate to determine the net present value.

#### Provision for restoration and rehabilitation

Significant estimates and assumptions are made in determining the amount of the restoration and rehabilitation provisions. These deal with uncertainties such as changes to the legal and regulatory framework, magnitude of possible contamination, and the timing, extent and costs of required restoration and rehabilitation activity.

#### Taxation

The determination of the Group's obligations and expense for taxes requires an interpretation of tax law and therefore certain assumptions and estimates are made.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

(US\$'000)	2010	2009*
<b>2. REVENUE</b>		
Sale of goods	265 767	241 053
Royalty refund received	158	2 036
Rendering of services	451	249
	<b>266 376</b>	<b>243 338</b>
Finance revenue is reflected in Note 4, Net finance income/(costs).		
<b>3. OPERATING PROFIT</b>		
Operating profit includes the following:		
<b>Other operating income</b>		
Profit on disposal of property, plant and equipment	68	2
<b>Depreciation and amortisation</b>		
Depreciation of property, plant and equipment - continuing operations	(57 777)	(58 284)
Less: Depreciation capitalised to exploration assets - continuing operations	54	52
Less: Depreciation and amortisation capitalised to inventory	122	105
	<b>(57 601)</b>	<b>(58 127)</b>
<b>Inventories</b>		
Cost of inventories recognised as an expense	(177 833)	(175 622)
Write-down of inventories to net realisable value	(856)	-
	<b>1 137</b>	<b>14 310</b>
<b>Foreign exchange gain</b>		
	<b>1 137</b>	<b>14 310</b>
<b>Exceptional items<sup>1</sup></b>		
Reversal of impairment		
- Property, plant and equipment - continuing operations	-	149
- Other financial assets - continuing operations	-	21
	<b>-</b>	<b>170</b>
<b>Operating lease expenses as a lessee</b>		
Lease payments recognised in the income statement		
- Mine site property	(2 493)	(1 966)
- Equipment and service leases	(17)	(254)
- Contingent rental - alluvial deposits	(4 862)	(6 053)
- Vehicles	(14)	(41)
- Leased premises	(1 213)	(636)
	<b>(8 599)</b>	<b>(8 950)</b>
<b>Auditor's remuneration - Ernst &amp; Young</b>		
Audit fee		
- Group financial statements	(1 094)	(1 091)
- Statutory	(282)	(331)
	<b>(1 376)</b>	<b>(1 422)</b>
<b>Auditor's remuneration - Other</b>		
- Group Financial statements	(25)	(97)
- Statutory	(14)	(18)
	<b>(39)</b>	<b>(115)</b>
	<b>(1 415)</b>	<b>(1 537)</b>

\* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 6, Discontinued Operations).

<sup>1</sup>. Included in operating profit are significant items of income and expense, which are presented separately due to their nature or the expected infrequency of the events giving rise to them.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

(US\$'000)	2010	2009*
<b>3. OPERATING PROFIT (continued)</b>		
Other non-audit fees - Ernst & Young		
Tax services advisory	(110)	(102)
Tax services consultancy	(24)	-
Other Services	(34)	(82)
	(168)	(184)
Other non-audit fees - Other		
Other services		
- Internal audit	(407)	(331)
- Tax advisory	(47)	-
- Tax consultancy	(16)	-
	(470)	
	(638)	(515)
Employee benefits expense		
Salaries and wages <sup>1</sup>	(34 885)	(30 821)
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>		
EBITDA is shown as the Directors consider this measure to be a relevant guide to the performance of the Group		
Operating profit	52 271	39 478
Foreign exchange gain	(1 137)	(14 310)
Share-based payments	1 644	5 620
Other operating income	(2 569)	(250)
Reversal of impairment	-	(170)
Depreciation and amortisation (excluding waste amortisation)	31 797	25 321
EBITDA	82 006	55 689
<b>Directors' remuneration</b>		
Refer to the Directors' Remuneration Report for full details of transactions with Directors.		
<b>4. NET FINANCE INCOME / (COSTS)</b>		
Finance income		
Bank deposits	4 025	2 695
Other	77	156
Total finance income	4 102	2 851
Finance costs		
Bank overdraft	(35)	(90)
Interest on debt and borrowings	(26)	(1 529)
Finance costs on unwinding of rehabilitation provision	(1 571)	(1 456)
Total finance costs	(1 632)	(3 075)
	2 470	(224)

\* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 6, Discontinued Operations).

<sup>1</sup> Includes contributions to defined contribution plan of US\$0.5 million (31 December 2009:US\$0.3 million)

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

(US\$'000)	2010	2009*
<b>5. INCOME TAX EXPENSE</b>		
Income statement		
Current		
- Overseas	(12 489)	(12 495)
- Adjustments in respect of prior year	-	2 070
	(12 489)	(10 425)
Withholding tax		
- Overseas	(2 188)	(821)
- Adjustments in respect of prior year	-	-
	(2 188)	(821)
Deferred		
- Overseas	(3 530)	1 032
	(3 530)	1 032
	(18 207)	(10 214)
<b>Reconciliation of tax rate:</b>		
Profit before taxation from continuing operations	54 480	39 254
Loss before taxation from discontinued operations	(708)	(3 761)
Profit before taxation	53 772	35 493
	%	%
Expected income tax rate	28	28
Permanent differences	10	7
Unrecognised deferred tax assets	1	(2)
Effect of overseas tax at different rates	(3)	(2)
Utilisation of previously unrecognised deferred tax assets	(5)	-
Effect of deferred tax on unremitted earnings	(1)	3
Tax effect of share of loss of associate	(1)	-
Withholding tax	4	2
Adjustments in respect of prior years	-	(6)
Other	-	(1)
<b>Effective tax rate</b>	<b>33</b>	<b>29</b>
Income tax expense reported in the consolidated income statement	(18 207)	(10 214)
Income tax attributable to discontinued operations	618	90
	(17 589)	(10 124)

\* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 6, Discontinued Operations).

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 6. DISCONTINUED OPERATIONS

### Central Africa

During 2009 the decision was made to dispose of the operations in the CAR. Prior to year end, the operations in the CAR were disposed of for US\$0.1 million of which the full amount was received in February 2011 (Refer Note 16, Receivables).

### Indonesia

During the current year the decision was made to dispose of the operations in the BDI Group. Management has committed to a plan to sell the operations and an active programme to locate a buyer and complete the plan within the next 12 months has been initiated.

