

6 November 2014

GEM DIAMONDS LIMITED

Interim Management Statement for Q3 2014

Continued strong operational performance in Q3 2014 at Letšeng. Ghaghoo ramp-up progressing.

Gem Diamonds Limited (LSE: GEMD) reports an interim management statement detailing the Company's operational and sales performance for the Period 1 July 2014 to 30 September 2014 (Q3 2014).

Highlights:

Letšeng:

Continued strong performance at Letšeng

- 28 365 carats were recovered in Q3 2014 (28 623 carats in Q2 2014).
- An average value of US\$2 603* per carat was achieved in Q3 2014 (US\$ 2 582* per carat in Q2 2014).
- An exceptional 197.6 carat diamond recovered in July 2014 was sold during the Period for US\$ 10.6 million

*Includes carats extracted at rough valuation for polishing.

Ghaghoo:

Ghaghoo mine officially opened by President Seretse Khama Ian Khama on 5 September 2014

- The major ingress of water has been managed effectively. Final sealing operations are underway.
- Development is progressing in the first four production tunnels on Level 1.
- Trial stope on Level 0 prepared for training purposes.
- Work continues with minor refinements to the treatment plant in readiness for full production.
- 4 028 carats recovered as at the end of the Period, with the first sale now planned for early 2015.

Financial:

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

- The Group increased its strong cash position to US\$ 128 million cash as at 30 September 2014, of which US\$ 106 million is attributable to Gem Diamonds.
- The US\$ 25 million facility for Ghaghoo Phase 1 has been fully drawn down.
- The Letšeng Maloti 140 million (US\$ 12.5 million) debt facility for the full cost of the new Coarse Recovery plant has been drawn down by Maloti 135 million (US\$ 12.1 million) during the Period.
- In March 2014, Gem Diamonds' Board of Directors announced its intention to pay a maiden dividend to shareholders based on the 2014 financial year results. The Group remains on track to meet this objective.

Gem Diamonds' CEO, Clifford Elphick commented:

“The third quarter of 2014 saw continued strong operational performance at Letšeng as well as the opening of the Ghaghoo mine. The two Letšeng tenders conducted during this Period saw an improvement in the dollar per carat prices achieved when compared to the prior quarter.

The official opening of the Ghaghoo mine was an important milestone for the Company. We are pleased to have completed the construction of the mine on time and within budget and to have overcome the challenges posed by developing a decline through some 80 meters of sand. The first sale of the Ghaghoo production will occur in February 2015 to coincide with the first Letšeng sale in 2015.”

1. Diamond Market

Diamantaires are cautious in the period leading up to Christmas following the Hong Kong Diamond and Jewellery Show in September. Prices achieved for Letšeng’s high value production have remained healthy, as illustrated by the strong average price of US\$ 2 603 per carat achieved in Q3 2014. The market for both rough and polished diamonds has declined towards October, however, we remain optimistic that prices for Letšeng’s high value production will be resilient for the remaining sales of 2014.

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 2014	Q2 2014	% Change	9 months to 30 Sept 2014
Waste stripped (tonnes)	4 787 791	4 548 513	5%	14 809 222
Ore treated (tonnes)	1 601 758	1 648 712	-3%	4 830 849
Carats recovered	28 365	28 623	-1%	83 043
Grade recovered (cpht)	1.77	1.74	2%	1.72

The commissioning of new, larger earthmoving equipment at Letšeng earlier in the year has resulted in a 5% increase in waste mined in Q3 2014 over that mined in Q2 2014.

Letšeng’s Plants 1 and 2 treated a total of 1.3 million tonnes of ore in Q3 2014, 33% of which was sourced from the Satellite pipe and 67% from the Main pipe. The balance of ore was treated through the Alluvial Ventures plant, 37% of which was sourced from stockpiles and 63% from the Main pipe.

Letšeng produced 28 365 carats in Q3 2014, representing a 1% decrease from Q2 2014. This was due to lower tonnes treated as a result of replacing a vertical conveyor on Plant 2, as well as a higher percentage of ore being sourced from the Main pipe during Q3 2014.

