Sector:	Mining
Location:	International
Date:	20 November 2006
Analyst:	Julian Emery

Diamond Sector and AIM Market

- The Diamond equity sector is enjoying an unprecedented boom caused by the end of the De Beers cartel, modern exploration and development techniques, and real growth in demand over supply.
- This document attempts to give a general view on the global diamond industry covering basic geology, exploration, mining and processing together with marketing and supply/demand.
- The Company section focuses on the 23 diamond shares on the AIM market, covering a broad spectrum of type, status and location. There are currently nine producers, seven near producers and seven explorers.
- The operations cover locations in Angola, Australia, Botswana, Brazil, Canada, DRC, Finland, Guinea, Lesotho, Liberia, Namibia, Papua New Guinea, Russia, Sierra Leone, South Africa and Tanzania.

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Executive Summary

Diamond Market

The diamond mining industry has undergone a major reform, now operating as an open market. Although De Beers no longer controls the sector, a few major players still dominate production. However, it is evident that junior companies, often funded by majors, are effectively driving exploration and development activities worldwide. Diamond exploration activity is at a record high and new technology is identifying resources that are making a significant contribution to supply. Established diamond markets in the developed world are expected to remain steady, but demand growth from developing areas is likely to cause a supply shortfall and consequently cause a continuous uptrend in diamond prices.

Diamond Sources

Diamonds were generated in a specific geological region, known as the diamond stability field, between the earth's crust and the mantle some 150km - 200km beneath the surface. The chemistry of the host rock, together with specific pressures and temperatures allowed carbon to re-crystallise as diamond, a form that imparts a hardness and optical brilliance unmatched by any other natural substance. Emplacement in near-surface deposits was equally dramatic. Crustal fractures allowed molten rock to rapidly ascend to the surface, forming vertical and horizontal intrusions and the diamond host rocks, kimberlites and lamproites, travelled with them to the surface.

The age of intrusion varies from Cretaceous to Tertiary and primary diamond deposits are mainly found in the centre of old continents in structures known as cratons, mostly Archaean in age, which is greater than 2,500 million years. The largest primary deposits are in Southern and West Africa, Russia, Canada and Australia.

Erosion is part of the cycle of continent building and destruction, powered by plate tectonics. This is responsible for secondary diamond deposits, 'placers' in river or marine terraces that mark former levels of the sea. Because diamonds are hard and chemically-resistant they can survive a number of cycles of erosion and can be concentrated downstream of the primary deposits.

Exploration

Historically, diamond exploration was mainly based on alluvial discoveries using simple techniques such as panning and the course was tracked back to the hard rock primary resource. Today a variety of techniques are used. Host rocks are rich in iron and magnesium and can be detected by their magnetic and gravity signatures. One of the more recent exploration tools is the Falcon™ airborne gravity system that can detect these anomalies even if they are covered by later sediments. Another technique is the recovery of indicator minerals such as G10 garnets. The abundance and variety of indicator minerals increases the possibility of finding economic diamond deposits. It should be noted that less than 1% of Kimberlites discovered to date have been proved to host potentially commercial diamond deposits.

Pricing

The value of a diamond is determined by its weight in carats, its clarity, its colour and finally its cut, colloquially known as the four C's. Larger diamonds command disproportionably higher prices. In fact 7% of global diamond production by weight accounts for 46% by value. Some mines have average values of less than US$10 per rough carat (ct) whilst some secondary producers can average over US$500/ct. Although there is no predominant pattern, alluvial deposits have yielded some of the largest stones.

Production

In 2005, world production of mined diamonds was around 175 million carats (Mct) valued around US$13 billion. Of this total some 74Mct were classified as industrial diamonds, that is their size, colour and clarity were sub-standard to be classed as gemstones. Natural industrial diamonds account for about 10% of total industrial diamond consumption, the majority being manufactured and used in facing cutters and abrasives. Gem diamond consumption by value has been increasing by 3% per annum over the past 15 years, in line with World Bank global economic growth. By value, diamond prices have increased between 5% and 6% per annum over the same period reflecting in part the demand for higher quality stones and a decline in value of the US dollar.

Despite the high value of diamonds only limited substitution has occurred in the gemstone market. Commercial production of synthetic diamonds uses graphite subjected to intense heat and pressure emulating conditions found within the diamond stability field. A method using chemical vapour pressure technology to 'grow' diamonds is claimed to be indistinguishable from the 'real thing' but is not on a scale to match that of mined production. Values of these artificial stones are below those of natural diamonds.

Marketing

De Beers, the world's largest producer, has historically dominated the market. It has now relinquished its position as controller of prices and sales through its Central Selling Organisation and become 'a supplier of choice'. This change was influenced by impact of two major discoveries in Canada and one in Australia. This has also led to other mining companies marketing diamonds. Demand has increased, which for the first time, may lead to a physical shortage in the medium term. This in turn has stimulated exploration, led primarily by junior companies. In 2005, junior companies matched the large companies in total exploration expenditure. However some of this expenditure is in fact funded by the majors.

The Diamond Sector - Introduction

The unique characteristics of a diamond are provided by the isometric crystal structure of the carbon atoms, making it hard, yet brittle. Paradoxically, graphite, one of the softest minerals, is a polymorph of diamond. In diamond, carbon atoms are linked in an isometric form, whereas atoms in graphite form are linked hexagonal sheets.

The hardness, brilliance and sparkle of diamonds make them unsurpassed as gems. Diamond stones are weighed in carats (1 carat = 200 milligrams) and in points (1 point = 0.01 carat). In addition to gem-quality stones, several varieties of industrial diamonds occur and synthetic diamonds have been produced on a commercial scale since 1960. Diamonds are valued according to their size in carats, their colour, clarity and their cut (the four 'C's). The highest valued are those that display the maximum brilliance which is derived from the above factors. The first three Cs are naturally occurring, the latter determined by the shape of the crystal. Diamond is the hardest naturally occurring substance and consequently has a number of important industrial applications, primarily in cutting technology. It also has the highest refractive index of any natural mineral.

Diamonds are recovered from hard rock resources, kimberlites or lamproites, and are also found in alluvial deposits that represent the eroded hard rock resources. The demand for diamonds has been growing steadily over the past decades and is set to continue as new markets in Asia expand. Supply is also growing but not as fast as demand and new hard rock resource discoveries have proved elusive.

Basic Geology

Formation of diamonds and geological occurrence

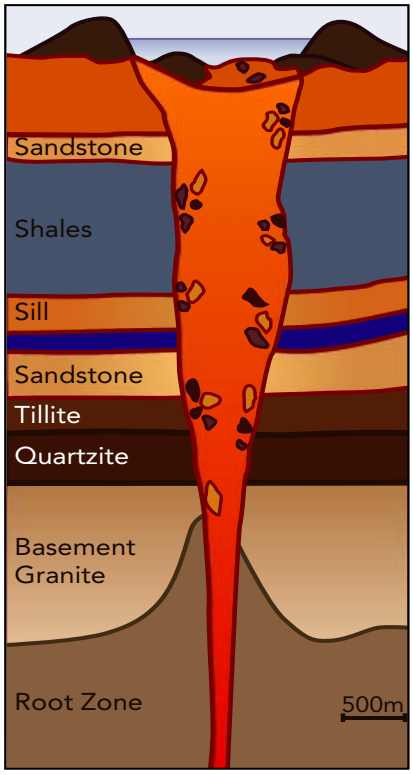
Diamond crystal structures are created when carbon is subjected to great pressures (between 45 and 55 kilo-bars) and high temperatures (1,050°C to 1,200°C) corresponding to depths of 150 -200 km – known as the diamond stability field. Rarely, micro-diamonds can be found at meteorite impact sites, where shock-derived pressures and temperatures are sufficiently intense to transform carbon into diamonds.

Diamonds are found in rare intrusive ultramafic igneous rocks (peridotites or eclogites) that have originated at depth or, as the result of erosion and transportation, in sand and gravel deposits of river and marine environments. The ultramafic igneous rocks that contain diamonds at the Earth's surface are known as kimberlites or lamproites. Kimberlites are volatile-rich (containing H_2O and CO_2) potassic rock, ultrabasic rocks which have variable grain size, with magmatic crystals set in a fine-grained matrix. Lamproites are ultrapotassic, magnesium-rich rocks that, unlike kimberlites, do not contain CO_2. The volatiles contained in kimberlites allow them to intrude explosively from the lower crust or upper mantle to the Earth's surface at great speeds, possibly at the speed of sound.

Magmas pick up diamonds from their host rock in the diamond stability field and act as a conduit, rapidly bringing the diamonds to the Earth's surface. Essentially, diamonds go through the pressure-temperature transition from the depth to surface so quickly that they can't revert to graphite. The great hardness of diamonds allows them to survive the explosive intrusion.

Kimberlite and lamproite systems have distinctive intrusive architectures.

Exhibit 1: Kimberlite intrusion



Source: CMA Associates Ltd

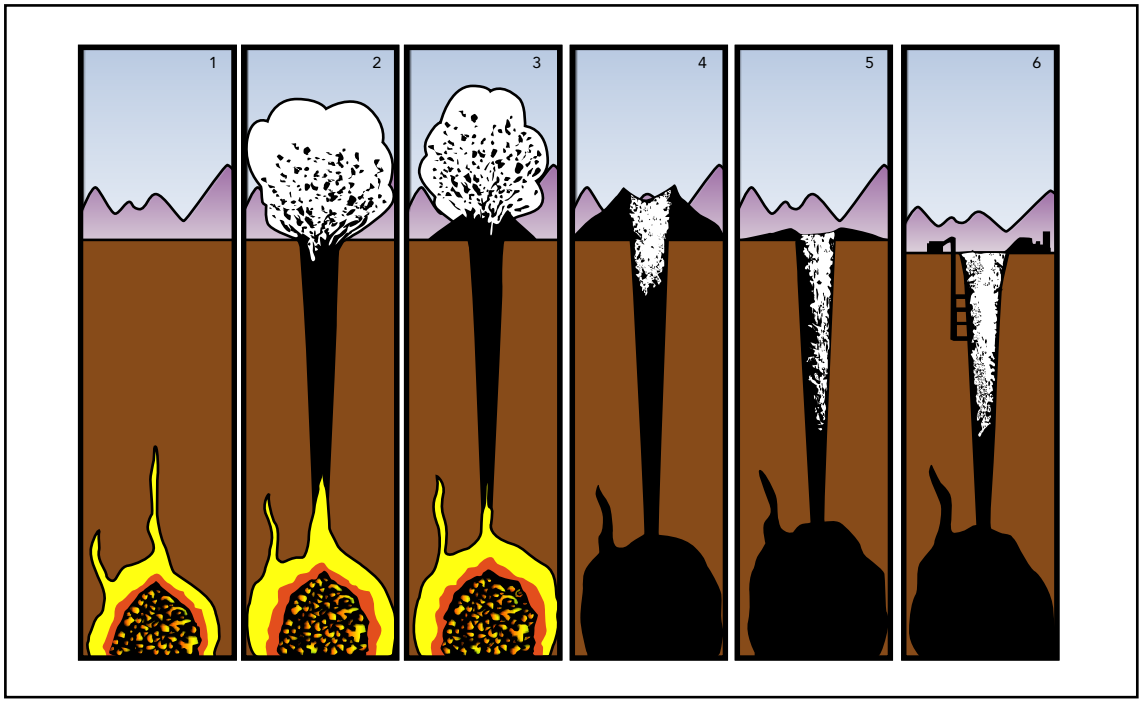
The uppermost part of an intrusive kimberlite is carrot-shaped and has its roots in vertical dykes and horizontal sills. The kimberlite pipes, which are generally up to 2 to 3 km wide, originate at a root zone and rise through diatreme facies to the crater facies, where the kimberlite actually breaches the Earth's surface. The walls of the diatreme dip at angles of 75^0 to 85^0 from the horizontal, the crater walls exhibit shallower dip. The crater is the widest part of the pipe but it seldom exceeds 2 km in diameter. Major kimberlite mines have been established in South Africa, Botswana, DR Congo, Russia, Angola and Canada.

In contrast, lamproites are not pipe shaped and consist of crater facies less than 500 metres in depth. Diamondiferous lamproite craters are up to 1.25 km in diameter. The Argyle mine in Australia is the most notable example of a lamproite deposit.

Diamonds are actually a very minor component of kimberlite and lamproite magmas, whereas other xenocrysts appear in greater abundance. Very few kimberlites are diamondiferous, statistics suggest about one in a thousand.

Alluvial placer and palaeo-placer deposits are formed through the weathering and erosion of diamond-bearing kimberlites or lamproites. Diamonds can survive many cycles of erosion because of their resistance to chemical and physical erosion. Their high density (3.5) allows them to be concentrated in the base of river or beach deposit. Because the weathering of the hard-rock host is gentle and prolonged alluvial deposits can host some the larger and least flawed stones. There are several active locations of alluvial diamond mining and in some cases the primary source has not been identified, often due to heavy erosion.

Exhibit 2: Genesis of a kimberlite pipe



Source: CMA Associates Ltd

1. The pressure of the molten magma begins to crack the surrounding rocks at depths of 150 -200 km.
2. The crack reaches the surface and the magma is forced explosively towards the surface.
3. The violence of the eruption causes a cone to form at the surface.
4. The cone erodes away and gradually becomes almost undetectable at surface; any crater is in filled with local erosion products.
5. The pipe is mined.

Distribution and age

Kimberlitic volcanic diamond pipes are found in the oldest part of the continental crust known as cratons found at the centre of large continental masses, Archaean in age, that is more than 2,500 million years. Craton-hosted diamondiferous kimberlites are found on the African continent, Russia, India, Brazil, and Canada. The intrusion of diamond bearing lamproites of Precambrian, Cambrian and late Tertiary age are found on the margin of the north-west Australian craton.

Classification systems

Natural diamonds fall into two major classes, industrial and gem quality. Industrial diamonds are usually fractured, coloured and occluded and are used primarily in cutting equipment. According to the United States Geological Survey (USGS) some 626 million carats of industrial diamonds are produced each year, of which 90% are synthetic.

It is normal to classify gemstone diamonds by size and quality: carat (weight), clarity, colour and cut (the four 'C's). In 2005, gemstone diamond production, all from natural resources, was 101 million carats. The quality of the diamonds encountered is of extreme importance in classifying deposits. The ratio of gem to industrial diamonds is a broad indicator that is used to define diamond fields whereas average values, in US dollars per carat, are used to classify individual deposits within specific diamond fields. Large diamonds, greater than 2 carats, account for less than 7% of gem diamond production.

Exploration

Exploration for kimberlites and lamproites is focused on local and regional structural setting, large-scale geotectonic controls, and on the physical processes controlling melt generation in the upper mantle and the ascent through the lithosphere.

Primary deposits are found by following the migration path of diamonds and indicator minerals by prospecting upstream from alluvial deposits. Changes to the drainage system will result in discoveries to the sides and at depth in terraces and palaeo-channels.

Kimberlites occur in pipes, eroded remnants of old volcanic necks up to several hundred metres in diameter and they can be many hundreds of metres in vertical extent. Sills (horizontal) and dykes (vertical) cracks are usually narrow but can extend for several kilometres where molten material has solidified below the surface and not caused an eruption.

Alteration

The sequential alteration of the primary diamondiferous host rock to the ultimate formation of marine deposits provides varied types of deposits that may be economically exploited. The following table summarises the alteration processes:

Table 1: Alteration from primary to secondary deposits

Deposit	Alteration Process	Economics
Primary: kimberlite or lamproite pipes, dykes, sills or fissures.	None. Some diamonds may be shattered during deposition.	Economic concentrations can be of very high value.
Weathered Primary: as above, common in tropics.	Initial weathering of the kimberlite or lamproite, but rarely of the surrounds; leaves craters.	Softer host rock may make concentrations exploitable.
Colluvial: contains angular material. Surrounding Primary.	Continued weathering produces migration of lumps of host rock and of diamonds.	Normally small volumes, often with large high value stones (diamonds).
Eluvial: contains angular material, down slope from the colluvial.	Continued migration of colluvial material breaks down the lumps and leaves diamonds intact.	Scattering colluvial diamonds but low concentrations offset by high value stones.
Alluvial: contains water-borne rounded material, the degree of roundness indicative of distance from source.	Streams, creeks and rivers, transport the diamonds away from the eluvial or colluvial deposit. Host rock disintegrated and replaced by quartz or sandstone gravels from surrounding rocks cut by the drainage.	Concentrations in drainage trap, or caused by flow changes. Classification may eliminate broken stones to increase recovered value.
Terraces: as for alluvial.	Progressive lowering and relocation of the drainage system leaves alluvial deposits stranded to the sides of the valley.	May or may not be economic, often devoid of traps.
Palaeo-alluvial: as for alluvial.	Changes to the drainage pattern caused by tectonic uplift may result in buried channels containing alluvial mineral to be buried at depths of 10 to 40 metres.	Large deposits can be of economic importance as they are rarely previously worked.
Conglomerates: as for eluvial and alluvial.	Geological changes may result in desertification and subsequent binding of the gravel into rock formations.	Normally uneconomic, grades tend to be low.
Weathered Conglomerates: as above.	In situ weathering in tropical climates may breakdown conglomerate. Further weathering and transportation by water results in re-deposition as an alluvial.	Rare but the low cost of exploitation may improve the economics.
Marine alluvial.	Formed where diamond-bearing rivers entered the ocean. Carried along the shoreline by "longshore drift". The constant pounding of the surf leaves concentrations in beach gravels. Many of these deposits formed when sea level was much lower than present.	Discoveries restricted to the Atlantic Ocean coasts of Southern Africa and South America. Beach deposits are cheap to exploit though the environmental impact is high. Sea deposits are costly to exploit and dependent on seasons.

Source: CMA Associates Ltd

Mineralisation

Kimberlites and lamproites are geologically described as high magnesium, mica-bearing, calcite-rich polymict melt breccias. The primary mantle-derived constituents of kimberlites and lamproites include minerals such as olivine, garnet, pyroxene and spinel. Some of these minerals, such as garnets, occur in far greater quantities than diamonds and therefore are useful diamond indicator minerals.

Entrained peridotite and eclogite xenoliths in kimberlites yield information about composition, physical conditions, structure and origin of the lithospheric column traversed by the kimberlite.

Lithospheric thickening to produce deep cratonic root zones occurred through multiple episodes of melting and lateral accretion. The subsequent interaction with fluids generated at the lower asthenospheric horizon could account for many of the diamond formation and destruction processes.

