

# BLUEROCK DIAMONDS

**Acquisition of the Mining Right  
over the Kareevlei Tenements  
and of the Mining Equipment**

**Placing, Capital Restructuring and  
Admission to trading on AIM**

**Notice of General Meeting**

August 2013

SP Angel Corporate Finance LLP  
Nominated Adviser and Broker



**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt about the contents of this document or as to the action you should take you should consult a person authorised under the Financial Services and Markets Act 2000 as amended ("FSMA") who specialises in advising on the acquisition of shares and other securities in the United Kingdom. The whole of the text of this document should be read. You should be aware that an investment in the Company involves a high degree of risk and prospective investors should carefully consider the section entitled "Risk Factors" in Part III of this document.

This document comprises an AIM admission document drawn up in accordance with the AIM Rules for Companies. This document does not constitute an offer to the public in accordance with the provisions of section 85 of FSMA and is not a prospectus for the purposes of the Prospectus Rules, nor has it been approved by the UK Listing Authority or the FCA.

The Directors and the Proposed Director, whose names and functions appear on page 3 of this document, and the Company, accept responsibility for the information contained in this document, including individual and collective responsibility for compliance with the AIM Rules for Companies. To the best of the knowledge and belief of the Directors and the Proposed Director (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Existing Ordinary Shares are currently admitted to trading on the ISDX Growth Market, a market operated by ICAP Securities and Derivatives Exchange Limited. The Company will cancel its admission to trading on the ISDX Growth Market at the close of business on 3 September 2013. Application will be made for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Existing Ordinary Shares and the Placing Shares will commence on AIM on 4 September 2013. Save as set out above, the Ordinary Shares are not dealt on any other recognised investment exchange and no application has been or is being made for the Ordinary Shares to be admitted to any such exchange. It is emphasised that no application is being made for the Ordinary Shares to be admitted to the Official List or to any other recognised investment exchange. The AIM Rules are less demanding than those of the Official List.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on Admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.

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# BlueRock Diamonds plc

*(incorporated in England and Wales under the Companies Act 2006 with registered number 08248437)*

*ISIN: GB00B84H1764*

## Acquisition of the Mining Right over the Kareevlei Tenements and of the Mining Equipment

### Capital Restructuring

Placing of 18,735,703 new Ordinary Shares at a price of 7p per share

Withdrawal from ISDX Growth Market

Admission of Enlarged Share Capital to trading on AIM

Notice of General Meeting

Nominated Adviser and Broker

SP Angel Corporate Finance LLP

Share Capital immediately following Admission

	<i>Amount</i>	<i>Issued</i>	<i>Number</i>
Ordinary Shares of 1p each	£315,250.41		31,525,041

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SP Angel Corporate Finance LLP, which is authorised and regulated in the United Kingdom by the FCA and is a member of the London Stock Exchange, is acting as the Company's nominated adviser and broker in connection with the Placing and Admission and is acting exclusively for the Company and no one else in connection with the matters described herein and will not be responsible to any person other than the Company for providing the regulatory and legal protections afforded to customers (as defined by the FCA Rules) of SP Angel Corporate Finance LLP nor for providing advice in relation to the contents of this document or any matter, transaction or arrangement referred to in it or for advising any other person in respect of the proposed Placing and Admission.

The responsibilities of SP Angel Corporate Finance LLP as nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or any Director or Proposed Director or to any other person in respect of their decision to acquire Ordinary Shares in reliance on any part of this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been so authorised. No representation or warranty, express or implied, is made by SP Angel Corporate Finance LLP as to any of the contents of this document. SP Angel Corporate Finance LLP has not authorised the contents of any part of this document for any purpose. Save for these responsibilities and those referred to in the paragraph above, SP Angel Corporate Finance LLP accepts no responsibility for the contents of this document, including its accuracy, completeness or verification or for any statement made in it and accordingly disclaims all liability whether arising in tort, contract or otherwise which it might otherwise have in respect of this document. Neither the delivery of this document hereunder nor any subsequent subscription or sale made for Ordinary Shares shall, under any circumstances, create any implication that the information contained in this document is correct as at any time subsequent to the date of this document.