The results of the Central African and Indonesian operations for the year ended 31 December 2010 and 31 December 2009 are as follows:

	2010	2009
Revenue	73	1 862
Cost of sales and other operating costs	(2 155)	(10 029)
Gross loss	(2 082)	(8 167)
Other operating income	1 579	168
Royalties and selling costs	(3)	(89)
Finance costs	(2)	(47)
Share-based payments	(34)	(23)
Foreign exchange (loss)/gain	(44)	10
(Loss)/gain on disposal of subsidiaries	(122)	4 387
Loss before tax from discontinued operations	(708)	(3 761)
Tax expense	618	90
- related to current pre-tax loss	618	3
- related to changes in deferred tax	-	87
Loss after tax for the year from discontinued operations	(90)	(3 671)
<i>Loss per share from discontinued operations (cents)</i>		
- Basic	-	(3)
- Diluted	-	(3)

The major classes of assets and liabilities classified as held for sale at 31 December 2010 and 31 December 2009 are as follows:<sup>1</sup>

Non-current assets	2 500	10
Current assets	582	130
Assets of disposal groups classified as held for sale	3 082	140
Non-current liabilities	1 484	129
Current liabilities	392	79
Liabilities of disposal groups classified as held for sale	1 876	208

The net cashflows attributable to the discontinued operations are as follows:

Operating	(2 142)	(3 276)
Investing	831	1 244
Financing	1 453	(194)
Net cash inflow / (outflow)	142	(2 226)

1. The assets of the Indonesia operation have been previously impaired and therefore there is no gain or loss on write-down to fair value less cost to sell.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 7. INVESTMENT IN ASSOCIATE

During February 2010, Blina Diamonds NL (a diamond exploration company), which is a listed company on the Australian Stock Exchange and previously a subsidiary of Kimberley Diamonds, raised AU\$1.5 million by way of a share placement. Kimberley Diamonds did not participate in all of its rights to the placement and as a result, the Group's shareholding in the company decreased to 23.11%. During September 2010, Blina again raised AU\$1.5 million by way of a further share placement. Kimberley Diamonds did not participate in any of its rights to the placement and as a result, the Group's shareholding in Blina decreased to 19.52%. The initial decrease in shareholding resulted in the Group no longer consolidating the results of the operation. As the Group still participates in the financial and operating policy decisions, it maintains significant influence in Blina Diamonds NL. The investment is therefore accounted for as an associate, resulting in the Group carrying US\$ 0.3 million of its share of the losses, after realising a US\$2.7 million gain, reflected in other operating income, following its loss of control. Blina Diamonds NL has a 30 June year end.

(US\$'000)	2010	2009*
<b>Investment details</b>		
<i>Listed</i>		
Blina Diamonds NL	891	-
Loan owing by associate	366	-
	1 257	-
The loan has no repayment terms and does not incur any interest		
Share of associate's losses	(261)	-
<b>Fair value of investment in listed associate</b>		
The fair value of the investment in Blina Diamonds NL at 31 December 2010	974	-
<b>Summarised financial information</b>		
Extract from the statement of financial position of Blina Diamonds NL:		
	4 316	-
Current assets	2 315	-
Non-current assets	2 001	-
	(2 265)	-
Current liabilities <sup>1</sup>	(673)	-
Non-current liabilities	(1 592)	-
<b>Net asset value</b>	2 051	-
Extract from the statement of comprehensive income of Blina Diamonds NL:		
Net loss	(1 409)	-
% interest in associate	19.52%	-
Blina Diamonds NL has no contingent liabilities at 31 December 2010		

1. Includes loans owing by associate of US\$0.4 million.

## 8. EARNINGS PER SHARE (CENTS)

The following reflects the income and share data used in the basic and diluted earnings per share computations:

Profit for the year from continuing operations	36 273	29 040
Loss for the year from discontinued operations	(90)	(3 671)
Less: non-controlling interests	(15 998)	(9 838)
<b>Net profit attributable to equity holders of the parent for basic and diluted earnings</b>	<b>20 185</b>	<b>15 531</b>

The weighted average number of shares takes into account the treasury shares at year-end.

Weighted average number of ordinary shares in issue during the year ('000)	138 152	114 913
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Profit per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

Diluted profit per share is calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year after taking into account future potential conversion and issue rights associated with the ordinary shares.

\* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 6, Discontinued Operations).

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2010

	2010	2009
<b>8. EARNINGS PER SHARE (CENTS) (continued)</b>		
	<b>Number of shares</b>	<b>Number of shares</b>
	<b>(‘000)</b>	<b>(‘000)</b>
Weighted average number of ordinary shares in issue during the year	138 152	114 913
Effect of dilution:		
- Future share awards to Executive Directors and senior executives under the Executive Share Growth Plan	-	5 587
- Future share awards under the Employee Share Option Programme	1 100	465
Weighted average number of ordinary shares in issue during the year adjusted for the effect of dilution	139 252	120 965

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 9. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2010 (US\$'000)	Mining assets	Exploration costs	Decommissioning assets	Leasehold improvements	Plant and Equipment	Finance lease assets	Other assets	Total
<b>Cost</b>								
Balance at 1 January 2010	457 355	85 052	18 611	84 571	230 111	2 204	11 492	889 396
Additions	58 414	4 677	1 144	10 997	3 474	-	1 477	80 183
Disposals	-	-	-	(26)	(1 604)	(1 160)	(150)	(2 940)
Reclassifications	1 869	(895)	-	591	(1 565)	-	-	-
Transfer to investment property <sup>1</sup>	-	-	-	-	(617)	-	-	(617)
Assets of disposal group classified as held for sale	-	-	-	-	(15 659)	-	-	(15 659)
Foreign exchange differences	49 682	5 884	2 543	12 238	28 084	(53)	1 300	99 678
<b>Balance at 31 December 2010</b>	<b>567 320</b>	<b>94 718</b>	<b>22 298</b>	<b>108 371</b>	<b>242 224</b>	<b>991</b>	<b>14 119</b>	<b>1 050 041</b>
<b>Accumulated depreciation / amortisation</b>								
Balance at 1 January 2010	283 576	32 900	7 016	59 241	141 708	1 866	6 535	532 842
Depreciation and amortisation charge	32 261	-	2 265	7 579	13 732	342	1 598	57 777
Disposals	-	-	-	-	(1 598)	(1 160)	(127)	(2 885)
Disposal of subsidiaries	-	-	-	(12)	(1)	-	1	(12)
Reclassifications	150	(150)	-	-	-	-	-	-
Assets of disposal group classified as held for sale	-	-	-	-	(13 160)	-	-	(13 160)
Foreign exchange differences	27 448	4 090	1 196	8 674	19 494	(57)	617	61 462
<b>Balance at 31 December 2010</b>	<b>343 435</b>	<b>36 840</b>	<b>10 477</b>	<b>75 482</b>	<b>160 175</b>	<b>991</b>	<b>8 624</b>	<b>636 024</b>
<b>Net book value at 31 December 2010</b>	<b>223 885</b>	<b>57 878</b>	<b>11 821</b>	<b>32 889</b>	<b>82 049</b>	<b>-</b>	<b>5 495</b>	<b>414 017</b>
<b>As at 31 December 2009</b>								
<b>Cost</b>								
Balance at 1 January 2009	442 133	125 358	16 320	57 495	197 211	2 063	20 116	860 696
Additions	35 412	5 089	1 771	9 831	7 655	-	700	60 458
Disposals	-	(13 472)	(2 969)	-	(5 340)	-	(2 189)	(23 970)
Disposal of subsidiaries	(100 932)	(42 774)	(617)	-	(14 481)	-	(8 098)	(166 902)
Reclassifications	1 452	-	-	-	(15)	-	(1 437)	-
Foreign exchange differences	79 290	10 851	4 106	17 245	45 081	141	2 400	159 114
<b>Balance at 31 December 2009</b>	<b>457 355</b>	<b>85 052</b>	<b>18 611</b>	<b>84 571</b>	<b>230 111</b>	<b>2 204</b>	<b>11 492</b>	<b>889 396</b>
<b>Accumulated depreciation / amortisation / impairment</b>								
Balance at 1 January 2009	302 030	81 825	1 865	41 639	125 506	430	14 685	567 980
Depreciation and amortisation charge	39 704	-	1 734	4 823	10 590	-	1 433	58 284
Disposals	-	(13 472)	-	-	(4 854)	-	(2 167)	(20 493)
Disposal of subsidiaries	(100 932)	(42 774)	(617)	-	(13 481)	-	(8 098)	(165 902)
Reclassifications	482	(392)	2 990	188	(4 564)	1 364	(68)	-
Reversal of impairment	-	-	-	-	(149)	-	-	(149)
Foreign exchange differences	42 292	7 713	1 044	12 591	28 660	72	750	93 122
<b>Balance at 31 December 2009</b>	<b>283 576</b>	<b>32 900</b>	<b>7 016</b>	<b>59 241</b>	<b>141 708</b>	<b>1 866</b>	<b>6 535</b>	<b>532 842</b>
<b>Net book value at 31 December 2009</b>	<b>173 779</b>	<b>52 152</b>	<b>11 595</b>	<b>25 330</b>	<b>88 403</b>	<b>338</b>	<b>4 957</b>	<b>356 554</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 9. PROPERTY, PLANT AND EQUIPMENT (continued)

<sup>1</sup> Property owned by the Group was vacated during the year, but retained as investment property.

