

24 April 2013

GEM DIAMONDS LIMITED

Interim Management Statement for April 2013

Gem Diamonds Limited (LSE: GEMD) reports an Interim Management Statement (“IMS”) for the Period 1 January to 23 April 2012 (“the Period”).

During the Period:

Letšeng:

- Preparatory work to install four secondary crushers in both Plants 1 and 2 to reduce diamond breakage is complete. Installation will occur by the end of Q2 2013.
- An average value of US\$1 599 per carat was achieved for the first 3 tenders of 2013
- 6 rough diamonds achieved a value in excess of US\$1 million each.
- 24 rough diamonds achieved prices greater than US\$20 000 per carat
- A total of 158 rough diamonds greater than 10.8 carats in size were recovered.

Ghaghoo:

- Development of the access decline entered weathered basalt country rock during the Period.
- Construction of the Plant is 90% complete. No further work will be undertaken until commissioning commences in Q2 2014 to coincide with the ore becoming available.

Group:

- 1 Lost Time Injury (LTI) 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\$56.0 million cash as at 31 March 2013, of which US\$52.8 million is attributable to Gem Diamonds.
- To date no draw-downs have been made on either of the US\$20 million or Maloti 250 million (US\$27 million) facilities.

Gem Diamonds’ CEO, Clifford Elphick commented:

“As anticipated, this quarter was in line with our reduced expectations for grade and quality. Throughput was relatively low, albeit planned. Rough diamond prices have improved over the quarter, but this is not reflected in our results because of the lower quality diamonds mined so far this year. As communicated previously, mining at Letšeng this year has been restricted to the lower grade and lower value section of the Main pipe. Mining will return to the higher value satellite pipe at the end of Q2 this year. It is anticipated that this will result in improved revenues for the remainder of 2013.”

Work at the Ghaghoo project has progressed to the point where the country rock has been reached which will allow for better rates of progress using conventional drill and blast methods.”

1. Diamond Market

The diamond market has continued to recover during the first four months of 2013. Improved demand for rough diamonds as a result of shortages in rough supply, and sustained trading of polished following the reasonable 2012 year-end sales have had a positive impact on the prices in the diamond market 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 2013	Q4 2012	% Change
Waste stripped (tonnes)	4 766 545	4 964 252	(4.0)%
Ore mined (tonnes)	1 450 261	1 584 262	(8.5)%
Ore treated (tonnes)	1 474 906	1 631 520	(9.6)%
Carats recovered	18 775	30 181*	(37.8)%
Grade recovered (cpht)	1.27	1.85*	(31.4)%

*41% of ore treated in Q4 2012 was sourced from the high grade K6 facies in the Main pipe.

Waste stripping was ramped up in the last quarter of 2012 and this has continued into Q1 2013 to ensure timely exposure to the Satellite ore required for mid-2013. During the first quarter of 2013 both Letšeng Plants 1 and 2 treated a total of 1.2 million tonnes of ore which was sourced entirely from the Main pipe as planned, with the remainder treated by Alluvial Ventures. The lower tonnes of ore mined and treated for Q1 2013 is due to test work which was undertaken at both Plants 1 and 2 in order to establish diamond damage profiles at various throughput rates in preparation for the new crusher installations. An unplanned scrubber breakdown cost Plant 2 two days production. The reduction in carats recovered during the Period is as a result of the lower tonnes mined and treated and mining taking place in lower grade areas. Higher grade ore will be exposed and available towards the end of H1 2013 and the Company remains confident that it will meet full year guidance given in March 2013 with regards to carat production.

It is planned that a similar amount of Satellite material as was mined in the previous year will be mined in 2013. However, mining of the Satellite ore is only planned to take place in the second half of 2013.

2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

	Q1 2013*	Q4 2012	% Change
Carats sold	29 205	28 324	3.1%
Total value (US\$ millions)	46.7	48.2	(3.1)%
Achieved US\$/ct	1 599	1 703	(6.1)%

*Includes carats extracted for polishing at rough valuation and includes the first three tenders of the year.

During the Period Letšeng held three tenders which achieved an average value of US\$1 599 per carat for the rough diamonds which were sourced solely from the Main pipe (US\$1 703 per carat for Q4 2012).

During the Period, 249.9 carats valued at a rough market value of US\$7.8 million were extracted for manufacture through the Group's own diamond analysis and manufacturing operations in Antwerp or through strategic partnerships.

2.3 Project Kholo

The procurement and installation of the new secondary crushers for Plants 1 and 2 is underway and on target for installation by the end of Q2 2013. It is expected that these crushers will contribute significantly to reducing diamond damage and hence improving revenue.

Work is ongoing in terms of revising Project Kholo implementation options, production levels and waste stripping profiles. Indicative costs, timelines and updates will be provided during the course of Q2 2013.

3. Botswana

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

During the first quarter of 2013 good progress was made in the development of the access decline, advancing a further 167 meters. The tunnel is now entering into weathered basalt country rock.

The Company is reviewing the rate of development of Ghaghoo, now that the sand portion of the access decline and the plant are complete, in light of the need to maintain a strong balance sheet.

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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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