12 November 2012

GEM DIAMONDS LIMITED

Interim Management Statement

Gem Diamonds Limited (LSE: GEMD) reports an Interim Management Statement ("IMS") for the Period 1 July to 11 November 2012 ("the Period").

During the Period:

Letšeng:

- Achieved 12 months LTI-free on 4 November 2012.
- An average value of US$1 673 per carat was achieved for the 2 exports in Q3 2012 (US$ 2 426 per carat in Q3 2011).
- The October export achieved US$1 944 per carat (US$2 300 per carat in October 2011, excluding the sale of the 550 carat Letšeng Star which sold for US$16.5 million).
- 10 rough diamonds achieved an average value in excess of US$1 million each during the Period (15 in the corresponding Period in 2011).
- 34 rough diamonds produced which achieved prices greater than US$20 000 per carat in the Period (50 in the corresponding Period in 2011), totalling 116 and contributing 58% of Letšeng's production value for the year to date.
- A total of 180 rough diamonds greater than 10.8 carats in size were produced (171 in the corresponding Period in 2011).

Ellendale:

- Strong operational performance with 41 680 carats recovered in Q3 2012 (up 28% on Q3 2011).
- Achieved an overall average price of US$618 per carat in Q3 2012 (US$1 015 per carat in Q3 2011), with the fancy yellow diamonds sold to Tiffany & Co. achieving an average of US$3 902 per carat in Q3 2012 (US$5 153 per carat in Q3 2011).
- New floor index for the fancy yellow pricing mechanism with Tiffany & Co. introduced in October 2012 resulted in a price of US$5 231 per carat for the October sale of fancy yellow diamonds to Tiffany & Co.

Ghaghoo:

- Tunnelling operations re-commenced in September 2012 although progress remains slow due to unforeseen hard material being encountered.

Group:

- 6 Lost Time Injuries (LTIs) have occurred in the Group for the year to date.
- Zero major stakeholder and environmental incidents have occurred year to date.

Cash:

- The Group has US$94.0 million cash as at 31 October 2012, of which US$79.0 million is attributable to Gem Diamonds.

Financing:

- A Term Sheet has been signed with Nedbank for a US$20.0 million 3 year Revolving Credit Facility at GDL providing funding flexibility for the Group.

Gem Diamonds' CEO, Clifford Elphick commented:

"The diamond mining industry continued to experience rough price headwinds during the Period from the ongoing global financial turmoil and uncertainty. However from October 2012, rough prices have begun to show a more positive trend.

Severe and prolonged winter snow conditions at Letseng have impacted upon carat production for the Period. YTD carat production remains ahead of the corresponding Period for 2011. Carat production at Ellendale is up 28% over the corresponding Period in 2011.

Project Kholo continues and certain of the workstreams have been prioritized with a view to the accelerated enhancement of revenue. In this regard new secondary crushers with improved liner profiles will be installed in the current plants in H1 2013 with the object of reducing large stone damage – thus implementing one of the key strategic objectives of Project Kholo earlier than originally planned. This has the advantage of potentially achieving revenue improvement through relatively light capital expenditure.

It is pleasing to see good progress at Ghaghoo with the erection of the plant and mill progressing well and with the tunnel construction resumed and progressing – albeit at a slower rate than expected due to the adverse ground conditions encountered."

1. Diamond Market

Following the reduction in rough prices in September 2011, the rough diamond market moved positively through to May 2012. However, the polished market continued to weaken over this period on the back of low trading volumes. Margins in the manufacturing sector were consequently eroded. These lower margins and continued illiquidity in the diamond market coupled with the poor macroeconomic climate resulted in significant pressure being exerted on rough prices, which began weakening in June 2012. This pressure continued through to September 2012.

Rough and polished market indices are beginning to reflect a more encouraging overall trend, but the rough trade is expected to be quieter in November as the Indian market celebrates Diwali. A more positive expectation for the holiday season retail sales in the major US market should provide some stimulus to prices in the short term. However the supply strategy of the major producers in an illiquid and fully supplied market, as well as the aftermath of Hurricane Sandy in the US may have an impact.

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

	Q3 2012	Q3 2011	% Change	9 months to 30 Sep 2012	9 months to 30 Sep 2011	% Change
Waste stripped (tonnes)	4 613 254	4 389 359	5%	12 431 981	12 933 296	(4%)
Ore mined (tonnes)	1 415 038	1 635 338	(13%)	4 700 865	5 116 136	(8%)
Ore treated (tonnes)	1 544 903	1 672 208	(8%)	4 919 914	5 064 396	(3%)
Carats recovered	27 054	29 786	(9%)	84 169	82 584	2%
Grade (cpht)	1.75	1.78	(2%)	1.71	1.63	5%

During the Period, severe winter snow conditions hampered waste stripping build up and as a result additional equipment was made available to ensure that the scheduled ramp up of waste stripping was achieved in order to ensure adequate access to ore.