Other assets comprise motor vehicles, computer equipment, furniture and fittings and office equipment.

Included in plant and equipment is capital work in progress of US\$2.6 million (31 December 2009: US\$4.1 million).

Included in mining asset is deferred stripping of US\$52.2 million (31 December 2009: US\$37.1 million) capitalised.

(US\$'000)	2010	2009
<b>10. INVESTMENT PROPERTY</b>		
The investment property consists of a commercial unit in a building located in Dubai.		
<b>Cost</b>		
At 1 January 2010	-	-
Transfer from property, plant and equipment	614	-
Additions (initial direct lease costs)	3	-
<b>Net book value 31 December 2010</b>	<b>617</b>	-
<b>Fair value<sup>1</sup></b>	<b>659</b>	-
<b>Amounts recognised in profit or loss</b>		
Rental income	22	-
Direct operating expenses	(11)	-

<sup>1</sup> No independent valuation was performed. Fair value was based upon an overview of property sales (units within the same building as the investment property) during 2010, weighted towards the most recent sales activity.

## 11. INTANGIBLE ASSETS

As at 31 December 2010 (US\$'000)	Other Intangibles	Goodwill	Total
<b>Cost</b>			
Balance at 1 January 2010	191	102 715	102 906
Assets of disposal group classified as held for sale	(21)	-	(21)
Disposal of subsidiaries	(170)	-	(170)
Foreign exchange differences	-	7 233	7 233
<b>Balance at 31 December 2010</b>	<b>-</b>	<b>109 948</b>	<b>109 948</b>
<b>Accumulated amortisation / impairment</b>			
Balance at 1 January 2010	191	74 725	74 916
Assets of disposal group classified as held for sale	(21)	-	(21)
Disposal of subsidiaries	(170)	-	(170)
Foreign exchange differences	-	4 069	4 069
<b>Balance at 31 December 2010</b>	<b>-</b>	<b>78 794</b>	<b>78 794</b>
<b>Net book value at 31 December 2010</b>	<b>-</b>	<b>31 154</b>	<b>31 154</b>



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 11. INTANGIBLE ASSETS (continued)

As at 31 December 2009 (US\$'000)	Other Intangibles	Goodwill	Total
<b>Cost</b>			
Balance at 1 January 2009	1 726	90 921	92 647
Assets of disposal group classified as held for sale	170	-	170
Acquisition of subsidiaries	-	-	-
Additions	-	-	-
Disposal of subsidiaries	(1 709)	(445)	(2 154)
Foreign exchange differences	4	12 239	12 243
<b>Balance at 31 December 2009</b>	<b>191</b>	<b>102 715</b>	<b>102 906</b>
<b>Accumulated amortisation / impairment</b>			
Balance at 1 January 2009	1 726	68 627	70 353
Assets of disposal group classified as held for sale	170	-	170
Amortisation for the year	-	-	-
Disposals	-	-	-
Disposals of subsidiaries	(1 709)	(445)	(2 154)
Foreign exchange differences	4	6 543	6 547
<b>Balance at 31 December 2009</b>	<b>191</b>	<b>74 725</b>	<b>74 916</b>
<b>Net book value at 31 December 2009</b>	<b>-</b>	<b>27 990</b>	<b>27 990</b>

Impairment of goodwill within the Group was tested in accordance with the Group's policy. Refer to Note 12, Impairment testing for further details.

(US\$'000)	2010	2009
<b>12. IMPAIRMENT TESTING</b>		
<b>Goodwill</b>		
Goodwill acquired through business combinations has been allocated to the individual cash-generating units, as follows:		
- Letseng Diamonds	28 859	25 928
- Calibrated Diamonds Investment Holdings	2 295	2 062
<b>Balance at end of the year</b>	<b>31 154</b>	<b>27 990</b>

Goodwill impairment testing is undertaken annually and whenever there are indications of impairment. The most recent test was undertaken at 31 December 2010.

In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit is compared with its recoverable amount.

There were no impairment write offs in the current year.

For the purpose of goodwill impairment testing in 2010, recoverable amounts for Letseng Diamonds and Calibrated Diamonds Investment Holdings have been determined based on fair value less costs to sell (FVLCS) calculations. As observable market prices are not available, FVLCS was calculated for Letseng Diamonds using a discounted cashflow model methodology, taking into account assumptions that would be made by market participants.

### Fair value less costs to sell

Cashflows are projected for periods up to the date that mining is expected to cease, based on management's expectations at the time of completing the testing, and is limited to the lesser of the current economic resource or the remaining 14 year mining lease period. This date depends on a number of variables, including recoverable reserves and resources, the forecast selling prices and the treatment costs.

### Key assumptions used in the calculations

The key assumptions used in the calculation for goodwill asset are:

- recoverable reserves and resources
- expected carats recoverable
- expected grades achievable
- expected \$/carat prices
- expected plant throughput
- costs of extracting and processing
- discount rates
- foreign exchange rates

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 12. IMPAIRMENT TESTING (continued)

Economically recoverable reserves and resources, carats recoverable and grades achievable are based on management's current expectation and mine plan, supported by the evaluation work undertaken by appropriately qualified persons.

Long term \$/carat prices are based on external market consensus forecasts as published by independent marketing consultants adjusted for the Group's specific operations and contracted sales arrangements. Plant throughput is based on current plant facilities and processing capacities. Costs are determined on management's experience and the use of contractors over a period of time which costs are fairly reasonably determinable.

Discount rates are outlined below, and represent the real pre-tax rates. These rates are based on the weighted average cost of capital of the Group and adjusted accordingly at a risk premium of each cash-generating unit, taking into account risks associated with different cash-generating units.

The foreign exchange rates have been based on current spot exchange rates at the date of the value in use calculations.

	2010	2009
<b>Discount rate for each cash generating unit</b>		
- Letšeng Diamonds	13.5%	16.8%

### Sensitivity to changes in assumptions

Given the current volatility in the market, adverse changes in key assumptions as described below could result in changes to impairment charges.

The impairment test is particularly sensitive to changes in commodity prices, discount rates and foreign exchange rates. Changes to these assumptions could result in changes to impairment charges. The table below summarises the change required to key assumptions that would result in the carrying value of Letšeng Diamonds equaling the recoverable value:

	Excess of recoverable amount over carrying value (US\$m)	Change in the key assumption which would result in the recoverable amount equaling the carrying value (%)		
		Decrease in diamond prices	Increase in discount rate <sup>1</sup>	Strengthening in foreign exchange rate <sup>2</sup>
Letšeng Diamonds	456	31.0%	33.0%	76.0%

1. Amounts relate to absolute movement in discount rate

2. Maloti to US Dollar

Should any of the assumptions used change adversely and the impact not be mitigated by a change in the other factors, this could result in a potential impairment of the above asset.