Marine deposits

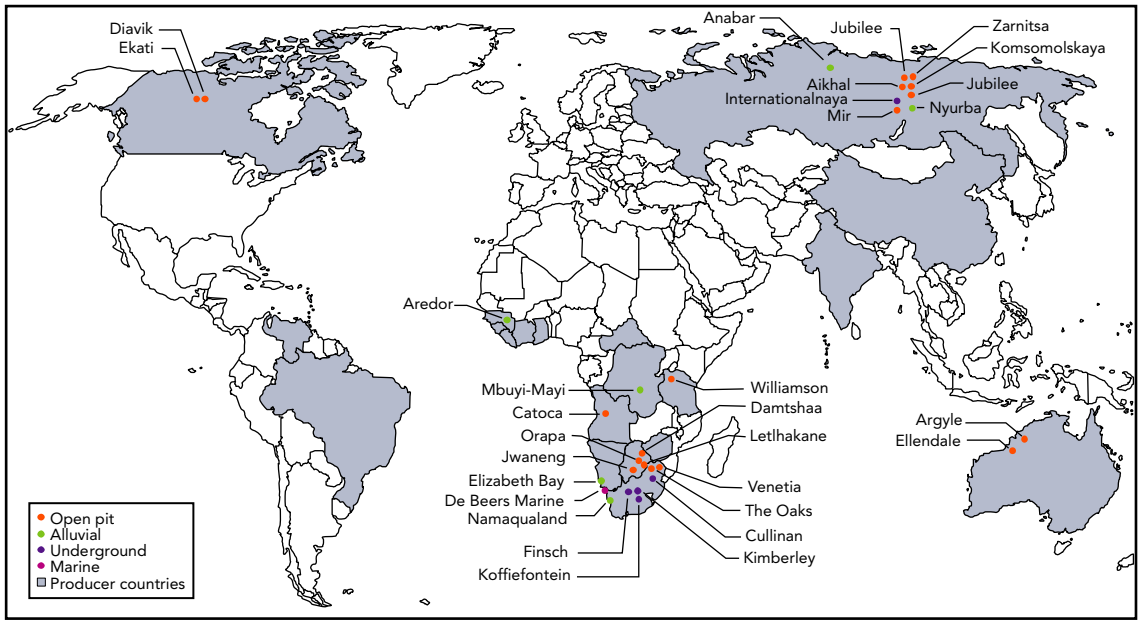
Diamond grades in kimberlite pipes are known to decrease towards the root of the intrusion. It is estimated that the uppermost 1,400 meters of the pipes in the Orange/Vaal catchment area in South Africa were removed and transported into the westward drainage systems. An estimated 3 billion carats have been delivered to the sea, the majority lying north of the present day Orange River mouth offshore Namibia. Onshore deposits may represent less than 10% of this total resource.

Marine deposits could only occur if shoreline and near-shore sedimentation had occurred in the area. Present knowledge indicates that during the Tertiary Period a large number of sea level fluctuations took place forming marine terraces of varying elevations. So far at least eight terraces have been identified above the present day sea level north of the Orange River and many others have been reported down to water depths of 145 meters. Diamonds in marine areas are typically trapped in bedrock depressions eroded from various structures such as bedding planes, faults or joints in hard bedrock. These form gullies, potholes, depressions, channels and other trap-sites for diamonds.

Global mining regions

Today, 80 percent of the world's rough diamonds come from Botswana, Russia, South Africa, Angola, Namibia, Australia and the Democratic Republic of Congo (DRC). The balance is mainly from Brazil, Guyana, Venezuela, Guinea, Sierra Leone, Ivory Coast, Ghana, CAR, Tanzania, China, Indonesia and India.

Exhibit 3: World diamond occurrences



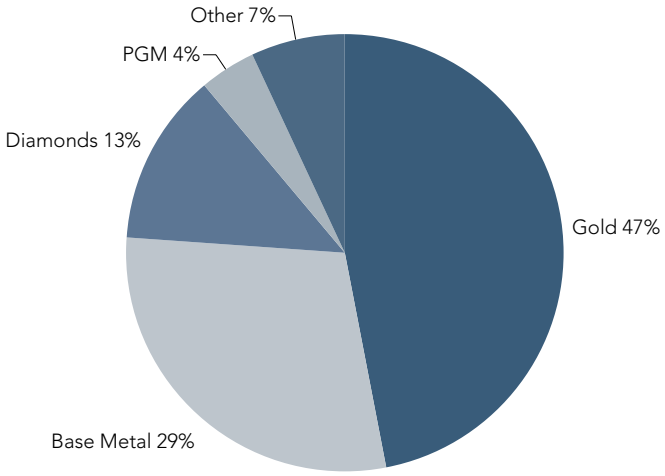
Source: Diamants Infos

Exploration

Global Trends

The Metals Economics Group (MEG), Halifax, Nova Scotia conducts an annual survey of exploration expenditure by mining companies. The 2005 survey encompassed 1,431 companies who spent a combined US$ 4,900 million on all facets of exploration. This budget represents the second highest since the survey began 15 years ago and is only 11% below the all-time high of US$ 5.5 billion of 1997. The low expenditure levels in the late 90's and early years of this century are responsible in part (the other is increased demand) for the current shortages of metals and consequent high prices. One of the beneficiaries of increased exploration expenditures has been diamonds.

Exhibit 4: Expenditure per sector in 2005



Source: MEG Annual Exploration Survey 2005

The diamond sector captured 13% of the US$637m expenditure in 2005. This was split between 40% Greenfield exploration, 40% late stage and 20% at existing mines, reflecting appetite for new discoveries. For the first time in the history of the survey, junior companies accounted for half of the total exploration expenditure, a position formerly dominated by the majors.

The search for diamonds has become increasingly dependent on advanced technology but not so much so that individuals are excluded from exploration success. In 1940, John Thornburn Williamson, a Canadian geologist working in Tanzania, found an exceedingly rich kimberlite pipe when prospecting in an area to the south of Lake Victoria. In 1990, geologists Chuck Fipke and Dr. Stewart Blusson discovered the Lac de Gras kimberlite field in the Northwest Territories of Canada. The latter discovery came after 5 years of intermittent effort, much of it funded with minimal exploration funds. Both these discoveries were made using heavy indicator mineral tracing exploration techniques.

Exploration methods

Geochemical surveying methods and indicator mineral sampling

The use of panning in river gravels for diamonds has evolved into indicator mineral search techniques that use the mantle-derived minerals as pathfinders and as a means by which to evaluate the diamond potential of exploration targets. The greater the variety and number of indicator minerals, the greater the chance of finding diamonds and locating primary deposits. Resistant heavy minerals are sought using a wide variety of sampling techniques, which are tailored to suit local conditions.

Typically, a project area is explored by taking soil samples on a widely spaced grid (say 5km x 5km) and examining these samples for the presence of kimberlite indicator minerals ("KIM's"). This broad scan of the exploration area is usually targeted from airborne magnetic anomaly surveys. Detailed ground magnetic and gravity surveys on a more detailed (say 2km x 2km) KIM sampling grid are followed by drilling campaigns, which may result in the discovery of kimberlites. Not all kimberlites are diamondiferous; in fact approximately one in a thousand contains economic diamonds.

Geophysical surveying

Kimberlites and lamproites are characterised by high magnetic, density and conductivity measurements and consequently can be detected by geophysical techniques. These can be sufficiently sensitive to discriminate separate intrusive phases within an intrusion.

The most cost-effective geophysical reconnaissance technique is airborne magnetic surveying. It has been extensively used in diamond exploration and is useful in the detection of weathered or crater-facies kimberlites. However, it is much more costly than ground-based magnetic surveying. Airborne radio-metrics are useful to discriminate targets where other sources of localised magnetic anomalies are common and are complementary to surface mapping tools.

A number of remote sensing techniques such as LANDSAT satellite imagery, satellite-born radar imagery, aerial photography and multi-spectral scanning have also been applied to the search for kimberlites and lamproites. Due to the relatively coarse resolution of these techniques, only large pipes are likely to be detected. A multi-disciplinary approach using remote sensing, geophysical and structural analysis is proving valuable in target selection.

BHP Billiton has developed the FALCON® airborne gravity gradiometer technology. This technique allows gravity surveys to be conducted from the air. It has the capability to detect the subtle difference between the gravity signature of a mineral target and that of the surrounding country rock. Its employment is cheaper and quicker than conventional ground-based gravity techniques. It can “see through” overburden such as calcrete, sand and gravels to bedrock.

Geophysical techniques are also widely used to detect and delineate known diamondiferous sands and gravels (placers). The most widely used method is ground penetrating radar (GPR) used to locate the extent of alluvial gravels. Once the readings have been correlated with part of a known gravel bed, as delineated by drilling, the GPR survey can rapidly and accurately map the remainder of the bed, though this would be restricted by dense vegetation.

Analysing anomalies

Indicator minerals and geophysics identify favourable environments that may contain diamonds. They do not guarantee the actual presence of diamonds, which may only be located by physical search. Anomalies are analysed in accordance with their geological and geomorphologic context.

Geological mapping and computer developed models

As with all mineral exploration, geological mapping is used to define the working parameters. In alluvial diamond deposits, geological mapping defines the deposition sequence and subsequently leads to locating the source of mineralisation. The source is not always a primary deposit, as some alluvial deposits are derived from ancient conglomerates whose origins have been lost through repeated cycles of erosion.

Developing Exploration Programmes

Delineation of a diamond deposit makes extensive use of geologic controls defined by interpretation of ground geophysics plus drilling and bulk sampling. Only the latter will actually provide information as to the diamonds content. All diamond deposits require bulk sampling for grade and value estimations. There is no known method of confirming the continuity of mineralisation but statistics methods are used to determine the probability of continuity between known sample points.

Drilling Techniques

Generally, primary hard rock deposits are drilled by specialist contractors under the guidance of a company geologist who will log the drilling. Samples are split and analysed in specialist laboratories. In contrast, with secondary deposits, the operating company generally undertakes drilling, core preparation and analysis. Third parties would be involved in audits. Drilling can be combined with large-scale sampling (not bulk sampling). Shallower depths permit the use of large diameter drills that can take representative samples. Reverse circulation drilling is used in weathered primary deposits and occasionally in alluvial deposits. Treatment of the core and subsequent analysis will vary according to the deposit.

Percussion drilling is widely used in alluvial deposits. Where labour is (relatively) cheap and ground conditions are bad, manual Banka drills may be employed. Mechanised or semi-mechanised percussion drills are used for depths exceeding 12 – 15 metres.

Pitting is commonly employed in alluvial deposits. Shallow pits are dug by hand and may have temporary timber shuttering. Deeper pits, in unconsolidated ground use caissons. The use of manual labour is to ensure good recovery and accurate measurement of the basal gravel. Where mechanised pitting is undertaken a hydraulic excavator clamshell should be used in order to take samples as undisturbed as possible and ensure that all the basal gravel is recovered.

Appraisal Process

Resource Appraisal Units

The metric system is used for units of measurement and the US dollar used for valuations in the appraisal of resources. The international metric carat weighs 0.2 grams (5ct = 1gm). Although standardisation has been achieved with weights and values, there is less standardisation with volumes and grade, the most common is the tonne equivalent to 1000kg. It is customary to report volumes of primary deposits in tonnes and of secondary deposits in cubic metres. The equivalent weight of an alluvial deposit can be calculated by specific gravity (SG). For example quartz gravels have an SG of 2.60, sandstone gravels 2.50, while clays and unconsolidated soils and sands the SG will vary from 1.20 to 1.80

Due to the very low concentrations of diamonds in economic reserves it has become customary to report grades as carats per 100 unit volumes. For primary deposits cpht (carats per hundred tonnes) is used, for secondary deposits ct/100m^3 is usually used. It is also customary to use the international numbering system where thousands are separated by commas and decimals separated by points.

Resource evaluation requirements under JORC, CIMM, SAMREC

A number of regulations for resource estimation have been published by the Mining Institutes in UK, Australia, Canada and South Africa. The regulations are designed to provide confidence in forward-looking statements such as resource estimates. A common feature of each code is the involvement of a Competent Person who not only can demonstrate five or ten years of experience in the particular field associated with the resource but is also a member of a professional organisation recognised by the regulatory authority.

The Canadian Code conforms to Canada's National Instrument 43-101. It is the most stringent of all the codes and requires the use of independent professionals to oversee nearly all aspects of the exploration programme, especially taking of samples used for resource evaluation. The code has its own sub-set of rules for diamond resource evaluation, which are oriented to Canada's own specific diamond environment. Canada's NI 43-101 has to be used by all companies reporting to the Toronto Stock Exchange (TSX).

Australia's JORC Code is equally stringent in requiring the Competent Person to ascertain that the data used in the evaluation is legitimate, placing the responsibility on the Competent Person to ascertain the facts himself. It does not require the same high level of independent assessment as the Canadian Code and recognises that there may be failures in obtaining all the data that is ideally required for an evaluation. The Code is widely used in the diamond industry due to its robust and realistic approach to resource evaluation. As such the JORC code is well suited to evaluation of alluvial properties.

The South African Code is understood to be similar to the JORC Code in its application and is widely used in Southern Africa. Other codes exist, though these are falling into disuse as most financial institutions require evaluations to NI 43-101 or to JORC standards.

Distribution, size, clarity and quality of diamonds

Field determinations consist of sizing the diamonds and separating them into broad categories. This is undertaken on a continuous basis to provide an evolving distribution pattern, thereby determining the probability of recovery. Determining the quality and value of the diamonds is undertaken by experts who should be qualified by the government under the terms of The Kimberley Agreement. This agreement is imposed by the UN on all nations involved with the export and import of diamonds. Size range is in carats and values provided by the expert are normally grouped by size range, only the larger stones (>1 carat) are valued individually.

The "4 C's": carat, colour, clarity and cut

Carat

The standard unit of weight for diamonds and most other gems is 0.20 gram known as the metric carat.

Colour

Diamonds come in every colour of the rainbow. Grading colour in the normal range involves deciding how closely the body-colour approaches colourlessness. Most diamonds have at least a trace of yellow or brown body-colour. With the exception of some natural colours, the colourless grade is generally the most valuable. If a diamond does not have enough colour then it is graded in a scale ranging from Colourless to Light Yellow, "D" through "Z". A yellow diamond fetches a higher price than a light yellow diamond.

Colour	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	Fancy
Scale	Colourless			Near Colourless				Faint Yellow			Very Light Yellow					<------Light Yellow------>								Colour

Clarity

Clarity determines the value of a diamond. Most diamonds have imperfections or inclusions as it is known in the trade.

Cut

The cut of a diamond is the only property which is totally dependent on man. Although often overlooked, cut is actually one of the most important aspects to consider when choosing a diamond. A diamond cutter analyzes the rough diamond and has to determine how to extract the most beauty and most profit out of the rough stone. Cut refers to not only the shape but its proportions and finish, factors which determine the sparkle of the diamond.

The use of geo-statistics in valuations

Diamonds are not evenly distributed in the ground, either in quantity or by weight. The value of a diamond does not follow an even progression for the same quality, as size matters disproportionately. Statistics and geo-statistics are therefore used to evaluate a resource. Great care has to be taken in the use of statistical methods as diamonds have a tendency to display a "nugget" effect that can invalidate many of the methods widely used.

For primary deposits statistical methods commonly used for grade calculations are known as kriging, disjunctive kriging and inverse distance, the latter being applied where the "nugget" effect is prominent. For secondary deposits a variety of methods are used to calculate the grades. Many companies consider that the wide range of grades encountered in a deposit does not warrant the use of statistical methods at all and that a single overall grade may be applied to the whole property or to readily defined sections.

Pre-Feasibility and Feasibility Studies

All diamond mining projects require detailed studies to evaluate the deposit and ascertain the economic viability of extraction. There are wide ranging factors that illustrate the level of detail required. Most projects rely on either equity or debt finance and it is the investors and lending institutions that rely on these studies for financial support. In diamond projects the principal components are the estimated resources, grade and quality of the recovered stones. As kimberlite (and lamproite) intrusions tend to be relatively small, economies of scale are not usually appilicable, unless multiple diamondiferous kimberlites can be mined and processed in a single plant. However single kimberlites can provide a long mine life. The advantage diamonds have over other mined products is the highest value per weight in the industry, negating expensive shipping costs.

Mining and Processing

Most kimberlites and lamproites occur in competent rock permitting the use of conventional hard rock mining methods; kimberlites have a blue colouration and are normally less competent than the surrounding country rock. In climates of extreme temperature changes the rock may be weathered, thereby making open-pit mining a more attractive proposition. The carrot-shaped ore-body also favours open-pit extraction as there is a minimal of waste to be excavated.

There are three mining methods in common use:

Underground Mining

The underground mining is employed below depths of 300 m when open pit mining begins to become uneconomic. Underground mining may continue downward from an existing open-pit to exploit the vestiges of mineralisation, which in diamond mines grade tends to decrease with depth. Block caving is normally used. This is an inexpensive mining method in which large blocks of ore are undercut, causing the ore to break or cave under its own weight. It is largely dependent upon the action of gravity and is considerably less expensive than traditional underground mining methods but requires competent rock.

Open-Pit Mining

This is most common form of mining of kimberlite and lamproites pipes where the hard rock is drilled and blasted. Softer rock may not require blasting and may be excavated directly using large hydraulic excavators. Ore and waste is removed from the pit by large trucks. Waste is dumped away from the pit sides, often used for forming dams to impound process water or tailings (plant rejects). Ore is delivered to the treatment plant where it is crushed, milled and after separation of the diamonds, rejected as waste sand. Not all open-pits are regular and often the shape of the ore-body is such that the pit extends for several kilometres, as is the case with kimberlite and lamproite dykes and fissures.

Open Cast Mining

Unlike open-pit mining the waste is not removed from the excavation, rather it is transferred to a mined out part of the excavation. This is normally undertaken by very large earth moving equipment, such as draglines, bucket-wheel excavators and occasionally by pulping and pumping. The method is confined to weathered primary deposits where there is a minimum of blasting.

Secondary Deposits

In larger deposits mechanised mining is used similar to open cast. Semi-movable treatment plants are employed. Large walking draglines can be used which have low operating costs but high capital costs. A cheaper practical approach employs gravel pumps, using hydraulic excavators to floating wash plants and by trucking to mobile treatment plants. In all cases there is a certain amount of infilling as a consequence of the strip mining nature of the operation.

A dragline allows excavation to bedrock, whilst the reach of a hydraulic excavator is limited. An on-site screening plant reduces the quantity of gravel to be transported, treated and impounded as tailings which are later used for landscaped restoration. The strip mining technique ensures that the ground mined is restored as an integral part of the mining operation. It permits deposition in the same sequence as extraction with the overburden on top of the gravel. Replacing trucks by a conveyor or by pumping, permits operations in all types of weather, as well as being significantly cheaper.

Small-scale Mining

Small-scale mining contributes a significant portion of diamond production from secondary deposits; it is widely practiced in Africa and South America where its importance to the economy makes it politically desirable. As most secondary deposits are associated with river systems, the use of gravel pumping is widespread. Back-acting excavators and trucks are also used, especially where the processed sand and gravel can be sold. Manual methods of mining consist of pick and shovel operations or sluicing where the ground is favourable for such operations.

Beach Deposits

These are secondary deposits involving large-scale removal of overlying sands to uncover the bedrock where diamonds can be found in crevices. Large walking draglines and scrapers are used to remove the sand, often forming a bund on the seaward side to gain access to as much of the beach as possible. Diamonds are removed from the crevices by powerful vacuum cleaners. Beach deposits are common in Namibia and west coast South Africa as sea-level changes have preserved palaeo strandlines.

Marine Deposits

Marine deposits are generally extensions of beach deposits out to sea. They are formed by sea-level changes through glacial periods or tectonic movement. It is virtually impossible to delineate marine deposits other than by identifying areas and applying a grade based on historical production. The use of modern geophysical techniques (e.g. seismic radar) permits detailing of bedrock contours and locating buried palaeo-channels in the coastal waters. Only since the early 1990's has mining technology become available for the commercial exploitation of marine diamond deposits. De Beers was the first to develop the mining technologies known as the vertical and horizontal systems. The vertical system uses a 6-7 meter diameter drill head to cut into the seabed sediments and suck up the diamond-bearing material. The horizontal system uses remote-controlled vehicles, known as seabed crawlers, which move across the sea floor pumping up gravel to the mother-ship to be processed.

The major offshore producers in Namibia are developing increasingly sophisticated vessels and marine structures to lift diamondiferous seabed sediment as due to weather conditions a conventional vessel may only be able to work around 60 days per year. This includes the AquaWalker developed by Pinnacle Resources Inc which should produce as much diamond-bearing gravels as eight boats.