As noted above, the extreme winter snow conditions continued into Q3 2012, further negatively impacting tonnes of ore mined and treated. As a result of this lower tonnage throughput, carats recovered in Q3 2012 were down 9% when compared to Q3 2011. Carat production for the year to date nevertheless has exceeded that of the corresponding period in 2011 and recovered grades are as expected from the defined resource grades.

During Q3 2012 Letšeng Plants 1 and 2 treated 0.6 and 0.7 million tonnes of ore respectively. Of the total ore mined and processed through Letšeng's 1 and 2 plants during Q3 2012, 34% was sourced from the Satellite pipe and 66% was sourced from the Main pipe. For the year to 30 September 2012, 67% of ore was sourced from the Main pipe and 33% was sourced from the Satellite pipe.

As previously indicated in the H1 2012 Trading Update, a survey error for recording waste mined during 2011 and prior years had been identified. A review of the implications thereof remains underway and is planned to be resolved before the end of H2 2012.

2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

	Q3 2012	Q3 2011	% Change	9 months to 30 Sep 2012	9 months to 30 Sep 2011	% Change
Carats sold*	20 568	22 733	(10%)	79 293	75 348	5%
Total value (US$ millions)	34.4	55.2	(38%)	159.7	215.7	(26%)
Average US$/carat*	1 673	2 426	(31%)	2 014	2 863	(30%)

*Includes carats extracted for polishing at rough valuation

During the Period, Letseng achieved an average value of US$ 1 673, which included 845 carats that have either been extracted for own manufacture at the Group's diamond analysis and manufacturing operations in Antwerp or sold into partnership arrangements. Own extractions valued at US$10.5 million in the rough remain unsold at Period end.

Prices for Letšeng's higher quality rough diamonds that produce large top quality polished goods of greater than 10 carats remained robust following the reduction in rough prices in 2011, however prices for these diamonds weakened in Q3 2012. Prices for Letšeng's smaller, higher quality production that produce polished diamonds of less than 10 carats were under pressure and were negatively impacted through late Q2 2012 and Q3 2012.

2.3 Project Kholo

Project Kholo consists of a number of separate, but inter-related work streams, all directed toward increasing revenues at Letšeng - through increased ore throughput; improved diamond liberation; reduced diamond damage and additional production available for cutting and polishing.

Whilst the project is progressing as planned, the Company has continued to closely monitor the challenging global economic conditions and associated impact on the rough, polished and retail diamond markets to evaluate the implications for the project. Further to the extension of the project's development schedule that took place earlier this year, the Directors have initiated a further review of the project scope and implementation time frame in order to ensure that the Group has sufficient capex flexibility and maintains its strong balance sheet.

During the current design review of Project Kholo, various opportunities in line with the overall objective of the project have been identified. Accordingly, new secondary crushers with improved liner profiles, aimed at reducing diamond damage, will be installed in the current plants. This is planned for completion by the end of Q2 2013 and should result in an immediate reduction in diamond damage, achieving one of the objectives of Project Kholo earlier than originally planned. The cost of these crushers is approximately US$2.3 million.

2.4 Letšeng guidance update for Full Year 2012

	2012
Waste tonnes mined (Mt)	17.0 -18.0
Ore treated (Mt)	6.5 -6.7
Carats recovered (Kct)	112 - 114
Carats sold (Kct)	109 -112
Direct cash costs (before waste) per tonne treated (Maloti)	104.00 – 110.00
Mining waste cash costs per tonne of waste mined (Maloti)	24.00 – 26.00
Operating costs per tonne treated[1] (Maloti)	128.00 – 135.00

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

3. Australia

The Ellendale mine ("Ellendale"), located in Western Australia, is owned and operated by Gem Diamonds' wholly owned subsidiary, Kimberley Diamond Company NL (KDC).

3.1 Production

	Q 3 2012	Q3 2011	% Change	9 months to 30 Sep 2012	9 months to 30 Sep 2011	% Change
Waste stripped (tonnes)	2 100 321	2 430 306	(14%)	5 192 149	4 733 755	10%
Ore mined (tonnes)	1 359 853	956 396	42%	3 402 547	1 568 349	117%
Ore treated (tonnes)	1 119 865	854 136	31%	3 193 658	2 295 642	39%
Carats recovered	41 680	32 647	28%	120 561	84 997	42%
Grade (cpht)	3.72	3.82	(3%)	3.78	3.70	2%

Ellendale has continued on the successes of the first half of 2012 with ore treated in Q3 2012 31% ahead of the corresponding period in 2011. The increased production has translated into 28% more carats recovered and 76% more carats sold in comparison to Q3 2011. During the Period, a new tailings disposal facility was approved at an estimated cost of US$5 million.