The recoverable amount of Calibrated Diamonds Investment Holdings was determined based on FVLCS. The key assumptions include management's best estimate of the recoverability of the residual value of the assets taking into account the location of the assets and the ability to dispose of the assets in the current economic climate.

(US\$'000)	2010	2009
<b>Other non-current assets</b>		
Reversal of impairments	-	(149)

There were no reversals of impairments in the current year.

During the prior year, recoverable amounts of certain plant and equipment were reassessed, which resulted in a reversal of an impairment previously recognised.

There were no impairment write offs in the current year.

The Group will continue to test its other assets for impairment where indications are identified and may in future record additional impairment charges or reverse any impairment charges to the extent that market conditions improve and to the extent permitted by accounting standards.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

(US\$'000)	2010	2009
<b>13. OTHER FINANCIAL ASSETS</b>		
<b>Non-current</b>		
Environmental bonds <sup>1</sup>	7 062	6 475
Chiri project loan <sup>2</sup>	5 626	5 567
Other assets <sup>3</sup>	536	536
Other loans <sup>4</sup>	282	-
	<b>13 506</b>	<b>12 578</b>
<b>Current</b>		
Other loans <sup>4</sup>	45	535
	<b>45</b>	<b>535</b>
	<b>13 551</b>	<b>13 113</b>
1. Environmental bonds may only be accessed when all relevant rehabilitation work is completed at the end of the project and represents restricted funds in the Group. These bonds are carried at fair value through profit and loss.		
2. The loan represents amounts advanced to the project in terms of the Co-operation Agreement concluded in relation to the Chiri Concession in Angola. The loan is interest free and is repayable out of the earnings generated in the project once it commences, which is not anticipated to be within the next 12 months. This loan is carried at amortised cost.		
3. Other assets comprise the costs associated and incurred in securing an option to acquire an indirect interest in the Chiri Concession. This option is carried at cost as fair value cannot be determined. As the project that this option relates to is ongoing, there are no indicators of impairment.		
4. Other loans comprise advances made to certain key individuals to assist with their relocation as part of setting up various operations. These loans bear interest at 4.5% per annum and have no fixed term of repayment. These loans are carried at amortised cost.		
<b>14. DEFERRED TAXATION</b>		
<b>Deferred tax assets</b>		
Accrued leave	78	68
Operating lease liability	23	25
Provisions	3 717	1 652
Tax loss not utilised in the period	-	-
	<b>3 818</b>	<b>1 745</b>
<b>Deferred tax liabilities</b>		
Property, plant and equipment	(73 587)	(60 384)
Prepayments	(11)	(9)
Provisions	(116)	-
Unremitted earnings	(1 116)	(1 901)
	<b>(74 830)</b>	<b>(62 294)</b>
<b>Net deferred tax liability</b>	<b>(71 012)</b>	<b>(60 549)</b>
<b>Reconciliation of deferred tax liability</b>		
Balance at beginning of year	(60 549)	(49 745)
Movement in current period:		
- Accelerated depreciation for tax purposes	(5 905)	1 769
- Accrued leave	2	(34)
- Operating lease liability	(4)	4
- Unremitted earnings	785	(884)
- Prepayments	(1)	(3)
- Provisions	1 593	179
- Disposal of subsidiaries	-	87
- Foreign exchange differences	(6 933)	(11 922)
<b>Balance at end of year</b>	<b>(71 012)</b>	<b>(60 549)</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

(US\$'000)	2010	2009
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## 14. DEFERRED TAXATION (continued)

The Group has not recognised a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries because it is able to control the timing of dividends and only part of the temporary difference is expected to reverse in the foreseeable future. The gross temporary difference in respect of the undistributable reserves of the Group's subsidiaries for which a deferred tax liability has not been recognised is US\$74.4 million (31 December 2009: US\$40.2 million).

The Group has estimated tax losses of US\$326.3 million (31 December 2009: US\$279.0 million). No deferred tax assets have been recognised in respect of such losses at 31 December 2010 as management considers that it is not probable that the losses in those entities will be utilised against taxable profits in those entities in the foreseeable future.

The Group has not recognised deferred tax assets in respect of other deductible temporary differences of US\$88.7 million (31 December 2009: US\$94.0 million), since management considers that it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Of the US\$326.3 million (31 December 2009: US\$279.0 million) estimated tax losses, US\$48.4 million (31 December 2009: US\$40.3 million) losses in various jurisdictions expire as follows:

(US\$'000) Year	31 December 2010	31 December 2009
2009	-	863
2010	-	497
2011	28	28
2012	2 950	2 950
2013	5 126	1 670
2014	4 922	4 034
2015	5 219	5 160
2016	18 910	18 910
2017	6 463	6 186
2018	4 763	-
	<b>48 381</b>	<b>40 298</b>

## 15. INVENTORIES

Diamonds on hand <sup>1</sup>	16 745	14 048
Ore stock piles <sup>1</sup>	6 746	8 061
Consumable stores <sup>1</sup>	11 746	9 286
	<b>35 237</b>	<b>31 395</b>

Net realisable value write-down	856	-
Net realisable value write-down reversal (directly through other reserves)	(117)	-

1. Stated at the lower of cost or net realisable value

## 16. RECEIVABLES

Prepayments	1 162	1 409
Deposits	532	481
Other receivables	1 597	1 860
Vat receivable	3 900	3 245
	<b>7 191</b>	<b>6 995</b>

Included in other receivables above, is US\$0.1 million relating to the disposal of the operations in the CAR, which was subsequently received in February 2011.

The carrying amounts above approximate their fair value.

Terms and conditions of the receivables:

These amounts are non-interest bearing and are settled in accordance with terms agreed between the parties.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

(US\$'000)	2010	2009
<b>16. RECEIVABLES (continued)</b>		
<b>Provision for impairment of receivables*</b>		
Receivables (at nominal value) impaired and fully provided for:	1 149	11
<b>Analysis of receivables</b>		
Neither past due nor impaired	7 147	6 891
Past due but not impaired:		
< 30 days	43	21
30 - 60 days	-	5
60 - 90 days	1	22
90 - 120 days	-	56
>120 days	-	-
<b>Total receivables</b>	<b>7 191</b>	<b>6 995</b>
<b>Movements in the provision against receivables were as follows:</b>		
Balance at beginning of year	11	693
Charge for the year	1 028	18
Disposal of subsidiaries	-	(702)
Foreign exchange differences	110	2
<b>Balance at end of year</b>	<b>1 149</b>	<b>11</b>

\* The provision for receivables was determined on an individual basis.

<b>17. CASH AND SHORT TERM DEPOSITS</b>		
Cash on hand	13	28
Bank balances	47 712	77 954
Short term bank deposits	82 124	35 845
	<b>129 849</b>	<b>113 827</b>

The amounts reflected in the financial statements approximate fair value.

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short term deposits are generally call deposit accounts and earn interest at the respective short-term deposit rates.

At 31 December 2010, the Group had restricted cash of US\$5.3 million (31 December 2009: US\$5.1 million). (Refer to Note 23, Commitments and contingencies for further information).

At 31 December 2010, the Group had US\$0.01 million (31 December 2009: US\$2.0 million) overdraft facilities in place.