Process Plants

Gravity separation is the main method used to recover diamonds. The most widely used methods are those that use hindered settling, either in sluice boxes, in rotary pans or in jigs. Most efficient is separation using a dense medium (DMS) that permits the diamond to be separated from the lighter quartz or gangue minerals. All provide a concentrate that is upgraded after further classification by panning, and / or passing over grease tables and / or passing through an X-ray separator.

Preparation - Diamondiferous ore from primary deposits may require crushing depending on the weathering of the ore and its consistency after mining. Crushing is quite coarse so as not to damage the diamonds. In primary ores washing is used to remove clays and in secondary deposits to remove vegetation and other debris. Where there is high clay content, it may be necessary to use a scrubber or a log-washer to clean the ore.

Classification - Classification is by screening and by cycloning to remove slimes caused by clay. The upper and lower size limits depend on the characteristics of the deposit. Many companies and most artisanal operators still regard stones smaller than 2 mm as not worth selling and reject all material < 2 mm. This greatly speeds the treatment process and reduces operating costs.

Rotary screens are often used on dredges and washing plants, inclined and horizontal shaking screens being used in semi-moveable and fixed plant installations. Normal cylindrical cyclones for de-sliming and dewatering are used to split the fines.

Primary Upgrading - The sluice box, launder and long-tom are still widely used. The method is effective, cheap to operate and still used (often surreptitiously) on modern plants to check the tailings. Rotary pans are widely used in Southern Africa and are gaining acceptance in Brazil and West Africa. These work best when there is some clay present and are therefore of limited use in river or beach sands or in tailings. Like most simple equipment considerable skill is required to obtain an effective recovery.

Large scale mining of river deposits is by an integrated dredging unit containing the digging mechanism using a bucket line discharging into a trommel (rotary screen) where ore is washed and classified before being fed to jigs for upgrading, the jig tails are rejected astern. Large traditional jigs are being replaced by in-line pressure jigs which have several advantages, the most important being the security aspect, as the jigs are sealed when in operation. The jigs use less water and are more efficient. Separation of mineral, gem and ore particles is based on relative density as well as particle size and shape. Dense Media Separation (DMS) plants have found widespread acceptance as being the best for recovery in operations with easy access to ferrosilicon which has a SG of around 6.7 and can be diluted to provide an adjustable dense medium. Diamonds have a SG of 3.5.

Final Upgrading - Small-scale operations use manual centrifugal concentration using a series of circular screens. The screens are then rotated in opposing directions such that any diamond will migrate to the centre bottom of the screen which is then flipped over and the contents fall into a pile with diamonds readily visible around a central halo. A mechanized version of the process, the Pleiz jig, is used on small-scale mines. Large-scale mines place the concentrate on belts, to feed a grease table and / or to pass under an X-ray fluorescence scanner. The surface physical characteristics of diamonds allow them to stick to the grease and the gangue material is washed away. X-ray sorting detects the luminance of a diamond which is removed by a blast of air leaving grains of gangue minerals to waste. Neither method is foolproof and it may be necessary to pass the concentrates several times. In Brazil the diamondiferous concentrates are fed to a conical ball mill for a long and slow semi-autogenous grind. The gangue minerals are ground to a very fine sand and discharged through a grate with 2mm opening together with the gold which is subsequently recovered. The diamonds are not shattered as the slow speed eliminates any tumbling action and the stones are recovered when it is emptied and cleaned.

Production Costs

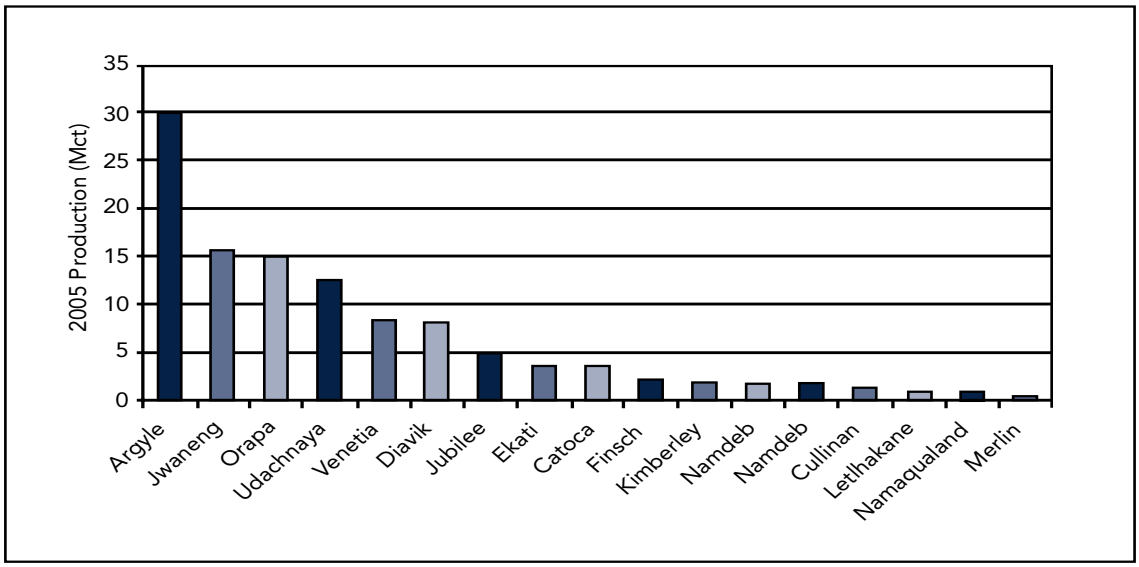
The major direct costs in any mining operation consist of energy and fuels (the most volatile item), labour, and consumables/maintenance. A mine with access to hydroelectric supply or grid power has a strong cost advantage over those mines that rely on diesel generator sets for their power supply. Fuel transport can be extremely onerous. Fuel and energy costs can vary from as low as 10% to as high as 45% of total operating costs.

The inclusion of a few high value stones can raise the average carat value by a multiple but making any attempt at calculating standardized cut-off values superfluous. The effect can be ameliorated by taking exceptionally large samples. In secondary mining it may not be possible to estimate a grade until the deposit is mined. This uncertainty is a major difficulty in financing a diamond mining operation by a junior company and the reason why so many invite majors into a joint venture once mineralisation is quantified.

Production and value

Production figures for the major mines are tabulated below but these figures do not show costs, nor are costs easily identifiable from published results. In the second table we have listed the mines in order of tonnage treated (throughput), diamonds recovered and of assumed product value. Only in one instance was there a direct relation between production and throughput but there were six connected by production and value.

Exhibit 5: World's largest diamond mines (2005 production)



Source: CMA Associates Ltd

Table 2: World's largest diamond mines – output and value

Thoroughput (tons)		Production (carats)		Value (US$)	
Orapa	15,779,000	Argyle	26,000,000	Jwaneng	1,357,290,000
Argyle	15,100,000	Orapa	13,056,000	Orapa	652,800,000
Jubilee	9,000,000	Jwaneng	12,339,000	Ekati	530,640,000
Jwaneng	8,920,000	Mbuyi-Mayi	5,800,000	Venetia	422,960,000
Mbuyi-Mayi	7,200,000	Jubilee	5,500,000	Jubilee	357,500,000
Namaqualand	6,083,000	Venetia	4,976,000	Argyle	286,000,000
Finsch	4,767,000	Ekati	3,685,000	Letlhakane	183,780,000
Venetia	4,602,000	Catoca	2,693,000	Catoca	175,045,000
Kimberley	3,766,000	Finsch	2,464,000	Finsch	172,480,000
Ekati	3,685,000	Premier	1,636,000	Namaqualand	145,440,000
Letlhakane	3,625,000	Letlhakane	1,021,000	Premier	122,700,000
Catoca	3,160,000	Namaqualand	808,000	Luzamba	87,780,000
Premier	3,102,000	Kimberley	549,000	Mbuyi-Mayi	81,200,000
Williamson	2,867,000	Luzamba	418,000	Kimberley	60,390,000
Koffiefontein	2,299,000	Williamson	191,000	Koffiefontein	32,625,000
Luzamba	725,000	Koffiefontein	145,000	Williamson	27,695,000
Namco	220,000	The Oaks	123,000	The Oaks	22,140,000
The Oaks	203,000	Namco	90,000	Namco	13,590,000

Source: CMA Associates Ltd

Financial

The economics of a diamond mine are controlled by the value of each tonne of ore that in turn is dependent on grade and average value per carat. The value of the gemstone is determined by diamond valuers specialising in gemmology. For instance, an average value of over US$200/ct would be considered high and is only attained by a very few mines. Values of US$10 are very low and the pipe would have to be very high grade to be economic. Average grades worldwide are around 60-80cpht. Several secondary operations operate at very low grade but significantly higher diamond values.

Table 3: Leading mines rated on diamond value.

Mine	Average Value Ct US$	Type	Country
Koffiefontein	225	Kimberlite	South Africa
Luzamba	210	Secondary	Angola
Letlhakane	180	Kimberlite	Botswana
The Oaks	180	Kimberlite	South Africa
Namaqualand	180	Kimberlite	South Africa
Namco	151	Secondary	Namibia
Williamson	145	Kimberlite	Tanzania
Ekati	144	Kimberlite	Canada
Jwaneng	110	Kimberlite	Botswana
Kimberley	110	Kimberlite	South Africa
Udachny	85	Kimberlite	Russia
Venetia	85	Kimberlite	South Africa
Premier	75	Kimberlite	South Africa
Finsch	70	Kimberlite	South Africa
Catoca	65	Secondary	Angola
Jubilee	65	Kimberlite	Russia
Orapa	50	Kimberlite	Botswana
Mbuyi-Mayi	14	Secondary	DR Congo
Argyle	11	Lamproite	Australia

Source: CMA Associates Ltd

The table above indicated that there is a wide range in the value of stones from some of the leading mines. Although some of the largest stones ever found were alluvial, these deposits obviously reflect the hard rock resource from which they were derived. The Argyle lamproite mine is an anomaly. It is the largest producer by weight i.e. carats produced but over a third is of industrial grade diamonds. However, its coloured diamonds especially the "Argyle pinks" fetch high valuations.

The $ value per carat is instrumental in determining the viability of the project. The table above shows how the value may vary. All these mines are economic when considered in context of the operation due to grade and volumes. The importance of these factors is shown by the fact that a due diligence will require inspection and probably re-evaluation of the diamonds retrieved during sampling and that the quantity of diamonds should be representative. As large diamonds can distort average grade values in a deposit, it is important to take large samples to reduce this effect. In some cases they are removed from grade calculations altogether. Nevertheless large stones can have a positive effect on valuation as they are indicative of the underlying classification of the host rock or alluvial deposit.

Diamond Producers

The bulk of world diamond production is controlled by major mining groups: Anglo American Corp (AAC-LN) through its interests in the De Beers Group activities, Alrosa (unlisted) through its interests in Russia, Rio Tinto Zinc (RTZ-LN) through its interests in the Argyle (Australia) & Diavik (Canada) mines and, BHP Billiton (BHP-LN) through Ekati (Canada) mine. These companies also have direct and indirect interests in several junior exploration companies. The junior listed companies are found on the London (mainly AIM), Toronto (mainly TSXV) and Australian exchanges.

The Major Producing Companies

De Beers

De Beers Investments is a South African diamond mining, holding and financial company. De Beers and its associated companies play a pivotal role in the world diamond industry producing about 45% by value of the total annual global diamond production from its mines in South Africa and through its partnerships with the governments of Botswana (Debswana) and Namibia (Namdeb). De Beers' diamond mining operations span every mining category: open pit, underground, alluvial, coastal and marine. Its exploration activities extend across six continents. Through its selling arm, the Diamond Trading Company (DTC) based in London, De Beers markets some two thirds of global supply.

In Namibia, De Beers' subsidiary Namdeb has 50% interest with the Government over beach terrace and marine deposits along the Namibian coast and on alluvial terraces near the Orange River.

In South Africa, De Beers operates opencast and underground kimberlite mines: Koffiefontein, Finsch, Kimberley, Premier and Venetia. Marine beach terrace and marine mining operations: Namaqualand and offshore concessions.

In Botswana, De Beers' subsidiary Debswana has a 50% interest with the Government in three opencast mining operations: Orapa, Jwaneng and Lethlakane.

In Tanzania, De Beers has a 70% share (Government 30%) in the Williamson Mine located near Mwadui in north central Tanzania.

De Beers has established a presence in Canada through the acquisition of the Snap Lake mine in Nunavut, a shallow-dipping kimberlite dyke.

De Beers has numerous joint venture interests with junior diamond explorers worldwide.

Alrosa

Alrosa Co. Ltd. is a closed-type joint-stock company, successor to the enterprises, organizations and divisions of the former Yakut Almaz Association, Committee for Precious Metals and Precious Gemstones (Gokhran of the Ministry of Finance of the Russian Federation) and the Almazjuvelir export Foreign Trade Association. The Company commenced its industrial and commercial operation on January 1st, 1993.

The shareholders are:

- Russian Federation: Ministry for Property Relations of the Russian Federation: 37%.
- The Ministry for Management of the State-Owned Property of the Republic of Sakha (Yakutia): 32%.
- Employees of organizations of the diamond industry, as well as other individuals: 23%.
- Administrations of the districts (Ulus) of the Republic of Sakha (Yakutia): 8%.

Principle operations include:

Mirny Integrated Mining and Processing Complex (Mirny GOK). The Mir diamond pipe is located on the bank of the Irelyakh River and was explored to a depth of 1,235m and since 1958 the Mir diamond deposit has been exploited by open pit mining. The International kimberlite pipe is a subvertical oval ore body with proven reserves to 1,220m. The deposit is located in a massive permafrost zone.

Udachny Integrated Mining and Processing Complex (Udachny GOK). The Udachnaya kimberlite pipe is located in the northwest of Yakutia about 12km from the Polar Circle in the permafrost zone. The diamond ore deposit consists of two vertically dipping conjugated orebodies of oval shape diverging from each other at a depth of 300m. The geological setting of the Udachny pipe and the severe climatic conditions create uniquely complex conditions for open-pit mining operations.

Aikhal Integrated Mining and Processing Complex (Aikhal GOK). Operates three open pit mines, the Sytykan diamond pipe have been proven down to a depth of 350m, the Aikhal pipe and the Jubilee diamond deposit which comprises three orebodies.

Anabar Integrated Mining and Processing Complex (Anabar GOK) is Alrosa's northernmost production facility. The construction took almost a decade due to severe climatic conditions. The new diamond production facility started its operations in 1997.

Alrosa also has an interest, as the operator, in the Catoca Mine in Angola.

Rio Tinto

Rio Tinto is a UK-based multinational mining company with over 36,000 employees in 6 continents. It produced a wide range of minerals and mineral products from borax to iron. In 2002 Rio Tinto Diamonds (RTD) was established as its diamond subsidiary based in Antwerp with an office in Mumbai, the world's largest cutting centre. With the exception of its pink Argyle diamonds it does not undertake downstream processing. RTD produces about 25% of the world's diamonds, largely a reflection of the industrial output from its Argyle mine in Western Australia. In 2005, Rio Tinto had earnings of US$4,900m with diamonds providing US$281m. RTD has two other diamond mines, Diavik in Northern Territory, Canada and Murowa in Zimbabwe.

Argyle - commercial production commenced in 1983 and over 670 million carats of diamonds have been produced, with a peak production of 42.8Mct in 1994 and 30Mct in 2005 (reflecting declining grade and narrowing profile of the pipe). The Argyle production consists of 5% gem and 70% near gem with the remainder being industrial quality. The entire gem and near gem diamonds are polished and account for more than 95% of the sales value. Block caving will be used to access the underground operations from 2008 to 2018 at around 50% of current capacity.

Diavik - located in the Lac de Gras area in Canada's Northwest Territories. Rio Tinto has a 60% interest with the balance held by Aber Diamond Corporation (formerly Aber Resources Ltd) a publicly listed company based in Toronto, Canada. In 2005 Diavik produced 8.3 million carats at a grade of 3.2ct/t and has a life of around 20years. The Diavik Diamond Mine consists of three diamond bearing kimberlite pipes that will be mined using open pit and underground mining methods, requiring unique technology to allow mining of deposits, formerly under a large lake. Its ore bodies, whilst small, have some of the highest in situ values per tonne of any diamond mine in the world.

Murowa - Located in South Central Zimbabwe, owned by Rio Tinto plc (78%) and RioZim (22%) a Zimbabwe listed company. Three kimberlite pipes comprise a mining resource of 26.3 million tonnes at value of around $US65/ct.

Ashton Mining Canada – Rio Tinto also owns 51%. This company is developing its Foxtrot property in northern Quebec where it has discovered a number of diamondiferous kimberlite pipes. Subject to resource definition production is slated for 2009.

BHP – Billiton

BHP- Billiton is the world's largest mining company and a significant producer of most leading mined commodities. The cornerstone of diamond business is the 80% owned Ekati Diamond Mine, with the founders, Chuck Fipke and Dr Stewart Blusson owning 10% each. Ekati is located near Lac de Gras in the Canada's Northwest Territories and produces approximately four million carats of rough diamonds annually.

To date 150 kimberlites have been discovered on the claim block. The current mine plan envisages mining a number of kimberlite pipes (Panda, Misery, Koala, Koala North, Fox, Beartooth, Sable and Pigeon) using both open pit and underground methods.

BHP Billiton is committed to diamond exploration but only targeting tier one kimberlite targets in Angola, DRC and Botswana. It is involved in some 20 jv exploration projects with juniors, including Petra (Angola) and European Diamonds (Lesotho).

Junior companies and exploration

The growth in demand for diamonds is reflected in a large number of junior companies entering the diamond industry, primarily as explorers. There are a few medium sized also several relatively small producing companies together with many artisanal operations in alluvial deposits worldwide which together account for a reasonably significant diamond output. Exploration companies perform a crucial input into the industry as individually and through joint ventures they are collectively positioned to account for the majority of new discoveries. As confirmed by the MEG annual exploration survey the 2005 data indicates that exploration juniors accounted for 50% of the US$5.1 billion expended in the mining sector. In diamond exploration this percentage is higher as there are fewer major companies in the diamond sector. Recent major finds e.g. Argyle, Diavik were made by juniors. The juniors are generally cost effective as they are driven by small budgets and they are often led by seasoned and experience explorers who have emerged from the major companies. It is important to note that the majors selected junior partners due to confidence in management and the prospectivity of the exploration portfolio. Although, individually, the budgets may be small compared with the balance sheet of the senior partner, the system provides stability to the selected junior as it does not have to rely on repeated equity raisings – often in challenging stock market conditions.

Although all major Archaean cratons have been subject to diamond exploration, many of these geological units have had little modern exploration, partly due to the control that De Beers had on the industry. The distribution of deep cratons with sufficient keels to reach the diamond stability field will determine potential new diamond finds. New technology like Falcon airborne gravimetrics is revealing new hard rock resources, as has recently been seen in Angola and the Congo. On a regional basis it can be expected that new resources will be defined in Southern Africa, SE Asia, Australia, India, Brazil, and European Russia. Further expansion should also occur in Canada, now the world's 3rd largest producer after only 15 years in the sector. Other possible resources range from Madagascar to Greenland.
A junior diamond sector has developed on the AIM, Australian and Toronto exchanges. These host producers, developers and explorers.