A notice convening the General Meeting to be held at 9.00 a.m. at the offices of SP Angel Corporate Finance LLP, Prince Frederick House, 35-39 Maddox Street, London W1S 2PP on 3 September 2013 is set out at the end of this document. The enclosed Form of Proxy for use at the General Meeting should be completed and returned, in accordance with the instructions thereon, so as to be received by the Company's Registrars, Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL as soon as possible and to be valid must arrive on or before 9.00 a.m. on 30 August 2013 (or 48 hours before the time fixed for any adjourned meeting or in the case of a poll 48 hours before the time appointed for taking the poll at which the proxy is to attend, speak and to vote provided that in calculating such periods no account shall be taken of any part of a day that is not a working day). Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the meeting is 48 hours prior to the time fixed for the meeting. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the meeting. Completion and return of a Form of Proxy will not preclude Shareholders from attending and voting in person at the General Meeting should they so wish.

Copies of this document will be available free of charge during normal business hours on any weekday (except public holidays) at the offices of SP Angel Corporate Finance LLP, Prince Frederick House, 35-39 Maddox Street, London, W1S 2PP from the date of this document and shall remain available for a period of one month from Admission in accordance with the AIM Rules. Additionally, an electronic version of this document will be available free of charge on the Company's website, [www.bluerockdiamonds.co.uk](http://www.bluerockdiamonds.co.uk).

This document does not constitute an offer to buy or to subscribe for, or the solicitation of an offer to buy or subscribe for, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. This document ought not to be copied or distributed by recipients.

The Ordinary Shares have not been, and will not be, registered in the United States of America under the United States Securities Act of 1933 (as amended) (the "Securities Act") or qualified for sale under the laws of any state of the United States of America or under the applicable laws of any of Canada, Australia, or Japan and, may not be offered or sold in the United States of America, Canada, Australia, or Japan or to, or for the account or benefit of, US persons (as such term is defined in Regulation S under the Securities Act) or to any national, resident or citizen of Canada, Australia or Japan. Neither this document nor any copy of it may be distributed in or sent to or taken into the United States, Canada, Australia or Japan, nor may it be distributed to any US person (within the meaning of Regulation S under the Securities Act). In addition, the securities to which this document relates must not be marketed into any jurisdiction where to do so would be unlawful. Persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

No person has been authorised to give any information or to make any representation about the Group and about the matters the subject of this document other than those contained in this document. If any such information or representation is given or made then it must not be relied upon as having been so authorised. The delivery of this document shall not imply that no change has occurred in the Group's affairs since the date of issue of this document or that the information in this document is correct as at any time after the date of this document, save as shall be required to be updated by law or regulation.

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## DIRECTORS, PROPOSED DIRECTOR, SECRETARY, REGISTERED OFFICE AND ADVISERS

<b>Directors</b>	Paul John Beck Christiaan Breytenbach Visser John Leslie Courtney Kilham Andries Thomas Markgraaff Jonathan Stuart Quirk	<i>(Non Executive Chairman)</i> <i>(Chief Executive Officer)</i> <i>(Chief Technical Officer)</i> <i>(Non Executive Director)</i> <i>(Non Executive Director)</i>
<b>Proposed Director</b>	Timothy Grahame Leslie	<i>(Non Executive Director)</i>
<b>All of Registered Office</b>	39 St James's Street London SW1A 1JD	
<b>Company Secretary</b>	David Facey	
<b>Nominated Adviser and Broker</b>	<b>SP Angel Corporate Finance LLP</b> Prince Frederick House 35 – 39 Maddox Street London W1S 2PP	
<b>Reporting Accountants</b>	<b>Grant Thornton UK LLP</b> 30 Finsbury Square London EC2P 2YU	
<b>Auditors</b>	<b>Grant Thornton UK LLP</b> Grant Thornton House Melton Street London NW1 2EP	
<b>Solicitors to the Company as to English law</b>	<b>Thomas Eggar LLP</b> 14 New Street London EC2M 4HE	
<b>Solicitors to the Company as to South African law</b>	<b>Mervyn Taback Inc</b> 13 Eton Road Parktown Johannesburg 2198	
<b>Solicitors to the Nominated Adviser and Broker</b>	<b>Marriott Harrison LLP</b> 11 Staple Inn London WC1V 7QH	
<b>Competent Person</b>	<b>Z Star Mineral Resource Consultants (Pty) Ltd</b> PO Box 336 Steenberg 7947 South Africa	



