



NAMAKWA DIAMONDS

12 January 2012

Namakwa Diamonds Limited (LSE:NAD)

Q1'FY2012 Interim Management Statement

Namakwa Diamonds Limited ("**Namakwa**", the "**Company**" or the "**Group**") today issues its interim management statement for the period 1 September 2011 to 30 November 2011.

HIGHLIGHTS:

- **Lesotho:** 500tph plant in final stages of commissioning. Ramp-up to achieve nameplate capacity and Phase 1 commercial production is underway, with cashflow positive operations anticipated in Q1'CY2012. Initial production of c.3.9Kcts is to be tendered in Johannesburg in January 2012, with a total of 10 tenders planned for 2012. Capital cost of US\$66m (as at 31 December 2011), 100% funded by Namakwa, with an additional US\$8m to be spent during Q1'CY2012.
- **South Africa:** North West Province alluvial mines restructured. Continuing operations breakeven for the period before redundancy costs. c.6.5Kcts recovered during the period, at an average price of US\$627/ct (Q1'FY2011: US\$687/ct), including 11 special diamonds above 10.8cts each. A 37.46ct diamond was recovered after the period end and will be sold in January 2012.
- **DRC:** Portfolio of alluvial mining and kimberlite exploration assets sold in September 2011 for a deferred consideration of US\$6.25m to be settled via a 5 year off-take agreement.
- **Trading & Beneficiation:** Rough and polished trading inventory sold at cost for US\$6.36m.
- **Group Funding:** US\$40m two year, secured term-loan entered into with Jarvirne. US\$25m of the facility drawn to date and an additional US\$6m called to meet January 2012 capital and operational payments. US\$19.5m trade debt owed to Jarvirne capitalised.
- **Corporate Costs:** Significant progress taken to reduce corporate costs from US\$15.9m in FY2011, to a target of US\$9m for FY2012, with further savings projected for future years.
- **Group Litigation:** Successful defence of claim made by Batla Minerals in Lesotho, with costs awarded to Namakwa. Batla has notified Namakwa of its intention to appeal the Court's decision.

Commenting, Richard Collocott, CEO of Namakwa said: "We are pleased to report a positive set of results for Q1'FY2012 following a difficult start to the financial year, with Management executing on Namakwa's stated strategic goals to restructure the business. The Company continues to provide a unique entry point for direct exposure to the Kao mine in Lesotho, a significant kimberlite resource on the world stage."

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Notes to Editors:

About Namakwa Diamonds Limited

Namakwa is a diamond resource group, which seeks to extract maximum value from the marketing, distribution and sale of Group mined and contracted production.

The Group's Mining Division is focused on the Kao mine in Lesotho, the 4th largest individual kimberlite pipe in South Africa and Lesotho (and the only one mining at or near surface), anticipated to come into commercial production in the first quarter of the calendar year in 2012. Operated by Storm Mountain Diamonds and its leading hard-rock mining team, with a proven track record in the construction and development of Lesotho's leading kimberlite pipes, the Kao mine presents a 186Mt kimberlite resource of c.13m carats (c.4m indicated and c.9m inferred), in which Namakwa holds a 62.5% interest.

The Group also maintains alluvial mining operations in the North West Province of South Africa.

Forward Looking Statements

This announcement includes forward-looking statements that reflect the current views of Namakwa Diamonds' management with respect to future events. These forward-looking statements include matters that are neither historical facts nor are statements regarding the Company's intentions, beliefs or current expectations concerning, inter alia, the Company's results of operations, financial condition, liquidity, prospects, growth, strategies, and the industry in which Namakwa Diamonds operates. Forward-looking statements are based on current plans, estimates and projections, and therefore too much reliance should not be placed upon them. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond the Company's control. Namakwa Diamonds cautions you that forward-looking statements are not guarantees of future performance and that if risks and uncertainties materialise, or if the assumptions underlying any of these statements prove incorrect, the Company's actual results of operations, financial condition and liquidity and the development of the industry in which Namakwa Diamonds operates may materially differ from those made in, or suggested by, the forward-looking statements contained in this announcement. In addition, even if the Company's results of operations, financial condition and liquidity and the development of the industry in which Namakwa Diamonds operates are consistent with the forward-looking statements contained in this announcement, those results or developments may not be indicative of results or developments in future periods. Except as required by the United Kingdom Listing Authority's Listing Rules and applicable law, the Company does not undertake to update any forward-looking statements to reflect events that occur or circumstances that may arise.