The Group's cash surpluses are deposited with major financial institutions of high quality credit standing predominantly within Lesotho, Australia and Switzerland.

<b>18. ISSUED CAPITAL AND RESERVES</b>	<b>31 December 2010</b>		<b>31 December 2009</b>	
	<b>Number of shares '000</b>	<b>US\$'000</b>	<b>Number of shares '000</b>	<b>US\$'000</b>
<b>Authorised - ordinary shares of US\$0.01 each</b>				
As at year end	200 000	2 000	200 000	2000
<b>Issued and fully paid</b>				
Balance at beginning of year	138 267	1 383	62 905	629
Allotments during the year	-	-	75 362	754
<b>Balance at end of year</b>	<b>138 267</b>	<b>1 383</b>	<b>138 267</b>	<b>1 383</b>

There were no share transactions during the year.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 18. ISSUED CAPITAL AND RESERVES (continued)

During the prior year the following share transactions took place:

On 19 February 2009, a non-Executive Director was issued, as part of his contract, shares in the Company. The total number of shares issued was 72 332. On 26 June 2009 two further non-Executive Directors were issued, as part of their contracts, shares in the Company. The total number of shares issued were 289 328.

On 20 April 2009, the Company increased its authorised share capital to 200 000 000 shares of US\$0.01 each.

On 22 April 2009, the Company completed its placing of 75 000 000 new ordinary shares, of US\$0.01 each, to existing shareholders. The Company received US\$108.8 million. Share issue costs amounting to US\$9.9 million were incurred.

Following the placing, the Company's share capital amounted to US\$1.4 million comprising 138.3 million ordinary shares.

### Share premium

Share premium comprises the excess value recognised from the issue of ordinary shares at par value.

### Treasury shares

The Company established an Employee Share Option Plan (ESOP) on 5 February 2007. Under the terms of the ESOP, the Company granted options to employees of over 376 500 ordinary shares with a nil exercise price upon listing.

At Listing, the Gem Diamonds Limited Employee Share Trust acquired 376 500 ordinary shares by subscription from the Company as part of the Initial Awards under the ESOP arrangement at nominal value of US\$0.01.

During the year, 30 200 shares were exercised (31 December 2009: 106 540) and 18 350 shares lapsed (31 December 2009: nil). At 31 December 2010, 80 367 (31 December 2009: 128 917) shares were held by the trust.

(US\$'000)	Foreign currency translation reserve	Share based equity reserve	Other reserves	Total
Balance at 1 January 2010	(65 643)	39 209	(117)	(26 551)
Other comprehensive income	25 993	-	117	26 110
Total comprehensive income	25 993	-	117	26 110
Share based payments	-	1 766	-	1 766
Balance at 31 December 2010	(39 650)	40 975	-	1 325
Balance at 1 January 2009	(98 275)	33 463	(117)	(64 929)
Other comprehensive loss	32 632	-	-	32 632
Total comprehensive loss	32 632	-	-	32 632
Share based payments	-	5 746	-	5 746
Balance at 31 December 2009	(65 643)	39 209	(117)	(26 551)

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

(US\$'000)	2010	2009
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## 18. ISSUED CAPITAL AND RESERVES (continued)

### Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of foreign entities. During the year, the South African, Lesotho, Botswana, Central African Republic, Australian, Mauritian and United Arab Emirate subsidiaries' functional currencies were different to the Group. The rates used to convert the South African Rand (ZAR), Lesotho Loti (Maloti), Botswana Pula (Pula), the Central African Franc (CFA), the Australian Dollar (AUD), the Mauritius Rupee (MUR) and the United Arab Emirate Dirham (AED) into US Dollars are as follows:

	Currency	2010	2009
Average rate	Maloti to 1 US\$	7.32	8.42
Period end	Maloti to 1 US\$	6.62	7.36
Average rate	ZAR to 1 US\$	7.32	8.42
Period end	ZAR to 1 US\$	6.62	7.36
Average rate	CFA to 1 US\$	495.43	471.49
Period end	CFA to 1 US\$	488.50	457.84
Average rate	AUD to 1 US\$	1.09	1.28
Period end	AUD to 1 US\$	0.98	1.11
Average rate	Pula to 1 US\$	6.79	7.15
Period end	Pula to 1 US\$	6.45	6.66
Average rate	Rupee to 1 US\$	30.78	31.90
Period end	Rupee to 1 US\$	30.15	30.35
Average rate	Dirham to 1 US\$	3.67	3.67
Period end	Dirham to 1 US\$	3.67	3.67

### Share-based equity reserves

For detail on the share based payment reserve refer to Note 28, Share-based payments.

### Other reserves

This reserve relates to the at acquisition reserves arising on the acquisition of Gope. At December 2008, the assets giving rise to this reserve were written down. During the current year, the assets that gave rise to the reserve and prior period write-off were restated back to their original value giving rise to a write-back of the reserve.

### Non-controlling interests

No non-controlling interests were acquired during the course of the year.

### Capital management

For details on capital management, refer to Note 27, Financial Risk Management.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

(US\$'000)	Notes	2010	2009
<b>19. INTEREST BEARING LOANS AND BORROWINGS</b>			
<b>Current</b>			
Finance lease obligations <sup>1</sup>		-	204
		-	204
<b>Total interest bearing borrowings</b>		-	204
<b>2009</b>		<b>Effective interest rate %</b>	<b>Maturity date</b>
<b>Current</b>			
Finance lease obligations		6 - 10%	16 - 56 months
Finance lease disclosure			
Minimum lease payments due:			
- Within one year		-	209
- After one year but not more than five years		-	-
- More than five years		-	-
		-	209
- Amounts representing finance charges		-	(5)
Present value of minimum lease payments		-	204
<b>Analysis of present value of minimum lease payments</b>			
- Within one year		-	204
- After one year but not more than five years		-	-
- More than five years		-	-
		-	204

The carrying values of the liabilities approximate their fair values.

- The finance leases are payable in monthly installments over a period of 12 months. The finance leases have an average implicit interest rate between 6% to 10%. The 2009 finance leases were secured by plant and equipment with a carrying amount of US\$0.3 million.

<b>20. TRADE AND OTHER PAYABLES</b>		
<b>Non-current</b>		
Accrued expenses <sup>1</sup>	1	973
Severance pay benefits <sup>2</sup>	684	611
	685	1 584
<b>Current</b>		
Trade payables <sup>1</sup>	15 310	12 046
Accrued expenses <sup>1</sup>	21 208	20 101
Leave benefits	2 342	1 862
Royalties <sup>1</sup>	3 362	2 713
Operating lease	82	89
Other	1 970	31
	44 274	36 842
<b>Total trade and other payables</b>	<b>44 959</b>	<b>38 426</b>

The carrying amounts above approximate fair value.

Terms and conditions of the trade and other payables:

- These amounts are non-interest bearing and are settled in accordance with terms agreed between the parties
- The severance pay benefits arise due to legislation requiring that two weeks of severance pay be provided for every completed year of service, payable on retirement



**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2010

(US\$'000)	Notes	2010	2009
<b>21. PROVISIONS</b>			
Rehabilitation provisions		32 042	29 520
Employee entitlements		368	200
Other		100	463
		<b>32 510</b>	<b>30 183</b>
<b>Reconciliation of movement in provisions</b>			
Balance at beginning of year		30 183	25 240
Arising during the year		225	123
Utilised during the year		(2 365)	(660)
Disposal of subsidiaries		-	(779)
Adjustments to PPE		(715)	(1 124)
Unwinding of discount rate		1 571	1 456
Foreign exchange differences		3 611	5 927
<b>Balance at end of year</b>		<b>32 510</b>	<b>30 183</b>

**Rehabilitation provisions**

The provisions have been recognised as the Group has an obligation for rehabilitation of the mining areas. The provisions have been calculated based on total estimated rehabilitation costs and discounted back to their present values. The pre-tax discount rates are adjusted annually and reflect current market assessments. These costs are expected to be utilised over a life of 3.5 and 14 years respectively at the Australian and Lesotho mining areas.

