
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the contents of this document or course of action to be taken, you are advised to consult an appropriate independent adviser (being, if you are in Ireland, a person who is authorised or exempt under the Investment Intermediaries Act, 1995 of Ireland or the Stock Exchange Act, 1995 of Ireland or, if you are in the United Kingdom, a person authorised under the Financial Services and Markets Act 2000 of the United Kingdom who specialises in advising on the acquisition of shares and other securities).

This document, which comprises a prospectus prepared in accordance with the Public Offers of Securities Regulations 1995 (as amended) (the “POS Regulations”) has been issued in connection with the application for admission of the issued and to be issued Ordinary Shares of African Diamonds plc to trading on the Alternative Investment Market (“AIM”) of the London Stock Exchange plc. A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the POS Regulations.

Application will be made for the issued, and to be issued, ordinary share capital of African Diamonds plc to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the official list of the United Kingdom Listing Authority (“the Official List”). The rules of AIM are less demanding than those of the Official List. London Stock Exchange plc has not itself examined or approved the contents of this document.

A prospective investor should be aware of the risks in investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

AFRICAN DIAMONDS PLC

*(Incorporated and registered in England and Wales)
(Registered number 3999487)*

Placing of up to 11,428,571 Ordinary Shares of 1p each at a price of 7p per Ordinary Share and Admission to the Alternative Investment Market

**Nominated Adviser and Broker
Rowan Dartington & Co. Limited**

SHARE CAPITAL IMMEDIATELY FOLLOWING ADMISSION ASSUMING FULL SUBSCRIPTION UNDER THE PLACING

Authorised			Issued and fully paid	
Number	Amount		Number	Amount
200,000,000	£2,000,000	Ordinary Shares of 1p each	54,741,149	£547,411.49

The Directors of African Diamonds plc, whose names appear on page 8, accept responsibility, including individual and collective, for the information contained in this document and compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Rowan Dartington & Co. Limited, which is regulated by the Financial Services Authority, is the Company’s nominated adviser for the purpose of the AIM Rules. Persons receiving this document should note that, for the purposes of the Placing and Admission, Rowan Dartington & Co. Limited is acting for the Company and not for any recipient of this document. Rowan Dartington & Co. Limited will not be responsible to anyone other than the Company for providing either protections afforded to customers of Rowan Dartington & Co. Limited or for providing advice relevant to the Placing and Admission.

The attention of investors is drawn to the section headed “Risk Factors” set out in Part III of this document.

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DEFINITIONS AND INTERPRETATION

The following definitions apply throughout this document unless the context requires otherwise:

“Act”	the Companies Act 1985 (as amended);
“Admission”	the admission of the Existing Shares and the Placing Shares to trading on AIM and such admission becoming effective in accordance with the AIM Rules;
“Admission Document”	this document dated 8 July 2003;
“African Diamonds” or “Company”	African Diamonds plc;
“AIM”	the Alternative Investment Market of the London Stock Exchange;
“AIM Rules”	the rules published by the London Stock Exchange from time to time governing admission to and the operation of AIM;
“CREST”	the computerised settlement system to facilitate the transfer of title of shares in uncertificated form, operated by CRESTCo Limited;
“Directors” or “Board”	the directors of the Company whose names appear on page 8 of this document;
“Existing Shares”	43,312,578 Ordinary Shares in issue at the date of this document;
“GIDC”	General Investigation and Development Company;
“Grampian Resources”	Grampian Resources Limited, an English registered company and wholly owned subsidiary of African Diamonds;
“Group”	the Company and its subsidiary undertakings;
“Guinea”	Guinea – Conakry;
“Kukama”	Kukama Mining & Exploration (Proprietary) Limited, a Botswana registered company and wholly owned subsidiary of African Diamonds;
“London Stock Exchange”	London Stock Exchange plc;
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company;
“Placing”	the proposed placing of up to 11,428,571 Ordinary Shares at the Placing Price pursuant to the Placing Agreement;
“Placing Agreement”	the conditional agreement dated 17 June 2003 between (1) the Company, (2) the Directors and (3) Rowan Dartington, further details of which are contained in paragraph 9 of part VI of this document;
“Placing Price”	7p per Ordinary Share;

“Placing Shares”	11,428,571 Ordinary Shares which are the subject of the Placing;
“POS Regulations”	the Public Offers of Securities Regulations 1995 (SI 1995/1537);
“Related Party”	as defined in the AIM Rules;
“Rowan Dartington”	Rowan Dartington & Co. Limited;
“Shareholders”	holders of Ordinary Shares;
“Share Option Scheme”	the Company’s share option scheme adopted on 1 December 2001; and
“\$”	United States dollar.

All references in this document to legislation are to the legislation of England and Wales, unless otherwise stated, or the context otherwise requires.

GLOSSARY

alluvial	refers to material formed or deposited by running water
Archaean	the period of geological time before 2,500 Ma
basalt	a dark, fine-grained rock, composed primarily of plagioclase and pyroxene. Basalt is a commonly found volcanic rock making up the upper layer of the oceanic crust
basement	the igneous, granitized or metamorphic crust of the Earth, below which sedimentary deposits do not occur
breccia	angular fragments of rock
carat or ct	the unit of weight for diamonds (1 carat = 0.2 gram)
crater facies	flat lying sedimentary and volcanoclastic rocks found in the uppermost parts of kimberlite craters
craton	part of the Earth's crust, usually formed from igneous and metamorphic rocks, that has been stable for at least 1,000 Ma. Primary diamondiferous deposits are generally restricted to Archaean cratons, i.e. those over 2,500 Ma old
Cretaceous	a geological period of time between 65 Ma ago and 140 Ma ago being the final period of the Mesozoic era
diatreme	a pipe-like volcanic vent or pipe created deep within the Earth's crust by gaseous magma sourced from the mantle and containing fragments of rocks and minerals
dyke	a tabular body of intrusive igneous rock, intersecting the base layers of underlying rock. Dykes can be several centimetres or many metres across and can extend for many kilometres
grade	relative quantity or the percentage of ore mineral content in an ore body. For diamond deposits this is typically expressed as carats per tonne (cpt) or carats per hundred tonnes (cpht)
gravity survey	recording the specific gravity of rock masses in order to determine their distribution
hypabyssal	refers to igneous rocks forming intrusions such as dykes or sills at shallow depths in the Earth's crust
ilmenite	a black or dark brown mineral and a major ore of titanium
indicator minerals	a mineral, the presence of which may indicate the presence of another mineral, including diamonds
Kaapvaal craton	ancient basement craton of southern Africa
Karoo	sedimentary, volcanic and intrusive rocks of the Karoo Supergroup (300 to 190 Ma) that occur throughout southern Africa, including Botswana

kimberlite	a volatile rich ultramafic igneous rock containing a variety of minerals, generated at great depths in the Earth and traceable at the surface in pipes (diatremes), dykes or sills; the principal source of diamonds
Landsat	a NASA satellite transmitting pictures of the Earth to base research stations
mantle	the inner part of the Earth from the crust to the core
Ma	million years
Precambrian	a geological period of time stretching back from about 590 Ma ago to the formation of the Earth
root zone	the zone in the Earth's core from which a kimberlite pipe rises
strike	horizontal direction or trend of a geological structure
syenite	plutonic rock composed essentially of microcline and orthoclase, with little or no quartz
tectonic	pertaining to the forces involved in, or the resulting structures of, movement in the Earth's crust
ultramafic	igneous rocks at least 90% made up of magnesium and iron-rich minerals

ACKNOWLEDGEMENTS

African Diamonds and Rowan Dartington are delighted to acknowledge and express their gratitude to the following organisations for their support and for allowing African Diamonds and Rowan Dartington to use information on diamonds and the diamond production industry published by those organisations:

American Museum of Natural History, New York.

“The Global Diamond Industry”; So-Young Chang, Amanda Heron, John Kwon, Geoff Maxwell, Lodovico Rocca and Orestes Tarajano – Chazen Web Journal of International Business, Columbia University.

DIRECTORS, SECRETARY AND ADVISERS

Directors and Secretary	John James Teeling (Executive Chairman) James Waddell MacGregor (Executive Director) Mark Scowcroft (Executive Director) Leon Robert Mac Daniels (Non-Executive Director) David John Horgan (Non-Executive Director) James Michael Finn (Non-Executive Director and Company Secretary)
Registered Office	20-22 Bedford Row, London WC1R 4JS
Principal Places of Business	162 Clontarf Road Dublin 3 Ireland BOTSWANA Portion 12, Farm 24NQ Gerrard Estates P.O. Box 10775 Tatitown Botswana SIERRA LEONE 1a Old Railway Line Brookfields PO Box 337 Freetown Sierra Leone
Nominated Adviser and Broker	Rowan Dartington & Co. Limited Colston Tower Colston Street Bristol BS1 4RD United Kingdom
Auditors to the Company	Deloitte & Touche Deloitte & Touche House Earlsfort Terrace Dublin 2 Ireland
Solicitors to the Company	McEvoy Partners Canada House 65-68 St. Stephen's Green Dublin 2 Ireland
Solicitors to Rowan Dartington	Osborne Clarke 2 Temple Back East Temple Quay Bristol BS1 6EG United Kingdom
Principal Bankers	Allied Irish Banks plc Annesley Bridge North Strand Road Dublin 2 Ireland
Registrars	Computershare Investor Services (Ireland) plc Heron House Corrig Road Sandyford Industrial Estate Dublin 18 Ireland

SUMMARY OF KEY INFORMATION

The following summary of key information should be read in conjunction with the full text of this document from which it is derived. Attention is drawn, in particular, to the section headed “Risk Factors” set out in Part III of this document.

The business

African Diamonds was established to develop diamond mines in Africa. The Company’s operations are located in Botswana, Guinea and Sierra Leone. The current portfolio of the Company consists of:

- pre-production prospects with known diamond occurrences;
- late stage exploration projects which are known to contain diamonds or diamond indicator minerals; and
- early stage high potential concessions, both alluvial and hardrock.

Key strengths

The Company’s assets in Africa include diamond exploration blocks which are known to contain diamonds or diamond indicator minerals.

The Directors have over 40 years’ combined experience of diamond exploration in Africa and a network of relevant contacts in the target exploration areas.

Trading record

A summary of the Group’s financial record for the period from June 2001 to 31 December 2002, as extracted from the financial information contained in Part V of this document, is set out below.

	13 months ended 30 June 2002	6 months ended 31 December 2002
	£	£
Turnover	-	-
Operating loss	(44,274)	(11,000)
Shareholders’ funds	375,464	1,160,000

The Company’s trading record to date reflects the early stage of the Company’s commercial development.

More detailed financial information on African Diamonds is contained in Part V of this document.

Current trading and prospects

African Diamonds is currently a pure exploration company and, therefore, has not yet generated any revenue. The Directors do not expect the Company to be profitable for some time. The Directors plan to use the net proceeds of the Placing to fund the implementation of the Company’s strategy.

Dividend policy

The Directors acknowledge the importance to investors of the payment of regular dividends. However, it is not expected that dividends will be paid in the short term the Directors envisage the initial reinvestment of profits when the business becomes profitable. When the Company’s trading is established and the Company has distributable profits, it is intended that dividend payments will be made, consistent with the maintenance of a prudent level of dividend cover and with the working capital requirements of the Company.

Strategy

The targets are high potential gemstone prospects. The Directors’ target is to establish a gemstone mine within three years from Admission.

In Botswana, the strategy is to evaluate the existing known kimberlites, search for new kimberlites and search for secondary alluvial deposits from the Orapa kimberlite.

In Sierra Leone, the Company intends to continue its evaluation of the known kimberlite pipes located in the blocks covered by the Company's licences and further identify the extent of other kimberlites and dykes in those areas, leading to exploration and evaluation of those areas.

In Guinea, the Company intends to continue its soil sampling programme to build on the evidence of diamond discoveries by artisanal miners and the research already undertaken by the Company.

Reasons for the Admission and the Placing

The Placing of up to 11,428,571 Ordinary Shares at 7p per share will raise £800,000 (assuming full subscription), of which approximately £659,000 will be receivable by the Company after expenses of the Placing and Admission and will be used to fund the working capital requirements of the Group based on the work programmes detailed in Part II of this document.

PLACING STATISTICS (ASSUMING FULL SUBSCRIPTION UNDER THE PLACING)

Placing Price	7p
Number of Placing Shares	11,428,571
Percentage of enlarged issued share capital subject to the Placing	20.88%
Gross proceeds of the Placing	£800,000
Net proceeds of the Placing (estimated)	£659,000
Number of Ordinary Shares in issue immediately following completion of the Placing	54,741,149
Market capitalisation of the Company at the Placing Price	£3,831,880

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Latest time for acceptance by placees	26 June 2003
Latest time for payment by placees	4 July 2003
CREST accounts credited in respect of Placing Shares	14 July 2003
Admission effective and dealings commence	14 July 2003
Share certificates despatched on or about	18 July 2003

PART I

INFORMATION ON THE COMPANY

African Diamonds Plc

*(Incorporated and registered in England and Wales)
(Registered number 3999487)*

Placing of up to 11,428,571 Ordinary Shares of 1p each at 7p per Ordinary Share Admission to the Alternative Investment Market

Introduction

The Company was established to develop diamond mines in Botswana and West Africa. The target is to have a producing mine within three years from Admission. Having a balanced portfolio of projects will help reach the objective. The current portfolio of the Company consists of:

- pre-production prospects with known diamond occurrences;
- late stage exploration projects which are known to contain diamonds or diamond indicator minerals; and
- early stage high potential concessions, both alluvial and hardrock.

The geographic focus of the venture is on Botswana, Sierra Leone and Guinea. This reflects the skills, contacts and experience of the executives.

Diamonds and Diamond Exploration

Geology of Diamonds

Diamond is carbon in its most concentrated form. Except for trace impurities like boron and nitrogen, diamond is composed solely of carbon. Diamond, the transparent mineral with the hardest surface known, differs from common graphite simply in its crystal structure.

Most diamonds consist of primeval carbon that has crystallised at very high pressures. This suggests that diamonds are created by geologic processes at great depth within the Earth, generally more than 150 km down, in a region beneath the crust known as the mantle.

Diamonds rise to the Earth's surface in molten rock, or magma, that originates at great depths, carrying diamonds and other minerals from the Earth's mantle. This magma rises through deep cracks and fissures and erupts in very small but violent volcanoes. Just beneath such volcanoes is a carrot-shaped "pipe" filled with volcanic rock, mantle fragments, and some embedded diamonds. The volcanic rock is called kimberlite after the city of Kimberley, South Africa, where the pipes were first discovered in the 1870s. The complex volcanic magmas that solidify into kimberlite are not the source of diamonds, only the elevators that bring them to the Earth's surface.

Kimberlite magma rises through the Earth's crust in networks of cracks or dikes. The carrot-shaped pipes, or diatremes, form near the Earth's surface as a result of an explosive eruption. The base of the pipe, or "root-zone" starts in fissures a few kilometres beneath the surface at the time of eruption. When the kimberlite magma encounters fractures in the Earth's crust at this level, gases are rapidly released from the rising magma - akin to releasing the cork in a bottle of champagne - and this drives the eruption at supersonic speeds; blowing out the fragment-laden kimberlite to form the volcanic pipe. Such eruptions must be incredibly violent; none are known to have occurred during human history.

Geologic processes create two basic types of diamond deposits, referred to as primary and secondary sources. Primary sources are the kimberlite pipes. Secondary sources, created by erosion, include such deposits as surface scatterings around a pipe or concentrations in river channels or ocean coasts. Mining of deposits depends upon sufficient concentration and quality of diamonds.

Geography of Diamonds

For 1,000 years, starting in roughly the 4th century BC, India was the only source of diamonds. In 1725, important sources were discovered in Brazil, and in the 1870s major finds in South Africa marked a dramatic increase in the diamond supply. However, only a few diamond deposits were known until the 20th century, when scientific understanding and technology extended diamond exploration and mining around the globe. Today diamonds are mined in about 25 countries.

Africa is the richest continent for diamond mining, accounting for approximately half of world production. The major sources are in the south with lesser concentrations in the west-central part of the continent. The major producing countries are Angola, Botswana, Central African Republic, Congo Republic (Zaire), Ghana, Guinea, Namibia, Sierra Leone, South Africa and Zimbabwe.

Production of Diamonds

Most of the diamond deposits first discovered were alluvial - concentrations in streambed or riverbed sand and gravel. They are still actively exploited in many ways, from the most primitive to the highly sophisticated. The goal is relatively simple: to find a location where moving water has deposited diamonds in the bottom of a channel, possibly in a pocket or cleft. Irrespective of whether the mining operation uses shovels or earth-movers, the basic process involves removing the overlying barren ground, digging up the bearing ground, extracting the diamonds from the surrounding materials and, nowadays, restoring the landscape when finished.

Mining of a diamond-bearing pipe starts with the excavation of a pit into the pipe. In this open cast mining process, the initially loose and eventually hard ore material is removed with large hydraulic shovels and ore trucks. Hard rock is drilled and blasted with explosives so the broken material can be removed. When deep, rich ore warrants it, the mining goes underground with vertical shafts descending to horizontal passageways that enter the pipe.

Once a mining operation yields ore, the diamonds are separated from the other materials and graded for gem or industrial uses.

A diamond's beauty, rarity, and price depend on the interplay of all the 4Cs - cut, clarity, carat, and colour. The 4Cs are used throughout the world to classify the rarity of diamonds. Diamonds with the combination of the highest 4C ratings are more rare and, consequently, more expensive. No one C is more important than another in terms of beauty.

Uses of Diamonds

It is believed that diamonds have been prized as a gemstone as well as for their more industrial uses since at least the 4th century BC. Diamonds first began appearing in European jewellery in the 13th century but remained a rare gem, associated with the aristocracy, until the 1870s, when the first South African discoveries began to reach more public hands. Today, despite economic slowdown around the world, diamonds are still treasured gems.

Diamond is fundamentally an industrial mineral, with some 80% of the diamonds mined annually being used in three primary industrial roles: it is used as a cutting tool, it is imbedded in another material and used as a tool or abrasive, and it is turned to powder or paste for grinding and polishing. It is commonly used to fashion stones, ceramics, metals, and concrete, as well as glass lenses, gems, and computer chips.

Markets for Diamonds

Until the 1870s, diamonds were a scarce resource, found only in riverbeds in India and Brazil, whose elevated price was justified by the fact that only a few pounds of gemstones were produced each year. However, the discovery of the first diamond mine near the Orange River in South Africa resulted in a much increased supply of diamonds on the market. Realising the need to control supply, early investors in the industry, led by Sir Ernest Oppenheimer, formed De Beers Consolidated Mines partly to achieve their desired level control. Today, the market is still strongly influenced by De Beers as the largest producer of raw diamonds (approximately 46% of world production) and the dominant seller (approximately 80 to 85% of world sales).

The diamond market is conventionally divided into three segments:

- Industrial diamonds - natural and synthetic diamonds that are used in a wide range of manufacturing processes for their physical properties;
- Jewellery diamonds - rough diamonds cut for use as gemstones in jewellery; and
- Investment diamonds - high-quality large gemstones, often with special characteristics, purchased for investment.

The Jewellery and Investment segments together represent some 83% of the value of rough diamonds produced, a chain that starts in diamond mines and results in a cut gemstone sold to a retail purchaser or an investor.

