16 April 2012

GEM DIAMONDS LIMITED

Interim Management Statement for April 2012

Gem Diamonds Limited (LSE: GEMD) reports an Interim Management Statement ("IMS") for the Period 1 January to 15 April 2012 ("the Period").

During the Period:

Letšeng:

- Project Kholo commenced in January 2012 and is proceeding as planned.
- 28 114 carats were recovered during Q1 2012, up 5.9% from Q1 2011.
- The recovered grade at Letšeng during Q1 2012 is up 10.6% on Q1 2011.
- Average value of US$1 976 per carat for the three tenders held in the Period.
- An exceptional 155 carat type IIa white diamond was recovered on 6 April 2012.
- 9 rough diamonds achieved an average value in excess of US$1 million each during the Period.
- Letšeng produced a total of 43 rough diamonds that achieved prices greater than US$20 000 per carat, equivalent to 55% of Letšeng's revenue for the Period.
- A total of 185 rough diamonds produced greater than 10.8 carats in size in the Period.

Ellendale:

- Continued improvement in plant throughput and diamond production following the commissioning of the primary plant feed section of the processing plant.
- Achieved an overall average price of US$1 049 per carat, with its fancy yellow diamonds sold to Tiffany & Co. achieving an average of US$4 326 per carat during Q1 2012.

Ghaghoo:

- Infrastructure work has progressed well with plant construction commencing on 16 April. The advance rate of the decline has however been slower than expected with challenges encountered in advancing through an area of unconsolidated sand.

Group:

- Zero 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$120.1 million cash as at 31 March 2012, of which US$109.6 million is attributable to Gem Diamonds, following a scheduled US$21 million income tax payment made by Letšeng during the period in respect of 2011.

Gem Diamonds' CEO, Clifford Elphick commented:

"The Letšeng resource has exceeded expectations and it is pleasing to note that carat production and grade are both up when measured against the corresponding Period last year. In addition, the Gem Diamonds Price Index (which measures prices for Letšeng and Kimberley rough diamonds on a like for like basis) is up some 7

percent for 2012, reflecting a continued strengthening of the market for higher end rough diamonds. The Letšeng expansion project Kholo has commenced and is progressing well.

Ellendale has performed well and carat production and ore mined are significantly ahead of the corresponding Period of 2011. The average price achieved for Ellendale's sales in the Period is more than double that of Q1 2011."

1. Diamond Market

The market for rough diamonds has continued to improve following the correction to prices in September 2011. The Gem Diamonds Price Index has shown increases in every sale since this correction and is up some 7% in 2012.

Gem Diamonds anticipates rough prices across the market to continue increasing into Q2 2012 and, despite the relatively thin volumes being traded in the polished market in high end goods, prices in these goods both in the polished wholesale market and high end branded auctions are expected to improve further.

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 2012	Q1 2011	% Change
Waste stripped (tonnes)	4 195 218	4 027 569	4.2%
Ore mined (tonnes)	1 622 039	1 786 517	-9.2%
Ore treated (tonnes)	1 684 011	1 759 383	-4.3%
Carats recovered	28 114	26 541	5.9%
Grade recovered (cpht)	1.67	1.51	10.6%

In the first quarter of 2012, both Letšeng's Plant 1 and 2 each processed 0.7 million tonnes and the Alluvial Ventures plant processed 0.3 million tonnes. The planned mining of the high grade K6 facies (which was last mined in the 1970's and 80's) in the Main pipe was delayed to the second quarter due to a thicker than expected layer of low grade muddy material, which had accumulated in the bottom of the pit.

Overall for the Period total tonnes treated through all plants is in line with expectations, despite a major planned maintenance shutdown of Plant 2 (which was successfully completed in March) and the reduced treatment rates of the very low grade muddy ore through the Alluvial Ventures plant noted above. This resulted in total tonnes treated being marginally lower than in Q1 2011. Of the total ore processed for the Period through all three plants, 78% was sourced from the Main pipe and 22% was sourced from the Satellite pipe.

In the first quarter, carat production at Letšeng was in line with plan, with 28 114 carats recovered. The recovered grade continued to outperform the resource grade during the Period.

Tonnes of waste mined have been increased to meet the mine planning requirements to ensure sufficient ore exposure in accordance with the mine plan. However, due to wet weather conditions, waste mining is behind schedule for the first quarter and action has been taken to rectify this, with further increases planned for the year.

The deep drilling programme to extend the resource at Letšeng is looking very encouraging with kimberlite intersected at depths of 204 meters and 321 meters respectively, below the current limit of the resource, in the Satellite and Main pipes.

2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

	The Period 2012	The Period 2011	% Change
Carats sold*	29 730	30 751	-3.3%
Total value (US$ millions)*	58.7	94.3	-37.7%
Achieved US$/ct*	1 976	3 067	-35.6%

*Includes carats extracted for polishing at rough valuation and includes the first 3 tenders of each year.

A total of 43 rough diamonds recovered at Letšeng achieved values in excess of US$20 000 per carat, constituting 55% of Letšeng's revenue for the Period.

