

12 May 2014

GEM DIAMONDS LIMITED

Interim Management Statement for Year to May 2014

Gem Diamonds Limited (LSE: GEMD) reports its Interim Management Statement (IMS) for the Period 1 January 2014 to 9 May 2014 (the Period).

Highlights:

Letšeng:

Continued strong performance underpinning the strength of the Letšeng asset as a world class mine

- 26 055 carats recovered in Q1 2014, up 39% on Q1 2013.
- 30 060 carats sold in the first three exports of 2014, up 4% on Q1 2013.
- An average value of US\$ 2 723 per carat was achieved for the first three sales of 2014, up 70% on Q1 2013.
- 17 rough diamonds achieved a value in excess of US\$ 1.0 million each during the Period.
- 44 rough diamonds achieved a value in excess of US\$ 20 000 per carat during the Period.
- A total of 171 rough diamonds greater than 10.8 carats in size were sold in the Period, equating to 81% of Letšeng's revenue for the Period.
- Two exceptional large diamonds (a 162.02 carat and a 161.31 carat) were recovered in January 2014 and sold in February for US\$ 11.1 million and US\$ 2.4 million respectively.

Ghaghoo:

Strong progress at Ghaghoo continues to build long term value potential

- Kimberlite was intersected in the first production tunnel on level 1 in early May 2014.
- Drilling of the first (of three) ventilation holes was completed during the Period, and the second is well advanced.
- Commissioning of the plant is progressing well and on schedule.

Cash:

Robust financial position and cashflows providing financial flexibility to meet medium term objectives

- The Group maintains its strong cash position with US\$ 89.1 million cash as at 30 April 2014, of which US\$ 78.6 million is attributable to Gem Diamonds. (US\$ 71.2 million as at 31 December 2013, of which US\$ 62.6 million was attributable to Gem Diamonds).
- During the Period, Letšeng declared a dividend of US\$ 20.5 million which resulted in a net cash flow of US\$ 12.9 million to Gem Diamonds and a cash outflow from the Group as a result of withholding taxes of US\$ 1.5 million and payments of the Government of Lesotho's portion of the dividend of US\$ 6.1 million.

Gem Diamonds' CEO, Clifford Elphick commented:

“Strong diamond prices continue to be seen at the Letšeng tenders and this, coupled with the continuing contribution of ore sourced from the Satellite pipe at Letšeng, has resulted in an increase in carats sold and an improvement in the average dollar per carat achieved. We continue to pursue low capital value-accretive projects to optimize the Letšeng mine and further capitalise on the high quality and potential of the asset. In addition, the development of Ghaghoo remains on schedule, with the first ore having been put through the plant as part of the commissioning process.”

1. Diamond Market

A relatively strong rough market was experienced during the Period. The demand for rough diamonds observed in the first three Letšeng tenders held in 2014 continued the positive trend seen in Q4 2013 with increased buying activity and strong prices, notwithstanding that the same liquidity concerns raised in 2013 and the tightening of lending criteria previously announced by certain Belgian banks remain.

Trading activity in the high value polished market remained positive and a continued healthy demand for large high quality polished diamonds was seen during the Period.

2. Lesotho

Gem Diamonds holds a 70% shareholding in Letšeng Diamonds (Pty) Ltd (“Letšeng”) in partnership with the Government of the Kingdom of Lesotho which owns the remaining 30%.

2.1 Production

	Q1 2014	Q1 2013	YoY % Change	Q4 2013
Waste stripped (tonnes)	5 472 918	4 766 545	15%	4 079 676
Ore treated (tonnes)	1 580 379	1 474 158	7%	1 621 815
Carats recovered	26 055	18 775	39%	27 227
Grade recovered (cpht)	1.65	1.27	30%	1.68

In accordance with the mine plan, Letšeng’s operational performance in Q1 2014 exceeded Q1 2013 in all aspects and continued with the good performance achieved in Q4 2013.

During Q1 2014, waste stripping increased due to the shorter haul distance on the new cutback that commenced in January 2014.

Letšeng’s Plants 1 and 2 treated 0.67 million and 0.68 million tonnes of ore respectively in Q1 2014, 35% of which was sourced from the Satellite pipe (0% Satellite ore in Q1 2013 and 56% Satellite ore in Q4 2013). The balance of ore was treated through the Alluvial Ventures plant, 50% of which was sourced from old stockpiles and 50% from the Main pipe. The Alluvial Ventures plant continued to run during the Period and its contract remains under review.