Recently, efforts have been initiated to create a global system of export certification and import verification to ensure that all diamonds that are legitimately imported and exported into diamond-cutting, trading, and consuming nations will be of known and verifiable origin. The diamond trade structure includes both large and small well-organized components as well as many smaller, uncontrolled operations. While De Beers controls a large percentage of the diamond shipments to key trading centres, UN data suggest that more than 100 countries worldwide participate in rough diamond exporting. In the past few years, new sources of rough diamonds from Australia, Russia, Canada and parts of Africa have considerably changed the controlled single-market system in a number of ways. A significant quantity and variety of these “outside” rough diamonds have always been sold on the open market and go directly to a select number of diamond manufacturers in the cutting centres, but strains are showing as the volume of diamonds distributed outside the De Beers cartel grows.

There is a long-term relationship between diamond sales and world economic growth. Real (inflation-adjusted) interest rates, currency fluctuations, and wealth effects are also significant. Although the diamond market benefited from the rapid growth of Asian markets over the past 20 years, the market dynamic has recently shifted from Asia to the US. Political and demographic shifts, globalisation, and revolutionary changes in technology and communications are likely to continue to affect the market into the next millennium.

The diamond industry began 2002 with, in effect, a great sense of relief. The fear generated by the September 11th tragedy, combined with the US recession and a large oversupply of goods throughout the diamond pipeline, threatened to diminish diamond demand and created very low expectations in the trade. The rebound seen in strong last-minute holiday sales during 2001 strengthened by discounting, however, had a beneficial impact on trade sentiment and outlook for 2002. The global diamond jewellery industry grew by 4% in 2002, with sales of rough diamonds by De Beers up 16% on the previous year. In the important US market, diamond jewellery sales increased by more than 8% over the 2002 festive season.¹

The diamond industry is being provided with an opportunity to rebuild confidence and adapt to the new realities created by a slow but steady market. The restructuring of the diamond industry trade - with larger firms taking on increased market share, cutting out middlemen and a strong emphasis on downstream marketing initiatives - continues unabated. While the overall future outlook is highly dependent on US and Japanese macroeconomic performance, significant changes taking place in the diamond distribution system may also have a strong impact.

History and Background of African Diamonds

The Company was formed in May 2000 as Zinquest plc, an unlisted UK public limited company to explore for and exploit mineral resources. The Company changed its name to African Diamond plc in January 2002 and subsequently changed its name to African Diamonds plc in February 2002.

In June 2002, African Diamonds acquired Grampian Resources which holds two licences to explore for diamonds in Guinea in West Africa. African Diamonds subsequently obtained an exploration licence in its own name. In July 2002, African Diamonds acquired Kukama, which holds three licences in Botswana. In Sierra Leone, African Diamonds holds three licences in its own name. Further information on the Company’s licences and activities in each of Botswana, Guinea and Sierra Leone is given in Parts II and IV of this document.

Since formation, African Diamonds has raised £477,000 of which approximately £200,000 was raised in September 2002. The Company currently has 149 Shareholders.

¹De Beers Annual Review, 2002

The attention of investors is also drawn to the section headed "Risk Factors" set out in Part III of this document.

Reasons for the Admission and the Placing

The Directors believe that the Company has reached a size and a stage of development where it will benefit from the Admission and the Placing. In particular, the Directors believe that the future growth potential of the business should be enhanced by an AIM flotation which the Directors consider will help to generate increased visibility and credibility for the Group in its marketplace. Furthermore, it is expected that an AIM flotation will provide the Company with access to further capital in the future and the ability to provide share based incentives to its staff.

The Placing of up to 11,428,571 Ordinary Shares at 7p per share will raise £800,000 (assuming full subscription), of which approximately £659,000 will be receivable by the Company after expenses which will be used to fund the working capital requirements of the Group based on the work programmes detailed in Part II of this document. At a Placing Price of 7p per Ordinary Share, the market capitalisation of African Diamonds will be £3,831,880 (assuming full subscription under the Placing). The Placing Shares, when issued, will rank *pari passu* in all respects with all Existing Shares.

Information about the Placing

The Placing is conditional, *inter alia*, on Admission taking place on or around 14 July 2003 (or such later date as the Company, and Rowan Dartington may agree but in any event not later than 1 August 2003). Further details of the Placing Agreement are set out in paragraph 9 of Part VI of this document.

Directors

As at the date of this document, the Board comprises the following members:

John Teeling (aged 57) Executive Chairman

John Teeling has been involved in resource projects for 30 years. John is the founder and chairman of African Gold PLC, Pan Andean Resources PLC, Petrel Resources PLC and Minco PLC. He is also a former director of Kenmare Resources Limited and Arcon Limited. John Teeling holds degrees in Economics and Business from University College Dublin, an MBA from Wharton and a Doctorate in Business Administration from Harvard. He has lectured for 20 years in business and finance at University College, Dublin. He holds interests in a number of industrial ventures.

James MacGregor (aged 65) Executive Director

A graduate of Glasgow University, James MacGregor has over 30 years' experience developing agro-industrial and natural resource projects in East and West Africa. In 1981 he formed his own consultancy company, specialising in Africa. Consulting clients include The Government of the Republic of Guinea, Rio Tinto, The Government of Nigeria, European Development Fund, World Bank, private equity groups and various private projects. He has over 10 years' experience working in Guinea and Sierra Leone and has developed excellent relationships in both countries at minister, ministry and commercial levels. In 1998, he formed Grampian Resources to undertake mineral exploration in Guinea. Grampian Resources is now a subsidiary of African Diamonds.

Mark Scowcroft (aged 36) Executive Director

Mark Scowcroft is a Mining Geology graduate of the Royal School of Mines, Imperial College, London. He has worked in Botswana for 14 years, 6 years with De Beers and 8 as an independent consultant. He is a founder of Microsearch, an independent diamond services company, and Kukama. He coordinates and manages African Diamonds' operations in Botswana.

Leon Daniels (aged 46) Non-Executive Director

Leon Daniels is an internationally known diamond expert with 22 years' Botswana experience. He is a third generation diamond prospector who found his first diamond at 16 and has consulted on diamonds throughout the world. He holds a doctorate in geology from the University of Cape Town and has authored or co-authored 25 papers on diamonds.

David Horgan (aged 43) Non-Executive Director

David Horgan is Deputy Chairman of African Gold PLC and Chief Executive of Pan Andean Resources PLC and Petrel Resources plc. He holds a first class law degree from Cambridge and an MBA with distinction from the Harvard Business School. David Horgan has invested in and managed African projects for 10 years.

James Finn (aged 44) Non-Executive Director

James Finn is the senior financial executive of a group of resource companies since 1988. He holds a management degree and accounting qualifications. He is also a director of Cooley Distillery PLC, Minco PLC and Pan Andean Resources PLC.

Employees and Consultants to the Company

Sierra Leone

Alieu Mahdi	Senior Project Geologist, Sierra Leone (consultant to the Company)
Alhassan Coker	Mining Engineer, Sierra Leone
Michael Touray	Field Geologist, Sierra Leone
Arnold Mason	Field Geologist, Sierra Leone

Guinea

Sekou Keita	Geologist, Guinea (consultant to the Company)
James Koroma	Engineer, Guinea

Lock-in Undertakings

The Directors and each Related Party have given undertakings that they will not sell, transfer or otherwise dispose of any Ordinary Shares or any interest in Ordinary Shares held on Admission for a period of one year from the date of Admission, save for in certain specified circumstances.

Corporate Governance

The Company holds regular Directors' meetings at which operating and financial reports are considered. The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets, major items of capital expenditure and senior personnel appointments.

The Board intends that, so far as practical and to the extent appropriate in regard to the size of the Company, it will comply with the Combined Code prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel and which is appended to the Listing Rules of the UK Listing Authority (the "Combined Code"). The Board intends that Audit and Remuneration Committees, comprised of non-executive directors, will be established.

The role of the Remuneration Committee will be to review the performance of the executive directors and other senior executives and to set the scale and structure of their remuneration, including the implementation of any bonus arrangements, with due regard to the interests of Shareholders. The Remuneration Committee will also administer and establish performance targets for share incentive schemes and determine the allocation of share incentives to employees. In exercising this role, the terms of reference of the Remuneration Committee will require it to comply with the Code of Best Practice published in the Combined Code.

The Audit Committee will be responsible for making recommendations to the Board on the appointment of the auditors and the audit fee and will review reports from management and the Company's auditors on the financial accounts and internal control systems used throughout the Company. It is intended that it will meet at least three times each year.

By a resolution dated 17 June 2003, the Board has adopted a code of Directors' dealings in ordinary shares, which follows the Model Code for Directors' Dealings contained in the Listing Rules of the UK Listing Authority. The Board will be responsible for taking all proper and reasonable steps to ensure compliance with the Model Code by the Directors and senior employees.

Summary Financial Information

A summary of the Group's financial record for the period from June 2001 to 31 December 2002, as extracted from the financial information contained in Part V of this document, is set out below.

	13 months ended 30 June 2002	6 months ended 31 December 2002
	£	£
Turnover	-	-
Operating loss	(44,274)	(11,000)
Shareholders' funds	375,464	1,160,000

The Company's trading record to date reflects the early stage of the Company's commercial development.

More detailed financial information on African Diamonds is contained in Part V of this document.

Current Trading

African Diamonds is currently a pure exploration company and, therefore, has not yet generated any revenue. The Directors do not expect the Company to be profitable for some time.

Dividend Policy

The continued development of the Company requires additional investment and this will be financed partly from the Placing proceeds and partly from the reinvestment of profits when the business becomes profitable. While the Directors acknowledge the importance to investors of the payment of regular dividends, it is not expected that dividends will be paid in the short term. When the Company's trading is established and the Company has distributable profits, dividend payments will be made, consistent with the maintenance of a prudent level of dividend cover and with the working capital requirements of the Company.

The Company expects to report its interim results in March and to make the preliminary announcement of its final results in September each year.

Taxation

Your attention is drawn to the sections headed "United Kingdom Taxation" and "Irish Taxation" set out in paragraph 11 of Part VI of this document. If you are in any doubt regarding your tax position, you should contact your professional adviser without delay.

CREST

The Company's articles of association permit shares to be evidenced in uncertificated form in accordance with the Uncertificated Securities Regulations 2001. In accordance with these regulations, the Board resolved on 28 May 2003 to apply to CRESTCo Limited for title to the Ordinary Shares, in issue or to be issued, to be transferred by means of the CREST paperless system. CREST is a mandatory system and, subject to certain limitations, holders of Ordinary Shares may choose to receive share certificates or hold Ordinary Shares in uncertificated form. Accordingly, settlement of transactions in Ordinary Shares following Admission may take place within the CREST system.

PART II

THE ACTIVITIES OF AFRICAN DIAMONDS PLC

The Company operates in Botswana, Sierra Leone and Guinea. Further details of its activities in these countries are set out below.

Botswana

Introduction

Formerly the British protectorate of Bechuanaland, Botswana adopted its new name upon independence in 1966.

The Republic of Botswana is a landlocked nation in southern Africa surrounded by Namibia to the west, South Africa to the east and south, and Zambia and Zimbabwe to the north; it covers an area of 600,379 km². In 2000, it supported a population of 1.65 million. Botswana, which has been one of the most successful performing economies in the developing world, averaged more than 9% real economic growth from 1966 to 1997.

Diamonds are by far the most important source of income for Botswana. The discovery of diamonds in 1967, after a protracted search of twelve years, dramatically changed the pace of development in Botswana. There are three diamond mines, Jwaneng in the southern Kalahari, and Orapa and Letlhakane in the central Kalahari, whose combined earnings have accounted for 77% of the total export earnings and 45% of the GDP. These mines are jointly owned by the De Beers mining company and the Botswana government. By value of diamonds, Botswana is the biggest producer in the world, with an annual output of 15 million carats.

The Government of Botswana in 1999 introduced a new and more investor-friendly mining code to encourage exploration and mine development. A new mining taxation law was also introduced to compliment the new mining code.

Botswana Diamonds

The eastern half of Botswana is underlain by Archaean basement cratonic rocks of the Zimbabwe craton in the north, and of the Kaapvaal craton in the south. The upper part of the Karoo Supergroup in Botswana is represented by basalt flows, plugs and dykes – the result of volcanic activity which took place immediately before the youngest (Cretaceous) kimberlites were emplaced. Kimberlites of 500 Ma age or older, may lie beneath the basalt. Much of the terrain is covered by thick sediments of the Kalahari Beds, found everywhere in Botswana except in the east, and this is the single most important geological consideration for prospecting. It was the presence of these sediments, together with underlying Karoo lavas, that delayed the discovery of Orapa and Jwaneng until the 1960s and '70s.

The Debswana Diamond Company, the joint venture between the Botswana Government and De Beers, is by far the world's largest diamond producer by value. Debswana's major diamond mining operations are situated at Jwaneng, Orapa, Letlhakane and Damtshaa. Jwaneng is Debswana's flagship diamond mine. It is the richest diamond mine in the world and is situated 170 km west of the capital Gaborone. The Orapa, Letlhakane and recently-opened Damtshaa mines are located roughly 240 km west of Francistown. The Orapa pipe is the world's second largest diamond-producing kimberlite pipe.

The Jwaneng kimberlite is situated approximately 120 km west of Gaborone in the south-central part of Botswana. The deposit was discovered in late 1972 within the Naledi valley, near the Jwana village, under 50 m of Kalahari sand. Jwaneng is the largest and richest diamond mine in Africa, and produced 11.52 million carats of diamond in 2000 at an average grade of 124.7 cpht; at current production levels the open pit alone has a life through to 2029.

The Orapa AK1 kimberlite is located in north-central Botswana, 240 km west of Francistown. Orapa AK1, along with two other significantly diamondiferous kimberlites in the same area, was discovered in 1967 by De Beers geologists and is the largest kimberlite in a cluster of over 70 kimberlites. Orapa produced just over 12.1 million carats in 2000 at a grade of 82.9 cpht. The commissioning of the No.2 Plant in December 1999 has lifted annual production to around 12 million carats. Letlhakane is situated 50 km from Debswana's Orapa operation in central Botswana. The mine is managed from the larger Orapa operation and produces in the region of one million carats annually. Prospecting in the region of the Orapa kimberlite pipe continues.

African Diamonds' Licences

African Diamonds holds three prospecting licences in Botswana in the name of its wholly owned subsidiary, Kukama. Kukama was set-up by Leon Daniels and Mark Scowcroft, veterans of diamond exploration in Botswana, to avail of the new mining legislation introduced in 1999.

Orapa Licence Area – PL 4/2002

This prospecting licence was granted on 1 January 2002 and covers 236 km². This area is partly contiguous with the eastern boundary of the Orapa mine lease and includes 21 known kimberlites, all of which had been held continuously by De Beers since discovery. The majority of these pipes were discovered in the late 1960s and 1970s. According to De Beers' final State filed report these individual kimberlites were investigated with a limited number of air-drill holes. Little is known about any further work on these kimberlites in the ensuing period. Kukama has acquired high resolution Dighem EM and magnetic data that was flown over the entire area by De Beers during 1996 and 1997.

<i>Kimberlite</i>	<i>Estimated Size (hectares)</i>
AK6	3.3
AK8	0.5
AK9	2.5
AK12	1.5
AK13	<0.1
AK14	<0.1
AK16	<0.1
BK10	2.5
BK13	0.3
BK27	0.2
BK29	<0.1
BK30	<0.1
BK32	<0.1
BK33	<0.1
BK34	<0.1
BK36	<0.1
BK40	<0.1
BK44	1.5
BK46	0.8
BK50	<0.1
BK51	<0.1

Work Programme

Of the 21 known kimberlites in Kukama ground in the vicinity of Orapa and Lethlakane, more work is needed to recover and review the evaluation/sampling results obtained by Debswana and generate additional data where this is warranted. At face value, more potential is offered by the larger Kukama pipes, in particular:

<i>PIPE</i>	<i>SIZE (hectares)</i>
BK5	4.5
AK9	2.5
BK10	2.5
AK12	1.5
BK44	1.5
BK46	0.8
AK8	0.5

The Directors believe that some of the Kukama pipes may be substantially bigger and/or of better grade than is currently indicated in historical records.

Outlining and evaluation in the past has not necessarily been exhaustive. Even at the size and grade recorded, BK10 is a pipe that warrants further evaluation. The grade is reported, from early work by De Beers, as 0.15 cts/m, or 6 cpht. This result is probably derived from just one excavation rather than from a comprehensive evaluation exercise. The true grade of BK10 may be only 3 cpht or it may be 12 cpht. At the latter grade, and with a value per carat similar to that of BK15 (to be mined by Debswana) the BK10 kimberlite is likely to be developed into a mine. It can be shown that at gross revenue of US\$6.21/tonne an IRR of 88% can be generated from this size deposit.

<i>PIPE</i>	<i>Size (Ha)</i>	<i>Grade(carats/ m²)</i>	<i>Value (\$/carat)</i>	<i>Revenue(\$/m²)</i>	<i>Value of ore</i>
BK15	2.5	0.29	66	18.9	+\$34 million

Serowe Licence – PL 3/2000

This prospecting licence was granted on 1 January 2000 and covers 787 km². The area is part of a larger block to the west of Serowe that had never been covered by a systematic programme of diamond exploration. The remaining part of this under-explored block was granted to De Beers. The area is considered prospective for both primary kimberlite and alluvial diamond deposits. A government-funded, regional aeromagnetic survey undertaken in 1998 has added impetus to the exploration effort, with a number of exploration companies following-up promising aeromagnetic anomalies in this region.

Kukama has the opportunity to define anomalous concentrations of kimberlitic indicator minerals by soil sampling on a grid and to discover new kimberlites. A soil-sampling programme comprising 750 samples collected on a 1 km grid over the entire licence area was completed in January 2003. The results are reviewed below.

There is also a potential here to find secondary alluvial deposits of diamonds derived from the Orapa kimberlite field to the north-west. A spin-off from the 1998 airborne magnetic survey was the generation of the accurate elevation data. A number of potential palaeo-channels connecting this area with the Orapa kimberlite field can be seen quite clearly from computer representations of the elevation data. Along the course of some of these palaeo-channels, the data indicates that plunge pools may have developed. Estimates of the erosion at AK1 and the other Orapa pipes are tentative, but geologists agree that secondary diamond deposits derived from the Orapa pipes should exist. The Airport Pan Gravels provide one instance of where a secondary alluvial deposit has been found, in close proximity to the mine, but the Directors believe that there may well be others.

The AK1 Orapa kimberlite covers a huge area. Due to its huge area, just one metre depth of kimberlite will produce 2.4 million tons of ore and 2.26 million carats of diamonds. This is a value of diamonds of about \$144 million per metre depth. If just a few metres of the AK1 pipe were eroded into the drainage and concentrated in alluvial gravels, this would create a rich deposit. The majority of the kimberlites in the Orapa field (~70 kimberlites) have no crater facies sediments present and have been eroded to the diatreme facies level – implying a loss of around a 100 vertical meters. It is intended to prove the presence of these major alluvial channels through drilling during the next phase of exploration within the area.