The average of US$1 976 per carat achieved for Letšeng's first quarter exports is down 36% from the corresponding prior year Period, in which a number of exceptional fancy coloured and white diamonds were recovered and sold.. This is due primarily to the mining mix of ore sourced from Letšeng's two kimberlite pipes - the Main and Satellite pipes, and to the natural variability which occurs within the ore bodies. The first export of 2012 consisted of diamonds recovered from ore sourced almost entirely from the lower average US$ per carat Main pipe. Similarly, the second export, included only 14% of ore sourced from the Satellite pipe. It is still forecast that all of the ore planned in 2012 to be sourced from the Satellite pipe and the K6 facies in the Main pipe will be treated this year. In addition, the second tender of 2012 included one week less production than normal as the sales cycle was adjusted to allow more time for the sorting and sales process. The fourth Letšeng export parcel was valued on 13 April 2012 at an average US$ per carat of US$2 737 for export insurance purposes.

In the Period, a total of 175.5 carats were extracted at a rough market value of US$3.7 million for own and partnered manufacturing. At the end of the Period, US$2.4 million remained in inventory and unrecognised in group revenues, of which US$1.5 million relates to extractions from 2011.

An exceptional 155ct type IIa white diamond was recovered on 6th April 2012. Various options are being considered in order to maximise the value achieved for this diamond.

2.3 Project Kholo

The detailed design phase of Project Kholo is continuing in conjunction with the commencement of the early works. Site work commenced in January 2012 with geotechnical drilling, which confirmed the suitability of the ground conditions for construction of the third processing plant and the tender process for the early earthworks was completed on schedule and awarded in early April.

Work on increasing the power supply to the mine has commenced, with the design engineers and environmental consultants having been appointed.

The environmental consultants have also commenced work on the overall environmental project brief and meetings held with the Lesotho Department of Environment have confirmed that this will meet the legislated environmental requirements within the current Letšeng lease area.

3. Australia

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

3.1 Production

	Q1 2012	Q1 2011	% Change
Waste stripped (tonnes)	979 169	308 234	218%
Ore mined (tonnes)	494 073	14 795	3 239%
Ore treated (tonnes)	937 668	681 318	38%
Carats recovered	31 616	25 468	24%
Grade recovered (cpht)	3.37	3.74	-10%

Ellendale has continued to see improvement and consistency in its production in the first quarter of 2012. The positive impact of both lower rainfall and the newly commissioned primary plant feed section of the processing plant is evident in the significant improvement in tonnes throughput and carats recovered when compared to the same quarter last year.

In the past, Ellendale has not mined in the first two to three months of each year due to the wet season, however in Q1 2012, mining continued during the wet season in order to build up the stockpiles required to supply the Q1 2012 production plan. Waste tonnes stripped and ore mined are both significantly above Q1 2011 as a result of the wet season mining.

The grade is lower than that recovered in Q1 2011 due to lower grade material being fed onto the stockpile in Q4 2011 which has been the main source of ore processed in Q1 2012.

3.2 Rough Diamond Sales

	Q1 2012	Q1 2011	% Change
Carats sold	23 200	32 453	-28.5%
Total sales value (US$ millions)	24.3	16.6*	46.4%
Achieved US$/ct	1 049	511*	105.3%

* Includes the back payments received from Tiffany & Co. in July 2011 that related to the fancy yellow deliveries in Q1 2011.

Carats sold in Q1 2012 comprised 4 849 carats of fancy yellow diamonds supplied to Tiffany & Co. (2 884 carats in Q1 2011) at an average price of US$4 326 per carat (US$3 751 per carat in Q1 2011). The increase in fancy yellow carats recovered and sold in Q1 2012 is a function of the increased throughput over Q1 2011 (38% up) facilitated to a large extent by the commissioning of the modifications to the primary plant feed section of the processing plant.

The significant increase in the overall achieved US$ per carat was partly as a result of improved fancy yellow prices over the prior Period, but also in part to the delayed commercial goods auction which is scheduled to commence in late April 2012.

4. Botswana

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

Phase 1 of the Ghaghoo underground mine in Botswana is currently being developed and construction of the decline using an open face tunnel shield through the sand overburden is underway. Although a slow start to the sand decline was anticipated and planned for, the progress rate through an area of unconsolidated sand has been slow.

Approximately 60 meters of tunnel have been completed to date, and a further 450 meters are required to reach the basalt country rock. Thereafter 650 meters of development is required to reach the planned bottom of the decline.

In the Period, a decision was taken to proceed with the sinking of a 6m diameter ventilation shaft for the underground mine and a commercial award for this work has been made.

Delivery of materials for the construction of the treatment plant has commenced, with civil work commencing in the third week of April. Construction will start in June 2012, with completion anticipated in early Q1 2013. Production from the sub-level cave is still planned to follow in the second half of 2013.

5. Other operations

The care and maintenance phase of the Chiri project in Angola has been extended until May 2012.

6. Mineral resources and reserves

An updated Mineral Resource and Reserve Statement detailing the Group's mineral resources and reserves will be published during the second quarter of 2012. This document will be made available on www.gemdiamonds.com.

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

Zero fatalities and Lost Time Injuries (LTIs) have occurred in the Group to date in 2012. The All Injury Frequency Rate as at end March 2012 is 5.60.

No major or significant environmental or stakeholder incidents were recorded across the Group.

GEM DIAMONDS

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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 clear and consistent growth strategy based on the expansion of the Letšeng mine to double its production capacity by 2014 and the development of the Ghaghoo mine, expected to be in production during 2013. The Company also 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.

www.gemdiamonds.com