

15 November 2013

GEM DIAMONDS LIMITED

Interim Management Statement

Gem Diamonds Limited (LSE: GEMD) ("Gem Diamonds", the "Group" or the "Company") reports an Interim Management Statement ("IMS") for the Period 1 July to 14 November 2013 ("the Period").

During the Period:

Letšeng:

Letšeng continues to demonstrate its strength as a world class producer of high value diamonds:

- 25 559 carats recovered in Q3 2013, up 9% on Q2 2013.
- Continued indication that the new cone crushers are having a positive impact on recoveries.
- An average value of US\$ 2 022 per carat was achieved for the 2 exports in Q3 2013 (US\$ 1 855 per carat in Q2 2013 and US\$ 1 741 per carat in H1 2013).
- The October and November 2013 exports achieved an average of US\$ 2 139 per carat and US\$ 2 406 per carat respectively.
- 13 rough diamonds achieved a value in excess of US\$ 1 million each during the Period, totalling 22 for the year to date.
- 26 rough diamonds produced which achieved prices greater than US\$ 20 000 per carat in the Period (totalling 78 for the year to date).
- A total of 178 rough diamonds greater than 10.8 carats in size were recovered in the Period, equating to 77% of Letšeng's revenue for the Period. (476 diamonds greater than 10.8 carats have been recovered for the year to date, totalling 73% of Letšeng's revenue for the year to date).
- In July 2013 a 99.87 carat diamond sold for US\$ 6.5 million, US\$ 64 631 per carat; in September 2013 a 98.29 carat diamond sold for US\$ 4.7 million, US\$ 52 077 per carat; and in October 2013 a 12.47 carat blue diamond sold for US\$ 7.5 million, a Letšeng record of US\$ 603 047 per carat; and an 83 carat white diamond sold for US\$ 4.8 million, US\$ 59 173 per carat; and in November 2013 a 73.37 carat white diamond sold for US\$ 43 766 per carat and a 32.41 carat white diamond sold for US\$ 53 039 per carat.

Ghaghoo:

Good progress at Ghaghoo, which offers strong growth potential:

- The decline tunnel continues to progress well through the competent basalt with 306 meters of basalt tunnelling completed as at the end of October. (As at the end of October 2013 a total of 765 meters of underground development was achieved).
- Construction of the Plant is complete, with commissioning planned to be complete early in Q2 2014; well ahead of a sustainable feed of run of mine ore becoming available from underground.

Group:

- 3 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.
- Continued implementation of international best practice regarding environmental and social responsibility.

Cash:

- The Group maintains its strong cash position with US\$ 63.6 million cash as at 31 October 2013, of which US\$ 56.3 million is attributable to Gem Diamonds. (US\$ 61.5 million as at 30 June 2013, of which US\$ 55.6 million was attributable to Gem Diamonds).
- As at Period end no draw-downs have been made on either of the US\$ 20 million or Maloti 250 million (US\$ 25 million) facilities.

Gem Diamonds' CEO, Clifford Elphick commented:

"We continue to see a strong performance at Letšeng with the recovery and sale of 13 exceptional Letšeng diamonds which achieved prices in excess of US\$ 1 million each, totalling US\$ 42.6 million in the Period and the gradual move from the lower value main pipe into increasing tonnages of higher value Satellite pipe ore. We are continuing to look at opportunities to improve operating efficiencies at Letšeng. In line with this, the installation of the new cone crushers is complete and we believe that this will enable us to better harness the value of the Letšeng mine as we look to reduce diamond breakage. The development of the new mine at Ghaghoo is progressing well and is on track for the first production to be run through the Plant in H2 of next year as we focus on building our production profile in the longer term and deliver on our growth ambitions."

1. Diamond Market

Ahead of the end of year festive shopping season, the diamond market is again looking at the US as the main centre for the sale of polished. The current demand for rough diamonds seems relatively healthy and, in particular, the demand for high quality large rough diamonds remained strong during the Period. Although positive sentiment is expected to continue, factors such as the devaluation of the Indian Rupee, reduced margins in the manufacturing sector and sustained liquidity constraints are expected to result in the continuation of the cautious approach adopted by most industry participants in both the rough and polished market.

2. Lesotho

Gem Diamonds holds a 70% shareholding in Letšeng Diamonds (Pty) Ltd ("Letšeng"). The Government of the Kingdom of Lesotho owns the remaining 30%.