Results of Early Exploration

The Directors consider that the results of a 1 kilometre reconnaissance soil-sampling programme completed over the entire licence area in October 2002 are highly encouraging. This exploration work involves scooping-up a small volume of soil every few metres. Even in a highly prospective area all one would expect to find is a sporadic occurrence of diamond indicator minerals. For example, at the Martins Drift kimberlite discovery only one diamond indicator garnet was found using a similar exploration technique.

A total of 53 diamond indicator garnets were recovered from the 1 kilometre-interval samples. A significant proportion of these garnets are ‘G10’ diamond-inclusion types, indicating that they came from mineralised kimberlites. These garnets exhibit very little abrasion signifying that they have not travelled very far. The Group’s management team in Botswana believes that there is good chance that these results are indicative of the nearby presence of kimberlites.

An exploration programme to follow up on the clusters of diamond indicator garnets has been planned. This will involve undertaking a 200 metre-spaced loam sampling programme. The best-case scenario is that Kukama will find an anomaly that is sufficiently strong to be drilled straight away. The worst-case scenario is that Kukama will have to proceed to smaller spaced samples to define an anomaly.

This prospecting licence occupies approximately 327 km² in north-eastern Botswana. The northern boundary of the licence is defined by the Shashe River, which forms the international border between Botswana and Zimbabwe in this area.

This licence was granted to Kukama during a rush to acquire ground on the Botswana side of the Shashe River in 1999. Diamondiferous and barren kimberlites had been found on the left bank of the Shashe, in Zimbabwe, immediately prior to this land rush. These newly found kimberlites (the Ngulube Province) were discovered by Dr Leon Daniels and the Kukama team, while he was contracted by Trillion Resources (1993 to 1996). Kimberlites in this general area all seem to be in the 500 Ma age group. An unusual characteristic of the known kimberlites in this general area is that they tend to be of the ilmenite-poor type and are found by following garnet anomalies (Venetia, Martin's Drift) or by magnetic surveying (Ngulube).

More fieldwork has been undertaken in this licence than in the other two Kukama licences, and an intrusion of parakimberlite has been found by following-up positive stream sample results (samples containing kimberlitic ilmenite) generated by Trillion Resources when they held this ground in the late 1990s. The parakimberlite, named the Masonya kimberlite, was discovered. It was exhaustively tested in three separate Australian laboratories. Heavy weathering made petrographic examination difficult, but the consensus was that the rock is a related rock type, a mantle-derived ultramafic intrusive of hypabyssal facies, but not a kimberlite. The Masonya occurrence has proved something of a red herring. Its presence does not explain the presence of kimberlitic ilmenite in the licence area. It is expected that kimberlite will be discovered in this area with further exploration.

Sierra Leone

Introduction

Sierra Leone is an independent republic which lies on the bulge of Africa and forms part of the West African Region. Sierra Leone became an independent republic in 1961, having previously been a British Protectorate since 1896 and under British administration since 1787. Freetown, the capital of this small West African state, derives its name from the freed slaves who were resettled there in the late 18th century. Their descendants have since played an important part in Sierra Leone's culture and economy.

From 1991 until early last year, the country was ravaged by a decade of civil war that destroyed much of the economy and infrastructure. The war ended in January 2002 and since then the Government of Sierra Leone has been putting in place the foundations to rebuild the country's economy. With the help of ECOWAS, the UN and the EU, and after three peace agreements, Sierra Leone has managed to steer itself on to a path of peace, security and economic growth.

Sierra Leone has made strong and evident progress to recover from the previous decade of civil strife. President Kabbah's government has identified the mining sector as a prime vehicle to boost the much-needed, post-conflict economic growth, and a concerted effort is being made to enhance the country's attractiveness to investors and increase direct foreign direct investment.

Sierra Leone Diamonds

Sierra Leone is renowned for the quality of its diamonds and for the recovery of some of the most spectacularly large stones of very high value. The largest diamond, discovered in February 1972, was the 969.8 carat 'Star of Sierra Leone'. More recently, in 1996, two stones weighing 188 carat and 283 carat were recovered and sold. Annual output reached a peak of around 2 million carats in the late 1960s, with output declining thereafter. By 1997, output was seriously disrupted by RUF rebel activity, with most of the diamondiferous areas becoming off-limits.

Sierra Leone's established diamond fields cover an area of almost 20,000 km² (over one-quarter of the country) in the southeastern and eastern parts of Sierra Leone. They are concentrated in the Kono, Kenema and Bo Districts and are mainly situated in the drainage areas of the Sewa, Bafi, Woa, Mano and Moa Rivers. Kimberlites were first discovered in 1948 in the Koidu area and subsequently at Tongo. Alluvial diamond concentrations occur in river-channel gravels, flood-plain gravels, terrace gravels and in gravel residues in soils and swamps.

African Diamonds' Licences

On 18 January 2002, the President of Sierra Leone announced the end of hostilities in the country, thus bringing the rebel war to an end. This announcement paved the way for mineral rights holders to re-start mineral exploration activities in the country. The Sierra Leonean Ministry of Mineral Resources issued a notice to all licence holders to declare their intentions by providing proposed work programmes. Several licences had expired owing to non-performance, some had been suspended by the holders, whilst others were protected by force majeure. African Diamonds was well placed to step in to the void and stake a claim on three highly prospective licences through the help of the Sierra Leone contacts and relationships developed by James MacGregor and Grampian Resources during this period.

Africa Diamonds holds three licences in the Kono District, Eastern Province, Sierra Leone.

Exploration Licence No. EXPL 8/02

This licence covers an area of 6.5 square miles and includes kimberlite Pipe 3 which has not been the subject of any previous exploration programme. This licence was awarded on 1 December 2002 and is valid for a three year period.

Work Programme

No. 3 kimberlite pipe and segments of eight dyke zones intrude this licence area. Sierra Leone Selection Trust (SLST) and the now defunct National Diamond Mining Company (SL) Ltd (NDMC) previously held part of the mining lease.

No. 3 Pipe appears to be the smallest and easternmost of the three kimberlite pipes in the Kono District. Pipe 3 and its associated kimberlite dykes were originally discovered in the 1960s by ground geophysics and drilling. A limited drill program confirmed the presence of kimberlite at depth, but failed to fully define the ore body. The Company intends to dewater the pipe and carry out a bulk sampling operation commencing September 2003 to determine the grade and value of the diamonds present. The Directors believe that kimberlite dykes are often of higher grade than associated pipe intrusions, and it is intended that the many dykes in this area will be sampled to ascertain their economic potential.

Exclusive Prospecting Licence EPL 10/2002

This licence covers an area of approximately 53 square miles. This licence was awarded on 1 December 2002 and is valid for one year. It is located immediately adjacent to the northern and eastern boundaries of EXPL 8/02 and includes several known kimberlite dyke zones.

Work Programme

The ground covered by this licence is part of the Diamond Mining Concession previously held by the now defunct National Diamond Mining Company (SL) (NDMC). From work done by the Sierra Leone Selection Trust (SLST), NDMC's predecessor in title, several dyke zones are known to traverse the licence area. It is proposed to focus attention on the development of diamond resources along the various kimberlite dyke zones as follows:

- Phase 1) The area will be covered by an Exclusive Prospecting Licence for one year during which the positions of all dyke zones will be defined and geological maps of sections of each dyke zone prepared;
- Phase 2) The programme will continue into an Exploration Licence. Evaluation sampling of weathered and fresh kimberlite along the dyke zones will be undertaken. Sampling of fresh kimberlite will be conducted at depth dependent upon the results obtained from weathered samples.

Exclusive Prospecting Licence EPL 11/2002

This licence covers an area of approximately 97 square miles. This licence lies to the south and west of EXPL 8/02. The licence was awarded on 1st December 2002 and is valid for two years.

Work Programme

The area will be mapped and surveyed and a work programme carried out to:

- Identify and investigate all kimberlite deposits; and
- Define viable alluvial deposits on flats and terraces flanking drainage systems of third or greater order, which would normally be beyond the means of the local artisanal miner to fully and efficiently exploit.

The programme of prospecting for secondary diamond deposits will target deposits in the following alluvial systems:

- The Upper Gbogbora
- The Upper Faiyi
- The Tonenja
- The Upper Meya
- The Upper Dwen
- The Upper Woa and a segment of the Middle Woa

The work programme will also include:

- Geomorphological mapping to determine the area extent of the various geomorphic units comprising the above targets; and
- Limited augering and / or scout pitting to determine the overburden and gravel thickness in the geomorphic units defined above.

Guinea

Introduction

Guinea is located on the coast of West Africa, and borders Sierra Leone, Senegal, Liberia, Guinea-Bissau and Mali. It is a stable democracy, based on the French government and legal systems. President Lansana Conte was recently elected to a second five-year term. Ongoing strife in some neighbouring countries has resulted in an influx of refugees. However, there is no sign that difficulties in the other countries will have a direct impact on Guinea.

Mining is Guinea's most important industry and its main source of foreign exchange. The biggest component is the mining of bauxite. A consortium including Alcoa has operated the world's third largest bauxite mine in Guinea since 1963. The country is well endowed with natural resources, but these are under-developed. The government is taking action to eradicate corruption, including the establishment of an anticorruption commission.

Strong connections at a high level are important for working effectively in the country. Guinea is making progress on its economic development, and for several years has sustained steady growth. The government is working with the IMF and the World Bank to continue economic reforms. A privatisation process begun in 1995 has taken the government out of much of the commercial activities of the country, and it plans to continue the privatization process.

Guinea is wide open to foreign investment, with foreign companies treated the same as Guinean companies. Investors are assured full repatriation of capital and profits. In order to attract foreign investment in the mining industry, the country adopted a new mining code in 1995. The code assures security of mineral title, and grants financial incentives, including certain tax exemptions.

Guinea Diamonds

Guinea is underlain by the extensive Archaean West African craton. Guinea's diamond resources are related to Cretaceous age kimberlitic sills, dykes and pipes, which exploited major north-trending structures in eastern Guinea. It is estimated that at least 800 m of erosion has taken place in this area, meaning that most primary kimberlite pipes and dykes have been eroded away. Subsequent alluvials are located in most rivers draining north of this area. Artisanal workers from alluvial workings produce most of Guinea's diamond production.

Diamonds are Guinea's second largest export, after bauxite. With the ban of unlicensed ventures foreign mining companies have begun to invest in the diamond sector. The Aredor Diamond Mine, located in south-eastern Guinea, near Macenta, has produced some of the world's most valuable diamonds, totalling more than 1.3 million carats at a value of US\$377 million. Trivalence Mining Corporation, through its wholly owned subsidiaries, holds an 85% ownership interest in the Aredor mine and concession, which represents the most highly documented alluvial diamond reserves in Guinea. Aredor produced 35,000 carats in 2000, up from the previous year's production. Aredor has historically produced large, high quality diamonds, the most recent being a 146 carat stone that fetched \$1.9 million.

De Beers, through the subsidiary Debsam, are also active in Guinea with the granting of several exploration licences (22). Debsam is apparently carrying out extensive exploration and are carrying out a regional sampling program, including the drill testing of several kimberlite pipes and dykes. The government has estimated that commercial mining ventures produced 60,000 carats in 2000, whilst artisanal workings an estimated 220,000 carats. The country produced an estimated total of 750,000 carats in 2001.

African Diamonds' Licences

African Diamonds, through its wholly owned subsidiary, Grampian Resources, holds the rights to two exclusive exploration licences in Guinea, and one exclusive exploration licence in its own name.

For ease of identification these are identified by the names of the nearest village to the licence area - Fangamadou, Seria and Bomboko.

	<i>AREA</i>	<i>VALIDITY OF LICENCE</i>	<i>TITLE</i>
Fangamadou	208 km ²	27/05/2004	Grampian Resources
Seria	16.7 km ²	28/06/2004	Grampian Resources
Bomboko	11.0 km ²	10/09/2004	African Diamonds

Work to date on all the properties has been reconnaissance ground truthing of artisanal activity in and around the licences, pit sampling and regional verification of kimberlitic occurrences. In each of these exploration licence areas, further exploration may prove successful in finding economic kimberlite within the licence boundaries. There is strong evidence of artisanal workings on diamondiferous alluvial terraces in all of these licence areas.

These three exploration licences are in areas of great interest. Fangamadou is bounded to the South by licences, which were subsequently taken by Debsams Guinea SARL/De Beers. Seria and Bomboko are close to the Aredor licence held by Trivalence.

Fangamadou Licence

The licence was issued on 20 October 1998, renewed twice, latterly, on 27 May 2002 and now remains valid until 27 May 2004. The licence area comprises 208 km². These remain to be explored. In addition, there are strong indications of alluvial diamond deposits (evidenced by old artisanal workings on the property). There are reports of diamond recovery including a recent find of a 30 carat crimson red diamond. Due to the fact that the area has never been systematically explored, very little data exists to target exploration at this early stage. Geophysics and further pit sampling and/or reconnaissance trenching together with detailed mapping should advance the grass roots level of the property rapidly. The diversity in the colour of the diamonds emanating from the area adds to the profile of the properties in Guinea and the marketability of goods on offer in a challenging marketing environment.

Seria Licence

The licence was issued on 30 May 2000 and renewed on 28 June 2002 and now remains valid until 28 June 2004. The licence area comprises 16.7 km². The Seria licence property presents a good kimberlite target and has remnant alluvial terraces that are diamondiferous both upstream and downstream from the Seria licence. Ministry of Mines ("Ministry") archive records researched by V Zemanek and O Werner in 1960 on behalf of the Ministry indicate a reserve of 12,000 carats at this locality. This grass roots property requires more reconnaissance exploration. Geophysics together with further stream sediment sampling will immediately display if there is kimberlite potential.

Bomboko Licence

The licence was issued on 10 September 2002 and now remains valid until 10 September 2004. The licence area comprises 11 km². Artisanal exploitation of alluvial diamond deposits within and adjacent to this licence area is widespread. The licence area contains all the recognised alluvial terraces in the region. Although the project is at the grass roots stage, it can be promoted to a higher level of development more rapidly than the other African Diamonds areas. Access is good, with the district road dissecting the property. Reconnaissance trenching could achieve early results.

PART III

RISK FACTORS

In addition to the other relevant information set out in this document, prospective investors should carefully consider the following risks and uncertainties before deciding to invest in the Company. In the event that any of these, or any additional risks and uncertainties of which the Directors are presently unaware, or which they consider not to be material in relation to the Company's business, actually occur, the Company's business, financial position or operating results could be materially and adversely affected.

Early stage of commercialisation

African Diamonds is an exploration vehicle which has not yet begun to generate revenues and is not yet trading profitably. The Directors do not expect the Company to achieve profitability in the short term.

Liquidity

The shares are not listed on the Official List and although the Ordinary Shares are to be traded on the AIM, this should not be taken as implying that there will be a liquid market in the shares. An investment in the Ordinary Shares may, therefore, in certain circumstances be difficult to realise.

Nature of the Industry

The ultimate production of diamonds from the probable and possible reserves may be lower than expected or even non-existent. The Company's operations are subject to the normal risks inherent in diamond exploration, refinement and production.

Economic, political, judicial, administrative, taxation or other regulatory factors

The Company may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors, in the United Kingdom (the jurisdiction in which the Company is registered), the Republic of Ireland, Botswana, Guinea and Sierra Leone, the jurisdictions in which the Company operates and holds its major assets, as well as other unforeseen matters. African Diamonds operates in countries which have a history of political instability.

Working capital

Having made due and careful enquiry, the Directors consider that the net proceeds of the Placing, will be sufficient to fund the Group's present requirements, that is, for at least the next twelve months following Admission. If the working capital requirements exceed current expectations, the Company may need to raise additional finance. There can be no assurance that, if required, further funds will be available.

Management of growth

The Group's ability to support the anticipated growth of its business will be substantially dependent upon, among other things, it successfully increasing and implementing additional resource to support sales, marketing, personnel, operational and financial functions. There can be no assurance that the Group will be able to manage any future expansion successfully, and any inability to do so would have a material adverse effect on the Group.

Dependence on key personnel

The Group's future success, particularly in the short term, depends in large part on the continued service of its key management and its ability to attract, motivate and retain skilled employees. The loss of the services of any of the Directors or other employees, particularly technical personnel, could have an adverse effect on the Group's business.

Regulatory changes

The Group's strategy has been formulated in the light of the current regulatory environment and with regard to future changes and likely future changes. The regulatory environment may change in the future and such changes may have a material adverse effect on the Group.

Market for the Company's shares and volatility of share price

Prospective investors should be aware that the value of an investment in African Diamonds may go down as well as up. In addition, the Company can give no assurance that an active trading market for its shares will develop, or if developed, be sustained in the future. If an active trading market is not developed or maintained, the liquidity and trading price of the Company's shares could be adversely affected. Furthermore, the trading price of the Company's shares may be subject to wide fluctuations in response to a number of events and factors, such as variations in operating results, the timing of licence awards, changes in the regulatory environment and stock market sentiment towards mineral exploration companies.

Competition

The Group has exclusive exploration and/or prospecting rights over the areas covered by its licences. Current and potential competitors may have substantially greater financial, technical and marketing resources, longer operating histories, larger customer bases, greater name recognition and more established relationships than the Group and so may be better able to compete in the Group's target markets.

PART IV

GEOLOGIST'S REPORTS ON AFRICAN DIAMONDS PLC

Executive Summary of the Independent Report For Diamond Licence Areas in Botswana

J.M.Brook. Geol. BA. Geology. Hons.
Independent Consulting Geologist

The three diamond prospecting licences held in Botswana by Kukama Mining and Exploration are favourably situated with respect to the regional context. This particular area is unique in the world for its exceptional concentration of richly diamondiferous kimberlite pipes. Botswana alone produces 28% by value of the world's diamonds from its mines at Jwaneng, Orapa and Letlhakane. The Premier mine, across the border in South Africa has been producing for 100 years.

The cratonic Archaean rocks that underlie this area have acted as hosts to kimberlite intrusion over a long period of time. Thus Orapa, Letlhakane and Gope mines are of late-Cretaceous age (93 Ma) while Premier mine, near Johannesburg has a Precambrian age of 1,250 Ma, as do the pipes at Martin's Drift (1,333 Ma). The Jwaneng pipes have been dated at ± 240 Ma and those at Venetia have an age of ± 500 Ma. As work in this area has progressed over a long period, more and more of the kimberlite mines shown on Map 1 have come into production.

In addition to the prospectivity of this area for primary diamondiferous kimberlite sources, there remains a potential for economic alluvial concentrations of diamonds. Many of the known kimberlites, particularly in the Orapa kimberlite province, are 'missing' their topmost crater facies. Up to 100 m of crater facies kimberlite appears to have been eroded from the Orapa and Letlhakane pipes. Some alluvial concentrations were found and mined out at a location called Seta, in the Limpopo valley, far to the east of the area. But the 'missing' diamonds are, as yet, by no means accounted for.

MOTIVATION AND PROSPECTIVITY OF THE LICENCES

Each of the Kukama licence areas is prospective from a unique viewpoint.

a) ORAPA LICENCE PL 4/2002

This prospecting licence is divided into two parts. The area is unusual in that it contains known kimberlites. It has been the past practice of the Debswana Diamond Company to retain, under prospecting licence, all the areas (outside mining leases) containing known kimberlites of the Orapa Kimberlite Province. This has been possible by making application for new Prospecting Licences (with new prospecting programmes) to cover the same areas or, alternatively, the ground might be passed to De Beers Prospecting Botswana for further exploration.