Market for Diamonds

Towards the end of the past century marketing of diamonds in the free world was controlled by De Beers who had a near monopoly on rough stones. With the advent of production from the Argyle mine, one of the first not to sell directly to De Beers Central Selling Organisation (CSO), the market began to open and became truly global. By 2001 De Beers dismantled the near-monopoly position and entered a truly competitive global market. New cutting centres were established, particularly in Israel and India. Mumbai is now the home to the world's largest diamond cutting industry supplying jewellers around the world. The annual gem diamond retail market now stands at around US$42 billion (source: USGS Mineral Publication Gemstones 2006) from a mined supply valued at US$13 billion representing 101 million carats. The market had been growing at around 5% pa until the 1990's when a series of recessions around the globe suppressed demand. In the current century demand initially rose dramatically and has recently settled to a 6% growth rate.

Development of the market

There are three stages in the diamond market, a much shorter supply chain to market than of many other mined commodities. Mines sell their rough stones to the cutting centres where they are prepared for use in the jewellery manufacturing and retail trade. At each stage of the process there is an exponential rise in the value of the stones.

The historical development of the diamond market can be traced to the development of the South African diamond mines in the 1870's, located around Kimberley. Prior to that time diamonds were recovered in alluvial deposits in India and Brazil that represented a very small market to wealthy aristocrats. The diamond kimberlite discoveries in South Africa offered a large supply that threatened to devalue the extant diamond trade. Thus marketing as well as mining became paramount. The industry was consolidated by the creation, in 1888, of De Beers Consolidated Mines (i.e. the combined holdings of many claims around Kimberley). By the 1930's the price of diamonds was under threat again by the world-wide depression that was particularly deep in the United States. As the recession lifted, the American market was the major target of De Beers who saw a need to develop a marketing strategy that would encourage interest in higher quality and more expensive diamonds. The marketing phase 'A Diamond is Forever' was a result of an advertising campaign aided and assisted by Gerold Lauck, chairman of a leading advertising agency. Campaigns including description of the diamonds worn by Hollywood stars followed. The idea 'forever' implied that the diamonds were never be sold by the recipient, a feature that would assist new sales and stifle a second-hand market.

In the 1960s a new threat to the price of diamonds came from the Soviet Union where mines in Siberia were coming into production and given the need for hard currency by the government, there was a concerted effort to bring these stones to the international market. De Beers, following tradition, accepted these generally smaller stones and created a new market for them in Japan where previously there had been none. 'Beauty in miniature' was the advertising concept.

By 1999 De Beers/CSO diamond sales reached a record high of US$5.24 billion which was claimed this represented 60-70% of the global diamond market. However, the previous challenges, the stockpiling by Israeli cutters and perhaps output from the Argyle mine in Australia, all conspired to threaten the former De Beers monopoly. The original basis, built on control of supply from South Africa no longer applied. Following delisting in June 2001 De Beers announced its intention to forego its role as custodian of the world's diamond market, itself supported by controlling the supply of rough diamonds to by maintaining a very large 'buffer' stockpile. The new policy was to become a 'supplier of choice' directly to the retail market. To this end De Beers established a joint venture with the luxury goods chain Louis Vuitton Moët Chandon. This move also found favour with the European Union which had been unhappy about the restricted sales methods. This in effect meant that the De Beers trading and marketing arm would have to compete in a more global market.

Selling diamonds

The selling of diamonds evolved through a system developed by De Beers who controlled the market through its Central Selling Organisation. This acted as a virtual monopoly by purchasing diamonds from all producers and offered 'packets of diamonds' at 'sightings' to invited purchasers. These packets contained a mixture of stones predetermined by the CSO and priced accordingly. The buyer could accept or reject the packet but would not necessarily get a second invitation or may lose preferred customer status. The method brought stability to the market, controlled prices and the guaranteed sale of all stones. New producers in Australia, Russia and Canada then marketed stones that were not channelled through the CSO. Accordingly, De Beers closed the CSO and merged sales and marketing functions into the "Diamond Trading Company" (DTC) which sorts and values diamonds into more than 14,000 different categories and prepares them for sale to its 93 sightholders (clients) who are "world leading diamantaires" and carefully chosen for their diamond and marketing expertise. The DTC also funds marketing and in a recent joint venture with LVMH has taken the De Beers name to the High Street with De Beers jewellery stores in the US, Japan, UK, France and Dubai.

Other mining companies have adopted similar strategies. In 1994, Rio Tinto established the Indo Argyle Diamond Council, an organisation whose goal is to support the sale of Indian diamond jewellery into the United States markets. The Council has undertaken market research, promotions and sales campaigns to promote the sale diamonds with an Argyle profile. This venture has made diamonds more affordable in the United States and has also helped the development of the Indian jewellery industry. Rio Tinto has also supported the Canadian Government's voluntary code of conduct to ensure the issue-free origin and the high social and environmental standards associated with Canadian diamonds are retained. Canada's Federal Government Competition Bureau has ruled that only diamonds mined in Canada can be called Canadian.

Diamond Bourses

In addition to companies integrating their production into downstream industries, the majority of mined diamonds find their way to the major trading organisations, the diamond bourses. There are 25 bourses around the world. Each has its own rules and regulations, and strict adherence is enforced through committee, with expulsion for transgressors. They belong to an umbrella organisation, the World Federation of Diamond Bourses (www.worldfed.com) that has recently developed the WFDB Mark. It is a trademarked logo, by which approved members are able to display to clients and suppliers to confirm that they abide by the World Federation Code of Principles.

Pipeline integrity and 'conflict' diamonds

The high value of diamonds per unit weight makes them an easily transportable commodity. In fact apart from their intrinsic beauty, they have historically been used as a form of international currency. Diamonds from kimberlites and alluvial sources are identical in their chemistry and therefore once divorced from the mined source and cut and polished there is no way of ascertaining their origin. A proportion of the artisinal alluvial diamonds that originate in Africa and may come from areas where there has been armed conflict and been used to fund civil wars and strife. This negative press has also affected the legitimate industry and the major producers have developed marketing strategies that distinguish their stones from non-accredited resources (including smuggled stones).

In 2002, an international rough diamond certification system called the Kimberley Process Certification Scheme (KPCS) was introduced to address the problem of conflict diamonds. The KPCS was agreed upon by UN member nations, the diamond industry and involved non-governmental organisations.

The KPCS includes the use of forgery-resistant certificates and tamper-proof containers for shipments of rough diamonds:

- to provide credible assurance that conflict diamonds do not enter the legitimate diamond market
- a certification process for all exports of rough diamonds
- credible monitoring and oversight of the international certification scheme for rough diamonds
- self-regulation by the diamond industry and the sharing of information with all other participants on relevant rules, procedures and legislation on shipments of rough diamonds.

Canada acted as the chair and secretariat of the KPCS for the first 2 years, and then Russia assumed these duties. The Kimberley Process comprises 43 participants and these participants account for approximately 99.8% of the global production of rough diamonds. Some 45 countries with diamond mining activities have signed the accord. Discussions about the possible participation of several other countries are ongoing.

Hallmark Diamonds

In addition to the Kimberley process that certifies the chain of production, De Beers and others are using certificated production as a way of marketing their stones direct to the retail customer. De Beers have developed a process to 'hallmark' the surface of a retail diamond with an etching that confirms its provenance. Rio Tinto began its Select Diamantaire programme in 2006 that provides selected retailers evidence of origin as from named mines to be used in their marketing campaigns. The 'Canada Mark' allows for Canadian-produced diamonds to be identified in retail outlets. As these stones gain recognition from retailers and command a premium, other producers and processors will follow suit.

Pricing of diamonds

Although the 101 million gem-stone carats produced by the global industry are quoted as having a value of US$13 billion, the value of individual stones vary widely according to the '4C's. However according to Chaim Even-Zohar, a leading Israeli diamond consultant, based in De Beers data, high quality diamonds of 2 carats or greater account by weight for 7% of global production and 46% of global production value at circa US$5 billion. No other mine commodity caries these premiums.

Market Direction

The in past two decades the industry has transformed to be a truly global market. Recognition of this fact and previous success has directed De Beers to concentrate on the marketing of stones. This has been emulated by other producers and to a lesser extent by trade associations. This appears to be the way forward for large-scale producers who have the financial ability to develop their own marketing infrastructure. For smaller producers the diamond bourses and their trade marks will have to suffice. Large companies and countries such as Canada are differentiating their products as conflict-free by the use of certificates of origin. This will put pressure on smaller producers to offer transparent audit trails.

Synthetic Diamonds

Some 90% of industrial diamonds are synthetic. They are made by subjecting pure graphite to high temperatures and pressures in the presence of a metal catalyst, usually nickel. At 7 gigapascals pressure and 1,700^{0}C small diamonds are nucleated in the graphite-nickel mixture. They are recovered by dissolving the matrix in acid. The United States is the world's leading market for industrial diamond and is a significant producer and exporter. A number of US companies are producing diamond gemstones using a variety of techniques.

Supply and Demand

Supply

The supply of diamonds has increased over the years and now stands at 101 Mct of gemstones and around 74 Mct of natural industrial diamonds (Source USGS), a grand total of 175 Mct for 2005, and increase of 75% over 1990. Demand is forecast to grow by 6% annually.

Table 4: Mine production gem diamonds (000 Cts)

Country	2004	2005
Botswana	23,300	23,000
Russia	21,400	21,400
Australia	9,280	20,600
Canada	12,600	11,700
Angola	5,400	6,300
Congo (Kinshasa)	6,000	6,000
South Africa	5,780	6,000
Namibia	2,000	2,100
Ghana	800	640
Guinea	468	550
Brazil	500	500
Guyana	450	450
Tanzania	305	370
Sierra Leone	309	360
Central African Republic	250	300
Other Countries	300	300
China	250	250
World total (rounded)	89,400	101,000

Source: USGS

Table 5: Mine production all rough diamonds (000 Cts)

Country	1990
Zaire	24,000
Botswana	17,300
Russia (CIS)	15,000
South Africa	8,500
Namibia	800
South Africa	1,700
Ghana	200
CAR	500
Sierra Leone	700
Liberia	300
Angola	1300
Guinea	100
Australia	36,000
Other countries	300
World total	106,700

Source: Mining Journal Annual Review

The world reserves of gem diamonds reported by the USGS are stated to be 'substantial'. Although major mines have reserve data, values for alluvial deposits are very difficult to estimate. In the past there has never been a shortage of diamonds although current growth rates and opening of markets in Asia may stretch capacity. Mine supply of diamonds will increase with new projects under development and many more in exploration. Exploration has finally recovered following a depressed period in the late 1990's and early 2000's.

Demand

Consumer demand

In the past 25 years the main driver of the retail diamond market has been the United States which now accounts for 35% by value of cut stones and 50% of diamond jewellery of the world market. De Beers (2005 annual report) estimated the global retail market is worth US$50 billion.

Table 6: World retail diamond jewellery sales 2005

Region	% Market	Value US$ billion
Americas	56	28.0
Europe	14	7.0
Japan	16	8.0
Asia Pacific	7	3.5
Asia Arabia	7	3.5
	100	**50.0**

Source: De Beers Annual Report 2005

During 2005 the US market was volatile with overall sales increasing 2.5% over the year, a much smaller increase than the 7.2% noted for the total retail sector. Sales of high-end diamonds and jewellery grew the most, with mass-market jewellery reporting only modest sales growth.

In Japan its economic output has increased year-on-year by 2% from 2002 and the OECD reports increased consumer confidence due lower unemployment rates.

The enlarged EU has reported stronger growth and has benefited from the increasing value of the Euro against the US dollar, negating some of the effects of increased commodity prices, especially oil.

Increasing uncertainty in the Middle East producing region will sustain oil prices in the short to medium term and will dampen consumer demand as energy prices remain high.

In 2005 Hong Kong reported an increase of 34% in polished stones (to US$7.3 billion) and a 21% increase in rough to 23.4Mct. Over the past ten years Hong Kong has posted a 9% annual increase in imports by value in response to demand from the Asia Pacific area and in particular from China.

The rapid economic growth in China has propelled China in sixth place in the world economies and industry analysts are predicting the annual growth for diamond jewellery at 15%-20% (Source: Rio Tinto Diamonds Annual Review 2006).

Demand in India is also increasing.

Although demand for diamonds in the long-term is expected to rise around 5% per year, the current market conditions are expected to tighten in the short term. De Beers reported: 'While demand for diamond jewellery in the consumer markets has remained robust, with estimated growth of three to four percent on the record levels of 2005, more difficult trading conditions exist in the market for rough diamonds. This results from the impact, on rough diamond demand, of higher interest rates, higher gold and platinum prices in the retail jewellery product, reduced margins across the distribution pipeline and the increasing need to manage polished inventory levels. In this environment, The Diamond Trading Company (DTC) achieved sales in H1 2006 of US$3.25 billion, marginally above the same period in 2005. In line with revenues, EBITDA is up 2% to US$748 million, while net earnings, before the class action payment and the surplus on sale of a 26% interest in De Beers Consolidated Mines (DBCM), are down 1%, reflecting tighter margins and increased exploration spending. Cash flow from operating activities increased from US$158 million to US$353 million. Adjusting for the impact of currency and interest rate hedging transactions, underlying earnings at US$308 million are down 14%'.

Demand in the Cutting Centres

India and Israel account for 70% of the global supply polished stones, Antwerp, formerly one of the larger cutting centres, now only manufactures a small amount but remains the premier trading centre for the industry accounting for 50% of global trade.

Table 7: Percentage increase on sales in the diamond pipeline 2004 - 2005

Centre/ Region	Cutting Centres Rough Imports	Cutting Centres Polished Exports	Consumer Market Polished Imports	Consumer Market Jewellery Sales
Israel	3 %	6 %		
India	23 %	10 %		
USA			11 %	
Japan			2 %	
Hong Kong			34 %	
World				**7 %**

Source: Rio Tinto Diamonds Annual Report 2005

India

Over the past twenty years imports of rough diamonds into Indian cutting centres have risen 5-fold to 250 millions carats with a value of around US$9 billion. This was an increase of 23% over the previous year by value, a large proportion due to the fall in the value of the US dollar which drove average carat prices to US$49. Polished exports rose by 10% with an average per carat value of US$296/ct reflecting higher value stones. As Indian companies move into offering larger finished stones and diamond jewellery, based on cheap and skilled labour, its paramount position in the diamond manufacturing industry is assured and growth rates are likely to remain high.

Israel

Like Antwerp an increasing percentage of Israel's rough stones are being exported to India to take advantage of cheaper cutting costs. However, Israelis have been investing heavily in new technologies to reduce manufacturing costs and in 2005 were active in acquiring rough diamonds to grow their businesses. This resulted in a 6% increase in polished output over 2004 levels by value although 3% by weight. The average exported price was US$1472/ct from imports of roughs averaging US$275/ct.

China

After India, China represents the second largest employment centres in the cutting industry with factories in the southern provinces near Hong Kong and Shanghai. It is estimated that 25,000 people are employed.

Debt

The diamond manufacturing industry, like many others, requires raw materials (rough) expertise, equipment and markets. They do not all run in chronological harmony and often cutter have to pay for stones before they can be sold. Additionally, consolidation and investment for jewellery manufactured has added to costs. As a result debt in the manufacturing industry has been rising steadily and is now estimated at US$11 billion.

Summary

The diamond industry is growing at a faster rate than many other mining sectors and together with high returns on successful exploration account for the exceptional interest in the industry. The application of modest growth rates indicates that within the next decade demand will increase substantially and beyond what is planned in projects underway in established companies. The past supply/demand has always been in balance, that is, there has never been a real shortage of stones. With demand growing in the most populous countries of India and China this may change in the future. However, what is undeniable is that the strong marketing by the industry has created an increase in demand for gem diamonds.

The Diamond Sector on AIM

Diamond Companies

While the diamond mining sector is dominated by conglomerates; Anglo American plc (through De Beers) and Alrosa (Russia), and, to a lesser extent, BHP-Billiton and Rio Tinto, there has been a proliferation of emerging companies in the sector, some of which represent exploration on behalf of the majors. The London AIM market currently contains some 23 companies with a primary interest in diamonds and there are more participants in the pipeline. Activities range from production to grass roots exploration and therefore offer the full spectrum of investment opportunities in this high risk/high reward area of the mining sector.

Diamond Sources

The high risk element is primarily a reflection of the geology which hosts the product. Conditions have to be precise to leave a legacy of a commercial resource. Modern exploration techniques have made it easier to locate the primary host rocks, kimberlites and lamproites, but few of these contain diamonds and very few contain commercial quantities. Secondary sources, which are the result of erosion of the primary deposits, transported and deposited in river and marine terraces, are notoriously difficult to assess as diamond distribution can be inconsistent.

Demand / Supply

Demand growth, particularly from developing countries and lower supply growth has led to rising diamond prices and less pressure on De Beers to stabilise and control the market. Annual diamond production of some 175 million carats, valued at over US$13 billion but only half is classed as gemstones which have a broad quality range. Unlike other mined products the key is value of the individual stones rather than just volume and grade. Average values can typically range from US$10 to over US$500 per carat and with the prices of bigger stones can rise exponentially. The high reward element is evident from the few real successes and there has not been a major discovery for many years. There are only about 15 operations can be called 'world class' which have been hugely profitable. These are located in Angola (which produces 9% of global supply by value), Australia (4%), Botswana (23%), Canada (11%), DR Congo (18%), Russia (19%) and South Africa (12%).

Intermediate / Junior Diamond Equities

There are several smaller primary operations and secondary projects of varying size which can be rewarding investments. In addition there are a number of companies exploring and developing diamond projects. Areas of activity include Angola, Australia, Botswana, Brazil, Canada, Finland, Gabon, Guinea, India, Indonesia, Lesotho, Liberia, Namibia, Russia, Sierra Leone, South Africa, and Tanzania. The listed companies are mostly found on the Toronto venture exchange (TSXV), Australian Stock Exchange (ASX) and London (AIM). In this document we have reviewed the 23 AIM listed companies (nine of which are dual listed).