**Registrars**

**Share Registrars Limited**

Suite E  
First Floor  
9 Lion and Lamb Yard  
Farnham  
Surrey  
GU9 7LL

**Company Website**

[www.bluerockdiamonds.co.uk](http://www.bluerockdiamonds.co.uk)

## DEFINITIONS

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

<b>“Acquisition”</b>	the proposed acquisition of the Mining Right and the Mining Equipment under the Acquisition Agreements;
<b>“Acquisition Agreements”</b>	the Mining Agreement and the Equipment Agreement, in each case as altered by the Supplemental Agreement that are to come into force in accordance with the Supplemental Agreement;
<b>“Act”</b>	Companies Act 2006, as amended;
<b>“acting in concert”</b>	shall have the definition given to it in the Takeover Code;
<b>“Admission”</b>	admission of the Existing Ordinary Shares and the Placing Shares to trading on AIM and such admission becoming effective in accordance with the AIM Rules;
<b>“AIM”</b>	the market of that name operated by the London Stock Exchange;
<b>“AIM Rules”</b>	together, the AIM Rules for Companies and the AIM Rules for Nominated Advisers;
<b>“AIM Rules for Companies”</b>	the AIM Rules for Companies published by the London Stock Exchange, as amended from time to time;
<b>“AIM Rules for Nominated Advisers”</b>	the AIM Rules for Nominated Advisers published by the London Stock Exchange, as amended from time to time;
<b>“Articles” or “Articles of Association”</b>	the articles of association of the Company to be adopted at the General Meeting and to be in effect following Admission, a summary of which is set out in paragraph 5 of Part VI of this document;
<b>“ASX”</b>	the Australian Securities Exchange;
<b>“BEE Act”</b>	the Broad Based Black Economic Empowerment Act No. 53 of 2003 of RSA (as amended);
<b>“Capitalisation Issue”</b>	the issue, by way of capitalisation of the share premium account of the Company, of a total of 1,266,144,462 new Ordinary Shares of 0.01p each to the holders of Ordinary Shares of the Company on the Record Date on the basis of 99 new Ordinary Shares for each one Ordinary Share held on the Record Date pursuant to Resolution 1;
<b>“Capital Restructuring”</b>	the Capitalisation Issue and the Consolidation;
<b>“Company” or “BlueRock”</b>	BlueRock Diamonds plc, incorporated in England and Wales under the Companies Act 2006 with registered number 08248437;
<b>“Competent Person”, “CP” or “Z Star”</b>	Z Star Mineral Resource Consultants (Pty) Ltd, the competent person in relation to Admission, as defined by the AIM Rules, and author of the Competent Person’s Report as set out in Part V of this document;
<b>“Competent Person’s Report” or “CPR”</b>	the report relating to the Kareevlei Tenements, the Mining Right and the Mining Equipment produced by the Competent Person set out in Part V of this document;