As a result, much useful information concerning the size and grade and the level of work done on Orapa kimberlites by De Beers has not been placed on open file at the Geological Survey. Many of the Orapa pipes – especially the larger ones discovered by De Beers in the 1970s – have been investigated, in many cases, by just one or two drill holes or pits. This means that results from the evaluation of these pipes may be either incomplete or misleading. The fact that PL 4/2002 is now held by Kukama, is the direct result of tenacious management on the part of the Kukama team - waiting for the right opportunity and submitting an application at the right moment.

AK1, in the west, is the 113 hectare Orapa pipe itself which is situated within the Debswana Mining Lease 10/71. BK1, in the east, is another diamondiferous pipe which falls within a new (applied for in 1999) Debswana Mining Lease. The numbering of the pipes and dykes follows the chronological order in which they were discovered. AK1 was the first pipe to be found on the 'A' (NW) _ degree map sheet 2125A BK1 was the first pipe to be found on the adjacent 'B' (NE) _ degree map sheet 2125B etc. Kimberlite occurrences with high numbers, like BK33, are smaller pipes or, more usually, narrow kimberlite dykes found during the last ten years.

There is a group of 14 kimberlites which Debswana remains reluctant to walk away from – BK9, 6 and 3 in particular. This group has been reserved for yet another extension or renewal period, possibly to be held under a newly introduced 'Retention Licence', and to be mined at a date in the future.

In 1999, Debswana applied for no less than 5 new mining leases in addition to those at Orapa AK1 and Letlhakane (DK1 & 2). These were for the kimberlite pipes BK1, BK9, BK12 and BK15 and also for the ground north of Orapa where alluvial diamonds are concentrated in the 'Airport Pan Gravels'. In understanding the reluctance of Debswana to bring these smaller pipes into production, it should be appreciated that the criteria used by a large mining company to assess the value of a particular kimberlite will be different to that of a junior company. A junior company is better positioned to make a profit from a marginally economic deposit. A junior company, with low overheads and minimizing capital expenditure, could conceivably turn a profit by working a kimberlite thought to be 'uneconomic' by a large mining company.

Diamond content, or grade, measured in carats per hundred tons (cpht) or carats per cubic metre (cts/m³) is just one of the variables considered in an evaluation exercise. Grades vary both laterally and with depth. The grade will also vary with the facies of the kimberlite, whether it is crater, diatreme or hypabyssal and, in the case of the Orapa Province pipes, the extent of calcretisation and particularly the percentage of basalt present in a breccia will have a profound effect on the grade.

The value of the stones from the Orapa pipes is generally between \$60 to \$80 per carat, with Letlhakane returning better stones worth up to \$180 per carat. The following statistics have been recorded for the 4 small pipes over which Debswana applied for mining leases in 1999. These pipes are considered economic to mine, even by a large mining company.

PIPE	Size (hectares)	Grade(cts/m ³)	Value (\$/crt)	Revenue(\$/m ²)	Value of ore
BK1	5.5	0.36	80	29.09	+\$21 million
BK9	10.9	0.43	+82	+24	+\$366 million
BK12	3.2	0.48	69	32	+\$83 million
BK15	2.5	0.29	66	18.9	+\$34 million

Of the 21 known kimberlites in Kukama ground, more work is needed to recover and review the evaluation/sampling results obtained by Debswana and generate additional data where this is warranted. At face value, more potential is offered by the larger Kukama pipes, in particular,

PIPE	SIZE (hectares)
BK5	4.5
BK10	2.5
AK12	1.5
BK44	1.5
BK46	0.8
AK8	0.5

There is a distinct possibility that some of the Kukama pipes may be,

- substantially bigger; and/or
- of better grade than is thought to be the case.

Outlining and evaluation in the past has not necessarily been exhaustive. Even at the size and grade recorded, BK10 is a pipe that warrants further study. The grade is reported, from early work by De Beers, as 0.15 cts/m², or 6 cpht. This result is probably derived from just one excavation rather than from a comprehensive evaluation exercise. The true grade of BK10 may be only 3 cpht or it may be 12 cpht. Even at 6 cpht, the value of the ore is at least \$15 million – well below development and recovery costs – if the value of the diamonds is at least \$80 per carat.

In addition to the known kimberlites in Kukama ground, there is some possibility that, within this area, there may be additional kimberlites as yet undiscovered.

b) SEROWE LICENCE PL 3/2000

The licence area is blanketed by Kalahari sand and is a unique area for the reason that it has never previously been prospected on the ground. Kukama Exploration therefore has the opportunity to define anomalous heavy mineral concentrations by soil sampling on a grid and to discover new kimberlites. An airborne magnetic survey flown on behalf of the government in 1998 has revealed the busy residual magnetic pattern and dominated by ENE trending Karoo dolerite dykes. The Kukama and Microsearch team identified 11 targets, which might be caused by kimberlite intrusions, for ground follow-up.

There is also a potential here to find secondary alluvial deposits of diamonds. A spin-off from the 1998 airborne magnetic survey was the generation of the accurate elevation data shown (sun-shaded). A number of potential palaeo-channels can be seen quite clearly from the sun-shaded image. Along the course of some of these palaeo-channels, the data indicates that plunge pools have been developed. In order to understand why these plunge pools constitute targets for alluvial diamonds, it is necessary to return to the subject of erosion of crater facies kimberlite from the Orapa pipes and to know something about the (post late-Cretaceous) sedimentary history of the area.

Estimates of the erosion at AK1 and the other Orapa pipes are tentative, but geologists agree that secondary diamond deposits derived from the Orapa pipes should exist. The Airport Pan Gravels provide one instance of where a secondary alluvial deposit has been found, in close proximity to the mine, but there may well be others.

Thinking further about the question of 'missing' diamonds from AK1 (Orapa); because of its huge area, just one metre depth of kimberlite will produce 2.4 million tons of ore and 2.26 million carats of diamonds (using a grade of 0.42 cts/m²). This is a value of diamonds of about \$144 million per metre depth. If just a few metres of the AK1 pipe were eroded into the drainage and concentrated in alluvial gravels, this would create a rich deposit.

Drainage from the Orapa area in the late-Cretaceous is widely accepted as having been to the south and east. The early-Tertiary period (following on from the time of kimberlite emplacement at 93 Ma) is thought to have been the time during which erosion and sedimentation was vigorous. Block-faulting in the late-Cretaceous (related to isostatic adjustments at the break-up of Gondwana), gave way to graben in-filling in the early-Tertiary, sculpting the landscape and giving rise to the transport and deposition of clastic sediments. The climate was tropical and rainfall high. The Motloutse river channel, near the RSA border, was about 4 times wider and 3 times deeper than it is today. Huge volumes of sediment were carried from central Botswana towards the Indian Ocean. This active erosion and sedimentation shows evidence of slowing down and sediments fine upwards in the mid-Miocene (15 Ma).

In the late-Miocene, a hiatus began during which no erosion or sedimentation took place. The well-known NNE-SSW Kalahari Schwelle (up-warp) is thought to have developed at this time. The axis of the up-warp runs through a point approximately mid-way between Francistown and Orapa. Major drainages, like the Motloutse and the Lotsane (draining from the Serowe area) and the Mhalatswe and the Bonwapitse rivers, further south, lost large areas from their former headwater catchments (to the west of the present day Kalahari escarpment). From the Miocene to the present, there has been very little erosion or sedimentation in central Botswana. In the Quaternary, saline lake sediments were developed over a wide area (Mmashoro Formation). Saline lakes can be seen today in the pans to the north of Orapa. To the south, desert conditions developed in recent times and the Kalahari dune sands (Gordonia Formation) were deposited, also much as they are seen today over the whole of central Botswana, masking the earlier topography.

As a consequence, the search for alluvial gravels derived from the Orapa pipes needs to focus on these early-Tertiary buried river channels, of the type seen running approximately from west to east. The plunge pools created where the river channels cut across dolerite dykes (easily recognized from the aeromagnetic data), would seem to present especially good targets. These rivers will have been active when crater facies kimberlite from the Orapa kimberlites underwent erosion.

De Beers spent some years examining the Motloutse and the Limpopo drainages for alluvial diamond deposits, east of the Kalahari escarpment, but with very limited success. Some diamonds were found but not in economic concentrations.

Another exploration company, Diamond Ventures Exploration in joint venture with Auridiam Botswana, has been drilling to the northwest of the Kukama Licence 3/2000, west of the Kalahari escarpment. This work 'The Taukome Alluvial Project' was designed to explore for diamond-bearing gravels in the Letlhakane river valley southeast of Orapa. Targets were selected from magnetic, Landsat and aerial photographic data, followed up on the ground with EM surveying. None of the 58 drill holes intersected gravel but they went surprisingly deep before reaching basalt bedrock (from 40 to 150 metres) - emphasizing the deep burial and strong relief of the Tertiary landscape under Kalahari sediments in this area. The high-resolution elevation data available to Kukama is an improvement on the data that was available to Diamond Ventures in 1996. To investigate the channels and possible plunge pools in the Kukama licence, it will be necessary to drill to the base of the overlying Kalahari sediments to search for kimberlitic indicator minerals, particularly garnets, and also to establish whether or not there is any gravel developed.

c) SHASHE LICENCE PL 2/2000

The Shashe licence was granted to Kukama during a rush to acquire ground on the Botswana side of the Shashe River in 1999. Diamondiferous and barren kimberlites had been found on the left bank of the Shashe, in Zimbabwe, immediately prior to this land rush. Some of these newly found kimberlites (the Ngulube Province) were discovered by Dr Leon Daniels from the Kukama team, while he was contracted by Trillion Resources (1993 to 1996).

The terrain in this area is unusual for Botswana. There is no Kalahari sedimentary cover and the basement is either exposed or lying very close to surface. Archaean basement rocks occupy the north west of the area while Karoo basalt covers the south eastern part. The south eastern part is therefore not prospective for pre-Cretaceous age kimberlites. Kimberlites in this general area seem to be in the 500 Ma age group (Martin's Drift to the south, Venetia and River Ranch to the east, Ngulube to the north. An unusual characteristic of the known kimberlites in this general area is that they tend to have no ilmenite content and are found by following garnet anomalies (Venetia, Martin's Drift) or by magnetic surveying (Ngulube).

Like the Serowe area, the Shashe area has also been covered by the 1998 government-sponsored aeromagnetic survey, but the line spacing in the western half of the Licence is too wide to allow for kimberlite targets to be selected directly from the data.

Map 9 shows the 800 m interval grid where it is proposed to collect soil samples. The area has not been sampled previously in this detail.

CONCLUSIONS

- a) Kukama owns the prospecting rights to 3 licence areas in Botswana.
- b) The work programmes proposed for these areas are appropriate with regard to the previous work that has been done in each area.
- c) Further exploration in any of these 3 areas may prove successful in finding a new kimberlite or some encouraging new data relating to a known kimberlite. There is also some potential to discover an alluvial deposit.
- d) The operators of the licences – Dr L.R.M. Daniels and Mr M.L. Scowcroft – are personally known to me in both a private and professional capacity. They are both experienced and entirely competent in diamond exploration and qualified to undertake all of the work proposed. They can be expected to focus on the work in a logical manner and to make the best use of available resources.

J.M.Brook
Howick, KwaZuluNatal
11 August 2002

CREDENTIALS OF THE AUTHOR

J.M. Brook, born 1947, London. Graduated with a B.A. Hons in Geology from Trinity College Dublin in 1970 and joined De Beers Prospecting Zambia later that year.

Mr Brook retired from De Beers in 1999 as a Divisional Geologist in De Beers Prospecting Botswana after 15 years as Assistant Field Manager in Botswana.

1985 – 1999	BOTSWANA	All aspects of kimberlite exploration outlining and evaluation. Airborne geophysical techniques. Sampling techniques. Drilling. Data analysis. Computer Applications. Reporting to government. Research. Staff training Target selection.
1982 – 1984	ANGOLA	Alluvial mining optimization in the Cuango. Grade control. Ore reserve estimation. Data interpretation. Mine planning.

1974 – 1981	ZAIRE	Kimberlite exploration in Kasai (Tshikapa) and Shaba (Kundelungu) Provinces. Percussion and air drilling. Bulk sampling and treatment. Field Laboratory. Diamond recovery.
1973 – 1974	SOUTH AFRICA	Technical Assistant in the Consulting Geologists Department, Johannesburg.
1970 – 1973	ZAMBIA	Kimberlite exploration in Kafue and northern Zambia. Stream and soil sampling. Pitting. Ground magnetic and seismic surveying.

**Executive Summary of the Independent Report
For Diamond Licence Areas
in the
Kono Region
in Sierra Leone**

D. J. Boyack BSc. MSc. FIMM, FAusIMM, CEng.
Independent Consulting Geologist
DJB Resource Consulting

SUMMARY

African Diamonds has three diamond properties in Sierra Leone.

For ease of identification these are identified as Prospects A, B and C.

	AREA	VALIDITY OF LICENCE
Prospect A (EXPL 8/02)	16.86 km ²	30/11/05
Prospect B (EPL 10/2002)	137 km ²	30/11/03
Prospect C (EPL 11/2002)	250 km ²	30/11/04

In each of these Exploration Licence areas further Exploration may prove successful in finding economic kimberlite within the licence boundaries particularly give the history of artisanal working in the region.

- Prospect A - Includes Pipe 3 and eight associated unweathered, hardrock, kimberlitic dyke zones. Artisanal mining exists on both the pipe and dyke areas. The pipe has not been the subject of any previous exploration programme. This prospect is held on an exploration licence and will be valid for three years and is restricted to 17 km². The surface area of the pipe is approximately 0.125 Ha.
- Prospect B - Covers an area of 137 km² and is contiguous with 3 boundaries of Prospect A. The area is held under an exclusive prospecting Licence, valid for 1 year renewable on exploration results. Previous work carried out by Sierra Leone Selection Trust confirms several hardrock kimberlitic dyke zones traversing the area. There is considerable artisanal activity on the various river systems crossing the territory including the River Moinde, which is famous as a diamondiferous resource.
- Prospect C - Borders prospect B on its southern boundary but is considerably larger than the other prospects with an area of some 250 km². This licence is held also as a renewable exclusive prospecting licence valid for 2 years. This prospect includes the Meya river system, which is an established source of diamonds. Although prospect C is less Explored than either A or B work carried out on adjacent territory is proving attractive. A number of swamps and streams are aligned along the dominant strike direction of the kimberlite dykes.

These 3 areas cover at least one third of the original Yengema diamond mining lease held by Sierra Leone Selection Trust and the now defunct National Diamond Mining Company (SL) Ltd. It is believed that these 3 prospects offer the best opportunity in Sierra Leone.

MINERAL PROPERTIES – DESCRIPTION AND OWNERSHIP

African Diamonds holds one Exclusive Exploration Licence and two Exclusive Prospecting Licences. The three main areas where the Sierra Leone licences are located in the Kono District in Eastern Sierra Leone, north of the Moa River and south of the Baji River, near to the townships of Sefadu and Koidu.

African Diamonds is an unquoted plc, in the UK, intending to seek a listing early in 2003, with just under 40 million issued shares at present, with licences in Sierra Leone, Guinea and Botswana. Title to all of the Sierra Leone licences is held by African Diamonds which has its Principal Office in Dublin, Ireland with a representative office in Freetown, Sierra Leone. Copies of title documentation and related correspondence have been viewed and all appears to be in good order. There are no known mineral reserves or resources delineated on the African Diamond properties.

There are no outstanding environmental liabilities present on any of the licence areas. In conducting exploration, African Diamonds is required by the Sierra Leone Mines and Minerals Decree 1994 to adhere to a best practices policy to reasonably minimize the impact of the company's Exploration and development activities on the surrounding areas. By grant of mineral licences the company is entitled to conduct prospecting and exploration activities as described in the mineral licences without any additional permitting requirements.

	Area (km²)	Commitment Duration of Licence	Expenditure (US\$) Budgeted 2003
EXPL8/02	16.86	30/11/2005	75,000
EPL10/2002	137	30/11/2003	50,000
EPL11/2002	250	30/11/2004	65,000

Prospect A, Exclusive Exploration Licence EXPL 8/2002 covers an area of 6.5 sq.miles, (16.86 km²), in the Gbense Chiefdom, Kono District, Eastern Region Valid 3 years from 01/12/2002. Prospecting due to start by 1 June 2003 unless otherwise agreed by the Minister.

Prospect B, Exclusive Prospecting Licence EPL 10/2002 covers an area of 53.0 sq.miles, (137 km²), in the Gbense and Faiama Chiefdoms, Kono District, Eastern Region. Valid for one year from 01/12/2002. Prospecting due to start by 1 June 2003 unless otherwise agreed by the Minister.

Prospect C, Exclusive Prospecting Licence EPL 11/2002 covers an area of 97.0 sq.miles, (250 km²), east of Njaiama in the Nimikoro, Tankoro, Faiama and Gbane Chiefdoms Kono District, Eastern Region. Valid for two years from 01/12/2002.

EXPL8/2002 (16.86 km²)

Kono contains an extensive area of artisanal diamond workings concentrated over an ENE to WSW trending diamondiferous kimberlitic dyke swarm. Four small kimberlite bodies have been identified in the eastern part of the area, near the town of Koidu. Production from the Koidu kimberlites field constitutes some 65-70% of Sierra Leone's total output to date and the field is estimated to have proven and probable reserves of 7.5 million tons at 0.35 carats per tonne, for a total of about 2.6 Mct, the majority of stones being gem quality. However, the eastern part of the field, around and beneath the town of Yengema and on the extension of the kimberlite belt from Koidu towards Njaiama-Nimikoro is almost unexplored from the point of view of bedrock kimberlites. This is due to a much deeper general level of weathering.

The Koidu Pipe 3 project is located north-west of Kania village in the Tankoro and Gbense Chiefdoms of Kono District, Eastern Province, Sierra Leone. Pipe 3 and its associated kimberlite dykes were originally discovered in the 1960s during a ground geophysical survey and confirmed by follow-up drilling. A limited drill program confirmed the presence of kimberlite at depth, but failed to fully define the ore body. The Pipes 2 and 3 were originally included in the Koidu Kimberlite Project Parcel No.2, which had a total reserve of 7,342,000 tons at an average grade of 0.327 carats per ton, although this figure excludes any specific figure for Pipe 3. A program of pitting is planned by the company to bulk sample the kimberlite. Follow-up drilling will also be undertaken to quantify the resource existing within the company's project area.

EPL10/2002 (137 km²)

The extensive alluvial diamond deposits in central Kono are considered likely to be not only derived from immediately underlying dykes and pipes, but also from source rocks on higher ground to the south of Kono, from which the main rivers in Kono have their source. The EPL targets this area. The Koidu diamond field lies immediately to the west of the EPL and the kimberlite dykes which strike WSW to ENE in the Koidu area continue into EPL10/2002. South of the Yengema area, the diamond field at Njaiama ten kilometres to the east of the licence has been yielding diamonds which are morphologically distinct from the Yengema stones and which appear to be derived from drainage systems paralleling the known kimberlite trend.