Operating & Financial Review

Lesotho

Kimberlite ore was first processed through the 500tph plant in late November 2011, as part of the commissioning process. Production of 3,921 carats will be sold via an independent tender in Johannesburg between 18 – 27 January 2011. This production consists of predominately small diamonds with an average size of 0.21cts, sourced primarily from KOther weathered kimberlites. The diamond size profile is expected to increase on future tenders as more K6 hardrock ore is processed.

Management anticipates holding ten tenders per year to establish a consistent pricing profile for Kao diamonds.

The plant is currently operating at 200-250tph as part of the ramp-up plan to achieve nameplate capacity and Phase 1 commercial production in the first quarter of the 2012 calendar year ("**Q1'CY2012**"). During the commissioning process it became apparent that one of the two secondary crushers required off-site retro-fitting. The unit has now been re-commissioned on site.

A capital cost of US\$66m (as at 31 December 2011) for the development of the mine has been 100% funded by Namakwa, with an additional US\$8m to be spent by Namakwa during Q1'CY2012. All major capital projects, including the upgrading of the access roads to Ha'Lejone and Tlaeng, the first phase of the slimes containment facility, the freshwater weir, related site access roads and on-site accommodation for 450 people, have now been completed. The freshwater dam is scheduled to be completed in late February 2012. A new final diamond recovery area, is also expected to be completed in February 2012. In the meantime, the production team is using the final recovery area in the existing metallurgical testwork plant to process concentrate.

Production guidance for FY2012 remains unchanged at 200Kcts.

South Africa – North West Province

North West Province alluvial mines restructured. Continuing operations breakeven for the period before redundancy costs.

The 24/7 operating model, which required a three-shift mining team, was replaced with a two-shift mining team working 24 hours per day from 6am on Monday to 6am on Saturday with the remainder of the weekend used for maintenance. The workforce was reduced from 461 to 120 people and an additional contractor added to the wider project area. Grade control and efficiencies continue to be a key focus, with operations suspended on several areas.

6,478 carats were produced during the period, in-line with budget for the rationalised project area, and 5,408 carats were sold at an average price of US\$627/ct. This included 11 special diamonds (above 10.8cts). Following the period end, a 37.46ct diamond was discovered on the Company's operations on the South East Node, which is expected to realise significant value during the January 2012 sales process.

Production guidance for FY2012 remains unchanged at 20Kcts.

SA: NW Province	Q1'12		FY'11	Q4'11	Q3'11	Q2'11	Q1'11	FY10
Tonnage	878,651		5,387,131	1,640,731	1,313,536	1,025,655	1,407,208	4,082,862
Carats Produced	6,478		38,092	9,347	8,154	7,881	12,710	38,476
Grade (cph)	0.74		0.71	0.57	0.62	0.75	0.90	0.94
Carats Sold	5,408		37,235	9,106	8,013	9,360	10,756	37,722
Avg. Price US\$/ct	627		638	735	625	557	687	418

Trading & Beneficiation Division

During the period, the Division sold rough and polished trading inventory, at cost, for US\$6.36m. Proprietary trading and cutting and polishing operations were halted, as the Group's capital was focused on the development of the Kao mine in Lesotho. Limited commission based brokerage services were provided to third parties, on a risk-free basis for Namakwa.

Group Funding

During the period, the Company entered into a US\$40m two year secured term loan with the Company's largest shareholder, Jarvirne. The Company has drawn down US\$25m of the facility and called on a further US\$6m to meet cashflow commitments in January 2012.

Additionally, a US\$19.5m trade debt owed to Jarvirne was capitalised.

Group Litigation

On 30th November 2011, the High Court of Lesotho dismissed the claim of Batla Minerals SA and, its subsidiary, Toro Diamonds (Pty) Ltd (together, "**Batla Minerals**") to a 50% interest in Namakwa's 62.5% shareholding in Storm Mountain Diamonds (Pty) Ltd, with costs awarded to Namakwa.

On 14 December 2011, the Company was informed that Batla Minerals intended to exercise its right to appeal the decision of the High Court of Lesotho, with the appeal hearing expected in April 2012. In accordance with the decision of the Court of first instance, Namakwa considers Batla Minerals' claim to be without merit and will continue to defend its rights vigorously.

Outlook

In the short-term, the Company continues to rely on the available headroom of its US\$40m facility with Jarvirne to meet outstanding capital payments in respect of the Kao mine and ongoing Group costs. However, Management is taking major steps to move the Group towards profitability, with the generation of positive cashflow from the Kao mine expected in Q1'CY2012 and a significant reduction of Group corporate costs for FY2012.

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