<b>“Consideration”</b>	R4,000,000 (approximately £261,000) plus SA VAT, payable in cash to Diamond Resources in accordance with the terms of the Kareevlei Option Agreement;
<b>“Consolidation”</b>	the proposed consolidation of the existing Ordinary Shares of 0.01p each, including Ordinary Shares issued under the Capitalisation Issue, into Ordinary Shares of 1p each pursuant to Resolution 2;
<b>“Constitution”</b>	the Constitution of the Republic of South Africa, 1996 being the supreme law in South Africa;
<b>“CREST”</b>	the relevant system (as defined in the CREST Regulations) in accordance with which securities may be held or transferred in uncertificated form, and in respect of which Euroclear is the Operator (as defined in the CREST Regulations);
<b>“CREST Manual”</b>	the rules governing the operation of CREST as published by Euroclear;
<b>“CREST Regulations”</b>	the Uncertificated Securities Regulations 2001 (SI 2001/3755) as amended from time to time, and any applicable rules made under those regulations;
<b>“Diamond Resources”</b>	Diamond Resources (Pty) Ltd, registration number 1990/002621/07, a private company organised and incorporated under the laws of the Republic of South Africa and a wholly owned subsidiary of Tawana;
<b>“Directors” or “Board”</b>	the directors of the Company as at the date of this document whose names are set out on page 3;
<b>“DMR”</b>	Department of Mineral Resources in South Africa;
<b>“DTR”</b>	the Disclosure and Transparency Rules as set out in the FCA Handbook;
<b>“Enlarged Board”</b>	the Board following Admission comprising the Directors and the Proposed Director;
<b>“Enlarged Share Capital”</b>	the enlarged share capital of the Company immediately following Admission, comprising the Existing Ordinary Shares and the Placing Shares;
<b>“Equipment Agreement”</b>	the agreement, which is Annexure B to the Kareevlei Option Agreement (as altered by the Supplemental Agreement), detailing the specific terms and conditions on which, pursuant to the exercise of the Kareevlei Option, Diamond Resources is to sell and Kareevlei Mining is to purchase the Mining Equipment, details of which are summarised in paragraph 12.3.4 of Part VI of this document;
<b>“Euroclear”</b>	Euroclear UK & Ireland Limited, the Central Securities Depository for the UK market and Irish securities and the operation of CREST;
<b>“Existing Ordinary Shares”</b>	the 12,789,338 Ordinary Shares of 1p each in issue immediately following the Capital Restructuring, comprising 12,789,338 Ordinary Shares of 0.01p each as at the date of this document and the 1,266,144,462 Ordinary Shares of 0.01p each to be issued under the Capitalisation Issue, all of which are to be consolidated into 12,789,338 Ordinary Shares of 1p each pursuant to the Consolidation;
<b>“FCA”</b>	the United Kingdom Financial Conduct Authority;

<b>“Form of Proxy”</b>	the form of proxy sent to Shareholders with this document for use at the General Meeting in connection with the Resolutions;
<b>“FSMA”</b>	the Financial Services and Markets Act 2000 (as amended);
<b>“General Meeting”</b>	the General Meeting of the Company to be held at 9.00 a.m. on 3 September 2013, at the offices of SP Angel Corporate Finance LLP, notice of which is contained at the end of this document;
<b>“Ghaap Mining” or “BEE Partner”</b>	Ghaap Mining Proprietary Limited, a private company incorporated and registered in terms of the Companies Act of RSA under registration number 2013/092058/07, being a Black-Controlled Company under the Codes of Good Practice on Black Economic Empowerment under the BEE Act and the BEE Partner of BlueRock in respect of Kareevlei Mining;
<b>“Group”</b>	BlueRock together with its Subsidiary, Kareevlei Mining;
<b>“IFRS”</b>	International Financial Reporting Standards;
<b>“ISDX”</b>	the ICAP Securities & Derivatives Exchange Limited, a recognised investment exchange under section 290 of the Financial Services and Markets Act;
<b>“ISDX Admission”</b>	the admission of the Existing Ordinary Shares to trading on the ISDX Growth Market on 7 March 2013;
<b>“ISDX Growth Market”</b>	the securities market operated by ISDX and formerly known as PLUS or PLUS-SX;
<b>“ISDX Growth Market Rules”</b>	the ISDX Growth Market Rules for Issuers issued from time to time by ISDX;
<b>“JSE”</b>	Johannesburg Stock Exchange;
<b>“Kareevlei Kimberlites”</b>	the five kimberlite pipes located within the Kareevlei Tenements and designated K1, K2, K3, K4 and K5;
<b>“Kareevlei Mining”</b>	Kareevlei Mining (Pty) Limited, registration number 2013/077678/07, the Company’s Subsidiary, incorporated in the Republic of South Africa;
<b>“Kareevlei Option Agreement”</b>	the agreement dated 23 April 2013 between Diamond Resources and BlueRock under which Diamond Resources granted to BlueRock the option to purchase the Mining Right and the Mining Equipment for an aggregate purchase price of R4,000,000 (plus SA VAT) attributable as to R1,000,000 to the Mining Right and R3,000,000 to the Mining Equipment, details of which are summarised in paragraph 12.3.1 of Part VI of this document;
<b>“Kareevlei Option”</b>	the option to enter into the Mining Agreement and the Equipment Agreement in order to acquire the Mining Right and Mining Equipment under the Kareevlei Option Agreement;
<b>“Kareevlei Tenements”</b>	Portion 1 (Weshoek) of the Farm 113 measuring 428.2660 hectares, Portion 2 (Klipvlei) of the Farm 113 measuring 999.2873 hectares, Portion of Portion 2 (Kareeboompan) of the Farm 142 measuring 529.0229 hectares and the remainder of the Farm no.113 (Skietfontein) measuring 1427.5533 hectares all situated in the magisterial district of Barkly West, Northern Cape Province;