2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

	Q3 2014* (2 tenders)	Q2 2014* (3 tenders)	% Change	9 months to 30 Sept 2014*
Carats sold	23 550	34 510	-32%	77 349
Total value (US\$ millions)	61.3	89.1	-31%	209
Achieved US\$/ct	2 603	2 582	1%	2 703

*Includes carats extracted at rough valuation for polishing.

Two Letšeng tenders were held in the Period, achieving a robust average price of US\$ 2 603* per carat (compared to three tenders in Q2 2014, achieving US\$ 2 582* per carat) and bringing the 12 month rolling average to 30 September of US\$ 2 656* per carat.

*Includes carats extracted at rough valuation for polishing.

During Q3 2014, nine exceptional rough diamonds achieved prices greater than US\$ 1 million each, including the 197.6 carat white diamond which, as previously announced, was recovered in July 2014 and sold on tender in September for US\$ 10.6 million (US\$ 53 746 per carat). 447 carats were extracted during Q3 2014 for own manufacturing at a rough value of US\$ 6.6 million, and at the end of the Period a total of US\$ 10.7 million (at rough value) remained in manufacturing inventory, compared to US\$ 4.9 million at the end of Q2 2014.

2.3 Projects

The new Coarse Recovery Plant project remains on track for completion in Q2 2015 for a total budget of Maloti 140.0 million (approximately US\$ 12.5 million), of which Maloti 90.0 million is expected to be spent in 2014. The X-Ray Transmissive (XRT) sorters, which are expected to improve recovery of the high value Type II diamonds, arrived in South Africa in late October 2014. The design of the Personnel Control Centre (PCC) is well advanced and includes an X-ray scanner which has been tested for accuracy of diamond detection and the health and safety of employees. It is expected that this scanner, together with the improved surveillance and fully hands-free and auditable diamond recovery, will result in significant security improvements. The civil contractor has commenced work as planned and the structural, mechanical, piping & platework contractor is scheduled to mobilise in Q4 2014.

The Plant 2 Phase 1 upgrade project has been approved for implementation. The project commenced in Q3 2014 and is on track to be completed in Q1 2015. It is planned to deliver an increase in treatment capacity of 250 000 tonnes per annum as well as further reducing diamond damage at a capital cost of Maloti 50.0 million (US\$ 4.5 million) of which, approximately Maloti 17.0 million (US\$ 1.5 million) will be spent in 2014. Subsequent phases of the Plant 2 upgrade project will be considered once Phase 1 has been successfully implemented.

3. Botswana

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

Ghaghoo has entered an important phase as it transitions from a capital project to an operating mine.

Development is currently progressing in four production tunnels within the kimberlite on Level 1. The significant volume of water flowing in from a fissure within the basalt country rock on Level 1 has been managed efficiently and the final sealing of the fissure is in progress.

The tunnels in the old sampling level (140m below surface) were intersected during August 2014. These tunnels are now accessible and have been dewatered, fully inspected and made safe in the targeted VKSE part of the orebody. The second ventilation hole has been completed and work is progressing to link the first and second ventilation holes.

The significant ingress of water has impacted planned development rates and as such, it is now envisaged that the monthly production rate is likely to be achieved by the end of Q1 2015. A training stope has been developed on Level 0 which will be used to provide ore to complete the optimisation of the treatment plant during the latter part of 2014 as planned. This optimisation process will improve liberation and recovery efficiencies in readiness for full production. The plant has so far demonstrated its capability to treat at greater than 90% of planned feed rate.

As at the end of the Period, 4 028 carats have been recovered at Ghaghoo and it has been decided to hold the initial sale alongside the Letšeng sale in February 2015 to allow existing customers to participate.

4. Health, Safety, Security and Environment (HSSE):

The Group continues to strive toward its goal of zero harm to its people and environment and to operate within the Group's sustainable development framework.

To the end of the Period, the Group-wide Lost Time Injury Frequency Rate (LTIFR) was 0.05 and the Group All Injury Frequency Rate (AIFR) was 2.92.

Gem Diamonds continues to work closely with its project affected communities to ensure that the social projects implemented continue to be sustainable.

Zero major or significant environmental incidents have occurred across the Group.

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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 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 bringing the Ghaghoo mine into production, 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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