The Company is currently reviewing the resources and mine plan at Ellendale, and in light of the short remaining life of mine and the current economic environment, even with the improvement in prices for the Tiffany quality goods, this may potentially lead to a review of the carrying value of the asset at the end of the year.

3.2 Rough Diamond Sales

	Q3 2012	Q3 2011	% Change	9 months to 30 Sep 2012	9 months to 30 Sep 2011	% Change
Carats sold	41 253	23 393	76%	115 832	81 267	43%
Total value (US$ millions)	25.6	23.7	8%	83 .0	56.9	46%
Average US$/carat	620	1 015	(39%)	717	700	2%

In Q3 2012, 4 880 carats of qualifying fancy yellow diamonds were sold to Tiffany & Co. at an average price of US$3 902 per carat (US$5 153 per carat in the third quarter of 2011), resulting in an average of US$4 185 per carat for the year to 30 September 2012 (US$4 496 per carat for the corresponding period in 2011).

36 372 carats of commercial goods were sold at an average price of US$179 per carat in Q3 2012, compared to US$182 per carat in Q3 2011, resulting in an average of US$180 per carat for the year to 30 September 2012 (US$192 per carat for the corresponding period in 2011). The commercial diamonds continue to be sold on an electronic auction platform in Antwerp.

During the Period, pricing for the qualifying fancy yellow diamonds sold to Tiffany & Co. was reviewed and a new floor index to the existing pricing mechanism was agreed. This new floor price was made effective on 1 October 2012 and resulted in the October 2012 fancy yellow delivery to Tiffany & Co. achieving US$5 231 per carat.

3.4 Guidance update for Ellendale for Full Year 2012

	2012
Waste tonnes mined (Mt)	6.2 – 6.4
Ore treated (Mt)	4.1 – 4.3
Carats recovered (Kct)	158 - 163
Carats sold (Kct)	155 - 160
Direct cash costs (before waste) per tonne treated (AUD)	16.00 – 18.00
Mining waste cash costs per tonne of waste mined (AUD)	4.60 – 4.90
Operating costs per tonne treated[1] (AUD)	21.00 – 23.00

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

Due to the improvements made to the Plant, throughput has increased, resulting in increased tonnes of ore treated for the year. As a result of the additional ore treated, additional waste volumes will be mined in order to access the additional ore and to increase the stockpile for the wet season.

4. Botswana

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

Development of the sand tunnel re-commenced in September 2012 following the final inspection review by the Department of Mines to the tunnel integrity and modifications to the open face tunnel shield which were implemented during the Period. The sand tunnel, however, continues to progress slowly as it descends through an area of hard material.

Plant and camp infrastructure development continues to progress according to plan.

5. Other operations

Due to the current global market conditions and the resulting impact on diamond prices, Gem Diamonds has taken a decision to withdraw from its project at Chiri in Angola by the end of November 2012.

Since its inception, a total of US$14.0 million has been spent at Chiri as at 31 October 2012. Following the decision to withdraw from Angola, it is required that this amount be written off. Of the total US$14.0 million spent at Chiri, US$5.6m was advanced as a loan to the project partner and is subject to a continuing right of repayment should the project go ahead at any time in the future (irrespective of Gem Diamonds' involvement).

6. Health, safety, corporate social responsibility and environment:

The health and wellbeing of Gem Diamonds' employees, the appropriate management of the environment in which we operate, and the continuation of sound community relations, remain a top priority across all operations within the Group. Safety trends throughout the Gem Diamonds Group have improved during the reporting period due to a concerted effort in this respect across all levels of the Group.

Zero major or significant environmental or stakeholder incidents were recorded across the Group for the year to date.

Six Lost Time Injuries (LTIs) of which two were fatalities have occurred in the Group to date in 2012. The Group-wide Lost Time Injury Frequency Rate (LTIFR) to end September was 0.31, while the Group-wide All Injury Frequency Rate (AIFR) was 4.42, pleasingly both the LTIFR and AIFR are now trending downward.

It is very pleasing to report that Letseng achieved 12 months LTI free on 4 November 2012.

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About Gem Diamonds:

Gem Diamonds is a leading global diamond producer of high value diamonds. The company owns two production mines, the Letšeng mine in Lesotho and the Ellendale mine in Australia, as well as 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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