A portion of the provisions has been secured by environmental bonds to the amount of US\$7.1 million (31 December 2009: US\$6.5 million).

**Employee entitlements**

Employee entitlements arises predominantly on long service leave entitlements which are payable upon an employee attaining a certain period of service.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

(US\$'000)		2010	2009*
<b>22. CASHFLOW NOTES</b>			
<b>22.1. Cash generated by operations</b>			
Profit before tax for the year from continuing operations		54 480	39 254
Loss before tax for the year from discontinued operations		(708)	(3 761)
Adjustments for:			
Depreciation and amortisation on property, plant and equipment	3	57 601	58 127
Reversal of impairment	3	-	(170)
FV gain on deconsolidation		(921)	-
Write down of inventory	3	856	-
Finance income	4	(4 102)	(2 851)
Finance costs	4	1 632	3 122
Movement in provisions		(903)	(378)
Mark to market revaluations		9	(2 629)
Share of loss in associate	7	261	-
Foreign exchange differences		(7 459)	(17 687)
Profit on disposal of property, plant and equipment		(895)	(2)
Prepayment		310	-
Other non-cash movements		2 519	454
Gain on disposal of subsidiaries	22.3	(1 791)	(4 387)
Share-based equity transaction		1 676	5 644
		<b>102 565</b>	<b>74 736</b>
<b>22.2. Working capital adjustments</b>			
(Increase) / decrease in inventories		(2 953)	12 296
Decrease in receivables		13	10 735
Increase / (decrease) in trade and other payables		3 743	(25 534)
		<b>803</b>	<b>(2 503)</b>
<b>22.3. Cash (disposed) / received from disposal of subsidiary</b>			
Property, plant and equipment		(549)	1 159
Inventories		(131)	298
Trade and other receivables		383	-
Cash and cash equivalents		369	4
Trade and other payables		(436)	(68)
Provisions		(1 327)	(779)
Income tax payable		-	(8)
		<b>(1 691)</b>	<b>606</b>
Gain on disposal of subsidiaries		1 791	4 387
<b>Proceeds on sale of subsidiaries</b>		<b>100</b>	<b>4 993</b>
Proceeds on disposal not yet received		(100)	(1 200)
Cash equivalents sold		(369)	(4)
<b>Net cash (disposed) / received</b>		<b>(369)</b>	<b>3 789</b>

This relates to the disposal of the operations in the CAR (Refer Note 6, Discontinued Operations for additional information) and the deconsolidation of Blina Diamonds NL (Refer Note 7, Investment in Associate for additional information).

\* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 6, Discontinued Operations).

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

(US\$'000)	2010	2009
<b>23. COMMITMENTS AND CONTINGENCIES</b>		
<b>Commitments</b>		
<b>Operating lease commitments - Group as lessee</b>		
The Group has entered into commercial lease arrangements for rental of office premises. These leases have an average period of two years with an option of renewal at the end of the period. There are no restrictions placed upon the lessee by entering into these leases.		
<b>Future minimum rentals payable under non-cancellable operating leases:</b>		
- Within one year	1 263	1 225
- After one year but not more than five years	1 597	1 695
- More than five years	-	-
	<b>2 860</b>	<b>2 920</b>
<b>Mining leases</b>		
Mining lease commitments represent the Group's future obligation arising from agreements entered into with local authorities in the mining areas that the Group operates.		
The period of these commitments is determined as the lesser of the term of the agreement, including renewable periods or the life of the mine. The estimated lease obligation regarding the future lease period, accepting stable inflation and exchange rates, is as follows:		
- Within one year	1 582	2 212
- After one year but not more than five years	6 497	8 918
- More than five years	8 519	14 170
	<b>16 598</b>	<b>25 300</b>
<b>Moveable equipment lease</b>		
The Group has entered into commercial lease arrangements which include the provision of loading, hauling and other transportation services payable at a fixed rate per ton of ore and waste mined, and power generator equipment payable based on a consumption basis:		
- Within one year	44 538	24 449
- After one year but not more than five years	127 857	43 444
- More than five years	-	37
	<b>172 395</b>	<b>67 930</b>
<b>Finance leases</b>		
The estimated future lease obligations are as follows:		
- Within one year	-	204
- After one year but not more than five years	-	-
- More than five years	-	-
	<b>-</b>	<b>204</b>

## Contingent rentals - alluvial deposits

The contingent rentals on alluvial deposits represents the Group's obligation to third parties for alluvial diamonds mined by such third parties on the Group's mining property. The rental is determined when the actual diamonds mined by such third parties are sold. The rental agreement is based on 40% of the sale of the diamonds recovered by Alluvial Ventures and will be limited to US\$0.7 million per individual diamond. As at the balance sheet dates, such future sales cannot be determined.

## Letšeng Diamonds Educational Fund

In terms of the mining agreement entered into between the Group and the Government of the Kingdom of Lesotho, the Group has an obligation to provide funding for education and training scholarships. The quantum of such funding is at the discretion of the Letšeng Diamonds Education Fund Committee.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

(US\$'000)	2010	2009
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## 23. COMMITMENTS AND CONTINGENCIES (continued)

**Chiri Co-operation Agreement and Option Agreement**

During 2007, the Group entered into a Co-operation Agreement and Option Agreement in relation to the Chiri Concession in Angola. The Co-operation Agreement sets out the terms on which the Group will conduct a feasibility study to assess the commercial viability of the Chiri Concession, which is believed to be a diamondiferous kimberlite. The Option Agreement gives the Group an option to acquire an indirect interest in the Chiri Concession. The commitment is included in the amounts disclosed as part of capital expenditure below.

**Capital expenditure**

Approved but not contracted for

-

915

Approved and contracted for

10 374

15 701

The amounts are approved by the Board.

**Restricted cash**

Included in restricted cash is US\$4.1 million (31 December 2009: US\$4.2 million), which represents funds held in terms of a deposit agreement and is security on a debt owing by a director to a financial institution, in connection with the Director's relocation. Subsequent to year end, the deposit agreement was cancelled and the funds held were released.

**Contingencies**

The Group has conducted its operations in the ordinary course of business in accordance with its understanding and interpretation of commercial arrangements and applicable legislation in the countries where the Group has operations. In certain specific transactions however, the relevant third party or authorities could have a different interpretation of those laws and regulations that could lead to contingencies or additional liabilities for the Group. Having consulted professional advisors, the Group has identified possible disputes approximating US\$0.5 million (December 2009: nil) and tax claims within the various jurisdictions in which the Group operates approximating US\$6.1 million (December 2009: US\$3.9 million).

There remains a risk that additional tax liabilities may potentially arise. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's results, financial position or liquidity.