AIM listed diamond companies - Summaries

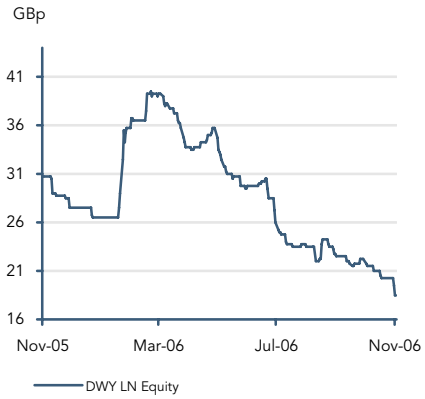
Producers

Exhibit 6: BMB absolute share price

Source: Bloomberg

BDI Mining Corp (AIM-BMG, market cap: £20m) has high value alluvial diamond production in Indonesia since 2005 (with a 100,000ctpa target) and the remote +1Moz gold resource at Woodlark Island, Papua New Guinea. BDI would appear attractive but the share price has halved in the last 12-months. Diamond production appears to have been erratic in grade and value – not helped by inconsistent ways of reporting results. *Looks cheap on either gold and diamond resources but needs to convince the market that the assets will perform.*

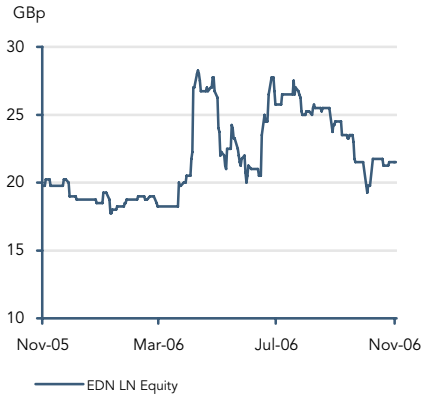
Exhibit 7: DWY absolute share price



Source: Bloomberg

Dwyka Diamonds Ltd (AIM & ASX-DWY, market cap: A$45m = £17m) tailings re-treatment De Beers joint venture (jv) started in Jun'06. Also in South Africa it has three small mines, a contracted-out tailings project and a newly discovered kimberlite. It has experienced management and institutional shareholders but is trading at its low range and, as yet, there is no prime project. The stock primarily trades in Australia. Maybe too many projects but diversified and increasing production. *Should be worth following.*

Exhibit 8: EDN absolute share price



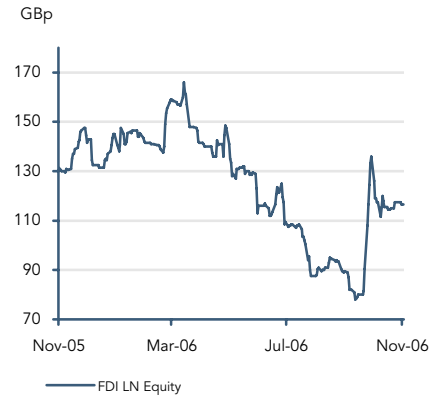
Source: Bloomberg

Elkedra Diamonds NL (AIM & ASX-EDN, market cap: A$48m = £19m) has a large tenement area in Brazil and has at last got the 30,000ctpa @ 2.5cpht Chapada alluvial diamond project underway, with values currently at US$344/ct. It also has diversified exploration interests in Australia. Experienced management. The stock primarily trades in Australia. *It looks interesting but in spite of other interests it is basically a single project company.*

Exhibit 9: EPD absolute share price

Source: Bloomberg

Exhibit 10: FDI absolute share price



Source: Bloomberg

Exhibit 11: KDC absolute share price

Source: Bloomberg

European Diamonds Plc (AIM-EPD, market cap: £8.7m) started life in 2000 as an explorer in Finland where it still has hopes of success. The Company is now focused on developing kimberlite pipes in Lesotho, one started in 2005 targeting 290,000ctpa, the second 500,000ctpa. However, it is a difficult operating environment and at rather disappointing grade and values. Operations appear marginal at current rates. *Not attractive unless the main pipe really performs and Finland surprises.*

Firestone Diamonds Plc (AIM-FDI, market cap: £64m) started in South Africa (1998) with the Avontuur alluvial project. Initial results from the Groen river alluvial project were disappointing and the market reacted accordingly. However, the Buffels River jv with De Beers is generating revenues and kimberlite exploration in Botswana looks promising. Firestone has a strong balance sheet and institutional shareholder base and now has the exciting Tsabong exploration project to add to Buffels production. *The share has rallied but it is still attractive on the potential of Buffels/Tsabong.*

Kimberley Diamond Co. NL (AIM-KDC; ASX-KIM, market cap: A$348m = £150m) a success story after an uninspiring start in the early 1990's but the share suffered following a surge on takeover rumours and then reflecting failure to meet expansion targets and long shut down periods. Producing at the Ellendale lamproite field (Western Australia) since 2002 with a resource of 80Mt @ 6.4cpht, output 200,000ctpa @ US$250/ct, with a +600,000ct pa expansion target. *Looks attractive even though it appears unloved in Australia.*

Exhibit 12: NBR absolute share price

Source: Bloomberg

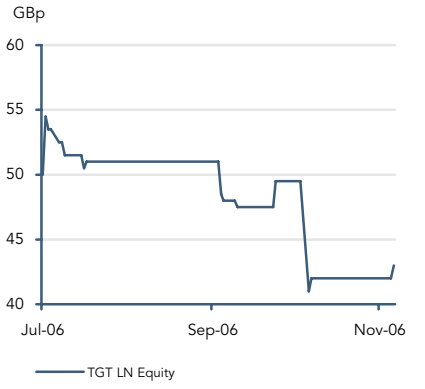
Namibian Resources Plc (AIM-NBR, market cap: £10m) has taken over operating the Panoma 29 onshore concession in the Luderitz District of Namibia, joining the existing NAMDEB (De Beers/State) jv. After some teething troubles, production is within the 7,500 - 15,000ctpa target range at US$100/ct but *hardly a world beater*.

Exhibit 13: PDL absolute share price

Source: Bloomberg

Petra Diamonds Plc (AIM & ASX-PDL, market cap: £200m) with the price trading at new highs, market performance speaks for itself. Petra targets to lift production from its three South African kimberlite mines from 175,000ctpa to 300,000ctpa, valued at over US$130/ct by 2009. A diversified exploration portfolio includes a highly prospective jv in Angola funded by BHP-Billiton, an active campaign in Botswana and production start-up in Sierra Leone. The medium term total production target is 500,000ctpa. The stock primarily trades in London. *Still looks to be one of the better diamond equity vehicles.*

Exhibit 14: TGT absolute share price

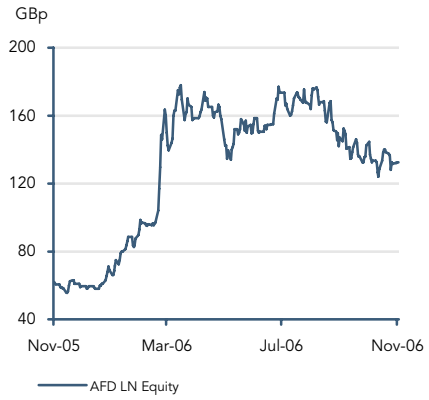


Source: Bloomberg

Target Resources Plc (AIM-TGT, market cap: £37m) has 4,000 acre alluvial leases in Kono district, Sierra Leone through its subsidiary, Milestone. Production from 50tph plant at the 200 acre Sandoh lease is underway at 12,000ctpa @ US$486/ct. Joined AIM in Jul'06, raising £4m to lift output by contracting out mining and processing. Unfortunately, heavy rains have caused severe problems for the contractor. *May be a speculative recovery situation.*

Near production

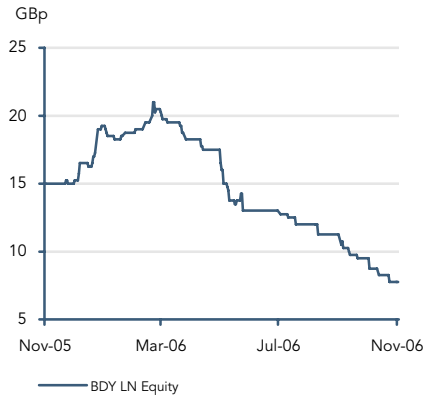
Exhibit 15: AFD absolute share price



Source: Bloomberg

African Diamonds Plc (AIM-AFD, market cap: £98m) has owed much of its success to the dynamic influence of John Teeling who has also attracted institutional investment support. The AK6 kimberlite pipe in jv with De Beers in Botswana is awaiting a pre-feasibility report and likely to provide the Company with a US$25m pa cash flow from 2009. The West African assets are being spun-off. *We like the Company in spite of recent loss of market support.*

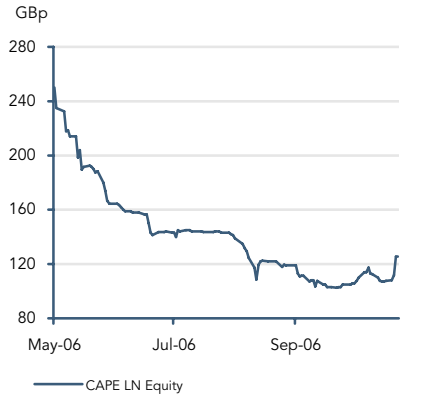
Exhibit 16: BDY absolute share price



Source: Bloomberg

Brazilian Diamonds Ltd (AIM & TSX-BDY, market cap: £11m = C$22m) has good potential from both kimberlite and alluvial projects in Brazil. EPA disputes have delayed the main kimberlite project but the others appear to be moving forward. There is an experienced management team and institutional shareholding but the share price has been weak. Could become a leader in Brazil, which is a good diamond address. *Still only a speculative buy.*

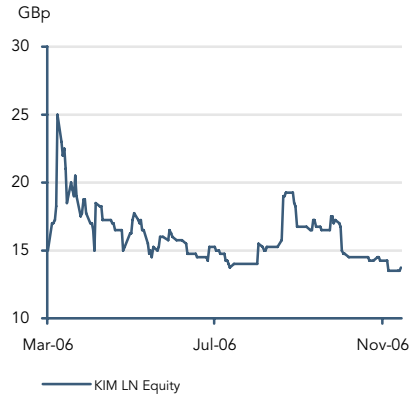
Exhibit 17: CAPE absolute share price



Source: Bloomberg

Cape Diamonds Plc (AIM-CAPE, market cap: £40m) raised £13m in the AIM IPO in May'06, valuing Cape at £82m, which appeared excessive for an ambitious Elandslaagte open pit project in South Africa where there had been intermittent operations since 1896. In spite of impressive institutional support, the market reacted predictably, falling 59% in five months. Estimated resources are 1.25Mct and bulk testing averaged diamond values of US$500/ct. *Still looks fully priced unless the project really kicks in but may remain under a cloud.*

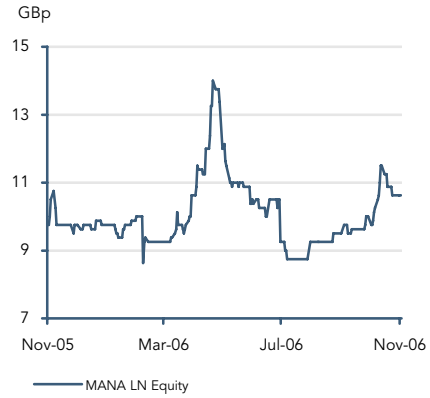
Exhibit 18: KIM absolute share price



Source: Bloomberg

Kimcor Diamonds Plc (AIM-KIM, market cap: £9m) raised £3.3m at AIM IPO in March '06 and after early market interest drifted back to its issue price. Operating in South Africa, KIM is on target to commission the Bellsbank tailings re-treatment project and to recover 50,000ctpa. There are also kimberlite exploration licences. Strong management and Bellsbank could be a good earner but *limited blue sky.*

Exhibit 19: MANA absolute share price



Source: Bloomberg

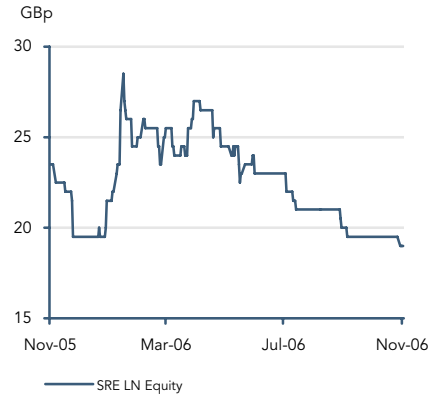
Mano River Resources Inc. (AIM-MANA; TSX-MNO, market cap: C$69m = £31m) is a diversified West African multi-product exploration company. Diamond activities include jvs with Petra in Sierra Leone with a scheduled 100,000ct pa production from kimberlite dykes; BHP-Billiton in Sierra Leone with kimberlite dyke projects; Trans Hex in Liberia; alluvial production scheduled in Guinea. Primarily trades in Canada.
A bit complicated but an area play with a strong board and jv partners.

Exhibit 20: SLD absolute share price

Source: Bloomberg

Sierra Leone Diamond Co (AIM-SLD, market cap: £148m) has licences covering 43,000km^2 in Sierra Leone with 20 prioritised high quality kimberlite targets. A large scale alluvial operation is being commissioned in the Kono area on an estimated 100mt @25cpht deposit with values of US$500/ct - exceptional figures for an alluvial. A substantial iron ore resource may be spun-off. *The share is highly leveraged to success of the alluvial project which looks very promising.*

Exhibit 21: SRE absolute share price

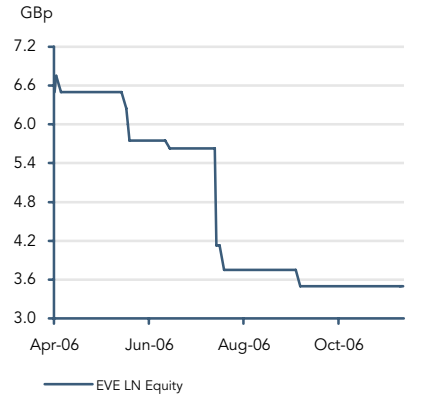


Source: Bloomberg

SouthernEra Diamonds Inc (AIM-SRE; TSX-SDM, market cap: £32m = C$66m) has a broad range of projects in its commitment to get back among the producers after the closure of the mines in South Africa. A jv with BHP on kimberlite projects in the DRC is rated to be the most prospective project. The Camfuca (18% free carried interest) dredge operation in Angola is expected to produce 330,000ctpa valued at US$109/ct from 2007. There are also advanced diversified exploration projects The stock primarily trades in Canada. *Regarded by some as a fading star, SouthernEra has potential to re-establish itself as a significant producer – a speculative buy.*

Explorers

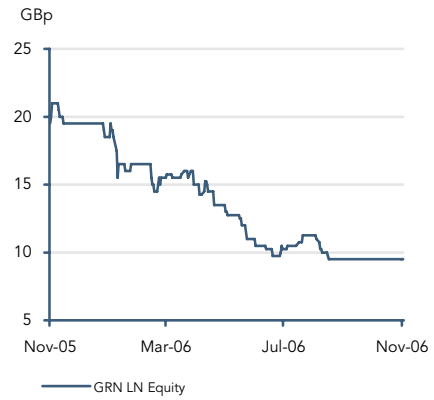
Exhibit 22: EVE absolute share price



Source: Bloomberg

Everfor Diamonds Plc (AIM-EVE, market cap: £3.5m) moved from Ofex to AIM in Apr'06. Classic small cap explorer backed by RAB. The location in the Russian Kola Peninsula is a geologically good address. Await exploration progress. A small Russian area play – *speculative.*

Exhibit 23: GRN absolute share price



Source: Bloomberg

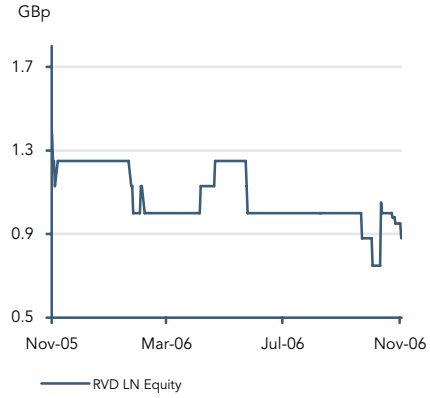
Gravity Diamonds Ltd (AIM & ASX-GRN, market cap: £15m = A$33m) poor market performance but has backing from the Mwana Africa (now proposing a merger) investment group and BHP Billiton plus the key Falcon exploration technology developer running the company. Currently GRN is bulk sampling two projects in Australia and regional sampling in the DRC. *Gravity has all the right ingredients (assets, jv partners, board, investors) but needs to perform.*

Exhibit 24: KDR absolute share price

Source: Bloomberg

Karelian Diamond Resources (AIM-KDR, market cap: £1.6m) is a spin-off from Conroy gold and diamonds. Another diamond play in Finland, it appears to have quality consultants and a close relationship with the Geological Survey. Await exploration progress. *Needs to perform – another speculation on Finland.*

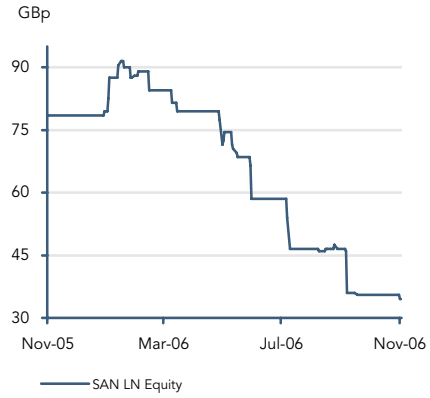
Exhibit 25: RVD absolute share price



Source: Bloomberg

River Diamonds Plc (AIM-RVD, market cap: £4m) has switched from alluvial operations to kimberlite targets in Brazil. It has bought into a kimberlite dyke jv in Sierra Leone whereby it will own 51% through US$1.5m expenditure. Mini bulk samples have produced encouraging results. For now needs success in Sierra Leone while the Brazilian programme develops. *Speculative.*

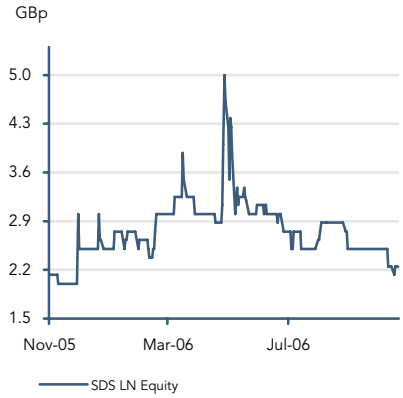
Exhibit 26: SAN absolute share price



Source: Bloomberg

Sanatana Diamonds Inc.(AIM-SAN; TSX-STA, market cap: £12m = C$19m) is in an exploration jv with Rio Tinto in a relatively new diamond target - the Mackenzie kimberlite province, NWT, Canada. Drilling to date has been disappointing. *Difficult to value - massive target area and Rio funding adds spice.*

Exhibit 27: SDS absolute share price



Source: Bloomberg

Sunrise Diamonds Plc (AIM-SDS, market cap: £2.3m) a spin off from Tertiary Minerals and involved with diamond exploration in Finland where it has rights to the BHP Billiton database. It has identified numerous kimberlites. Await exploration progress. *Speculative*.

Exhibit 28: XLD absolute share price

Source: Bloomberg

Xceldiam Ltd (AIM-XLD, market cap: £18m) alluvial and kimberlite targets in Projecto Luangue, Angola in jv with the State and local investors. Airborne magnetic surveys have identified drilling and bulk sampling selected targets. There is a strategic cooperation agreement with Petra (qv) which owns the adjacent Alto Cuilo project. *The market downturn appears overdone and this should be regarded as a speculative buy on exploration potential.*

Table 8: Diamond companies on AIM

Name	Code	Market	MCap	Resource	Deposit Type	Production Status	Target Production	Location
African Diamonds	AFD	AIM	£98m	10Mct@27cpht	Kimberlite	Developing	-	Botswana, Sierra Leone, Guinea
BDI Mining	BMG	AIM	£20m	2Mct@0.15ct/m^3	Alluvial	Producing	100,000ctpa @ US$300/ct	Indonesia, Papua New Guinea
Brazilian Diamonds	BDY	AIM TSX	£11m	-	Kimberlite	Developing	30,000ctpa	Brazil
Cape Diamonds	CAPE	AIM	£40m	1.25Mct@9cpht	Kimberlite	Trial Mining	250,000ctpa @ US$500/ct	South Africa
Dwyka Diamonds	DWY	AIM ASX	£17m	1.8Mct@30cpht	Kimberlite	Producing	160,000ctpa @ US$75/ct	South Africa, Tanzania, India
Elkedra Diamonds	EDN	AIM ASX	£19m	0.28Mct@2cpht	Alluvial	Producing	30,000ctpa @ US$400/ct	Brazil, Australia
European Diamondas	EPD	AIM	£8.7m	13Mct@37cpht	Kimberlite	Producing	300,000ctpa @ US$48/ct	Finland, Lesotho
Everfor Diamonds	EVE	AIM	£3.5m	-	Kimberlite	Exploring	-	Russia
Firestone Diamonds	FDI	AIM	£64m	-	Alluvial	Producing	100,000ctpa	South Africa, Canada, Botswana
Gravity Diamonds	GRN	AIM ASX	£15m	-	Kimberlite	Exploring	-	Australia
Karelian Diamond	KDR	AIM	£1.6m	-	-	Exploring	-	Finland
Kimberley Diamond	KDC KIM	AIM ASX	£150m	5Mct@6.4cpht	Lamproite	Producing	600,000ctpa @ US$250/ct	Australia
Kimcor Diamonds	KIM	AIM	£9m	-	Tailings	Trial Mining	50,000ctpa @ US$100/ct	South Africa
Mano River Resources	MANA MNO	AIM TSX	£31m	94cpht	Kimberlite	Developing	100,000ctpa	Sierra Leone, Liberia, Guinea
Namibian Resources	NBR	AIM	£10m	0.06Mct@2cpht	Onshore, coastal	Producing	8,000ctpa @ US$100/ct	Namibia
Petra Diamonds	PDL	AIM ASX	£200m	2.4Mct@60cpht	Kimberlite	Producing	300,000ctpa @ US$130/ct	South Africa, Sierra Leone, Angola
River Diamonds	RVD	AIM	£4m	-	Kimberlite	Exploring	-	Brazil, Sierra Leone
Sanatana Diamonds	SAN STA	AIM TSX	£12m	-	Kimberlite	Exploring	-	Canada
Sierra Leone Diamonds	SLD	AIM	£148m	25Mct@25cpht	Alluvial	Trial Mining	750,000ctpa @ US$375/ct	Sierra Leone
SouthernEra Diamonds	SRE SDM	AIM TSX	£32m	-	Kimberlite	Developing	60,000ctpa @ US$100/ct	Canada, South Africa, Angola, DR Congo, Gabon, Zimbabwe
Sunrise Diamonds	SDS	AIM	£2.3m	-	Kimberlite	Exploring	-	Finland
Target Resources	TGT	AIM	£37m	-	Alluvial	Producing	400,000ctpa @ US$450/ct	Sierra Leone
Xceldiam	XLD	AIM	£18m	-	Kimberlite	Exploring	-	Angola

Source: Fox-Davies Capital

African Diamonds plc (AFD LN)

www.afdiamonds.com

A diamond exploration and development company with kimberlite projects in Botswana, kimberlite and tailings projects in Sierra Leone together with an alluvial project in Guinea. The main focus is on a 49/51% jv with De Beers, agreed in April 2004, on a 4,500km^2 area in the Orapa province, Botswana.