EPL11/2002 (250 km²)

The Yengema area lies on strike of the 240° to 250° trending kimberlite dyke swarm, 8 km to the west-south-west of Koidu. The diamonds are associated with the dyke swarm as well as a number of related kimberlitic breccia pipes and blows. Although the majority of drainage channels have been mined for alluvial diamonds in this area, no detailed investigation has been conducted of the underlying bedrock. Established theory suggests that the alluvial diamonds lie in the immediate vicinity of eroded primary pipes and dykes. Detailed Landsat interpretation demonstrates that the intense structural features which contain the kimberlites at Koidu continue through Yengema and into the Nimini Hills.

This area has long been known for producing clear and coloured stones which are different from the generally larger coated diamonds in the main kimberlite zone at Koidu. The main focus of the company is to find extensions of known kimberlites, which could be sourcing these rarer stones. Extensive geological and heavy mineral mapping will be carried out within the licence, and grids cut over prospective areas, followed by geophysical surveys over such grids. If kimberlites are found, then preliminary evaluation will be carried out through sampling pits and trenches dug across them. Late movement along the eastern boundary shear of the licence appears to have affected the orientation of the structures to some extent.

WORK COMPLETED AND EXPENDITURE INCURRED TO DATE

Work to date on all the properties has been reconnaissance ground truthing of artisanal activity in and around the licences.

The following information and work is reported by General Investigation and Development Company and its subsidiary Geo Resources (SL) Limited on behalf of African Diamonds.

- Geological data from work done by SLST and NDMC relevant to the proposed work programmes of EXPL 8/2002, EPL 10/2002 and EPL 11/2002 is currently being collated and presented on maps that would guide field activities.
- Close interval sampling undertaken, on areas covered by the African Diamond licences, by NDMC in 1978, utilizing a 4.0' mechanical grab produced 65 diamonds weighing 9.7 ct, and an indicated grade of 0.10 ct/cu.yd from 92.8cu.yds of decomposed kimberlite treated. An interesting feature of the winnings is the presence of two diamonds with modest weights; one being over 1.0 carat. An average stone size of 0.15 ct was indicated from the limited volume sampled.
- All geological data from work done by Diamond Exploration Company (SL) Ltd. (1959/60), and the Geological Survey relevant to the proposed work programme in EPL 11/2002 have been retrieved and indicated on the appropriate base map.
- All first pass sample sites for heavy mineral concentrate have been indicated on the base map for work in EPL 11/2002.
- Logistics are being put in place to ensure that fieldwork in EXPL 8/2002 and EPL 10/2002 is underway during the second half of March 2003.
- A bulk sample was taken by NDMC in June 1976 from kimberlite dyke(s) leading to and being some 2,000' southwest of No.3 Pipe on the Yigbe/Sinjei interfluves. This area is located within EXPL 8/2002. The sample was taken from the surface to a depth of 14.7' yielded the following results.

Details of Kimberlite Bulk Sample Test:

In situ kimberlite + overburden and Cranitic bedrock treated	=	2675.64 cu.yds.
In situ kimberlite treated	=	91.27 cu.yds.
Carats Recovered	=	96.45 cts.
Grade of total material treated	=	0.04 cts/cu.yds.
Grade of kimberlite only	=	1.06 cts/cu.yds.

- Two Diamond drill holes were drilled into pipe 3 by NDMC. However, the hole designed to intersect the greatest width of the pipe deviated some 17° from its collar azimuth of 150°. The second hole located near the Pipe/Granite contact, on an azimuth of 139° and inclined 65° intersected kimberlite from 122' - 314', indicating a horizontal width of 70' on the 300' level as against a surface width of 140'. Results were inconclusive and further drilling is required.

CONCLUSIONS

1. African Diamonds has title to the exploration licences and the rights thereto, in the Republic of Sierra Leone.
2. The work programmes proposed are appropriate with regard to the previous work undertaken.
3. Further exploration in any of these three areas may result in the discovery of new kimberlite. Further work on known alluvial locations in the licence areas may justify application for a mining licence.
4. Ongoing expenditure is summarised as follows:

	Area (km²)	Commitment Duration of Licence	Expenditure Budgeted 2003
EXPL 8/02	16.86	30/11/2005	75,000
EPL 10/2002	137	30/11/2003	50,000
EPL 11/2002	250	30/11/2004	65,000

5. The operators of the licences African Diamonds and their retained consultants Geo Resources (SL) Ltd. have extensive experience of developing mineral projects. Where appropriate the operators will utilise appropriately qualified geologists, consultants and contractors to undertake some or all of the work proposed.
6. EXPL 8/02 hosts a known kimberlite pipe, Pipe 3, together with a several kimberlitic dykes. Samples taken from dykes have yielded diamonds of good quality with a good yield of carat per cubic yard. More detailed exploration is warranted in particular on Pipe 3 which justifies bulk sampling as early as possible in the exploration process.
7. The two Exclusive Prospecting Licences present very good kimberlite targets. In addition to known but unexplored dyke zones there are remnant alluvial terraces with artisanal activity. Whilst these properties are at grass roots stage, initial exploration concentrated on dyke zones and artisanal activity is expected to yield results. These properties justify reconnaissance geophysics together with further stream sediment sampling will immediately display the kimberlite potential.

The diversity in the colour of the diamonds emanating from the area adds to the profile of the properties in Sierra Leone and the marketability of goods on offer in a challenging marketing environment. Access is good and relief low.

The three Sierra Leone properties are similar in their target potential and share the same geological attributes. The African Diamonds property EXPL 8/02 at Koidu has at this stage the best potential for fast tracking to production. The other two properties EPL 10/2002 and 11/2002 have good potential for hard rock primary (kimberlite dyke) diamondiferous occurrences. There also exists the potential for alluvial production.

CREDENTIALS OF THE AUTHOR

I, D. J. Boyack, of Woodham, Surrey, England, a Qualified Person for purposes of this report, hereby certifies:

1. That I am a consulting geologist.
2. That I graduated from Leicester University, Leicester, England in 1979 with a degree of Master of Science (MSc.) in Mineral Exploration & Mining Geology.
3. That I have practiced as a geologist in the resource exploration and development industry continuously since graduation.
4. That I am a Fellow in good standing of the Institute of Materials, Minerals and Mining, that I am a Fellow in good standing of the Australasian Institute of Mining and Metallurgy, and that I am a Chartered Engineer of the Engineering Institute.
5. That I am the author of the report titled “Geological Report on The Sierra Leone Diamond Exploration Properties” for African Diamonds and that the conclusions and recommendations contained within are based upon my research, review of African Diamonds’ files, reports and data sets, and review of information relevant to the project area.
6. That I am not aware of any material fact or material change with respect to the subject matter of this report which is not reflected in this technical report.
7. That I have no beneficial interest, either directly or indirectly, in the Sierra Leone diamond Exploration properties nor do I beneficially own, directly or indirectly, any securities of African Diamonds or any of its affiliates.
8. That I have not previously been an employee of African Diamonds nor do I have an expectation of future employment with African Diamonds.

Dated at Woodham this 11th day of April 2003.
(Signed) D. J. Boyack, BSc., MSc., FIMM, FAusIMM.

**Executive Summary of the Independent Report
For Diamond Licence Areas
in the
Republic of Guinea**

L. J. Howes BSc. Geol. BSc. Geochem. Hons.
Independent Consulting Geologist

SUMMARY

African Diamonds and its wholly owned subsidiary Grampian Resources Limited hold the rights to three exclusive exploration licences in the Republic of Guinea.

For ease of identification these are identified by the names of the nearest village to the licence area, **Fangamadou, Seria and Bomboko**. Work is currently in progress on all three areas.

	AREA	VALIDITY OF LICENCE
Fangamadou	208 km ²	27/05/2004
Seria	16.7 km ²	28/06/2004
Bomboko	11.0 km ²	10/09/2004

In each of these Exploration Licence areas further exploration may prove successful in finding economic kimberlite within the licence boundaries. There is strong evidence of artisanal workings on diamondiferous alluvial terraces on all of these areas.

The **Fangamadou** licence area has shown traces of kimberlite in sample pits. These remain to be explored. In addition, there are strong indications of alluvial diamond deposits (evidenced by old artisanal workings on the property). There are reports of diamond recovery including a recent find of a 30 carat crimson red diamond. These reports are confirmed by the Prefet in the Prefecture of Gueckedou.

The **Seria** licence property presents a good kimberlite target and has remnant alluvial terraces that are diamondiferous both up and downstream from the Seria licence. Ministry of Mines (“Ministry”) archive records researched by V. Zemanek and O. Werner in 1960 on behalf of the Ministry indicate a reported reserve of 12,000 ct on this location.

The **Bomboko** licence property has active artisanal alluvial activity all around and adjacent to the area. The licence area contains all the recognised alluvial terraces in the region. Artisanal activity is evident on these terraces on adjacent land.

These three exploration licences are in areas of great interest. Fangamadou is bounded to the South by licences which were subsequently taken by Debsams Guinee SARL/De Beers. Seria and Bomboko are close to the Aredor licence held by Trivalence.

The operators of African Diamonds and Grampian Resources have considerable experience in West Africa and are technically and financially capable to undertake the proposed work.

PROSPECTIVITY OF THE GUINEAN PROPERTIES

Grampian Area – Seria

A map was constructed as a compilation of the BRGM information, in Conakry, before ground-truthing began. The BRGM geological map displayed structure and geology and clearly a relationship could be seen between dolerite extrusion and structural features. There was also coincidence with known kimberlites in the Banankoro basin, which begged the question of the lack of such information in the area where alluvial mining was taking place both in the Bomboko and Bombokoni rivers.

Upon first inspection, a large linear SW/NE feature, supported by rectangular drainage cuts through the GRAMPIAN area at the southern point of which a diamondiferous kimberlite exists along strike to the south and just off the area. This is not identified by BRGM in their geological map.

This feature clearly has dolerite, not reflected by BRGM and kimberlites are known to exist in the area (personal communication, in the presence of a CPDM official, at the geological office in Kerouane – the capital of the Prefecture).

This set off a two pronged investigation of both the search for the potential of primary source kimberlites together with the verification of the alluvial activity that would point to the presence of kimberlites and in themselves offer diamondiferous resources as an investment package if possible.

Primary Resource Potential

The SW/NE feature identified in the field (52-56°TN) is seen to have been exploited by dolerites underlining the following credits of the area.

This highlights the geological attributes of the area:

- The area is underlain Kenema-Man domain of Archaean age.
- The kimberlites in the Banankoro area (Rombouts 1988) have exploited regional structural trends.
- The Drushba Mine (Antoshka, Pipe no. 7) near Wandadou 17 kms to the east is diamondiferous kimberlite.
- A mineralized (diamondiferous) kimberlite exists along the feature to the south west of the area, marked as 108 on the 1: 200 000 BRGM map, found by Kozlov 1966.
- Highly weathered kimberlitic remnants were found in Pit 4 located on a drainage system (rectangular) emanating from the SW/NE ridge.

Exploration pits excavated on this trip were located along rivers that have cut through the 800 m terraces (mined throughout the Seria area on a small scale) at about the 780-790 m above sea level (“m.a.s.l.”) and targeted at drainage systems emanating from the SW/NE feature (some 8 km long) in rivers draining into both the Bomboko and Bombokoni. The 4x4 m pits are by no means part of a systematic sampling programme testing the alluvial potential or representative of a more systematic sampling programme.

They merely represent a reconnaissance initiative to test the veracity of the results previously achieved and in the light of the newly identified SW/NE feature that would have a bearing on the primary resource rock potential in the licence area. A systematic programme would only be possible in the drier months. The two diamonds found in Pit 2 in July 2002 in the south east of the area were located in rivers emanating in the area at about 780 m.a.s.l. along from which pits 4 and 5 were sampled upstream.

The minus 2 mm shaker fraction (‘fines’) were collected in a secondary sump in which the gravels were washed and concentrated by calabash. These mineral samples will be submitted for laboratory analysis for kimberlitic indicator minerals. Analysis of the “fines” fraction was not attempted on previous sampling.

The stage of development of the property in terms of primary potential is grass roots.

Alluvial Potential

The Grampian area has remnants of the 840, 800 and 780 m.a.s.l. terraces. An unpublished report at the Ministry of Mines quotes a deposit of 12,000 cts at 0.81 cts/m³ at about (according to the report) 9°04' N and 9°35' W on a 1:200 000 scale, which on this scale plots on the SW/NE feature. However plotting this on a 1:50 000, which did not exist at the times seems to correspond to a small remnant terrace unable to support such a reserve. This points more to a primary target along the linear SW/NE feature.

This discovery in 1955 (unsupported by GPS technology) did not disclose whether this was an alluvial or a primary rock resource. This literary discovery also occurred upon return to Conakry in a document – ‘Direction Mines ; Diamants en Republique de Guinee – V. Zemanek & O. Werner, 1960’, and the writer was not afforded the opportunity of field verification.

The gravels in the Pits 4 and 5 on rivers draining into the Bomboko are sub-angular to sub-rounded reflecting as in those observed terrace materials at Soumboya (in the 800 m.a.s.l.) reflecting a tranquil sedimentary evolution and proximal to source areas. Rounded dolerite and remnant kimberlitic pebbles and cobbles were found in these gravels, characteristically 0.3-0.5 m thick. These pits are not too far east of the approximate locality of the aforementioned discovery.

Pit 4 (9°03'30.4"N/9°34'39.0"W)

Pit 5 (9°03'26.8"N/9°34'04.1"W)

The gravels in Pits 6 and 7 placed along rivers draining into the Bombokoni were more rounded reflecting a more dynamic drainage environment and were placed to test the remainder of the SW/NE feature for possible indicator minerals.

Pit 6 (9°04'35.3"N/9°32'47.6"W)

Pit 7 (9°04'49.5"N/9°32'28.5"W)

Pit 3 was a shaker fraction sample taken from a pit dug by clandestine miners near Soumbaya.

No pit sampling of the terraces was conducted due to time constraints and where trenching would be more representative. Despite the artisanal activity throughout the area, the area should still be classified as a grass roots project.

African Diamonds Area – Bomboko

The diamonds traditionally mined along the Bomboko by clandestine miners were and are still in the 800, 780 and 760 (current river) m.a.s.l. terraces and gravels and should be viewed as an alluvial target. All these terraces exist in the area in sizeable surface areas.

The Bomboko and the Bombokoni drainage systems drain eventually into the Milo River at Banankoro (Aredor), which forms part of the Niger River drainage system. The drainage systems to the south and west are captured by the Atlantic drainage systems and are of lower relief (Rombouts, 1988). The Bomboko and Bombokoni systems are surrounded by dolerite ridges like a dam wall and are clearly in an elevated setting (some 300-400 m higher).

To quote Luc Rombouts, the author of the *Geology and Evaluation of the Guinean Diamond Deposits* published in the *Annales de la Société Géologique de Belgique*, T. 110-1987, pp 241-259, Aout 1988:

“Alluvial deposits in the mature valleys reflect a progressive shift of channels towards the south east, indicating regional tectonic tilt to the south or south east”. This is towards the Milo River that eventually flows north to Aredor. In furtherance, “Flats are not necessarily richer as they do not systematically superimpose themselves on the terraces”.

The African Diamonds licence has a significant surface area of some 1-2.5 km x 5 km of the 3 terraces, which were not sampled. These should be systematically trenched as part of a more intensive exploration program.

A pit (10 x 10 m) dug into the gravels adjacent to the current river level (at 760 m.a.s.l.) by artisanal miners just outside of the eastern boundary of the African Diamonds licence area yielded 180 stones (carats unknown). Taking a very conservative average of 0.5 cts this pit had a grade of about 0.9 cts/m² indicating a possible reserve of about 10,000 cts. This has by no means included the high value large goods known to come from the area with a multiplier effect on this conservative estimate. The goods observed being mined by the clandestine miners just off the area at Souloukoudou ranged between 0.3 – 11.5 ct as weighed by a local buyer.

The 800 m.a.s.l. terrace at Soumbaya (just south of the Grampian area and 2 km west of African Diamonds) yielded a 65 ct white (quality unknown) in May 2002 and upon our arrival the chief's wife found a 3.5 ct unincluded white, which the writer had the privilege to see. Diamonds are also being extracted next to the Bomboko at Soumbaya from the 780 and 760 m.a.s.l. terraces.

All terraces on the De Beers licence area towards Farandou, 10 km east of African Diamonds licence area (an area under another chieftainship) are being mined at will by the clandestine miners. Small-scale activity on all terraces could be seen (pumps on the backs of motorbikes and miners carrying shakers) from Soumbaya to Wandadou (over some 45kms) where the Bomboko meets the Milo river some 15 kms south of Banankoro (Aredor)

The Paramount Chief, in whose chieftom the Grampian and African Diamonds areas lie, is strict in terms of preserving farming land. This is one of the main reasons no alluvial activity was observed on the Grampian area. He is helpful and extremely approachable and explained that a mining company been extracting some 950 ct per month over the last eight months from the northern side of the Bomboko near Soumbaya. It was later discovered that the company was operating without a licence and they were removed from the area.

The diamonds observed at Soumbaya were white to fancy yellows, many included. The variety in size and quality of the diamonds does again point to the proximal sources of these diamonds. Their appearance and condition indicate that they have not been entrained in an alluvial environment over appreciable distances. This is supported by the sub-hedral nature of the gravels throughout the area.

The artisanal miners have had very little impact on the area where they are unable to process appreciable volumes of gravels by hand. The largest workings were at Kouloumbadou along the Bombokoni 4 km north-east and downstream of the African Diamonds property.

The area is fairly remote and mining at the grass roots level of development.

Grampian Area - Fangamadou

At this early stage five (5) areas have been identified to have been mined by clandestines on a significant scale. The authorities have stopped all such activity which was rife during the refugee crisis period where some 65,000 refugees were camped at Fangamadou. All refugees have been repatriated and the area is peaceful.

The BGRM 1:200,000 scale geological satellite interpretation includes all the Archaean geology of the Kenema-Man cratonic domain into one category with no detail concerning younger age extrusives (dolerites and kimberlites) known to occur near Maa, 3 km north of Fangamadou. Again they did not verify their interpretation in the field and probably relied on observations made by Obermuller (1947).

All the observed diamondiferous alluvial workings are along rivers emanating in the area and are away from the Meli River, which joins the Makona to the south to become the Moa in Sierra Leone. No influence of drainage systems impacts on the drainage systems of the licence area, which only points to the fact that the sources for the diamonds must originate within the area.

Again, the only possible initiative at this wet time was to sample some of the areas for indicator minerals in the rivers. It was mainly targeted at Maa, where previous work was done but no fine (minus 2mm – minus shaker screen size) fraction was sampled and analysed. Road access networks are good throughout the area, which will prove satisfactory during the dry season before the end of April 2003.

On Fangamadou the company geologists have reported that a series of river flats and terraces running the length (about 21 km) of the property on the eastern bank of the river Meli, and several hundred metres wide are worthy of serious exploration. These areas show considerable evidence of illicit mining. Significantly, many of the diamonds recovered in the past are large and of gem quality.