**Guarantees**

Australia and New Zealand Banking Group Limited (ANZ Bank) has issued performance guarantees on behalf of a subsidiary to the amount of US\$9.2million, of which US\$6.9 million is cash-backed to support environmental obligation for protection of the land on which mining, mining related activities or exploration is conducted. The beneficiary thereof is the Minister Responsible for Mining Act 1978. Gem Diamonds Australia Holdings (GDAH) and its subsidiaries have given ANZ Bank irrevocable and unconditional guarantees as security for the performance guarantee and other credit facilities amounting to US\$0.4 million.

## 24. RELATED PARTIES

**Related party****Relationship**

Jemax Management (Proprietary) Limited

Common director

Jemax Aviation (Proprietary) Limited

Common director

Gem Diamond Holdings Limited

Common director

Government of Lesotho

Non-controlling interest

Geneva Management Group (UK) Limited

Common director

Government of CAR

Non-controlling interest

Government of Indonesia

Non-controlling interest

Refer to Note 1.1.2. Operational information for information regarding shareholding in subsidiaries.

Refer to the Directors' Report for information regarding the Directors.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2010

(US\$'000)	2010	2009
<b>24. RELATED PARTIES (continued)</b>		
Compensation to key management personnel (including directors)		
Share-based equity transactions	1 334	2 604
Short-term employee benefits	8 088	7 244
	<b>9 422</b>	<b>9 848</b>
Royalties paid to related parties		
Government of Lesotho	(14 981)	(13 554)
Lease and licence payments to related parties		
Government of Lesotho	(100)	(105)
Government of CAR	(145)	(181)
Sales to / (purchases) from related parties		
Jemax Aviation (Proprietary) Limited	357	221
Geneva Management Group (UK) Limited	(9)	(9)
Amount included in trade receivables owing by / (to) related parties		
Jemax Aviation (Proprietary) Limited	57	26
Jemax Management (Proprietary) Limited	(10)	(19)
Amounts owing to related party		
Government of Lesotho	(1 486)	(1 378)
Dividends paid		
Government of Lesotho	(9 040)	(3 287)

Jemax Management (Proprietary) Limited and Jemax Aviation (Proprietary) Limited provided administrative and aviation services with regards to the mining and evaluation activities undertaken by the Group. The above transactions were made on terms agreed between the parties.

Geneva Management Group (UK) Limited provided administration, secretarial and accounting services to the Company. The above transactions were made on terms that prevail in arm's length transactions.

**25. POST BALANCE SHEET EVENTS**

No other fact or circumstance has taken place during the period covered by the financial statements and up to the date of this report which in our opinion, is of significance in assessing the state of the Group's affairs.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 26. FINANCIAL INSTRUMENTS

### Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
(US\$'000)	2010	2009	2010	2009
<b>Financial assets</b>				
Cash	129 849	113 827	129 849	113 827
Loan notes <sup>1</sup>	5 626	5 567	5 626	5 567
Receivables <sup>1</sup>	7 191	6 995	7 191	6 995
Environmental bond facilities and bank guarantees	7 062	6 475	7 062	6 475
Other loans <sup>1</sup>	327	535	327	535
Other assets <sup>2</sup>	536	536	536	536
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings:				
-Obligations under finance lease	-	204	-	204
Trade and other payables <sup>1</sup>	44 959	38 426	44 959	38 426

1. The fair value approximates carrying value.

2. The option is classified as a level 3 financial instrument and the carrying value approximates fair value. Fair value techniques for level 3 financial instruments use inputs, which have a significant effect on the determined fair value, that are not based on observable market data.

The fair value of borrowings has been calculated by discounting the expected future cashflows at prevailing interest rates. The fair value of other financial assets have been calculated using market interest rates where applicable.

## 27. FINANCIAL RISK MANAGEMENT

### Financial risk factors

The Group's activities expose it to a variety of financial risks:

- a) Market risk (including commodity price risk and foreign exchange risk);
- b) Cashflow interest rate risk;
- c) Credit risk; and
- d) Liquidity risk

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

There have been no changes in the financial risk management policy since the prior year.

### Capital management

The capital of the Company is the issued share capital, share premium and treasury shares on the Group's balance sheet. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares. The management of the Group's capital is performed by the Board.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 27. FINANCIAL RISK MANAGEMENT (continued)

### a) Market risk

#### (i) Commodity price risk

The Group is subject to commodity price risk. Diamonds are not a homogenous product and the price of rough diamonds is not monitored on a public index system. The fluctuation of prices is related to certain features of diamonds such as quality and size. Diamond prices are marketed in US\$ and long term US\$/carat prices are based on external market consensus forecasts and contracted sales arrangements adjusted for the Group's specific operations. The Group does not have any financial instruments that may fluctuate as a result of commodity price movements.

#### (ii) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Lesotho Loti, South African Rand and Australian Dollar. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

During the prior year, Kimberley Diamonds formalised an existing supply agreement with a top-end jeweler for its fancy yellow diamond production. This contract, which is subject to an annual review, is for the life of the mine and provides certainty to the revenue flows.

The Group's sales are denominated in US\$ which is the functional currency of the Company.

The currency sensitivity analysis below is based on the following assumptions:

- Differences resulting from the translation of the financial statements of the subsidiaries into the Group's presentation currency of US\$, are not taken into consideration.
- The major currency exposures for the Group relate to the US\$ and local currencies of subsidiaries. Foreign currency exposures between two currencies where one is not the US\$ are deemed insignificant to the Group and have therefore been excluded from the sensitivity analysis.

The analysis of the currency risk arises because of financial instruments denominated in a currency that is not the functional currency of the relevant Group entity. The sensitivity has been based on financial assets and liabilities at 31 December 2010. There has been no change in the assumptions or method applied from the prior year.

#### *Sensitivity analysis*

If the US\$ had appreciated (depreciated) 10% against currencies significant to the Group at 31 December 2010, income before taxation would have been US\$0.8 million higher (lower) (31 December 2009: US\$0.5 million). There would be no effect on equity reserves other than those directly related to income statement movements.

### b) Cashflow interest rate risk

The Group's income and operating cashflows are substantially independent of changes in market interest rates. The Group's cashflow interest rate risk arises from borrowings. At the time of taking new loans or borrowings management uses its judgement to decide whether it believes that a fixed or variable rate borrowing would be more favourable to the Group over the expected period until maturity.

An analysis has been prepared which demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through impact on floating rate borrowings).

The interest rate sensitivity analysis is based on the following assumptions:

- All non-derivative financial instruments with fixed interest rate terms that are carried at amortised cost are excluded from this analysis. This is because a change in market interest rates for such non-derivative financial instruments would only affect income if these are measured at their fair value; and
- The Group does not have significant cashflow hedges related to interest rate risk. As such, movements that would occur in equity as a result of a hypothetical change in interest rates at reporting date has been excluded from this analysis.

#### *Sensitivity analysis*

If interest rates had increased (decreased) by 100 basis points at 31 December 2010 or 31 December 2009, there would have been no material impact on profit in the current year or the prior year. There would be no effect on equity reserves other than those directly related to income statement movements.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 27. FINANCIAL RISK MANAGEMENT (continued)

## c) Credit risk

The Group's potential concentration of credit risk consists mainly of cash deposits with banks and other receivables. The Group's short-term cash surpluses are placed with the banks that have investment grade ratings. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet dates. The Group considers the credit standing of counterparties when making deposits to manage the credit risk.

Considering the nature of the Group's ultimate customers and the relevant terms and conditions entered into with such customers, the Group believes that credit risk is limited as customers pay on receipt of goods. No other financial assets are impaired or past due and accordingly, no additional analysis has been provided. No collateral is held in respect of the impaired receivables or receivables that are past due but not impaired.