Advisers

Joint Brokers: Numis/Westwind (previously Panmure Gordon)
Nomads: Numis (previously Rowan Dartington)

Market

Issued capital: 74.3m @ 132p = £98m
12-month range: 183p (Mar'06) - 55p (Nov'05)

Major shareholders

Management 15%, JP Morgan 10%, Firestone 7%, De Beers 6%

Corporate

CEO, John Teeling, who has considerable African business experience; Jim MacGregor;
Alex van Zyl, De Beers veteran; Kevin Dabinett, formerly COO and CEO of Petra is MD of the West African interests which may be spun off. Admitted to AIM in July 2003 and was listed on the Botswana Stock Exchange in early 2004.

Equity

Jul '03 IPO	£0.8m @ 7p
Jun '04	£2.1m @ 36p
Jan '06	£4.5m @ 63p

Major Projects

In Botswana, which hosts four major kimberlite mines with an annual output of 25 million carats, African Diamonds has 11 prospecting licences covering some 4,000km2. Four pipes are currently being explored. The Company has formed a 49%/51% joint venture with De Beers to explore for and develop new diamond mines in Botswana.

The most advanced project is the AK6 pipe in the prolific Orapa cluster, which was first identified by De Beers in 1969. A wide diameter (12") bulk sampling drill programme commenced in 2003 and percussion drilling from 2004 outlined a 9.5ha surface area. Drill testing showed an overall grade of 27cpht. A definitive diamond valuation exercise of the 10,486 stones (689ct) recovered in May 2006 revealed an average of US$150/ct. Recent 23" diameter drill holes showed grades up to 32cpht and included a 13.4ct and a 4.5ct diamond. Preliminary results show a 40Mt resource containing 10Mct to 400m although drilling has been intercepted down to 700m. A pre-feasibility study is expected by end 2006 and it is hoped production will commence in late 2008. When the feasibility study is concluded De Beers will be the operator and the AFD interest will be reduced to 28.4%.

The AK8 pipe has been subjected to wide diameter (12") drilling has recovered 54 stones weighing 6.33ct.

African Diamonds held exploration licences and a mining lease over a tailings project in Sierra Leone and three Exclusive Exploration Licences in Guinea. These assets have been de-merged into a separate company, West African Diamonds plc and it is the intention to seek an AIM listing for this company before year end.

BDI Mining Corp (BMG LN)

www.bdiminingcorp.com

BDI Mining has re-activated the Cempaka alluvial diamond mine in Kalimantan, Indonesia, which has been back in production since 2004 and is developing Woodlark Island, gold project in Papua New Guinea which recently declared a +1Moz resource. A CPR on both these properties by RSG Global was produced in September 2004.

Advisers

JointBrokers: WH Ireland/Hichens Harrison (previously Williams de Broe)
Nomad: Ruegg & Co Ltd

Market

Issued Capital: 98m @ 20p = £20m
12-month range: 36p (Jan'06) - 17p (Sep'06)

Major shareholders

Management 10%, RAB 20%, Ocean Inv. 12%, Tectonic, JP Morgan, Al Salam

Corporate

Lee Spencer CEO, has extensive experience in south east Asia and is credited with the discovery of Cempaka. Chairman David Lenigas, also Chairman of Lonrho Africa and a director of several public and private companies. Martin Horgan, Executive Director was formerly with Barclays Capital, now also with Lonrho Africa. BDI was admitted to AIM in April 2005.

Equity

Dec'01	C$0.5m @ C$0.14	Jul'04	C$1.2m @ C$0.30
Jan'05	C$1.35m@ C$0.45	Apr'05	£5m @ 30p (IPO)
Mar'06	£5m @ 28p		

Major Projects

The Cempaka diamond project is located 45km from Banjarmasin the south of Kalimantan, Indonesia. BDI has an 80% interest for a 2% royalty to Ashton on 80% of diamonds sold. Some US$25m had been expended by previous owners. A diamondiferous gravel horizon hosting two separate channels over a 6km length had been identified. Commissioned late 2004 with grade +0.15ct/m^3, size average 0.36ct, together with a gold and platinum concentrate by-product. Monthly statements up to Jan'06 then quarterly. Q1 '06 reported 7,553ct production and 7,376ct sales for US$2.32m (US$315/ct) revenue, Q2 9,552ct production and 13,437ct for US$2.14m (US$159/ct) revenue and Q3 11, 605ct for US$2.45m (US$221/ct) revenue with a reported 31% drop in cash costs from Q2 at US$163/ct. In Aug'06, the company reported over 50,000ct produced since Mar'05. The Chairman's statement in Sep'06 reported average monthly recoveries of between 3,500 and 4,000 carats. The Northern Danau Seran channel has reserves of 24,500ct (probable) and 42,000ct (indicated), both @ 0.15ct/m^3, while the main Cempaka channel, scheduled for production by Nov'06, has a 43-101 inferred resource of 13.5Mn^3 @ 0.10ct/m^3. Phase 2 has a production target of 100,000ctpa with a project life of over 10 years. On 22nd Sep'06 Cempaka announced the discovery of a 3.02 carat rare blue diamond which will be sold by private tender. The company has increased tenement applications with over 29,000ha of potential diamond bearing paleochannel gravels 3km to the north of the current Cempaka operations. It also has hard rock targets.

The Woodlark Island gold project (100% BDI) consists of two Exploration Licences in the central and south of the island which is located 600km west of Port Morseby in Papua New Guinea. In Apr'06, BDI announced a JORC compliant total resource (uncut) of 10.9Mt @ 2.5g/t (880,000oz) of which 530,000oz is measured and indicated. In Aug'06 the resource was 18Mt @ 1.75g/t (uncut) = 1.02Moz.

Brazilian Diamonds Limited (BDY LN/ BDY CN)

www.braziliandiamonds.com

The company is developing kimberlite and alluvial diamond targets in the state of Minas Gerias, Brazil and has also acquired the De Beers database for the region. It has set up a fully operational diamond separation/analysis laboratory staffed by over 80 people, including 5 full-time geologists. The Canastra 1 project has completed mine feasibility work and other approvals are in place awaiting environmental approval to develop the first kimberlite mine in Brazil. Other projects include the Regis kimberlite and the Santo Antonio do Bonito alluvial joint venture. The Company has also acquired the Chapada Diamantina project in Bahia from De Beers.

Advisors

Brokers: Teather & Greenwood (previously Brown Shipley)
Nomads: Westhouse

Market

Issued Capital: 144m shares (156m fd) @ 7.75p = £11m
12-month range: 21p (Mar'06) – 7.5p (Nov'06)

Major shareholders

De Beers 3%, Hamilton Corp 7%, Artemis 7%

Corporate

Steve Fabian, President, is a mining engineer and a former mining stockbroker. Ken Judge, Chairman is a director of several listed resources companies. Roger Morton is an exploration geologist and a qualified gemologist. The company is listed in Toronto and was admitted to AIM in December 2003.

Equity

Dec'03	Starts trading on AIM
Dec'03	C$4.6m @ C$0.77
Jan'05	£4.7m @ C$0.47
Feb'06	£1.48m @ 17p
Mar'06	£0.74m @ 17p

Major Projects

The Company is awaiting EPA approval prior to trial mining the Canastra 1 kimberlite. This is potentially a 30,000ctpa project but there is an ongoing dispute between the environmental agency and local landowners.

Drill testing the Regis kimberlite pipe has reported micro-diamonds in the first of a series of deep diamond drill tests.

Bulk sampling for the feasibility study is underway for the mining of alluvial diamonds on its properties in the Santo Antonio do Bonito (SAB) river drainage. Three test pits have produced encouraging results including good value stones. It is expected that a production decision will be made by end '06.

Exploration for the bedrock diamond source of the Santo Antonio alluvials is generating drill targets.

The Chapada Diamantina project includes the Salvador 1 kimberlite where plans are underway to contact bulk sampling moving the company's own transportable DMS plant to site.

Cape Diamonds (CAPE LN)

Principal activities are exploring and mining of diamonds in South Africa. The Company was established in Mar'04 and later raised £5.6m to acquire a 74.4% stake in the Elandslaagte kimberlite project, the balance being held by Wheatfields, a BEE shareholder. The project is an existing mining operation from which 30,000ct have been extracted since 1896 with the largest stone reputed to be 400ct. The project has been operating at a small scale since Jul'04 and diamond production has had an average value of over US$500/ct. The object is to increase throughput to deliver a commercial project with a target of 250,000ctpa.

Advisers

Broker: WH Ireland
Nomad: WH Ireland

Market

Issued Capital: 32.8m @ 123p = £40m
Price range since Mar'06 IPO: 255p (May'06) – 97p (Oct'06)

Major Shareholders

Seaton Res. 18%, JP Morgan 10 %, Management 10%

Corporate

Masoud Alikhani, Executive Chairman, has experience at board level with a number of listed companies. Hermanus Silver, CEO, has experience in both open pit and underground mining and led the start up of several mining ventures in South Africa.

Equity

Pre-IPO	£5.6m
May'06 IPO	£13m @ 250p

Major Project

The Elandslaagte assets were purchased for R31m (£3m) in 2004 and the final payment was made in Apr'06. The project has a 20-year renewable mining lease and is located about 75km north of Kimberley, RSA. Since Jul'04, the company has been evaluating an open pit project and recovered 2,000ct averaging US$500/ct. There is a resource of 17Mt @ 7.3cpht = 1.25Mct in two kimberlite pipes to a depth of 220m. This is expected to provide a plant feed of 13.7Mt @ 9.1cpht. The IPO funding was to clean up the balance sheet and bring a substantial open pit mine into commercial production. The initial throughput using a traditional pan system has a target of 150,000tpm and phase 2 is to build to 300,000tpm using dense media separation (DMS) plants by 2008, yielding 250,000ctpa.

The first of three pits to be re-habilitated has been de-watered and mining has commenced to facilitate access to higher grade blocks. A 200,000tpm dense media separation (DMS) plant has been ordered. The AGM statement of 1st November 2006 stated that production is expected to reach 130,000tpm by end-Nov'06. Recovery to date has been 6cpht and over 700ct have been recovered at an estimated value of US$400/ct.

Dwyka Diamonds Limited (DWY LN/ DWY AU)

www.dwykadiamonds.com

In South Africa, Dwyka is involved in a tailings re-treatment project with De Beers, three hard-rock mines, an alluvial project and exploration targets. It is also has interests in a joint venture with De Beers in Tanzania where there are two kimberlite pipe projects and an alliance with BHP Billiton in India, where there is a broad portfolio of prospective tenements.

Advisers

Brokers: Ambrian (formerly Williams de Broe)
Nomads: Ambrian (formerly Williams de Broe)

Market

Issued Capital: 93m
Market: 93m @ 18.5p = £17m.
12-month range: 40p (Mar'06) – 20p (Nov'06)

Major shareholders

Chase Noms. 12%, Fidelity 8%, Mellon Noms 6%

Corporate

Ms M. Sturgess is Chairman. Adrian Griffin, CEO, is an experienced mining company executive. Cedric Bredenkamp, MD, has over 15 years experience in South Africa's diamond industry in Kimberley. Evan Kirby, COO, is a metallurgist and has over 17 years experience in the South African platinum industry.

Equity

The Company was listed on the ASX in Dec'00 and AIM in Dec'02.
Aug'04 £4.3m @ 26p
July'03 £0.7m @ 13.75p
Nov'05 £1.3m @ 30p
Jun'06 £1m 8% Convertible.

Major Projects

The 40% owned (60% BEE) De Beers tailings (DBT) project is re-treating tailings supplied from De Beers' Kimberley mines. This joint venture will be re-structured by year end to a 70/30 split with the BEE partner being paid R2.0m. Dwyka is guaranteed a minimum 50,000tpm and minimum diamond prices and is paid a fixed treatment fee and has a profit share. Diamond production started in Jun'06.

The 100% owned Nooitgedacht alluvial mine, 15km northwest of Kimberley is a low volume operation running at 1cpht and relies on the sporadic discovery of large diamonds. It covers 4,671ha and has a 6km frontage on the Vaal River and was the source of the 511ct Venter diamond, the largest alluvial stone to be found in South Africa.

The Blaauwbosch kimberlite mine (100%), 90km east of Kimberley, has1.7Mt resources @ 44cpht, and a potential fissure and blow resource on the property. Operations ceased in 1967 due to flooding and Dwyka plans to rehabilitate and produce 46,000ct pa. Revenue from limited production will fund this work.

The Newlands kimberlite mine, 60km northwest of Kimberley consist of a blow wit a resource of 2.9Mt @ 29cpht and at least two other blows with economic potential. Production will be maintained while new underground development is mined and is expected to produce 18,600ct pa.

The New Elands Kimberlite mine 90km northeast of Kimberley has resources of 0.6Mt @ 28cpht and will be developed when Newlands and Blaauwbosch are in full production. Diamond sales from Newlands and Blaawbocsh started in Oct'05. The combined production from these operations is expected to be 100,500ct @ US$72/ct. The combined production from the three operations is expected to be 100,500ct @ US$72/ct. During Q3 '06, 247ct @ 0.7cpht were recovered at Nooitgedacht, 885ct @ 4.6cpht at Blaauwbosch and 1006ct @ 12cpht at Newlands.

The Bosele project (70%- 30% BEE), 80km NW of Kimberley hosts some large lamproite anomalies. It also hosts a newly discovered kimberlite pipe.

Supermix Industrial is the largest supplier of building materials in the Northern Cape with annual revenues of R30m.

In Tanzania, Dwyka has acquired two kimberlite pipe projects, Mahene and Itanana, in the Nzega District, from De Beers and is currently bulk sampling with a production target in 2007. Thorntree Minerals has a 20% option over Dwyka's interest. De Beers has an option to acquire 51% of Dwyka Tanzania.

Dwyka has an alliance with BHP to explore for hard rock deposits in India.

Elkedra Diamonds (EDN LN/ EDN AU)

www.elkedra.com.au

Production at the 30,000ctpa Chapada Diamond project in Brazil is underway with the first diamond sales in Aug'06. The Company also has diamond, base metal and uranium exploration projects in Australia. Diamond exploration includes mini bulk sampling stream gravels in the Northern Territory and aerial magnetic surveys on targets in Queensland. The base metal and uranium targets are in the Northern Territory.

Advisors

Brokers: Westhouse
Nomads: Westhouse

Market

Issued Capital: 86.4m (107m fd) @ 21.5p = £19m
12-month range: 29.5p (Apr'06) – 18p (Jan'06)

Major Shareholders

Management 20%, LL Mining Corp. 7%; CSFB 15%

Corporate

Elkedra was incorporated in 2000 and acquired Chapada Diamonds, which has operates an alluvial diamond project in Brazil, in Jun'04. The CEO and Executive Chairman is Don Best, who was previously with Minproc Engineers Pty and worked on major developments with both Rio Tinto and North Ltd. Executive Director, Sam Randazzo was a founder of Chapada. In Aug'04 the Company entered into an offtake agreement with LLD Diamonds Ltd. Chapada was admitted to AIM in Aug'04 and listed on the ASX in Jan'02,

Equity

Jul'04	Consolidated its issued capital on a 1 for 3 basis.
Dec'04	A$5.8m @ A$0.75
May'06	A$5m standby debt facility with LinQ Resources Fund linked to an option issue.
Jun'06	14.44m warrants were converted @ £0.10 (£1.44m)
Sep'06	1.73m @A$0.51

Major Projects

Chapada holds nine exploration tenements which cover some 290km^2 area in central Brazil. There is a probable reserve of 5.4M bcm of diamondiferous gravels @ 0.05ct/bcm within two tenements which cover an area only 17km^2 – 6% of the tenements. This would sustain a 9-year life operation processing annually 600,000 bcm (1.5Mt – 4Mt including overburden), yielding 30,000ctpa grading at over 2cpht. Sales are expected to average US$400/ct. A 20,000m^3 stockpile was established and an operating licence was granted to operate at full capacity.

The project is expected to achieve full capacity (4Mtpa) in Dec'06. The first diamonds were recovered in June06 and diamond sales began in Aug'06 and are announced on a monthly basis. The first three months reported 4,486ct sold averaging US$380/ct, generating revenues of US$1.71m. Ongoing exploration work continues on the other tenements.

Elkedra has diamond, base metal and uranium exploration projects in Australia concentrated in Northern Territory and Queensland. Diamond targets have yet to report any positive results and are low priority. Base metal and uranium targets in the Northern Territory are under review.

European Diamonds PLC (EPD LN)

www.europeandiamondsplc.com

European Diamonds started life in 2000 as a diamond explorer in the Karelian craton in Finland. While this activity continues, the main focus is on developing kimberlite pipe resources in northern Lesotho, Southern Africa. Production commenced in early 2006 and has a target of +500.000ct pa. The diamonds produced are marketed by BHP Billiton.

Advisers

Broker/Nomad: Canaccord, previously Numis, Beeson and W de Broe

Market

Issued Capital: 83m (108m fd) @ 10.5p = £8.7m
12 month range: 33p (Feb'06) - 9.25p (Nov'06), (All-time high Mar'02 - 221p)

Major Shareholders

JP Morgan 10%, DKR 10%, Tony Williams 4%, RAB 3%

Corporate

The company is associated with the Dragon Group (Tony Williams, who is a non-executive director). Buddy Doyle, formerly Exploration Manager with for North American Diamonds with Kennecott (Diavik), is Chairman and CEO, Roy Spencer has some 35 years of experience as an exploration geologist in the mining sector with De Beers and Rio Tinto. Chris Sangster the General Manager is a highly experienced professional mining engineer with particular expertise in mine production, management, technical assessment and evaluation.