2.1 Production

	Q3 2013	Q2 2013	% Change	9 months to 30 Sep 2013
Waste stripped (tonnes)	5 136 368	5 909 069	(13%)	14 992 981
Ore mined (tonnes)	1 668 160	1 624 195	3%	4 742 617
Ore treated (tonnes)	1 581 578	1 561 669	1%	4 618 155
Carats recovered	25 559	23 492	9%	67 826
Grade (cpht)	1.62	1.50	8%	1.47

The four new cone crushers which were installed in Letšeng's Plants 1 and 2 in H1 2013 are running well and a number of larger, largely unbroken diamonds have since been recovered.

Good progress has been made with regards to waste stripping, which has been focused primarily on the Satellite pit for the year to date, in order to expose Satellite ore.

Mining was conducted in the lower value, lower grade Main pipe during the early part of the Period and began to ramp up in the higher value Satellite pipe towards the end of Q3 2013 and will continue in Q4 2013 and into 2014, when there will be a continuous treatment of Satellite material throughout the year. The focus on mining in the Main pipe has resulted in a lower overall carat recovery and grade performance for Letšeng for the year to date. However, during Q3 2013 a large amount of K6 material from the Main pipe was treated and this resulted in an increase in carats over Q2 2013. During Q4 2013 a significant amount of the ore mined will be from the Satellite pipe, with 217 000 tonnes of ore having been mined from the Satellite pipe in October.

Ore mined for Q3 2013 has exceeded ore treated as some lower grade, basalt-diluted material has been stockpiled in order to improve the head feed grade. Tonnes treated for the year to date are below the previous year's levels due to a deliberate effort to slow down the plant earlier in the year in order to establish if this could reduce diamond damage and also due to the installation of the new cone crushers. The slow throughput tests were inconclusive and were discontinued.

2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

	Q3 2013	Q2 2013	% Change	9 months to 30 Sep 2013
Carats sold*	20 405	24 458	(17%)	67 471
Total value (US\$ millions)	41.3	45.4	(9%)	123.2
Average US\$/carat*	2 022	1 855	9%	1 825

*Includes carats extracted for polishing at rough valuation

During Q3 2013, Letšeng held 2 tenders which, together with the diamonds extracted for own manufacture, achieved an average value of US\$ 2 022 per carat. Subsequent to Q3 2013, the October 2013 export achieved an average of US\$ 2 139 per carat and the November 2013 export achieved an average of US\$ 2 406 per carat. This brings the year to date average, including both the October and November exports, to US\$ 1 924 per carat.

163 carats valued at a rough market value of US\$ 1.3 million were extracted in the Period from the Letšeng production for manufacture through the Group's own manufacturing operations in Antwerp. At the end of the Period, US\$ 1.7 million remained in inventory, compared to US\$ 10.4 million at the end of December 2012.

2.3 Projects

The design and estimate for a new recovery plant has been completed and the appropriate funding structure is currently being reviewed. Once approved by the Board, the project will likely be implemented in 2014 and will further enhance security of product and through X-ray Transmissive Technology (XRT) will improve the recovery of type II diamonds.

Work at a conceptual level has been completed in order to identify incremental improvements to throughput and breakage at both plants. Results are encouraging and this work will be progressed later this year and into 2014.

3. Botswana

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

During the period under review, good progress was made on the development of the access decline, with a total of 765 meters of underground development achieved as at the end of October (c. 45% of overall waste and ore development plan). The mining face is now in competent basalt and good daily rates of development are being achieved. It is anticipated that contact with the kimberlite on the main production level will be achieved by the end of February 2014 and that commercial commencement of production remains on schedule for early H2 2014. A steady state production rate of 220 000 to 230 000 carats per annum, at a mining rate of 720 000 tonnes per annum has been planned for.

The mining support infrastructure, camp, treatment plant (final commissioning is scheduled for early in Q2 2014) and the other services are in place and are operating well.

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

Three Lost Time Injuries (LTIs) occurred in the Group for the year to date in 2013, resulting in a Group-wide Lost Time Injury Frequency Rate (LTIFR) to end October of 0.16, while the Group-wide All Injury Frequency Rate (AIFR) was 2.42; pleasingly both the LTIFR and AIFR remain well below the 2012 rates.

Zero major environmental or stakeholder incidents have occurred for the year to date.

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About Gem Diamonds:

Gem Diamonds is a leading global diamond producer of high value diamonds. The company owns the Letšeng mine in Lesotho 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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