## d) Liquidity risk

Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments including the inability to sell a financial asset quickly at a price close to its fair value. Management manages the risk by maintaining sufficient cash, marketable securities and ensuring access to shareholding funding. This ensures flexibility in maintaining business operations and maximises opportunities.

US\$'000	2010	2009
The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 based on contractual undiscounted payments:		
<b>Fixed interest rates</b>		
<i>Interest bearing loans and borrowings</i>		
- Within one year	-	209
- After one year but not more than five years	-	-
- More than five years	-	-
<b>Total</b>	-	209
<b>Floating interest rates</b>		
<i>Trade and other payables</i>		
- Within one year	44 274	36 842
- After one year but not more than five years	685	1 584
- More than five years	-	-
<b>Total</b>	44 959	38 426



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

US\$'000	2010	2009*
<b>28. SHARE-BASED PAYMENTS</b>		
The expense recognised for employee services received during the year is shown in the following table (US\$'000):		
Equity-settled share-based payment transactions charged to the Income statement	1 644	5 620
Equity-settled share-based payment transactions capitalised	122	102
	<b>1 766</b>	<b>5 722</b>

\* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 6, Discontinued Operations).

The long-term incentive plans are described below:

#### *Employee Share-Option Plan*

Certain key employees are entitled to a grant of options, under the Employee Share-Option Plan ('ESOP') of the Company. The vesting of the options is dependent on employees remaining in service for a prescribed period (normally three years) from the date of grant. The fair value of share options granted is estimated at the date of the grant using a Black Scholes simulation model, taking into account the terms and conditions upon which the options were granted. It takes into account projected dividends and share price fluctuation co-variances of the Company.

There is a nil or nominal exercise price for the options granted at Admission of Gem Diamonds Limited. The contractual life of the options is ten years and there are no cash settlement alternatives. The Group has no past practice of cash settlement.

#### *Performance Shares*

No performance shares were granted during the year. During 2008, 437 769 performance shares were granted to certain key employees under the ESOP of the Company in four tranches. The vesting of awards will be subject to the satisfaction of performance conditions over a three year period that are considered appropriately stretching. If the performance conditions are not met the options lapse. The fair value of share options granted is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the option in years and the weighted average share price of the Company. The contractual life of each option granted is three years.

The exercise price of the performance shares is US\$0.01, which was equal to the nominal value of the shares. There are no cash settlement options.

#### *Executive Share Growth Programme*

The Executive Share Growth Programme ('ESGP') is a separate, and once-off, remuneration arrangement. Its purpose is to reward very superior performance in the event that it was achieved by the Company in the three year period following Admission. As such, the vesting of awards under the ESGP are subject to very demanding targets for share price growth, which was chosen as the performance measure on the basis that participants will only be rewarded if significant value has been created for the shareholders.

For the purposes of the performance criterion, the final share price was calculated based on the volume weighted average price of shares calculated over a 30 day period beginning 15 days prior to the third anniversary of Admission (i.e. beginning 4 February 2010). On 19 February 2010, the vesting of the awards was tested and as no vesting conditions were met, the ESGP lapsed and no shares were awarded.

#### *Non-Executive Share Awards*

In order to align the interests of the Chairman and independent Directors with those of the shareholders, the non-Executive Directors were invited to subscribe for shares at nominal value on terms set out in the prospectus. The non-Executive Directors shall not be eligible to participate in the STIBS, ESOP or ESGP or any other performance-related incentive arrangements which may be introduced by the Company from time to time.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 28. SHARE-BASED PAYMENTS (continued)

*Employee Share-Option Plan for 2010* (Long-term incentive plan (LTIP))

On 23 June 2010, 1 375 200 options were granted to certain key employees under the LTIP of the Company. Of the total number of shares, 458 400 were Nil Value Options and 916 800 were Market Value Options. The exercise price of the Market Value Options is £2.31 (US\$3.33), which was equal to the market price of the shares on the date of the grant. The vesting of the options will be subject to the satisfaction of performance conditions over a three year period that is considered appropriately stretching. If the performance conditions are not met the options lapse. The fair value of the options granted is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the options in years and the weighted average share price of the Company. The contractual life of each option granted is three years. There are no cash settlement options.

	2010	2009
<b>Movements in the year</b>		
<i>Employee Share-Option Plan</i>		
The following table illustrates the number ('000) and movement in, share options during the year:		
Outstanding at beginning of year	87	197
Granted during the year	-	-
Forfeited during the year	-	(3)
Exercised during the year	(40)	(107)
Balance at end of year	47	87
Exercisable at end of year	-	-

The following table lists the inputs to the model used for the plan for the awards granted in 2008:

*Employee Share-Option plan*

Dividend yield (%)	-
Expected volatility (%)	22
Risk-free interest rate (%)	5
Expected life of option (years)	10
Weighted average share price	18.28
Model used	Black Scholes

The fair value of share options granted is estimated at the date of the grant using a Black Scholes simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the option in years and the weighted average share price of the Company.

The ESOP is an equity-settled plan and the fair value is measured at the grant date.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

US\$'000	2010	2009
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## 28. SHARE-BASED PAYMENTS (continued)

*Performance Shares*

No performance shares were granted during the year. The following table illustrates the number ('000) and movement in share options during the year:

Outstanding at beginning of year	346	417
Granted during the year	-	7
Forfeited during the year	(27)	(78)
Balance at end of year	319	346
Exercisable at end of year	-	-

The following table lists the inputs to the model used for the four tranches of the performance share awards:

<i>Performance Share Awards</i>	<i>Tranche 1</i>	<i>Tranche 2</i>	<i>Tranche 3</i>	<i>Tranche 4</i>
Dividend yield (%)	-	-	-	-
Expected volatility (%)	30.58	31.32	31.23	74.18
Risk-free interest rate (%)	2.49	2.98	2.92	1.13
Expected life of option (years)	3.00	3.00	3.00	3.00
Weighted average share price	13.60	20.34	20.51	3.96
Model used	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo

The fair value of share options granted is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the option in years and the weighted average share price of the Company.

The ESOP is an equity-settled plan and the fair value is measured at the grant date.

*Non-Executive Share Awards*

The following table illustrates the number ('000) and movement in, share awards during the year:

Share awards issued ('000)		
Contracted for at beginning of year	-	362
Shares issued during the year	-	(362)
Balance unissued at end of the year	-	-
Contracted for after year end	-	-
Weighted average share price	-	3.13

There have been no other transactions involving ordinary shares between the reporting date and the date of completion of these financial statements.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 28. SHARE-BASED PAYMENTS (continued)

*Employee Share-Option Plan for 2010 (Long-term incentive plan (LTIP))*

The following table illustrates the number ('000) and movement in the ESOP 2010 share options during the year:

	2010	2009
Outstanding at beginning of year	-	-
Granted during the year	1 375	-
<b>Balance at end of year</b>	<b>1 375</b>	-
Exercisable at end of year	-	-

The following table lists the inputs to the model used for the plan for the awards granted during the year:

*Employee Share-Option Plan for 2010*

Dividend yield (%)	-	-
Expected volatility (%)	76.33	-
Risk-free interest rate (%)	1.11	-
Expected life of option (years)	3.00	-
Weighted average share price (US\$)	3.33	-
Fair value of Nil Value Options (US\$)	2.27	-
Fair value of Market Value Options (US\$)	1.45	-
Model used	Monte Carlo	-

The fair value of share options granted is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the option in years and the weighted average share price of the Company.

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