Diamonds observed, clandestine operators sourced, are mostly in the 0.3-0.5 ct range but with a wide spectrum of colours ranging from blue, crimson red, green (pale lime to darker leaf greens), yellows (light champagne to fancy) through to whites. Some of the diamonds were included and all were octahedral. These clandestine miners are seen to be concentrating at this time around YebeMaa and Maa. A small working close to Maa yielded 14 stones from a pit of about 5m x 4m. Overburden ranges from about 1.5-2m with a basal gravel thickness of about 0.5m thick. A 1ct white diamond was found by a farmer when a palm tree fell over and exposed some shallow gravels about 2 km upstream from Maa.

It was reported by the authorities, Prefet and Sous Prefet, that a 30 ct crimson red (quality unknown) was recovered from the Grampian Resources licence area around Maa in July 2002.

The authorities, as at Seria and Bomboko, were very cooperative and welcoming of the African Diamonds initiative, which under the circumstances of the recent history of the region points to an enabling environment for any African Diamonds exploration enterprise.

CONCLUSIONS

African Diamonds and its subsidiary, Grampian Resources, have title to the exploration licences and the rights thereto, in the Republic of Guinea as detailed in this report.

The work programmes proposed are appropriate with regard to the previous work undertaken.

Further exploration in any of these three areas may result in the discovery of new kimberlite. Further work on known alluvial locations in the licence areas may justify application for an Exploitation Licence.

Ongoing expenditure is summarised as follows:

	Area (km ²)	Commitment Duration of Licence	Expenditure to Date
Fangamadou	208.0	£325,000	£69,000
Seria	16.7	£125,000	£31,000
Bomboko	11.0	£31,250	£7,500

The operators of the licences – Grampian Resources and African Diamonds– have extensive experience of developing mineral projects worldwide. Where appropriate the operators will utilise appropriately qualified geologists, consultants and contractors to undertake all or some of the work proposed.

The Seria (Grampian Resources) property presents a good kimberlite target and has remnant alluvial terraces requiring exploration. This grass roots property requires more reconnaissance exploration as it has been traditionally delineated for farming where artisanal activity is absent, which usually assists in targeting. Geophysics together with further stream sediment sampling will immediately display the kimberlite potential.

The adjacent Bomboko (African Diamonds) property has alluvial artisanal activity all around and adjacent to the area, which contains all of the recognised alluvial terraces in the region. Although it is at the grass roots level of development it can be promoted to higher stage of development more rapidly than the other areas on a fast track basis. Access is good with the district road dissecting the property and relief is low. Reconnaissance trenching should achieve early results.

The Fangamadou (Grampian Resources) property has wide-spread incidence of artisanal activity indicating the potential for multiple source terrains and displays a variety of alluvial settings. Due to the fact that the area has not been systematically explored in time, very little data exists to target exploration at this early stage. Geophysics and further pit sampling and/or reconnaissance trenching together with detailed mapping should advance the grass roots level of the property rapidly. The diversity in the colour of the diamonds emanating from the area adds to the profile of the properties in Guinea and the marketability of goods on offer in a challenging marketing environment. Access is good and relief low.

The three Guinean properties are similar in their target potential and share the same geological attributes. The African Diamonds property at Bomboko has at this stage the best potential for fast tracking alluvial exploration. However this is due to limited information on Fangamadou, which has far more widespread artisanal activity over an area ten times larger. The Seria property at this stage presents a significant primary source rock (kimberlite) target previously not recognised.

Lionel Howes
Windhoek, Namibia
January 2003

CREDENTIALS OF THE AUTHOR

L. J. Howes graduated with a BSc. Geology and BSc. Hons. Geochemistry from the University of Cape Town in 1984.

A Namibian consultant with over 20 years experience in exploration and mining in Africa. He has worked for Anglo-American/DeBeers, Rossing Uranium (Part of Rio Tinto) and the Ministry of Mines and Energy in Namibia. He then became an independent consulting geologist, before moving on to become a commodities analyst at HSBC Investment Services Namibia. He has now returned to consultancy.

PART V

FINANCIAL INFORMATION ON AFRICAN DIAMONDS PLC

Unaudited interim accounts of African Diamonds plc for the six months ended 31 December 2002

	Six months ended 31 December 2002 £'000
GROUP PROFIT AND LOSS	
Turnover	-
Operating costs	(11)
	<hr/>
Operating (loss)/profit	(11)
Interest receivable	2
Interest payable	-
	<hr/>
(Loss)/profit before taxation	(9)
Taxation	-
	<hr/>
(Loss)/profit for the period	(9)
	<hr/> <hr/>
(Loss)/profit per share	(0.02p)
	<hr/> <hr/>
	As at 31 December 2002 £'000
GROUP BALANCE SHEET	
Fixed assets	902
	<hr/>
Current assets	280
Current liabilities	(22)
	<hr/>
Current assets less current liabilities	258
Creditors (amounts falling due after one year)	-
	<hr/>
Total assets less liabilities	1,160
	<hr/> <hr/>
Share capital and reserves	1,160
	<hr/> <hr/>

Audited accounts of African Diamonds for the period from incorporation on 23 May 2000 to 30 June 2002

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AFRICAN DIAMONDS PLC

We have audited the financial statements of African Diamonds plc for the 13 month period ended 30 June 2002 which comprise the consolidated profit and loss account, the group and company balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the reconciliation of movement in shareholders' funds and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report for the above period and the other information contained in the annual report, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the valuation of intangible assets and investments. The realisation of the intangible assets of £112,000 included in the consolidated balance sheet and intangible assets and investments in the company balance sheet totalling £100,000 is dependent on the successful development of mineral reserves. We draw attention to further details given in Notes 7 and 8. Our opinion is not qualified in this respect.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 June 2002 and of the loss of the group for the 13 month period then ended and have been properly prepared in accordance with the Companies Act, 1985.

Deloitte & Touche Chartered Accountants and Registered Auditors
Deloitte & Touche House, Earlsfort Terrace, Dublin 2

31 March 2003

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE 13 MONTH PERIOD ENDED 30 JUNE 2002**

	Notes	13 Months ended 30/6/2002 £	From incorporation 23/5/2000 to 31/5/2001 £
TURNOVER		-	-
Cost of sales		-	-
		<hr/>	<hr/>
GROSS PROFIT		-	-
Administrative expenses		(44,274)	-
		<hr/>	<hr/>
OPERATING LOSS – continuing operations		(44,274)	-
Interest income	2	674	-
		<hr/>	<hr/>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION – continuing operations	3	(43,600)	-
Tax on loss on ordinary activities	5	-	-
		<hr/>	<hr/>
RETAINED LOSS FOR THE PERIOD	13	(43,600)	-
		<hr/> <hr/>	<hr/> <hr/>
LOSS PER SHARE	6	(0.52)p	-
LOSS PER SHARE - diluted	6	(0.52)p	-
		<hr/> <hr/>	<hr/> <hr/>

The Company has no recognised gains or losses other than those disclosed in the profit and loss account for the period.

BALANCE SHEETS
AT 30 JUNE 2002

	Notes	Group 30 June 2002 £	Group 31 May 2001 £	Company 30 June 2002 £	Company 31 May 2001 £
FIXED ASSETS					
Intangible assets	7	112,000	-	70,000	-
Investments	8	16,163	-	46,163	-
		128,163	-	116,163	-
		128,163	-	116,163	-
CURRENT ASSETS					
Debtors	9	1,427	2	22,387	2
Cash at bank		255,532	-	246,572	-
		256,959	2	268,959	2
		256,959	2	268,959	2
CREDITORS : (Amounts falling due within one year)	10	(9,658)	-	(9,658)	-
		247,301	2	259,301	2
NET CURRENT ASSETS		247,301	2	259,301	2
NET ASSETS		375,464	2	375,464	2
		375,464	2	375,464	2
CAPITAL AND RESERVES					
Called-up share capital	11	274,533	2	274,533	2
Share premium	12	144,531	-	144,531	-
Profit and loss account	13	(43,600)	-	(43,600)	-
		375,464	2	375,464	2
SHAREHOLDERS' FUNDS		375,464	2	375,464	2
- ALL EQUITY		375,464	2	375,464	2

The financial statements were approved by the Board of Directors on 31 March 2003 and signed on its behalf by :

John J. Teeling
Director

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE 13 MONTH PERIOD ENDED 30 JUNE 2002**

	Notes	13 Months ended 30/6/2002 £	From incorporation 23/5/2000 to 31/5/2001 £
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	15(a)	(36,041)	-
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		674	-
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		674	-
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire intangible assets		(112,000)	-
Payments to acquire investments		(16,163)	-
NET CASH OUTFLOW BEFORE FINANCING		(163,530)	-
FINANCING:			
Issue of ordinary share capital for cash		419,062	-
NET CASH INFLOW FROM FINANCING		419,062	-
INCREASE IN CASH	15(b)	255,532	-

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE 13 MONTH PERIOD ENDED 30 JUNE 2002**

	13 Months ended 30/6/2002 £	From incorporation 23/5/2000 to 31/5/2001 £
Total recognised loss for the period	(43,600)	-
Issue of shares:		
- at par	274,531	-
- share premium	144,531	2
	<hr/>	<hr/>
Net change in shareholders' funds	375,462	2
Opening shareholders' funds	2	-
	<hr/>	<hr/>
Closing shareholders' funds	375,464	2
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the financial statements
for the 13 month period ended 30 June 2002**

1. PRINCIPAL ACCOUNTING POLICIES

(i) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards generally accepted in the United Kingdom and United Kingdom statute comprising the Companies Act 1985.

(ii) Basis of consolidation

The consolidated financial statements include the accounts of African Diamonds plc and its subsidiary made up to 30 June 2002.

(iii) Accounting convention

The financial statements are prepared under the historical cost convention.

(iv) Intangible fixed assets – Deferred Development Expenditure

Mineral exploration costs are capitalised until the results of the projects, which are based on geographic areas, are known. Mineral exploration costs include an allocation of administration and salary costs as determined by management. If the project is successful, the related exploration costs are written off over the life of the estimated ore reserve on a unit of production basis. Where a project is terminated, the related exploration costs are written off immediately.

(v) Investments

Investments are stated at the lower of cost and directors' valuation.

(vi) Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rate ruling at the balance sheet date. Transactions are converted at the rate ruling at the date of the transaction. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs are capitalised when such borrowings can be directly linked to specific capital development. Other exchange differences are dealt with in the profit and loss account.

For the purposes of consolidation the balance sheets of the foreign subsidiaries are translated at the closing rate and the profit and loss accounts at the average rate during the period. Any translation gain or loss is transferred directly to reserves.

(vii) Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Deferred tax assets are only recognised to the extent that they are regarded as recoverable. They are regarded as recoverable to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

2. INTEREST INCOME

	13 Months ended 30/6/2002 £	From incorporation 23/5/2000 to 31/5/2001 £
Bank interest received	674	-
	<u> </u>	<u> </u>

3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	13 Months ended 30/6/2002 £	From incorporation 23/5/2000 to 31/5/2001 £
This is stated after charging:		
Auditors' remuneration	2,500	-
Directors' remuneration – for professional services	30,000	-
	<u> </u>	<u> </u>

4. STAFF NUMBERS

There were no employees of the company other than the directors during the current period or the prior period.

5. TAXATION

No charge to taxation arises due to the tax losses incurred.

6. LOSS PER SHARE

Basic earnings per share is computed by dividing the profit or loss after taxation for the period available to ordinary shareholders by sum of the weighted average number of ordinary shares in issue and ranking for dividend during the period. Diluted earnings per share is computed by dividing the profit or loss after taxation for the period by the weighted average number of ordinary shares in issue, adjusted for the effect of all dilutive potential ordinary shares that were outstanding during the period.

The following table sets forth the computation for basic and diluted earnings per share (EPS):

	13 Months ended 30/6/2002 £	From incorporation 23/5/2000 to 31/5/2001 £
Numerator		
Numerator for basic EPS retained loss	(43,600)	-
	<u> </u>	<u> </u>
Denominator	No.	No.
Denominator for basic EPS	8,426,855	-
	<u> </u>	<u> </u>
Basic EPS	(0.52p)	-
Diluted EPS	(0.52p)	-
	<u> </u>	<u> </u>

The basic and diluted loss per share figures are the same, as the effect of the outstanding share options is anti-dilutive and is therefore excluded.

7. INTANGIBLE FIXED ASSETS

	Group 30 June 2002 £	Company 30 June 2002 £
Deferred Development Expenditure:		
Cost:		
At 1 June 2001	-	-
Additions during the period - at cost	112,000	70,000
At 30 June 2002	<u>112,000</u>	<u>70,000</u>
Net Book Value:		
At 30 June 2002	<u>112,000</u>	<u>70,000</u>
At 1 June 2001	<u>-</u>	<u>-</u>

Deferred development expenditure relates to prospecting, exploration and related expenditure in Guinea.

The realisation of this intangible asset is dependent on the discovery and development of economic reserves, including the ability to raise finance to develop the project. Should this prove unsuccessful the value included in the balance sheet would be written off to the profit and loss account.

The directors are aware that by its nature there is an inherent uncertainty in such development expenditure as to the value of the asset. Having reviewed the deferred development expenditure at 30 June 2002, the directors are satisfied that the value of the intangible asset is not less than net book value.

8. INVESTMENTS

	Group 30 June 2002 £	Company 30 June 2002 £	Group 31 May 2001 £	Company 31 May 2001 £
Subsidiary, at cost and unlisted	-	30,000	-	-
Other investments at cost	16,163	16,163	-	-
	<u>16,163</u>	<u>46,163</u>	<u>-</u>	<u>-</u>

The wholly-owned subsidiary of the company at 30 June 2002, which has been consolidated, was:

	Total allotted Capital	Country of Incorporation	Nature of business
Grampian Resources Limited	2 Ordinary shares of Stg£1	England and Wales	Prospecting and exploration for diamonds

The value of the investment in the subsidiary is dependent on the discovery and development reserves.

9. DEBTORS

	Group 30 June 2002 £	Company 30 June 2002 £	Group 31 May 2001 £	Company 31 May 2001 £
Other debtors:				
- due within one year	1,427	1,427	2	2
- due from subsidiary undertaking after more than one year	-	20,960	-	-
	<u>1,427</u>	<u>22,387</u>	<u>2</u>	<u>2</u>

10. CREDITORS : Amounts falling due within one year

	Group 30 June 2002 £	Company 30 June 2002 £	Group 31 May 2001 £	Company 31 May 2001 £
Accruals	9,658	9,658	-	-
	<u>9,658</u>	<u>9,658</u>	<u>-</u>	<u>-</u>

11. SHARE CAPITAL

	Group 30 June 2002 No.	Company 30 June 2002 £	Group 31 May 2001 No.	Company 31 May 2001 £
Authorised				
Ordinary shares of 1p (2001 : £1) each	200,000,000	2,000,000	100,000	100,000
	<u>200,000,000</u>	<u>2,000,000</u>	<u>100,000</u>	<u>100,000</u>
	At 30 June 2002	At 30 June 2002	At 30 June 2002	At 30 June 2002
Allotted, Called-up and Fully Paid				
At 1 June 2001	2	2	2	2
Redenomination of share capital	198	-	-	-
Shares issued for cash	14,453,100	144,531	-	-
Shares issued other than for cash :				
To creditors	7,000,000	70,000	-	-
To directors and employees	3,000,000	30,000	-	-
For acquisitions	3,000,000	30,000	-	-
	<u>27,453,300</u>	<u>274,533</u>	<u>2</u>	<u>2</u>

Redenomination of share capital

On 1 December 2001 the 100,000 ordinary shares of £1 each were subdivided and converted into 10,000,000 ordinary shares of 1p each. On the same date the authorised share capital was increased from £100,000 to £2,000,000 by the creation of 190,000,000 new ordinary shares of 1p each.

Movements in issued share capital

On 1 December 2001

- 3,000,000 ordinary shares were issued at 1p per share in settlement of outstanding directors' fees.
- 7,000,000 ordinary shares were issued at 1p per share in settlement of outstanding professional fees.

On 8 April 2002, 14,453,100 ordinary shares were issued at 2p per share for cash.

On 27 June 2002, 3,000,000 ordinary shares were issued at 1p per share as consideration for the acquisition of Grampian Resources Limited.

Share options

A total number of 3,880,000 share options were in issue at 30 June 2002. These options are exercisable, at prices ranging between 1p and 2p for the period up to seven years from the date of granting the options unless otherwise determined by the board.

12. SHARE PREMIUM

	Group 30 June 2002 £	Company 30 June 2002 £
At 1 June 2001	-	-
Arising on shares issued during the period	144,531	-
	<hr/>	<hr/>
At 30 June 2002	144,531	-
	<hr/> <hr/>	<hr/> <hr/>

13. PROFIT AND LOSS ACCOUNT

	Group 30 June 2002 £	Company 30 June 2002 £
At 1 June 2001	-	-
Loss for the period	(43,600)	-
	<hr/>	<hr/>
Accumulated deficit at 30 June 2002	(43,600)	-
	<hr/> <hr/>	<hr/> <hr/>

A separate profit and loss account for the company has not been prepared as permitted by Section 230 of the Companies Act 1985.

14. MATERIAL NON-CASH TRANSACTIONS

All material non-cash transactions during the period are outlined in note 11 on share capital.

15. CASH FLOW STATEMENT

	13 Months ended 30/6/2002 £	From incorporation 23/5/2000 to 31/5/2001 £
(a) Reconciliation of operating loss to net cash outflow from operating activities		
Operating loss	(44,274)	-
Increase in debtors	(1,425)	-
Increase in creditors	9,658	-
	<hr/>	<hr/>
	(36,041)	-
	<hr/> <hr/>	<hr/> <hr/>
(b) Analysis of net debt		
	At	At
	1 June 2001	30 June 2002
	£	£
Cash in hand and at bank	-	255,532
	<hr/> <hr/>	<hr/> <hr/>

(c) **Reconciliation of net cash flow to movement in net debt**

	13 Months ended 30/6/2002 £	From incorporation 23/5/2000 to 31/5/2001 £
Increase in cash in the period	255,532	-
Change in net funds resulting from cash flows	255,532	-
Net funds at start of period	-	-
Net funds at end of period	255,532	-

16. RISK MANAGEMENT

The group's financial instruments comprise cash balances and various items such as trade debtors and trade creditors which arise directly from trading operations. The main purpose of these financial instruments is to raise finance to fund group operations.

The group does not enter into any derivative transactions, and it is the group's policy that no trading in financial instruments shall be undertaken.

The main financial risk arising from the group's financial instruments is currency risk. The board reviews and agrees policies for managing this risk and they are summarised overleaf.

Interest rate risk

The groups exposure to interest rate risk is considered to be minimal as the group finances its operations primarily through equity finance.

Interest rate risk profile of financial assets and financial liabilities

Financial assets

The group has no financial assets, other than short-term debtors and cash at bank.

Liquidity risk

As regards liquidity, the group's policy is to ensure continuity of funding primarily through fresh issues of shares. Short term funding is achieved through utilising overall facilities and optimising the management of working capital.

Foreign currency risk

The group has no significant dealings in currencies other than the reporting currency and dollar denominated currencies.

17. ACQUISITION OF SUBSIDIARY

On 27 June 2002, the company completed the acquisition of Grampian Resources Limited by way of an offer to the shareholders to acquire all the company's issued shares. The consideration was in the form of shares in African Diamonds Plc.