Equity

Dec'00 IPO	£3.4m @ 70p	Jun'02	£1.4m @ 190p
Sep'02	£1.8m @210p	Jul'05	£1.0m @ 45p
Oct'05	£1.2m @ 23p	Jan'06	£0.6m @ 20p
Mar'06	£1.33m @ 25p	Jul'06	£3.15m @ 15p

Major Projects

EPD was launched in Dec 2000 on the potential of its interests in Finland. However progress has been slow and it has only recently been bulk sampling the Lahtojoki and Area3 projects for processing through the Geological Survey of Finland's facility at Outokumpu.

Liqhobong project (75%) – Northern Lesotho – 30km south of Johannesburg:

Satellite Pipe: Resource 2Mt @ 0.68ct/t was well behind schedule, at capital cost of US$10m. Production estimates were 290,000ct pa for 3-years o/p 1.5yr u/g, sales @ US$40-50/ct. Total operating costs US$30/ct. Rev @ US$50/ct = US$14.50m. Profit = US$5.8m. First diamond sale Nov '05, 2,722ct @ US$28/ct less +7ct stones, second sale Jun'06, 16,500ct @US$42/ct, third sale Oct'06 18,400ct @ US$49/ct.

Main Pipe. This has an estimated resource, 37mt @ 0.37ct/t with a higher grade zone estimated at 0.68cpt. Bulk sampling started May'06 and some 25,000t from 6 pits across the pipe reported 0.28cpt including four stones in excess of 20ct. A core drilling programme will be undertaken to determine the viability of the pipe. The Company anticipates production of 500,000ct pa over 6 years from 2009.

Everfor Diamonds (EVE LN)

www.everfor.com

Everfor Diamonds was formed in January 2004 with the specific intention of exploring in the Murmansk region of the Kola Peninsula, northwest Russia (abutting Finland/Norway) after a positive technical assessment conducted by the current MD. Four licences have been granted for diamond prospecting in Pulongskaya, Ermakovskaya, Varzugskaya and Tulomo-Teriberskaya.

Advisers

Broker: Canaccord Adams Ltd
Nomad: Canaccord Adams Ltd

Market

Issued Capital: 98.8m @ 3.5p = £3.5m
Range since Mar'06 listing: 7p (Apr'06) – 3p (Jul'06)

Major Shareholders

RAB 22.43%, Forest Nominees Ltd 6.9%

Corporate

The company is led by Donald Duncan who has been working on diamond mining and exploration 22 out of the 25 years working with De Beers Group. The executive chairman, Dr. Sergey Kurzin, has been officer and consultant for several important FSU mining assets. Admitted to AIM in April 2006 after moving from Ofex.

Equity

March '06	12.5m @ 4p = £0.5m (RAB)
April '06 AIM listing	28.26m @ 4p = £1.13m (non-brokered private placements)

Major Projects

The work programme for 2006 – 2007 includes the follow up on over 40 of the 130 targets generated from earlier exploration work. The company will also relinquish areas which have proved to be void of positive samples.

A drilling programme commenced in May'06 and resumed in Sep'06. This focused on the Ermakovskaya, Tulomo-Teriberskaya and Pulongskaya licences. These targets were generated from a combination of sample results and the interpretation of geophysical surveys. Sampling began in Jun'06 and further aerial magnetic surveys commenced in September. By the end of Sep'06 over 900 samples had been taken.

Firestone Diamonds (FDI LN)

www.firestonediamonds.com

Firestone is a UK-based diamond explorer, developer and miner. It operates in Namaqualand, South Africa, where it is mining alluvial diamonds and has advanced and early stage exploration tenements. In Botswana, it has joint ventures with De Beers, close to major mines. The recently acquired licences covering the 5,000km^2 of the Tsabong field, which is close to the Jwaneng mine could be very significant. In Canada it has a kimberlite exploration programme in the Laurentia craton which hosts the Ekati and Diavik mines.

Advisers
Broker: Bell Lawrie (sub. of BD)
Nomad: Brewin Dolphin

Market
Issued Capital: 55m @ 116.5p = £64m
12-month range: 166p (Mar'06) – 73p (Sep'06)

Major Shareholders
Gartmore 9%, Framlington 8%, Artemis 6%, Fidelity 3%, Aurora 13%, Elfin 13%

Corporate
The company has been run by the Kenny family from Ireland. Jim Kenny is Chairman and Philip Kenny is CEO. Hugh Jenner-Clarke, Exploration Director is a renowned diamond explorer. Tim Wilkes, who has extensive experience in the industry and was formerly head of Mineral Resource Management at De Beers, was appointed COO in Dec'05. Firestone was admitted to AIM in August 1998. FDI acquired 6.5% of African Diamonds (qv) in Oct'05 through a share swap and currently has £12m in liquid assets.

Equity
1998	£2.1m @ 114p
Nov'01	£2.3m @ 60p
July'04	£1.4m @ 65p
Nov'05	£10m @ 130p

Major Projects

Firestone has a prospecting licence over 5,000km^2 in the Tsabong area in southwest Botswana. This is a highly productive field with 67 kimberlites of which 17 have already been found to be diamondiferous, including the 180 hectare M1 kimberlite, which is one of the largest diamondiferous kimberlites ini the world. The threshold for economic viability in this area is 20-25 cpht @ average diamond values of US$100/ct, which is not a challenging target.

The Bonte Koe alluvial project in Namaqualand, SA has been combined with the adjacent Buffels River project in a jv with De Beers – production commenced in Jul'06 targeting full production at 100,000ctpa for 6 years from Q1'07. This is expected to give Firestone annual revenue of £5m and profits of £3.2m pa.

A joint venture exploration programme with De Beers on the 4,000km^2 licence in the Orapa area, Botswana has identified a number of new kimberlites which are being evaluated. Additional geophysical surveys over the Firestone ground are expected to identify new targets for drilling in 2007.

A similar joint venture exploration programme with De Beers on the 5,000km^2 licence in the Jwaneng area, Botswana is currently under way. De Beers' new Zeppelin airborne gravity system is flying over the Firestone ground and targets will be drilled in 2007

The Groen River Valley joint venture with De Beers is where previous exploration had recovered high value diamonds and identified 13 deposits. Initial bulk sampling on the HL deposit has been disappointing but the programme is continuing on HL and other deposits, and news is expected on this before the end on 2006.

The Avontuur alluvial project in Namibia was put on hold while operations were combined with the adjacent Trans Hex assets, Honeklip Bay mine and marine concessions. Not much news on this one.

Gravity Diamonds (GRN LN/ GRN AU)

www.gravitydiamonds.com.au

A diamond exploration company acquiring a majority interest in highly prospective exploration ground previously unexplored with modern techniques. Operations are in NT and WA, Australia where it has a jv with Rio Tinto and the DR Congo where it has an alliance with BHP Billiton. In Australia, two projects, Abner NT and Ellendale WA, have discoveries which have been bulk sampled. Projects in the Kasai shield, DRC,are being drill tested.

Advisers

Broker: WH Ireland
Nomad: RFC

Market

Issued Capital: 155m @ 9.5p = £15m
12-month range: 21p (Nov'05) - 9.5p (Aug'06)

Major Shareholders

Mwana Africa 14 % (merger proposal pending0, BHP Billiton Minerals PTY Ltd 10.7%, Diarough NV 7.73% Asia Marketing Ltd 5.77%,

Corporate

The company is led by Phillip Harman who previously manned the development of BHP Billiton's deployment strategy for the FALCON airborne gravity gradiometer technology. Chairman, Bobby Dachin is former Director of global exploration for Anglo American. The executive chairman, Nicholas Limb, is a highly qualified exploration geologist.

Equity

Mar'05 AIM compliance listing
Jan'06 A$5.5m raised in a 1 for 4 rights issue.
Aug'06 A$ 5.02m @ A$0.25 placement with Mwana Africa

Major Projects

The Northern Territory diamond exploration programme covers 21,000km^2 and is a joint venture with Rio Tinto. In 2003/04 seven areas were flown with FALCON^{TM} gravity surveys which were followed up with surface sampling and drilling which led to the discovery of the ABN O21 diamondiferous kimberlite pipe in the Abner Range NT – jv with Red Metal Ltd. The project has now moved on to bulk sampling with the deployment of a large-diameter rig will extract a 200t sample.

The Ellendale project is a 50/50 jv with Blina Diamonds and was also interpreted from FALCON technology in WA. It has discovered the Kimberley 45 lampriorite from which a 200t bulk sample is being tested.

In the DRC, Gravity has an alliance whereby BHP Billiton has the right to buy 60% of any discovery at four times expenditure by Gravity. This covers an area of over 400,000km^2 immediately on trend from the rich diamond provinces in neighbouring Angola. Regional sampling in the Kasai Craton region has generated 9 drill targets in the Luebo project. Mwana Africa plc (AIM) has provided funding for the project through taking an A$5m equity placement in Gravity.

Karelian Diamond Resources (KDR LN)

Spin-off from Conroy Gold and Diamonds. The company is currently conducting diamond exploration on the Finnish side of the Karelian Craton, which has never been fully explored. Research in the area suggests that multiple sources of diamonds may exist in the Kuhmo area. Close working relationship with the Geological Survey of Finland and is therefore able to draw on its expertise, geological knowledge and technical and laboratory services.

Advisers
Broker: City Capital Securities Ltd
Nomad: John East & Partners Ltd

Market
Issued Capital: 44.8m @ 3.6p = £1.6m
12-month range: 9.25p (May'06) – 3.25p (Nov'06)

Major Shareholders
Chairman – Richard Conroy - 64%

Corporate
Dr Bert Gerryts (senior consultant) is an internationally respected diamond geologist who pioneered the use of indicator minerals and geophysics in diamond exploration. The management of KDR have a track record of success in mineral exploration. Admitted to AIM in Sep'05.

Equity
Jan'05 £2m @ 5p

Major Projects

Currently holds 57 claims, including those over a proven diamondiferous kimberlite pipe in Finland, the planned programme includes drilling, sampling and micro diamond analysis. Within the Kuhmo block, KDC has recovered 16 separate indicator mineral anomalies suggesting diamonds exist.

Kimberley Diamond Company NL (KDC LN/ KIM AU)

www.kimberleydiamondco.com.au

Founded in 1993, KIM has made the successful transition from explorer to significant producer. The company acquired the 124km^2 Ellendale project in northern WA and tracked the alluvial deposits to discover lampriote diamond pipes which are now being exploited. Production capacity is to be expanded from 152,000ct in 05/06 to over 600,000ctpa with average values at around US$250/ct, one of the world's highest value per carat of hard rock diamond mines. The yellow stones produced at Ellendale currently attract high premium price levels. Production is halted during the wet season and heavy rains have delayed expansion programmes

Advisers
Broker: Numis
Nomad: RFC

Market
Issued Capital: 374m (393m fd) @ 40p = £150m
12-month range: 49p (Aug'06) – 36p (Sep'06)

Major Shareholders
Merrill 6%, AMP 7%, CBA 5%

Corporate
Executive Chairman, Miles Kennedy, who has been a director of publicly listed companies in Australia and New Zealand since 1983. MD – Karl Simich, Executive Directors – Graeme Hultm and Peter Danchin. The Company was listed on ASX in 1994 and admitted to AIM in Jul'06. Exploration and alluvial interests (1,500km^2 surrounding the Ellendale Mining Lease) were spun off in 51% owned Blina Diamonds (www.blinadiamonds.com.au).

Equity
1994 raised A$5.6m on ASX underwritten by NM Rothschild
Nov'05 A$12.5m placement 10msh @ A$1.25
Nov'05 1 for 12 rights issue A$29m @ A$1.20
Sep'06 A$20m placement 20msh @ A$1.00 plus SPP A$3.3m

Major Projects

The Ellendale Project (100%) was acquired in 2001 for A$23m and started mining in 2002. Some 46 pipes have been identified but only 3 are included in the current resource. Over A$100m has been expended on the project and resources are currently estimated at 80Mt @ 6.4ctpht (5.1 million carats) valued at an estimated US$250/ct. Production to date is close to 400,000ct averaging A$264/ct.

The Ellendale No 9 pipe project (resource 23Mt @ 5.5cpht) capacity is being expanded from 2.2Mtpa to 3.3Mtpa by Nov'06. It will be further expanded to 4.4 Mtpa by Jun'07. It is expected that this will reduce operating costs by up to 20%. The Ellendale No 4 pipe project (41Mt @7cpht – satellite 16Mt @ 7cpht) has been commissioned at a cost of A$51m with throughput in excess of 600tph design capacity (4.4Mtpa).

The expansion programmes, costing A$74m and due to be completed in 2006, target annual diamond production of +600,000 carats. This would establish Kimberley as the western world's 5th largest diamond producer. Current resources 80Mt @ 6.4cpht (5.1Mct) should sustain these production rates to 2016.

The Ellendale exploration programme will incorporate a large diameter drill rig to extract bulk samples from 7 target pipes and initial results are expected shortly and complete results available by Jun'07.

Kimcor Diamonds plc (KIM LN)

www.kimcordiamonds.com

Kimcor was incorporated in Mar'05 to acquire and exploit mining, tailings and exploration assets in the South African diamond sector. It owns 100% of the Bellsbank tailings project (60km north of Kimberley). Work on the 49% owned Van Zoelens kimberlite project has recently been halted as it appears sub-economic. It also has a 50% holding in Anmic (Pty) Ltd, a diamond cutting and polishing business. It has a strategy to look for further near production and advanced exploration acquisitions and in May'06 took an option over the Riviera property, southwest of Bellsbank, which has evidence of kimberlite fissures and acquired Koffiefontein, an advanced exploration project.

Advisers

Broker: Westhouse
Nomad: Westhouse

Market

Issued Capital: 64m (75m fd) @ 14p = £9m
12-month range: 34p (Mar'06) – 12.5p (Nov'06)

Major Shareholders

Management 5%, RAB 9%, Coffee House Group 19%, Churchhouse 14%, Fidelity 7%

Corporate

CEO, Martin Churchouse has been senior geologist with leading South African Mining Houses and has been mine manager on a tailings project in Eastern Europe. Chairman is Professor Gordon Riddler, who has 40 years of experience in the mining sector. Jasper Venter, mine manager is ex-De Beers and has managed design, construction and operation of several diamond projects. Kimcor was admitted to AIM in Mar'06.

Equity

Mar'06 IPO 2.3m shares raising £3.3m @ 15p

Major Projects

The Bellsbank mine has a long history of producing high quality diamonds. The tailings re-processing plant was commissioned on schedule in mid-Sep'06 and is slated to treat 720,000tpa tailings and recover 50,000ctpa. The tailings and additional dump resources are 3.0Mt @ 6.5cpht (250,000ct). Trial processing has achieved grades of 15.8cpht and revenues of over US$100/ct. A parcel of 100ct has been submitted for tender at the Johannesburg Diamond Exchange.

Kimcor has a two-year option over the Riviera property where there are 15 prioritised targets identified by airborne geophysics and following subsequent sample analysis, may move to trenching and drilling work.

Following an MOU in Sep'06, Kimcor has the right to explore the Koffiefontein licence area where emphasis will be placed on the Eureka kimberlite pipe.

Mano River Resources Inc. (MANA LN/MNO CN)

www.manoriver.com

Mano River was founded in 1995 and is a diversified explorer with a current focus on diamond, gold and iron ore deposits in the West African Mano River Union countries of Sierra Leone, Liberia and Guinea. The Company controls 25,000km^2 licences.

Advisers

Broker: Bell Lawrie (Jul'05)
Nomad: Bell Lawrie (Jul'05)

Market

Issued Capital: 293m @ 10.6p = £31m
12-month range: 14p (May'06) – 8.6p (Feb'06)

Major Shareholders

Eastbound Resources Ltd 18%

Corporate

Guy Pas, Chairman/CFO, the Company founder is a director of several mining companies and CEO of a Geneva-based fund management group. Directors include Tom Elder, CEO, who was exploration manager for BP Minerals; Malcolm Burne, Chairman of Golden prospect and Jonathan Challis (ex-Ivanhoe). Merger proposal with Petra terminated in Nov'05. Listed in 1998.

Equity

Dec'03	raised £2.45m @ 5p
Apr'05	raised £4m @ 10p
Jul'06	raised £3.17m @ 8p

Major Projects

Sierra Leone diamond jvs: Petra is earning a 51% interest in the Kono project for US$3m. DMS plant was commissioned in Jun'06. Shaft sinking underway. Production on kimberlite dykes grading 94cpht is scheduled for 2007. Target 100,000ct pa.
Tongo diamond fields previously mined alluvial deposits. A 9,700km^2 Reconnaissance Exclusive Prospecting Licences over which BHP Billiton is earning 51% for US$3.4m. Extensions to four previously sampled (3cpt) kimberlite dykes have been discovered to the east of the Tongo fields. The partners are seeking to apply for licences to cover these and relinquish other ground.

Liberia diamond jvs: Trans Hex is earning 50% for US$2m in the Weasua jv where a 4ha pipe is being bulk sampled. Liberian Government (30%) 15,000km^2 licence. Three kimberlite pipe discoveries.

Guinea diamond jv: Bouro-Mandala is targeting alluvial production in 2006 followed by High grade kimberlite dyke sampling.

Gold interests: Liberia, New Liberty 13.5Mt @ 3.2g/t = 1.4Moz gold mine production in 2008 subject to BFS. Sierra Leone jv with Golden Star. Guinea jv with Navasota Resources.

Namibian Resources (NBR LN)

www.namibianresources.com

Namibian Resources is an alluvial diamond mining company which has joined a joint venture with NAMDEB (Namibian Government /De Beers) to re-equip and increase production on the licence (renewable in 2012) to operate the 120km^2 Pamona 29 concession in Luderitz District onshore coastal Namibia. NBR will be entitled to earn 80% of diamond revenue. The concession has an initial resource of 3.6Mt containing about 63,000ct. The production target is 7,500 to 15,000ct pa and diamond values are expected to be around US$100/ct.

Advisers

Broker: Collins Stewart
Nomad: Collins Stewart

Market

Issued Capital: 38m
Market: 38m @ 25p = £10m
12-month range: 38p (Jan'06) - 21p (Dec'05)

Major Shareholders

Management 18%, NB Nominees 6.8%

Corporate

No technical mining people on the board. The chairman, Lord Allan Sheppard is a member of the Conservative Party and House of Lords. The CEO is Anthony Carlton, a stockbroker with over 40 years experience in portfolio management. NBR was admitted to AIM in Mar'04.

Equity

Mar'04 AIM IPO £2m @ 15p

Major Projects

The Pamona 29 concession operations concentrated on the East Saltztel zone and after some teething troubles, including heavy rains, the lower end of the production target range now appears achievable. Production for the half year to 31st Aug'06 compared to the previous six months were 4,391ct (3,276ct) @ 28cpht (23cpht).

Petra Diamonds plc (PDL LN/ PDL AU)

www.petradiamonds.com

Petra has three mines in South Africa, which produced 175,000ct in '05/06, a production project jv in Sierra Leone, exploration projects in Angola (funded by BHP Billiton) and Botswana. There is a Strategic Cooperation Agreement with Xceldiam (q.v.) on adjoining properties in Angola. Petra has a medium term diamond production target of 500,000ctpa.

Advisers

Broker: Collins Stewart (appointed Apr'06, previously Williams de Broe)
Nomad: Collins Stewart (appointed Apr'06 previously Williams de Broe)

Market

Issued Capital: 148m (170m fd) @ 135p = £200m
12-month range: 135p (Nov'06) - 57p (Nov'05).
Cash: £5m + US$20m facility.