<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“Mining Agreement”</b>	the sale and purchase agreement which is Annexure A to the Kareevlei Option Agreement (as altered by the Supplemental Agreement), detailing the specific terms and conditions on which, pursuant to the exercise of the Kareevlei Option, Diamond Resources is to sell and Kareevlei Mining is to purchase the Mining Right, details of which are summarised in paragraph 12.3.3 of Part VI of this document;
<b>“Mining Equipment”</b>	the mining equipment previously used in respect of operations at the Kareevlei Tenements including, <i>inter alia</i> , a 25tph DMS (dense media separation) plant, conveyors, screens and crushers, 3 Kohler Gensets, 2 front end loaders, containerised dual station Flowsort™ machine and associated equipment and other miscellaneous equipment and stores;
<b>“Mining Right”</b>	Mining Right NC081MR for diamonds executed in favour of Diamond Resources on 21 August 2007 and registered in the Mineral and Petroleum Titles Registration Office (“MPTRO”) on 18 September 2007 under registration MPT number 70/2007 MR over the Kareevlei Tenements, which expires on 20 August 2019 unless otherwise extended;
<b>“Ministerial Consent”</b>	the requisite regulatory consent from the Minister of Mineral Resources under section 11 of the MPRDA to the transfer by Diamond Resources to Kareevlei Mining of the Mining Right;
<b>“MPRDA”</b>	the Mineral and Petroleum Resources Development Act No. 28 of 2002, as amended (South Africa);
<b>“Notice of General Meeting”</b>	the notice set out at the end of this document convening the General Meeting;
<b>“Official List”</b>	the official list of the UK Listing Authority;
<b>“Ordinary Shares”</b>	ordinary shares of 1p each in the capital of the Company following the Consolidation and in the case of references to Ordinary Shares prior to the Capital Restructuring, Ordinary Shares of 0.01p each;
<b>“Panel” or “Takeover Panel”</b>	the Panel on Takeovers and Mergers;
<b>“Placees”</b>	those persons subscribing for Placing Shares at the Placing Price;
<b>“Placing”</b>	the conditional placing by SP Angel on behalf of the Company of the Placing Shares pursuant to the Placing Agreement;
<b>“Placing Agreement”</b>	the conditional agreement dated 19 August 2013 between the Company (1), the Directors (2) and SP Angel (3) relating to the Placing, details of which are set out in paragraph 12.2.2 of Part VI of this Document;
<b>“Placing Price”</b>	7p per Placing Share;
<b>“Placing Shares”</b>	the 18,735,703 new Ordinary Shares which are the subject of the Placing;
<b>“Proposals”</b>	the Acquisition, Placing, Admission and Capital Restructuring as detailed in this document;
<b>“Proposed Director”</b>	Timothy Grahame Leslie;