Details of the acquisition are as follows:

	£
Net assets acquired (at fair value):	
Exploration licences	30,000
Satisfied by:	
Shares allotted	30,000

The results of the acquired entity for 2002 was £Nil (2001 : £Nil). The assets of Grampian Resources Limited were adjusted to fair value on acquisition.

18. RELATED PARTY TRANSACTIONS

There were no related party transactions during the period.

19. SUBSEQUENT EVENTS

Subsequent to the period end:-

- African Diamonds Plc purchased 100% of the share capital in Kukama Mining and Exploring (Proprietary) Limited. Kukama Mining and Exploring (Proprietary) Limited holds licences for diamond mining in Botswana. The purchase consideration was 10,000,000 ordinary shares.

Under the terms of this agreement African Diamonds Plc is committed to spend £250,000 in the first year on exploration costs. In addition a royalty of 3% is payable to the vendors for the first 10 years of production.

- 3,859,278 shares were issued at 5p each to meet group working capital requirements.
- In October 2002 the company acquired prospecting and exploration licences in Sierra Leone from a third party. The consideration was the issue of 1,500,000 ordinary shares. Additional consideration arises in the event of normal commercial production.
- The directors decided in principle to seek a listing for the company's shares in the Alternative Investment Market in London.

PART VI

ADDITIONAL INFORMATION

1 Incorporation and Registration

The Company was incorporated in England and Wales on 23 May 2000 as Zinquest plc (under registered number 3999487) under the Act. The Company changed its name to African Diamond plc on 17 January 2002 and subsequently changed its name to African Diamonds plc on 18 February 2002.

The Company's registered office is at 20-22 Bedford Row, London WC1R 4JS and the principal places of business are at 162 Clontarf Road, Dublin 3, Ireland; Portion 12, Farm 24NQ, Gerrard Estates, P.O. Box 10775, Tatitown, Botswana and 1a Old Railway Line, Brookfields, PO Box 337, Freetown, Sierra Leone. The principal legislation under which the Company operates is the Act and regulations made thereunder. The liability of the members of the Company is limited.

2 Share Capital

The Company was incorporated with an authorised share capital of £100,000 divided into 100,000 ordinary shares of £1.00 each. Two of such ordinary shares were issued and fully paid.

Since the date of incorporation up to the date of this document there have been the following changes in the authorised and issued share capital of the Company:

- (a) On 1 December 2001, the unissued share capital of the Company was altered as follows:
 - (i) £100,000 of the authorised share capital of the Company (whether issued or unissued) was subdivided and converted into 10,000,000 ordinary shares of 1p each; and
 - (ii) the authorised share capital of the Company was increased from £100,000 to £2,000,000 by the creation of 190,000,000 new ordinary shares of 1p each.
- (b) On 1 December 2001, 10,000,000 ordinary shares of 1p were allotted.
- (c) On 8 April 2002, 14,453,100 ordinary shares of 1p each were allotted.
- (d) On 27 June 2002, 3,000,000 ordinary shares of 1p each were allotted.
- (e) Between 12 July 2002 and 31 October 2002, 3,859,278 ordinary shares of 1p were allotted.
- (f) On 22 November 2002, 12,000,000 ordinary shares of 1p each were allotted.
- (g) The authorised and issued share capital of the Company as at the date of this document is set out below.

Authorised		Issued and fully paid up	
£	Number	£	Number
2,000,000	200,000,000	433,125.78	43,312,578

- (h) Assuming full subscription under the Placing the authorised and issued share capital of the Company as it will be immediately following the Placing and Admission is set out below.

Authorised		Issued and fully paid up	
£	Number	£	Number
2,000,000	200,000,000	547,411.49	54,741,149

- (i) The Directors are authorised pursuant to Section 80 of the Act to allot all the authorised but unissued share capital of the Company at the date of this document, such authority expiring on 1 December 2006.

3 Memorandum and Articles of Association

(a) The principal objects of the Company which are set out in clause 4.1 of the Memorandum of Association are, inter alia, to carry on the business of exploration and prospecting for hydro-carbons and all minerals including base and precious metals and stones and industrial minerals and to apply for and hold all necessary licences for that purpose.

(b) Set out below is a summary of the main provisions of the Articles of Association (“the Articles”):

(i) *Share capital*

(A) *Variation of rights*

Whenever the share capital of the Company is divided into shares of different classes, the rights and privileges attached to any class may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated, whether or not the Company is being wound up, either with the consent in writing of the holders of not less than three-quarters of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class duly convened and held. The provisions in the Articles as to general meetings shall apply to every meeting of the holders of any class of shares. The quorum at every such meeting shall be not less than two persons holding or representing by proxy at least one-third of the nominal amount paid up on the issued shares of the class or if at an adjourned meeting of such holders. Each such holder shall on a poll be entitled to vote for every share of the class held by him.

Subject to the terms of issue of or rights attached to any shares, the special rights conferred upon the holders of any shares or any class of shares issued with preferred or other special rights shall not be deemed to be varied by the creation or issue of any new shares ranking *pari passu* in all respects.

(B) *Issue of shares*

Subject to the provisions of any special rights previously conferred on any existing shares or any class of shares, any share may be issued with such preferred, deferred or other special rights or restrictions, whether in regard to dividend, voting, transfer, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine.

(C) *Purchase of its own shares*

Except as authorised by the Act the Company shall not purchase its own shares whether by purchase, subscription or otherwise unless sanctioned by a special resolution passed at a separate class meeting of the holders of the said shares and at a separate class meeting of the holders of any class of convertible shares then existing.

(D) *Increase in the share capital*

The Company may from time to time by ordinary resolution increase its share capital by such sum to be divided into shares of such amounts as the resolution shall prescribe.

(E) *Consolidation, subdivision and cancellation*

The Company may by ordinary resolution:

- consolidate and divide all or any of its share capital into shares of larger nominal value than its existing shares;
- subject to the provisions of the Act, sub-divide its shares;
- cancel any shares which at the date of the passing of the resolution have not been taken and diminish the amount of its share capital by the amount of shares so cancelled.

(F) *Reduction of capital*

Subject to the provisions of the Act, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.

(ii) *Forfeiture and lien*

(A) *Lien on shares*

The Company shall have a first and paramount lien on every share (not being a fully paid share) for all monies (whether presently payable or not and whether by way of nominal value or premium) called or payable at a fixed time in respect of that share.

(B) *Sale of shares subject to lien*

The Company may sell in such manner as the Board thinks fit any share on which the Company has a lien, fourteen days after the notice in writing stating and demanding payment of the sum presently payable and giving notice of intention to sell.

(C) *Notice on failure to pay a call*

If a member fails to pay any call or instalment of a call on the due date for payment the Board may at any time after the failure serve a notice on him requiring payment and shall state that in the event of non-payment in accordance with such notice the shares on which the call was made will be liable to be forfeited.

(iii) *Untraced Shareholders*

Subject to the Articles, the Company may sell any share or stock in the Company at the best price reasonably obtainable which is registered in the name of a member if for a period of 12 years no cheque or warrant which has been sent by pre-paid post by the Company has been cashed by that member and no communication has been received by the Company provided that the Company has paid at least 3 dividends (interim or final) and they have not been claimed and following the expiration of 12 years the member has failed to communicate with the Company following advertisement of an intention to make such a disposal. Until the Company can account to the member, the net proceeds of sale will be available for use in the business of the Company or for investment, in either case at the discretion of the Board.

(iv) *Transfer of shares*

(A) *Transfer of securities without a written instrument*

All transfers of shares must be effected by an instrument of transfer in writing in any usual form or in any other form approved by the Board. The instrument of transfer shall be executed by or on behalf of the transferor and, except in the case of fully paid shares, by or on behalf of the transferee.

(B) *Right to decline registration*

The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of shares unless: -

- it is duly stamped and lodged at the registered office or such other place as the Board may appoint and accompanied by the certificate for the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
- it is respect of only one class of share; and
- in the case of a transfer to joint holders, they do not exceed four in number.

If the Board refuses to register a transfer, it shall, within 2 months after the date on which the transfer was lodged with the Company, send to the transferee notice of the refusal.

The Articles also contain a provision giving the Board the power to suspend the registration of transfers of shares or any class of shares at such times and for such periods as the Board may from time to time determine, provided that it shall not be closed for more than 30 days in any year.

No fee shall be charged by the Company in respect of the registration of any instrument of transfer or other document relating to or affecting the title to any shares or otherwise for making any entry in the register of members affecting the title to any shares.

(C) *Votes of members*

Subject to any term as to voting upon which any shares may be issued or may for the time being be held, every member present in person shall have one vote on a show of hands, and every member shall on a poll have one vote for every share of which he is the holder. On a poll, votes may be given in person or by proxy. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holder.

A corporation which is a member may, by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its representative at any meeting of the Company and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation as if it were an individual member.

No member shall be entitled to vote at any general meeting in respect of any shares held by him if any call or other sum presently payable by him in respect of those shares in the Company remains unpaid or he is not entitled to vote pursuant to the provisions of the Articles.

(v) *Directors*

(A) *Number of Directors*

Subject to an ordinary resolution of the Company, the number of Directors shall be not less than two nor more than ten.

(B) *Directors' appointment and retirement by rotation*

Directors may be appointed by the Company by ordinary resolution or by the Board. If appointed by the Board, a Director holds office only until the next annual general meeting and shall not be taken into account in determining the number of Directors who retire by rotation.

(C) *Remuneration of Directors*

The Directors shall be entitled to such remuneration as may be determined by the Company by ordinary resolution and, unless the resolution otherwise provides, the remuneration shall be deemed to accrue from day to day.

(D) *Directors' expenses*

The Directors are entitled to be repaid all travelling, hotel and other expenses properly incurred by them in or about the performance of their duties as Directors. Any Director who by the request of the board performs extra or special services or goes or resides abroad for any purposes of the Company shall be entitled to receive such sum for expenses and such remuneration as the Directors may think fit either in addition to or in substitution for any other remuneration he may be entitled to receive.

(E) *Directors' pensions and other benefits*

The Board has power to pay and agree to pay pensions, annuities, allowances, gratuities and superannuation or other benefits to or for the benefit of any past or present director or employee for the purpose of providing contributions to any fund or to pay premiums for the purchase or payment of any such gratuities, pensions or other benefits.

(F) *Borrowing powers*

The Board may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital and to issue debentures and other securities, whether outright or as collateral security, for any debt, liability or obligation of the Company or of any third party.

(G) *Restrictions on voting*

Save as mentioned below, a Director shall not vote at a meeting of the Board or of a committee of the Board on any resolution concerning a matter in which he has together with any interest of any person connected with him, directly or indirectly, a material interest or a duty which conflicts or may conflict with the interests of the Company. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is barred from voting.

A Director shall be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:

- the giving of any security or indemnity to him in respect of money lent or obligations incurred or undertaken by him at the request of or benefit of the Company or any of its subsidiaries;
- the giving of any security or indemnity to a third party in respect of a debt or an obligation of the Company or any of its subsidiaries, for which he himself has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
- any proposal concerning any offer for shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;
- any proposal concerning any other company in which he or any connected person is interested, directly or indirectly, and whether as an officer or shareholder or otherwise howsoever, provided that he does not hold an interest in shares representing one per cent or more of either any class of the equity share capital of such company or of the voting rights available to members of such company (any such interest being deemed to be a material interest in all circumstances);
- any proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefit scheme and which has been approved by or is subject to and conditional upon approval by the Board of Inland Revenue for taxation purposes;
- any proposal concerning the adoption, modification or operation of an employee's share scheme under which he may benefit and which does not confer on any Director any privilege or advantage not generally accorded to the employees to whom the scheme relates and which has been approved by or is subject to and conditional upon approval by the Board of Inland Revenue for taxation purposes.

(vi) *Dividends*

(A) *Payment of dividends*

The Company in general meeting may declare dividends but no such dividend shall exceed the sum recommended by the Board. All dividends shall be apportioned and paid pro rata

according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. Interim dividends may be paid provided that they appear to the Board to be justified by the profits available for distribution. Unless otherwise provided by the rights attached to any shares, no dividends in respect of a share shall bear interest.

(B) *Distribution in specie*

The Company may on the recommendation of the Board direct payment of a dividend in whole or in part by the distribution of specific assets and the Board shall give effect to such direction.

(C) *Unclaimed dividends*

All dividends unclaimed for a period of 12 years after having been declared or become due for payment shall (if the Board so resolves) be forfeited and shall cease to remain owing by the Company.

(D) *Capitalisation of profits and reserves*

The Directors may by ordinary resolution capitalise any sum of undivided profits of the Company not required for paying any preferential dividend or any sum standing to the credit of any of the Company's share premium account or capital redemption reserve. Such capitalisation shall be effected by appropriating such sum to the holders of ordinary shares in proportion to their holdings of ordinary shares and applying such sum on their behalf in paying up in full unissued shares.

(vii) *Return of capital*

On a winding-up of the Company the surplus assets available for distribution shall be divided among the members in proportion to the amounts paid up on their respective shares at the commencement of the winding-up or, with the sanction of an extraordinary resolution of the Company, be divided amongst the members in specie in such manner as shall be determined by the liquidator. No member shall be compelled to accept any assets on which there is a liability.

4. Directors' and Substantial Interests

- (a) Immediately following Admission, the interests of the Directors, their families and persons connected with the Directors within the meaning of Section 346 of the Act, in the share capital of the Company, in the case of the Directors and their families, as required to be notified to the Company pursuant to Sections 324 and 328 of the Act or required by Section 325 of the Act to be entered in the register referred to therein and, in the case of persons connected with the Directors, as would be required to be so notified or entered in such register if such connected person were a director of the Company, and the existence of which is known to or could with reasonable diligence be ascertained by the Directors will be as follows (assuming full subscription under the Placing):

	<i>No of Ordinary Shares</i>	<i>Percentage of Ordinary Shares</i>
John Teeling	1,785,820	3.26
James MacGregor	1,392,860	2.54
Leon Daniels *	4,910,720	8.97
Mark Scowcroft **	5,142,860	9.39
David Horgan	1,285,720	2.35
James Finn	1,285,820	2.35

* 4,000,000 of Leon Daniels' interest in the Ordinary Shares is registered in the name of Rubstone Resource Management (pty) Limited.

** Mark Scowcroft's interest in the Ordinary Shares is registered in the name of Kimberlite Exploration Services (pty) Limited.

Interests under options are not included in this paragraph and are dealt with at paragraph 4(b) below.

- (b) Immediately following Admission, the following Directors will have interests in options over Ordinary Shares:

	<i>No of Ordinary Shares</i>	<i>Option Price</i>	<i>Date Granted</i>	<i>Expiry Date</i>
John Teeling	460,000	1p	1 Dec 2001	1 Dec 2008
	500,000	2p	8 April 2002	8 April 2009
	300,000	5p	31 Oct 2002	31 Oct 2009
James MacGregor	250,000	2p	8 April 2002	8 April 2009
	300,000	5p	31 Oct 2002	31 Oct 2009
Leon Daniels	250,000	2p	27 June 2002	27 June 2009
	300,000	5p	31 Oct 2002	31 Oct 2009
Mark Scowcroft	250,000	2p	27 June 2002	27 June 2009
	300,000	5p	31 Oct 2002	31 Oct 2009
David Horgan	460,000	1p	1 Dec 2001	1 Dec 2008
	500,000	2p	8 April 2002	8 April 2009
	300,000	5p	31 Oct 2002	31 Oct 2009
James Finn	460,000	1p	1 Dec 2001	1 Dec 2008
	500,000	2p	8 April 2002	8 April 2009
	300,000	5p	31 Oct 2002	31 Oct 2009

- (c) In addition to the Directors' interests noted in paragraphs 4(a) and 4(b), insofar as is known to the Company, the following persons will (assuming full subscription under the Placing) be directly or indirectly interested (within the meaning of Part VI of the Act) in three per cent or more of the issued Ordinary Shares on Admission:

	<i>No of Ordinary Shares</i>	<i>Percentage of Ordinary Shares</i>
Ashdale Investment Trust Services	2,550,000	4.66
City Equities (Nominees) Limited	2,000,000	3.65
Courtfield Industries	2,000,000	3.65
Forest Nominees Limited	2,000,000	3.65
Gartmore Investments Limited	2,000,000	3.65
Homestead Enterprises Inc	2,000,000	3.65

- (d) Save as disclosed in this paragraph and in so far as the Company has the information, the Directors are not aware of any persons who immediately following completion of the Placing and Admission, directly or indirectly, jointly or severally, will or could exercise control over the Company.
- (e) Save as disclosed in paragraph 9 of Part VI of this document, no Director has any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Group and which was effected by any member of the Group during the current or immediately preceding financial period or which was effected by any member of the Group during any earlier financial period and remains in any respect outstanding or unperformed.
- (f) There are no outstanding loans, guarantees or other securities or indemnities granted or provided by any member of the Group to or for any Director.
- (g) Save as disclosed in this paragraph 4 of Part VI of this document, no Director has any interest, beneficial or non beneficial, in the share or loan capital of the Group.
- (h) The Directors have each undertaken not to dispose of any interest in the Ordinary Shares for a period of 12 months from the date of Admission as referred to in Part I of this document.