Planned tonnages and carats recovered were exceeded in Q1 2014, however, power outages at the beginning of Q1 2014 and a two day delay resulting from a failure of the vertical conveyor in Plant 2, led to a decrease in treated tonnes against Q4 2013. The reduced tonnes treated in Q1 2014, as well as the planned reduction in

the proportion of Satellite ore treated in Q1 2014 compared to Q4 2013, resulted in a 4% decline in carats recovered during Q1 2014 against Q4 2013.

2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

	First 3 tenders of 2014*	First 3 tenders of 2013*	YoY % Change	Last 3 tenders of 2013*
Carats sold	30 060	29 205	3%	29 825
Total value (US\$ millions)	81.9	46.7	75%	75.6
Achieved US\$/ct	2 723	1 599	70%	2 533

*Includes carats extracted for polishing at rough valuation.

During the Period, Letšeng held three tenders for its rough diamonds, which achieved an average value of US\$ 2 723 per carat, bringing the 12 month rolling average to US\$ 2 383 per carat.

17 exceptional rough diamonds achieved prices greater than US\$ 1.0 million during the Period. As previously reported two large +100 carat rough diamonds (a 162.02 carat type II diamond and a 161.31 carat type I diamond) achieved top prices, in accordance with their respective colour, clarity and shape, at Letšeng's February tender. The 162.02 carat diamond sold for US\$ 11.1 million (US\$ 68 687 per carat) and the 161.31 carat sold for US\$ 2.4 million (US\$ 14 636 per carat).

2.3 Projects

The new coarse recovery plant project is on track for the scheduled commissioning in Q2 2015. This project will use the latest X-Ray Transmissive (XRT) technology to treat the high value coarse fraction of the ore, to ensure improved recovery of the high value type II diamonds. The project will also include security improvements and advanced technology diamond accounting of the diamonds recovered. Detailed design has commenced and long lead items have been procured, with construction scheduled to start in Q3 2014.

Work to identify incremental improvements to throughput and breakage at both of the Letšeng plants is ongoing with the plant upgrade project's pre-feasibility study having been completed. The upgrade options will now be evaluated and prioritised for further development.

3. Botswana

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

The development of the Ghaghoo mine is progressing well and commencement of commercial production remains on schedule for H2 2014.

Kimberlite was intersected in the first production tunnel on level one in early May and drilling of the first (of three) ventilation holes was completed. The second ventilation hole is 80% complete and should reach its planned depth of 154 metres during May 2014. The drill pad for the third hole has been completed.

Plant commissioning is progressing satisfactorily.

As at 31 March 2014, US\$ 76.3 million of the total capital budget of US\$ 96.0 million had been spent.

Health, Safety, Security and Environment (HSSE):

As previously announced, on 11 January 2014 a fall of ground incident occurred in Level 0 of the underground development at Ghaghoo which resulted in a fatality and was the only lost time injury recorded for the Group during Q1 2014, resulting in a Lost Time Injury Frequency Rate (LTIFR) for the Group of 0.17.

Zero major stakeholder or environmental incidents have occurred in Q1 2014.

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About Gem Diamonds:

Gem Diamonds is a leading global diamond producer of high value diamonds. The company owns 70% of the Letšeng mine in Lesotho and 100% of the Ghaghoo mine, currently in development in Botswana. The Letšeng mine is famous for the production of large, top colour, exceptional white diamonds, making it the highest dollar per carat kimberlite diamond mine in the world. Since Gem Diamonds' acquisition of Letšeng in 2006, the mine has produced four of the twenty largest white gem quality diamonds ever recorded.

Gem Diamonds has a growth strategy based on the expansion of the Letšeng mine and the development of the Ghaghoo mine, while maintaining its strong balance sheet. The Company seeks to maximise revenue and margin from its rough diamond production by pursuing cutting, polishing and sales and marketing initiatives further along the diamond value chain. With favourable supply/demand dynamics expected to benefit the industry over the medium to long term, particularly at the high end of the market supplied by Gem Diamonds, this strategy positions the Company well to generate attractive returns for shareholders in the coming years.

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