Major Shareholders

Saad Inv 13%, Al Salam/Al Rajhi 6% (11% fd), Kalahari 11%, Credit Suisse 7%, Management 13%

Corporate

Chairman, Adonis Pouroulis, CEO, Johan Dippenaar (from Crown).
Originally listed on AIM in 1997 and re-listed following the merger with Crown Mines in Jun'05. The terms of 1 Petra share for 8 Crown valued Crown at £32m and the enlarged company at £111m post the merger. In Sep'05 Petra acquired Kalahari Diamonds for 16m shares. Kalahari has exploration licences in Botswana. A proposed merger with Mano River Resources, its partner in Sierra Leone, failed to consummate and was terminated in Nov'05. The company reported a loss of US$18.9m after write downs for the year to Jun'06.

Equity

Apr'05	73m in issue
	38m to Crown shareholders
	20m = £17m @ 85p (AIM re-listing IPO)
Sep'05	16m acquisition of Kalahari Diamonds
	1m loan notes converted
Sep'06	US$20m unsecured interest free bond convertible at 130p

Major Projects

Production from the three South African kimberlite fissure mines totalled 175,011ct (of which 19,000ct was from tailings) in the year to Jun'06. Sales were 161,000ct @ US$131/ct including a 67ct and a 76ct stone sold for US$0.70m and US$0.47m respectively. The mines generated an operating cash flow of US$0.68m. Production for the Sep'06 quarter was 35,602ct. The mines have combined resources of over 4Mct @ 60cpht. Expansion programmes schedule over 300,000ctpa by 2009.

The Alto Cuilo project in Angola is funded by jv partner, BHP Billiton – US$22.8m in 05/06; US$20m approved for 06/07. Some 26km of core drilling has been completed and confirmed over 50 kimberlitic occurrences. A large diameter drill rig will be used in conjunction with a portable DMS plant to process mini-bulk samples from priority kimberlite targets with results anticipated by Dec'06. An alluvial testing programme has also commenced.

There is a Strategic Cooperation Agreement with regards to the adjacent property to Alto Duilo, Luangue which is believed to host similar kimberlite geology, and on which Xceldiam Limited (XLD-AIM) has

exploration rights. Petra has the option to purchase a 26% interest for £14m in the subsidiary of XLD which holds 39% of the kimberlites and 40% of the alluvials at the Luangue project.

There is a systematic exploration programme on the former Kalahari Diamonds properties in Botswana. Some 24 kimberlites have been identified in the Kukama area. These are being drill tested for possible economic viability.

The Kono Project (51% - following expenditure of US$3m on the project) in Sierra Leone, is a jv project with Mano River Resources (q.v.). Small scale production commenced in 2006 with encouraging recoveries from mini-bulk sampling and the long term production target is 200,000ctpa.

Petra is in exclusive discussions with De Beers to acquire the Koffietein mine and associated assets in South Africa.

River Diamonds plc (RVD LN)

www.riverdiamonds.co.uk

River Diamonds is a UK based international diamond exploration and mining company with current operations in Brazil and Sierra Leone. Brazil is ranked 10th in the world with an annual diamond production of approximately 700,000 carats. RVD have exploration licences covering 80,000ha in Mato Grosso region. With the move from alluvial to primary hard rock targets in Brazil, attention will probably focus on development of the Sierra Leone assets.

Advisers

Broker: WH Ireland
Nomad: WH Ireland

Market

Issued Capital: 470m (524m fd) @ 0.88p = £4m
12-month range: 1.4p (Nov'05) – 0.75p (Oct'06)

Major Shareholders

Rowan 11%, RAB 9%, Socgen 8%, JP Morgan 7%, Firebird 5%, Mgt 5%

Corporate

Personal crusade by Chairman, Colin Orr-Ewing (Blakeney Management) with the support of Bruce Rowan. James de Jager has recently been appointed exploration manager of operations in Sierra Leone and Kiran Morzaria (Finance Director) appers to control the Brazilian projects. He has over 25 years of exploration experience in Africa including managing the bulk-sampling, drilling and trenching programme at the Klipspringer Mine South Africa. Moved from OFEX to AIM in Aug'05.

Equity

Aug'05 AIM IPO	£1.7m @ 2.5p
Oct'05	£0.2m @ 1.5p
Dec'05	£1.5m @ 1.0p

Major Projects

In Brazil, alluvial operations at Melgueira have been disappointing, now focusing on kimberlite targets with a US$1m budget ($0.3m spent to date). Agreement in Aug'05 with Rio Tinto gives RVD access to an extensive survey and sampling database (for US$150,000). If a kimberlite bulk sample fulfils certain criteria Rio has an option to 60% of the Diamantino and Paranatinga properties by spending US$10 on each and can earn 80% with BFS.

In Sierra Leone, the focus is on near-term development prospects. In Sep'05 RVD entered into a jv on the Panguma Kimberlite Dykes project which was initially explored in the 1960's. In Oct'06, RVD agreed terms to acquire the Panguma project. It has a 3-year EL renewable in 2008. RVD is buying 51% for US$1.5m exploration expenditure and will have the option to purchase the balance for a cash/equity package. Three dykes were identified and mini bulk samples have produced encouraging results. Drilling has commenced, targeting a 100cpht resource.

Sanatana Diamonds Inc (SAN LN/ STA CN)

www.sanatanadiamonds.com

Sanatana Diamonds was incorporated in 2004 as a diamond exploration and development company operating in Canada. It has accumulated a vast area of exploration ground in the Northwest Territories and Nunavat called the Mackenzie Diamond Project. It has formed a joint venture with Rio Tinto which is part funing exploration and will fund feasibility studies.

Advisers

Broker: Insinger
Nomad: Insinger

Market

Issued Capital: 34m @ 35p = £12m
12-month range: 92p (Jan'06) – 35p (Oct'06)

Major Shareholders

Management 20%, Kennecott Exploration Ltd 4%

Corporate

The experienced Sanatana management and technical team have a strong track record of kimberlite discoveries. Glen Laing, President and CEO; Peter Miles, Director; Buddy Doyle VP Exploration. Sanatana was admitted to AIM in Jun'05 and TSX in May'06

Equity

Jul'05 AIM	£2.1m @ 82p
May'06 TSX	C$12m @ C$1.75

Major Project

The Mackenzie Diamond Project consists of 15.8 million acres of exploration ground in Northern Canada. Kennecott (Rio Tinto) has entered into a jv arrangement subscribing C$2.5n to the AIM IPO and has so far paid C$7.5m to earn a 15% interest in the Project. It can earn a 49% in any individual prospect by financing through to feasibility and a further 11% by funding through to a decision to mine. Eight areas with anomalous diamond indicator minerals in the glacial till have been identified by magnetic surveys and sampling. One, Kilekale Lake, has been subjected to a drill programme but without any kimberlite intersections. Sanatana intends to conduct further work on the other drill targets in the next field season.

Sierra Leone Diamond Co. (SLD LN)

www.sierraleonediamond.co.uk

SLDC has been involved in the exploration and development of a mineral portfolio in Sierra Leone since 1996. It has assembled mineral rights covering 43,000km^2 covering a full suite of gemstones and metals and encompasses 4 Mining Licences, 9 Exploration Licences and 13 Prospecting Licences. Exploration expenditure to date has totalled over US$25m, including US$9m on a 35,000km^2 airborne geophysics programme. SLD has identified 140 high quality kimberlitic targets and prioritised 20 as being of high potential. The current development focus is on an alluvial diamond project, which, following extensive geophysical surveys and bulk sampling, the Company estimates to be some 100Mt with an exceptionally high grade of 25cpht and a 2Mtpa plant is being commissioned.

Advisers

Broker: Canaccord
Nomad: Canaccord

Market

Issued Capital: 118m (127m fd) @ 125p = £159m
12-month range: 212p (Jul'06) – 44p (Dec'05)
Cash (Jun'06): £6m

Major Shareholders

Timis Trust 35% (48% fd), Audley European 6%, Capital 5%
Other management 4%

Corporate

Frank Timis, Chairman, was instrumental in re-structuring the company in 2003 with US$20m of personal funds and the Timis Corporation currently holds a 34% stake (48% fd) in SLD. David Gadd-Claxton, CEO, previously COO of Petra Diamonds plc and a mining manager for De Beers Consolidated Mines Ltd. Gibril Bangura has been General Manager of the Company's Sierra Leone since 1996. The company participates in the Kimberley process Certification Scheme (KPSC) that certifies 'non-conflict diamonds'.
Admitted to AIM in Feb'05. The company reported a net loss of US$2.0m for the half year to June 30th '06.
It was reported in Jul'06 that Audley Capital had offered Mr Timis 275p per share for his holding.

Equity

Feb'05	70.1m
Feb'05	26.7m = £18m @ 75p (AIM IPO)
Dec'06	US$11.6m options exercised

Major Projects

SLD commenced a countrywide exploration in 2004 and has employed a combination of historical surveys and bulk samples together with its own aeromagnetic and geochemical surveys, satellite imagery, drilling and bulk sampling. This has resulted in major project potential in alluvial diamonds, diamond kimberlites, gold and iron ore.

Konama alluvial diamond project is a diamondiferous gravel resource within a 160km^2 mining lease contained by the Bafi River historic drainage horizons. The extent was determined by aeromagnetic surveys and surface sampling through drilling and trenching together with a 30,000t bulk sample. Historical records showed grades of around 50cpht. A 100Mt gravel resource has been estimated with an average grade of 25cpht (exceptionally high grade for a bulk alluvial deposit) and a possible unit value of US$500/ct (well above industry average).

A 2Mtpa operation was opened in Jun'06 with a state-of-the-art recovery plant and mining fleet and construction has started on a second, 1Mtpa operation. Based on a stripping ratio of 4:1 this will represent a total mining capacity of 15Mtpa. The pilot programme reported sales of 3,000ct realising an average price of US$375/ct on schedule in Sep'06.

Having completed the first stage reconnaissance exploration programme, a drilling and bulk sampling programme will be undertaken on the highest priority diamondiferous kimberlite targets.

Among the non-diamond assets is the Marampa Iron Ore deposit with a 1.0bnt potential grading around 60% Fe on which RSG Global has been contracted to conduct an exploration programme to deliver a resource definition statement. This may result in a spin-off sale or a joint venture.

SouthernEra Diamonds Inc (SRE LN/ SDM CN)

www.southernera.com

SouthernEra is an independent diversified diamond mine finder and explorer, it has thus far discovered, built and operated two mines. It is actively exploring for Diamonds in Canada, South Africa, Gabon, Zimbabwe and the DRC. The current emphasis is on a joint venture with BHP Billiton on kimberlite projects in DRC, which the Company believes offers the best potential to restore status as a profitable diamond producer.

Advisers

Broker: Canaccord
Nomad: Canaccord

Market

Issued Capital: 165m @ 19p = £32m
12-month range: 28.5p (Jan'06) – 18p (Sep'05)

Major Shareholders

BHP Billiton 12%, Fidelity 15%, Kennecott 13%, Management 5%

Corporate

Chris Jennings, Chairman, has over 40 years experience in geology, mineral exploration and development. His career has involved the discovery of hundreds of kimberlite pipes, a number of which are economic. He has also initiated and supported pioneering research on kimberlite mineral geochemistry and methods for kimberlite exploration which are now used widely. Alasdair MacPhee, President & CEO, has 24 years of operating experience in platinum group metals and diamond operations in Africa including 17 years of continuous service within the De Beers group of companies.

Equity

Jan'05	C$0.59m @ C$0.47	Jul'05	C$3m @ C$0.44
Oct'05	C$9.36m @ C$0.60	Jul'05	C$2m @ C$0.40
Apr'06	C$13.4m @ C$0.43	Aug'05	C$3.5m @ C$0.40
Mar'05	£2.5m @ 27p	Oct'05	C$9.36m @ C$0.60
Apr'06	C$13.4m @ C$0.43	Oct'06	C$2.5m @ C$0.44

Major Projects

D.R.Congo: 70% to 100% interests secured in over 30km river frontage alluvial diamond and kimberlite permits in the Kasai province. It has completed stream sampling and airborne magnetic and geophysical surveys. SouthernEra has recently stated that it regards the primary kimberlite projects, which are now being fully funded by BHP Billiton as having exceptional potential.

Angola: a 18% free carried interest in the Camafuca project, dredging decomposed kimberlite. Production anticipated from 2007 at 330,000ct pa, grading 0.11ct/m^3 with a probable average diamond value of US$109/ct.

Canada: a 22% interest in the Monument Diamond Project, Lac de Gras, NWT. Two diamondiferous kimberlite pipes are being drilled and results to date have been encouraging.

South Africa: a 57% interest in the Klipspringer mine which was developed as a jv with De Beers and has been on care and maintenance since Jan'04. A trial mining programme will assess the commercial potential of extracting some 160,000ct over a two year period from 2007.

Sunrise Diamonds (SDS LN)

www.sunrisediamonds.com

The diamond exploration interests held by Sunrise Diamonds include six kimberlites in a previously unrecognised cluster in north central Finland, known as the Kuusamo kimberlite cluster, which was acquired from Tertiary Gold Limited. Kimberlites are widely distributed in the Karelian Craton, and within Findland, a higher than average percentage of these kimberlites contain diamonds. Exclusive rights to BHP Billiton's diamond exploration database in Finland was acquired in Dec'05.

Advisers

Broker: WH Ireland
Nomad: Ruegg & Co Limited

Market

Issued Capital: 93m @ 2.5p = £2.3m
12-month range: 5.5p (May'06) – 1.75p (Dec'05)

Major Shareholders

Tertiary 26%, BHP Billiton 6%, COL 4%

Corporate

Spin-off from Tertiary Minerals (TYM) with the same CEO, Patrick Cheetham, who has 24 years experience in exploration management and 18 years as executive director of public traded companies. Project Manager, Andrew Dixon, has over 20 years experience in managing and developing diamond projects worldwide for companies including DeBeers.

Equity

Jun'05 admitted onto AIM
Feb'06 $0.4m @ 2.25p

Major Projects

Discovered 6 kimberlites from 9 targets tested in Finlands' Karelian Craton. Recent JV agreement signed with Nordic Diamonds under which Sunrise Diamonds can earn up to 75%. Joint venture interest in claims covering 16 of the 20 known kimberlite pipes in the Kaavi-Kuoio area of south-central Finland and joint ventures in three kimberlite pipes lying within 5km of the Lahtojoki kimberlite pipe are currently being sampled by European Diamonds.

Recent reports show encouraging sampling from a 75% owned kimberlite discovery and a 100% owned area widespread kimberlite material has been identified in glacial sediments.

Target Resources plc (TGT LN)

www.target-resources.co.uk

Target Resources is a holding company for a group of alluvial diamond and gold mining and exploration assets held through a wholly owned subsidiary, Milestone, in Sierra Leone. The group's licences cover an area of over 17km^2, located within the Kono district, the most prosperous area for diamond mining in Sierra Leone. The group has alliances with chiefdoms in which its mining leases lie.

Advisers
Broker: Westhouse Securities LLP
Nomad: Westhouse Securities LLP

Market
Issued Capital: 86.75m (102m fd) @ 43p = £37m
Price range since July'06 Aim listing: 55p (Jul'06) – 40p (Oct'06)

Major Shareholders
Hawkwood Fund 5%, Credit Agricole 5%

Corporate
Chairman, Freddy Hager. Nissim Levy, MD, has over 20 years experience in management and trading companies. John Carrick Smith, non-executive director.

Equity
Jul'06 IPO £4m @ 50p

Major Projects

The company commenced exploration and alluvial mining for diamonds in Mar'05. Up to end-Mar'06 it had mined 19,000t gravel @ 21cpht and recovered 4,000ct at an average price of US$470/ct. It then adopted a strategy to use external mining contractors to operate the project which currently covers four mining leases. From Apr'06, the contractor, Three Captains, takes a fee of 58% of diamond and gold sales after 6% export tax in return for all costs of production. The existing plant has been sold to the contractor and a new DMS plant has since been added and throughput is set to increase to 160,000tpm by Nov'07.

In Oct'06, Target reported that the contractor had been unable to process agreed quantities of gravel due to exceptionally heavy rainfall.

Xceldiam Ltd (XLD LN)

www.xceldiamgroup.com

Xceldiam has a 40% interest in the 3,000km^2 Projecto Luangue in north eastern Angola in a tripartite jv, with the State and local investors. It has secured both kimberlite and alluvial diamond prospecting licences. In May'06 the Company concluded a strategic co-operation agreement with Petra Diamonds over adjoining leases of each company.

Advisers

Broker: WH Ireland
Nomad: WH Ireland

Market

Issued Capital: 55m (86m fd) @ 32p = £18m
12-month range: 50p (Mar'06) – 23p (Oct'06)

Major Shareholders

Management and non-ex directors 39%; Petra 3% with warrants to acquire 26% of the unit of XLD which controls Luangue, in staged payments from Dec'06 to Dec'08 totalling £14m – equivalent to 98p per share (undiscounted); Fidelity, Framlington, JP Morgan, Merrill Lynch, Artemis, SAAD Financial Services

Corporate

Chairman, Timothy George (ex-Anglo/De Beers); Technical Director, Richard Rice (ex- Petra – Alto Cuilo)

Equity

Pre IPO	US$5.02
Nov'05 IPO	US$16.15m (£9.5m @ 45p)

Major Project

Luangue was previously worked by De Beers and adjoins the southern boundary of Petra Diamonds' Alto Cuilo concession. De Beers had identified four diamondiferous kimberlites prior to the Angola civil war in the mid-1970s.

XLD has completed a 22,000 line kilometre airborne magnetic survey and identified 70 prospective kimberlite anomalies. It has prioritised 20 targets, commenced wide diameter (2.5in) core drilling and will conduct testing for minerals indicating diamond stability of the kimberlites. Results will determine a large diameter drilling programme. Sedimentary kimberlite facies have been intersected at the first selected target at the relatively shallow depth of 23m followed by continuous kimberlite from 55m.

Two alluvial targets have been identified and may indicate nearby primary sources. A bulk sampling programme is in place to assess resource potential.

A strategic cooperation agreement with Petra on Luangue and Alto Cuilo (on which Petra has a jv with BHP Billiton) allows synergies to both exploration programmes. Petra appears to have a strong confidence that recent exploration success extends into Luangue.

Glossary

A$	Australian Dollar
AIM	Alternative Investment Market
C$	Canadian Dollar
cpht	carat per hundred tonnes
craton	ancient stable block of continental crust
ct	carat
cts	carats
cts/m^3	carats per cubic metre
ctpa	carat per annum
ctpht	carat per hundred tonnes
ct/bcm	carat per bench cubic metre
diamondiferous	containing diamonds
fd	fully diluted
gm	gram
g/t	gram per tonne
grade	concentration of diamonds, typically measured in carats per cubic metre or per hundred tonnes
ha	hectare
km	kilometre
m	million
Mct	million carats
MEG	Metals Economics Group
Moz	million ounces
msh	million shares
Mt	million tonnes
oz	ounce
pa	per annum
SG	Specific Gravity
t	tonne
tpm	tonnes per month
q.v.	*quod vide* – which see
u/g	under ground
US$	US Dollar

Research Disclosures

Julian Emery – Mining Analyst

Julian has a wealth of experience of the natural resources sector globally and of the AIM. Trained as a mining engineer, Julian developed his extensive career in the analysis and research of mining companies with Selection Trust, Societe Generale, T.C.Coombs, Joseph Sebag, DWA and VSA Resources. He is a Fellow of the Securities Institute, an Associate of the Society of Investment Professionals and a past president of the Association of Mining Analysts.

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Research disclosure as of 20 November, 2006

Company: Not applicable
Disclosure: Not applicable

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Diamond Sector and AIM Market

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