5. Current and Prior Directorships and Partnerships of the Directors

- (a) The Directors currently hold the following directorships and partnerships in addition to that of the Company and have held the following directorships within the five years prior to the publication of this document:

<i>John Teeling</i>	<i>Current directorships and partnerships</i> A. Watt & Co plc Andrew A. Watt & Co Limited Adam Miller & Co Ltd African Gold plc African Gold (Ireland) Limited Brosna Whiskey plc Carlingford Whiskey plc Cooley Distillery plc Cooley Irish Whiskey Ltd Endeavour Oil & Gas Ltd Endeavour Oil & Gas Inc Grampian Resources Limited Innishowen Distilleries plc Irish Marine Oil Ltd Irish Base Metals Limited John Lockes & Co Ltd Kilbeggan Whiskey Ltd Kukama Mining and Exploration (Pty) Limited Lockes Distillery plc Miller Products Ltd Minco plc Minco Ireland Limited Old Tyrconnell Whiskey Ltd Pan Andean Oil & Gas Limited Pan Andean Resources plc Petrel Industries Limited Petrel Resources plc Riverstown Animal Feeds plc The Irish Whiskey Company Ltd Tyrconnell Distillery plc Whiskey Manufacturing plc Whiskey Manufacturing (N.I.) plc Zambezi Gold plc	<i>Prior directorships and partnerships</i> Kenmare Resources plc Pan Andean (Bolivia) Ltd
<i>James MacGregor</i>	<i>Current directorships and partnerships</i> MacGregor Crowe Limited Essem Resources Limited Grampian Resources Limited	<i>Prior directorships and partnerships</i>
<i>Leon Daniels</i>	<i>Current directorships and partnerships</i> Tawana Resources NL Nomathata Diamonds Inc Joren (Pty) Ltd Seolo Botswana (Pty) Limited Twelve Bore Gold Pvt Limited Musarasara Investments (Pvt) Limited	<i>Prior directorships and partnerships</i> Kukama Mining and Exploration (Pty) Limited

<i>Mark Scowcroft</i>	<i>Current directorships and partnerships</i> Kimberlite Exploration Services Limited Microsearch Limited Kukama Mining and Exploration (Pty) Limited	<i>Prior directorships and partnerships</i> Magtec Limited
<i>David Horgan</i>	<i>Current directorships and partnerships</i> African Gold plc Grampian Resources Limited Pan Andean Oil & Gas Limited Pan Andean Resources plc Petrel Industries Limited Petrel Resources plc	<i>Prior directorships and partnerships</i> International Bloodstock Finance Limited Kenmare Resources plc Minco plc Pan Andean (Bolivia) Ltd
<i>James Finn</i>	<i>Current directorships and partnerships</i> A. Watt & Co plc Andrew A. Watt & Co Limited Adam Miller & Company Ltd African Gold (Ireland) Ltd Brosna Whiskey plc Carlington Whiskey plc Cooley Irish Whiskey Ltd Cooley Distillery plc Endeavour Oil & Gas Inc Endeavour Oil & Gas Limited Grampian Resources Limited Innishowen Distilleries plc Irish Marine Oil Limited John Locke & Company Ltd Kilbeggan Whiskey Limited Lockes Distillery plc Miller Products Limited Minco plc Old Tyrconnell Whiskey Ltd Pan Andean Oil & Gas Limited Pan Andean Resources plc Petrel Industries Limited Riverstown Animal Feeds plc The Irish Whiskey Company Ltd Tyrconnell Distilleries plc Whiskey Manufacturing (NI) plc Whiskey Manufacturing plc Zambezi Gold plc	<i>Prior directorships and partnerships</i>

- (b) John Teeling is a former director of CountyGlen plc. After his departure, an inspector was appointed pursuant to section 8 of the Irish Companies Act, 1990 to investigate the affairs of CountyGlen plc. In a subsequent report dated July 1994, it was stated that John Teeling was “open to some criticism for failure to exercise due care as an outgoing director”. It was stated that he should have paid greater attention to the qualifications of the incoming directors and their suitability for their positions.
- (c) Save as disclosed in this document none of the Directors has:
- (i) any unspent convictions in relation to indictable offences;
 - (ii) ever been declared bankrupt or been the subject of an individual voluntary arrangement;
 - (iii) ever been a director of a company which, while he was a director or within 12 months of his ceasing to be a director, had a receiver appointed, entered into liquidation, entered into administration, entered into a voluntary arrangement or made any compositional arrangements with its creditors generally or with any class of its creditors;

-
- (iv) ever been a partner in a partnership which while he was a partner or within 12 months of his ceasing to be a partner entered into compulsory liquidation, administration or a partnership voluntary arrangement;
 - (v) owned any asset or been a partner in a partnership which while he owned that asset or was a partner or within 12 months after his ceasing to own that asset or be a partner entered into receivership;
 - (vi) been the subject of any public criticism by any statutory or regulatory authority (including recognised professional bodies); and
 - (vii) been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

6. Service Agreements of the Directors

There are no service agreements which cannot be determined by the Company without payment of compensation within one year. The Executive Directors are remunerated by the number of hours that they spend on exploration projects.

The Directors' fees agreed for the year ended 30 June 2003 were as follows:

J Teeling	£20,000
L Daniels	£20,000
D Horgan	£20,000
J Finn	£20,000
M Scowcroft	£10,000
J MacGregor	£10,000

The Directors intend that the fees for the year ending 30 June 2004 will not be materially different from above.

In addition, J Macgregor and M Scowcroft are paid for their time as consultants and in the 11 months to 31 May 2003, they were paid additional consultancy fees of \$22,000 and \$37,880, respectively.

Pursuant to letters of appointment dated 3 June 2003, each of the Directors is entitled to a fee to be determined by the Board from time to time. The appointments will automatically terminate, without entitlement to compensation, if they are removed from office by a resolution of the Shareholders, they are not re-elected to office, or on the happening of certain events as set out in the letters of appointment.

7. Share Option Scheme

The Company has adopted a share option scheme ("the Scheme") the principal provisions of which are summarised below.

(a) Eligibility

The Board may grant an option to any employee, officer or Director of the Company or any subsidiary of the Company.

(b) Limits

The number of options which may be granted pursuant to the Scheme shall not exceed an aggregate of 15 per cent. of the number of issued ordinary shares from time to time. The maximum number of ordinary shares issued on the exercise of options acquired under the Scheme must not during the period of 10 years from the date of adoption of the Scheme exceed 15 per cent. of the number of issued ordinary shares from time to time. The limitations may be adjusted by the Company's auditors following the issue of additional ordinary shares by way of rights or capitalisation of profits or reserves or any sub division or reduction or consolidation of the capital of the Company.

(c) Grant of options

The Board, in its discretion after the adoption of the Scheme may, at any time, offer to Scheme members an option under the Scheme at the option price on terms that the offer will lapse unless acceptance from

the Scheme member is received by the Company together with the option price within 10 days of the date of the offer. Within 30 days of receipt of the acceptance and the option price, the Board shall issue the Scheme member with an option certificate. The Board shall determine whether such option may be assigned or transferred and impose such conditions as they see fit. No option shall be granted on a date more than 10 years from the date of adoption of the Scheme.

(d) *Exercise of options*

The options may be exercised at any time within a seven year period from their date of grant. An option not exercised within that period shall lapse. Notice of exercise of the option shall be in writing accompanied by the relevant option certificate and payment of the subscription price for the ordinary shares in respect of which the option is exercised. As soon as is practicable after receipt by the Company of the above, ordinary shares for which the option has been exercised shall be issued by the Company to the option holder. The shares issued pursuant to the option shall rank pari passu with the Ordinary Shares then in issue.

(e) *Termination of the right to exercise the option*

The right to exercise an option shall terminate on the option holder ceasing to be an employee, officer or Director of the Company or its subsidiary, subject to certain exceptions.

(f) *Takeover*

If an offer is made to the holders of the entire issued share capital of the Company to acquire the shares held by them and such offer is, becomes or is declared unconditional, the option holder may within sixty days of being notified that the offer is, becomes or is declared unconditional, exercise all or any of those options which are unexercised. All share options which have not been exercised at the expiration of such period will lapse.

(g) *Winding up*

If an order is made or a resolution is passed for the winding up of the Company on the basis of insolvency all unexercised options at the date of the order will lapse. If the Company is wound up by reason of amalgamation or reconstruction, all options still unexercised shall endure for the benefit of the option holders in the amalgamated or reconstructed Company on the same terms and conditions. In the event of a members voluntary winding up, the holders shall be entitled within 90 days of the commencement of the winding up (but not after the expiration of seven years from the date of the grant) to exercise in full the unexercised options.

8. Working Capital

Subject to completion of the Placing and assuming full take-up of the Placing Shares, the Directors, having made due and careful enquiry, are of the opinion that the Group has sufficient working capital for its present requirements, that is, for at least the next twelve months from Admission.

9. Material Contracts

The following contracts have been entered into or varied by the Group other than in the ordinary course of business in the two years immediately prior to the date of this document and are or may be material, or have been entered into more than two years before the date of this document under which there are outstanding liabilities that are or may be material.

(a) *Placing agreement*

A placing agreement dated 17 June 2003 between the Company, the Directors and Rowan Dartington pursuant to which, and conditional upon, inter alia, Admission taking place on or before 14 July 2003 (or such later time or date as the Company and Rowan Dartington may agree being not later than 1 August 2003) Rowan Dartington agrees to use reasonable endeavours, as agent for the Company, to procure places for the Placing Shares.

The agreement contains warranties and a corporate finance indemnity from the Company and the Directors in favour of Rowan Dartington together with provisions which enable Rowan Dartington to terminate the agreement in certain circumstances prior to Admission including in the event of a material breach of any of the warranties and force majeure. Under the agreement the Company has agreed to pay the following plus value added tax, where applicable:

- (i) a corporate finance and brokerage fee of £40,000 in relation to the admission and placing;
- (ii) a commission of 3 per cent. of an amount equal to the aggregate value of the Placing Shares at the Placing Price for which Rowan Dartington has procured Places.
- (iii) a commission of 0.75 per cent. of an amount equal to the aggregate value of the Placing Shares at the Placing Price for which the Directors have procured places.

(b) *Grampian Resources Contract*

A Purchase and Sale Agreement made on 27 June 2002 between the Company and Jim MacGregor whereby Jim McGregor agreed to sell the entire issued share capital of Grampian Resources Limited to the Company in consideration for the issue to him of 3,000,000 Ordinary Shares.

(c) *Kukama Contract*

A Purchase and Sale Agreement made on 12 July 2002 between the Company, Kukama Diamonds Investments Limited (“Kukama”), Kukama Mining and Exploration (Proprietary) Limited (“Kukama Bots”), Mark Scowcroft and Leon Daniels whereby Mark Scowcroft and Leon Daniels agreed to transfer the entire issued share capital of Kukama to the Company for a consideration to be satisfied inter alia, by the issue to them of 10,000,000 Ordinary Shares.

(d) *GIDC Licence*

An agreement made between the Company and GIDC made pursuant to the Heads of Agreement completed on 23 October 2002 whereby GIDC agreed to transfer their rights to (i) a two year Exclusive Prospecting Licence (ii) a three year Exploration Licence and (iii) a one year Exclusive Prospecting Licence in the Kono District of Sierra Leone in consideration of the Company issuing 1,500,000 ordinary shares in the Company to GIDC (or as GIDC may direct in writing) and 100,000 options exercisable at 20 pence (sterling) each upon normal commercial production from any one of these three licence areas.

(e) *Nominated Adviser Agreement*

A nominated adviser agreement dated 17 June 2003 between the Company, the Directors and Rowan Dartington pursuant to which the Company has appointed Rowan Dartington to act as its Nominated Adviser and broker for the purposes of AIM. The Company has agreed to pay Rowan Dartington a fee of £7,500 (together with value added tax where applicable) per annum for its services as Nominated Adviser and broker under the agreement. The agreement contains certain undertakings by the Company and the Directors and indemnities given by the Company in respect of, inter alia, compliance with all applicable laws and regulations. The agreement is subject to termination on the giving of three months’ notice.

(f) *Lock - in Agreements*

Agreements dated 17 June 2003 between the Company, Rowan Dartington and the persons referred to in the schedules to the agreements pursuant to which the Directors and each Related Party have agreed not to dispose of any interest held by them in the Ordinary Shares for a period of one year from the date of Admission save for in certain specified circumstances.

10. Litigation

No member of the Group is, or has been, involved in any legal or arbitration proceedings which may have or have had during the twelve months preceding the date of this document a significant effect on the financial position of the Group nor are any such proceedings pending or threatened by or against the Group.

11. Taxation

This summary is of a general nature only and may not apply to all categories of shareholders such as dealers in securities. Prospective investors are advised to consult their own tax advisors as to the tax consequences in the United Kingdom, Ireland or in other jurisdictions of the purchase, ownership and disposition of shares.

United Kingdom

The following paragraphs are intended as a general guide only for Shareholders who are resident and ordinarily resident in the United Kingdom for tax purposes, holding Ordinary Shares as investments and not as securities to be realised in the course of a trade, and are based on current legislation and UK Inland Revenue practice. Any prospective purchaser of Ordinary Shares who is in any doubt about his tax position or who is subject to taxation in a jurisdiction other than the UK, should consult his own professional adviser immediately.

(a) *Dividends*

Dividends paid by the Company will carry an associated tax credit of one-ninth of the cash dividend or ten per cent. of the aggregate of the cash dividend and associated tax credit. Individual shareholders resident in the UK receiving such dividends will be liable to income tax on the aggregate of the dividend and associated tax credit at the Schedule F ordinary rate (10%) or the Schedule F upper rate (32.5%). The effect will be that taxpayers who are otherwise liable to pay tax at only the lower rate or basic rate of income tax will have no further liability to income tax in respect of such a dividend. Higher rate taxpayers will have an additional tax liability (after taking into account the tax credit) of 22.5% of the aggregate of the cash dividend and associated tax credit. Individual shareholders whose income tax liability is less than the tax credit will not be entitled to claim a repayment of all or part of the tax credit associated with such dividends.

A UK resident corporate shareholder should not be liable to corporation tax or income tax in respect of dividends received from the Company unless that company is carrying on a trade of dealing in shares.

Trustees of discretionary trusts are liable to account for income tax at the rate applicable to trusts on the trust's income and are required to account for tax at the Schedule F trust rate, currently 25%.

Tax exempt pension funds will not normally be liable to corporation tax or income tax on any dividend received but cannot claim payment of the tax credit from the Inland Revenue.

Charities may be entitled to a payment from the Inland Revenue of a specified proportion of any dividend paid by the Company on or before 5 April 2004.

Persons who are not resident in the UK should consult their own tax advisers on the possible application of such provisions and on what relief or credit may be claimed for any such tax credit in the jurisdiction in which they are resident. These comments are intended only as a general guide to the current tax position in the UK as at the date of this document. The comments assume that Ordinary Shares are held as an investment and not as an asset of financial trade.

(b) *Taxation of Chargeable Gains*

For the purpose of UK tax on chargeable gains, the issue of Ordinary Shares pursuant to the Offer for Subscription will be regarded as an acquisition of a new holding in the share capital of the Company. To the extent that a shareholder acquires Ordinary Shares allotted to him, the Ordinary Shares so allotted will, for the purpose of tax on chargeable gains, be treated as acquired on the date of allotment. The amount paid for the ordinary shares will constitute the base cost of the shareholder's holding.

If a Shareholder disposes of all or some of his Ordinary Shares, a liability to tax on chargeable gains may, depending on his circumstances, arise.

(c) *Stamp Duty and Stamp Duty Reserve Tax*

No stamp duty or stamp duty reserve tax ("SDRT") will generally be payable on the issue of the Ordinary Shares.

Ireland

The statements of Irish tax law set out below are based on existing Irish tax law, including relevant regulations, administrative rulings and practices, in effect on the date hereof, which may apply to investors who are the beneficial owners of shares and who hold their shares as an investment. They do not deal with the position of certain classes of shareholders such as dealers in securities. Each prospective investor should understand that future legislative, administrative and judicial changes could modify the tax consequences described below.

(a) *Dividends*

Since 6 April 1999, dividends paid by UK resident corporations to an Irish resident individual do not carry any entitlement to a tax credit and there is no entitlement to a credit against Irish tax on the dividend income. The Irish resident individual is subject to Irish income tax on the net UK dividend received.

Certain UK dividends known as Foreign Income Dividends (FIDs) do not carry a UK tax credit. An Irish resident individual is taxable on the amount of the FIDs received, without any credit for UK tax.

Dividends will be chargeable to Irish income tax at a rate of either 20% or 42% depending on the particular circumstances of the individual. It should be noted that the dividend income may also be assessed to PRSI (Pay Related Social Insurance) and the Health Contribution Levies, again depending upon the particular circumstances of the individual.

(b) *Taxation of Chargeable Gains*

The Capital Gains Tax position on future gains from any of your existing shares, or any shares acquired by a Shareholder under the terms of the Placing, will depend on the individual circumstances. Capital Gains Tax is currently being charged at a rate of 20%.

(c) *Stamp and Capital Duty*

No liability to stamp duty or capital duty will arise on the allotment and issue of Placing Shares by the Company pursuant to the Placing.

Transfers of shares in foreign companies are exempt from stamp duty. Thus any instrument transferring shares after the Placing shall not result in a stamp duty liability.

The above paragraphs are intended as a general guide to current tax law and practice in the United Kingdom and Ireland. If you are in any doubt as to your taxation position or if you require more detailed information than that outlined above you should consult an appropriate professional adviser without delay.

12. Consents

Rowan Dartington has given its consent to the inclusion in this document of references to its name in the form and context in which they appear.

Deloitte and Touche have given their consent to the inclusion in this document of references to their name in the form and context in which they appear.

Messrs J.M. Brook, D.J. Boyack and L.J. Howes have each given their consent to the inclusion in this document of references to their name in the form and context in which they appear.

13. Significant Changes

Since 30 June 2002, being the date to which the last audited accounts for the 13 months then ended were prepared, there have been no significant changes in either the financial or the trading positions of the Company save for the issue and allotment of shares referred to in paragraphs 2(e) and (f) of Part VI of this document and the reduction of the consolidated net current assets by £209,301 as a consequence of development expenditure.

14. Miscellaneous

- (a) The Directors, whose names appear on page 8 of this document, accept responsibility for the information contained in this document.
- (b) The Ordinary Shares are in registered form and the liability of members is limited to the amount, if any, unpaid on their shares.
- (c) A Shareholder is not obliged to hold his Ordinary Shares in uncertificated form. Each holder of Ordinary Shares can choose whether or not to hold his Ordinary Shares in uncertificated form. The Company's Registrars will continue to register written instructions of transfer and to issue share certificates in respect of shares held in certificated form, in accordance with the provisions of the Articles of Association.
- (d) Except for fees payable to professional advisers whose names appear in paragraph 12 of Part VI of this document and payments to trade suppliers, no person has received any fees, securities or other benefit to a value of £10,000 (excluding VAT) or more, directly or indirectly, from the Group within the 12 months preceding the application for Admission, or has entered into any contractual arrangements to receive any such fees, securities or other benefit directly or indirectly, from the Group.
- (e) The Company has carried on business since 1 December 2001.
- (f) There are no specific dates on which entitlement to dividends or interest thereon arises.
- (g) The Company's accounting reference date is 30 June.
- (h) The minimum amount which, in the opinion of the Directors, must be raised by the Company pursuant to the Placing in order to provide the sums required to paragraph 21(a) of Part IV of Schedule 1 of the POS Regulations is as follows:

(i)	Expenses and commissions	£141,000
(ii)	Working capital	£559,000
- (i) The total cash expenses payable in connection with the Placing and Admission are expected to amount approximately to £141,000 (exclusive of any applicable VAT) which are payable by the Company.
- (j) There are no patents or other intellectual property rights, licences or particular contracts which are or may be of fundamental importance to the Group's business.
- (k) Other than as set out in this document, there are no investments in progress which are significant.
- (l) No part of the Placing has been underwritten or guaranteed.
- (m) The arrangements for paying for the Placing Shares are set out in the placing letter issued by Rowan Dartington. All monies received from placees will be held by Rowan Dartington prior to Admission, when the net proceeds will be paid to the Company. If Admission does not become effective, all subscription monies shall be refunded as soon as practicable without interest.
- (n) The Placing Price of 7p represents a premium of 6p over the nominal value of 1p per Ordinary Share.

15. Documents Available for Inspection

Copies of the following documents may be inspected at the Company's registered office, 20-22 Bedford Row, London WC1R 4JS, at the offices of McEvoy Partners, 65-68 St Stephens Green, Dublin 2, Ireland and at the offices of Osborne Clarke, Hillgate House, 26 Old Bailey, London EC4M 7HW during normal business hours on any weekday (Saturdays and public holidays excepted) for a period of 14 days following the date of this document:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the unaudited interim financial information and the accountants' report set out in Part V of this document;

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- (c) the service agreements referred to in paragraph 6 of this Part VI;
 - (d) the material contracts referred to in paragraph 9 of this Part VI;
 - (e) the written consents referred to in paragraph 12 of this Part VI; and
 - (f) the rules of the Share Option Scheme referred to in paragraph 7 of this Part VI.

16. Availability of this Document

Copies of this document will be available to the public, for collection only, free of charge from the Company's registered office at 20-22 Bedford Row, London WC1R 4JS during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this document until the date falling one month after Admission.

Dated 8 July 2003