<b>“Prospectus Rules”</b>	the prospectus rules made pursuant to section 734A of FSMA;
<b>“QCA Guidelines”</b>	the Corporate Governance Guidelines for Smaller Quoted Companies published by the Quoted Companies Alliance, as amended from time to time;
<b>“Record Date”</b>	3 September 2013;
<b>“Registrar”</b>	Share Registrars Limited;
<b>“Resolutions”</b>	the resolutions set out in the Notice of General Meeting;
<b>“RIS”</b>	Regulatory Information Service;
<b>“RSA” or “South Africa”</b>	the Republic of South Africa;
<b>“SAMREC”</b>	the South African Code for Reporting of Mineral Resources and Mineral Reserves, as published by the South African Mineral Committee under the auspices of the South African Institute of Mining and Metallurgy;
<b>“SA VAT”</b>	means value added tax in South Africa charged at a rate of 14 per cent. on taxable good and services;
<b>“Shareholder Agreement”</b>	the Shareholders’ Agreement dated 3 August 2013 between BlueRock (1), Ghaap Mining (2) and Kareevlei Mining (3) in relation to the participation of BlueRock and Ghaap Mining in Kareevlei Mining, the principal terms of which are summarised in paragraph 12.3.5 of Part VI of this document;
<b>“Shareholders”</b>	holders of Ordinary Shares from time to time;
<b>“Share Option Agreements”</b>	the share option agreements entered into between the Company, the Directors and the Proposed Director, a summary of which is set out in paragraph 9 of Part VI of this document;
<b>“Share Options”</b>	share options granted or issued pursuant to the Share Option Agreements;
<b>“SP Angel”</b>	SP Angel Corporate Finance LLP, nominated adviser and broker to the Company;
<b>“Subsidiary”</b>	as defined in Section 220 of the Act;
<b>“Supplemental Agreement”</b>	the Supplemental Agreement dated 3 August 2013 between Diamond Resources (1), BlueRock (2) and Kareevlei Mining (3), conditional on Admission and under which the terms of the Kareevlei Option Agreement are modified and Kareevlei Mining is to be nominated by BlueRock as the purchaser of the Mining Right and the Mining Equipment pursuant to the Kareevlei Option Agreement, the principal terms of which are summarised in paragraph 12.3.2 of Part VI of this document;
<b>“Takeover Code”</b>	the City Code on Takeovers and Mergers (as published and administered by the Panel);
<b>“Tawana”</b>	Tawana Resources NL (ACN 085166721), a public company incorporated under the laws of the State of Victoria, Commonwealth of Australia;

<b>“Trial Mining Operations”</b>	the taking and processing by Kareevlei Mining of two consecutive bulk samples of 20,000 tonnes and subsequently two further bulk samples of 24,000 tonnes (or such higher figure as may be agreed by Diamond Resources and Kareevlei Mining) under the terms of the Mining Agreement, further details of which are set out in paragraph 12.3.3 of Part VI of this document;
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland;
<b>“UK Corporate Governance Code”</b>	the UK Corporate Governance Code (formerly the Combined Code) issued from time to time by the Financial Reporting Council;
<b>“UK Listing Authority”</b>	the FCA, acting in its capacity as the competent authority for the purposes of Part VI of FSMA;
<b>“UK VAT”</b>	means value added tax in the United Kingdom charged at a rate of 20 per cent. on taxable good and services;
<b>“uncertificated” or “in uncertificated form”</b>	a share or other security recorded on the relevant register of the relevant company concerned as being held in uncertificated form in CREST and title to which, virtue of CREST Regulations, may be transferred by means of CREST;
<b>“ZAR” or “R”</b>	the lawful currency of the Republic of South Africa;
<b>“\$” or “US\$”</b>	the lawful currency of the United States; and
<b>“£” or “GBP”</b>	the lawful currency of the United Kingdom.

Unless otherwise stated, the exchange rates used throughout this document are GBP£1 to ZAR15.3.

## GLOSSARY OF SELECTED GEOLOGICAL AND MINING TERMS

In this document, where the context permits, the terms set out below shall have the following meanings:

<b>“airborne magnetic survey”</b>	a survey conducted from the air for the purpose of recording the natural magnetic characteristics of rocks on and below the surface of the earth;
<b>“alteration”</b>	changes in the mineralogical composition of a rock typically brought about by the action of hydrothermal (hot water) solutions;
<b>“amsl”</b>	above mean sea level;
<b>“Archean”</b>	a geological eon that represents the earth’s past (3.8 to 2.5 billion years ago);
<b>“Auger Drilling”</b>	a drilling methodology that incorporates a helical drilling tool to remove sample material;
<b>“Bauer™”</b>	German manufacturer of auger drills;
<b>“bench”</b>	a single level of operation for mining operations in an open pit;
<b>“breccia”</b>	a rock type composed of sharp angled fragments embedded in a fine-grained matrix;
<b>“bromoform”</b>	a heavy liquid that can be used to separate diamonds from concentrate;
<b>“bulk sample”</b>	a descriptive term used to imply a large volume sample that is processed in order to determine the grade of a deposit where mineralisation is unevenly distributed and of low grade within the deposit;
<b>“c/m<sup>3</sup>”</b>	a measure of diamond grade in carats per cubic metre;
<b>“calcrete”</b>	a calcium-rich hardened layer formed as a result of climatic fluctuations in arid and semi-arid regions;
<b>“carat” or “ct”</b>	a unit of weight for diamonds, equivalent to 0.2 of a gram;
<b>“concentrate”</b>	the residual product of heavy particles separated by a density media separation (DMS) process;
<b>“country rock”</b>	the rock bodies which enclose an intrusive mass of igneous rock;
<b>“cpht”</b>	a measure of diamond grade in carats per hundred tonnes;
<b>“craton”</b>	portions of the old continental crust (>2.5billion years old) that host the vast majority of the economically viable diamondiferous kimberlite pipes;
<b>“Datamine™”</b>	a brand of software that facilitates the modelling of geological deposits in three dimensions;
<b>“diamondiferous”</b>	containing diamonds;
<b>“diatreme”</b>	a rock type characterised by fragmented volcanoclastic kimberlite and xenoliths ripped from margins of the vent on the magma’s rise to the surface through the earth’s crust;
<b>“dolomite”</b>	a term used to describe the calcium magnesium carbonate rich rock, dolostone;



<b>“DMS”</b>	dense media separation, a machine that utilises a dense media in a cyclone to separate heavier concentrate from lighter particles;
<b>“facies”</b>	an assemblage or association of mineral, rock or fossil features reflecting the environment and the conditions of the origin of the rock;
<b>“Ferro-Silicon”</b>	a powdered alloy of iron and silicon that can be used as a dense media to separate heavy and light particles;
<b>“final recovery”</b>	the section of a diamond treatment plant that separates the diamonds from the concentrate;
<b>“Flowsort™”</b>	a brand of X-ray fluorescence machine that identifies and separates fluorescing particles, including diamonds, from the concentrate;
<b>“Geographic Positioning System (GPS)”</b>	a hand-held computerised system for navigation using a constellation of earth orbiting satellites that provides information as to location, elevation and speed of movement across the earth’s surface;
<b>“grade”</b>	in economic geology, the term is used to express the relative quantity of an ore in a rock or unconsolidated sediment mass; in diamond exploration it is commonly expressed as carats per hundred tonnes (cpht) or carats per cubic metre (c/m <sup>3</sup> );
<b>“grease table”</b>	an apparatus for concentrating diamonds as they repel water and readily adhere to grease;
<b>“ha”</b>	hectare;
<b>“hypabyssal”</b>	a rock type formed by the crystallisation of hot, volatile-rich kimberlite magma that exhibits an intrusive appearance;
<b>“Inferred Mineral Resource”</b>	that part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be of limited or uncertain quality and reliability;
<b>“Kelly Bar”</b>	a drilling rod that transfers torque from the rotary drive to the drilling bit;
<b>“kimberlite”</b>	a type of potassic volcanic rock typically found as pipe structures that may contain diamonds;
<b>“mudstone”</b>	a fine-grained sedimentary rock;
<b>“overburden”</b>	the overlying cover of whatsoever nature over useful materials or ores;
<b>“parcel”</b>	a collection of diamonds of various sizes made available for sale as a single package;
<b>“percussion”</b>	a drilling methodology that involves repeatedly raising and lowering a drilling bit to impact and break material to create a sample for removal from the drill hole;
<b>“pipe” or “diatreme”</b>	the carrot shaped volcanic vent that has been formed by explosive action and is characteristic of kimberlite;

<b>“Pleitz”</b>	a brand of jig that pulsates and separates heavier concentrate from lighter particles;
<b>“Proterozoic”</b>	a geological eon that represents the earth’s past (2.5 billion to 570 million years ago);
<b>“Pyroclastic”</b>	a term that means to form by or involve fragmentation as a result of volcanic action;
<b>“RPEEE”</b>	reasonable prospects of eventual economic extraction: a term used in the SAMREC code to test whether a mineral resource exists and can be declared;
<b>“SACNASP”</b>	the South African Council for Natural Scientific Professions, a legislated regulatory body for natural science professionals in South Africa;
<b>“SAMREC”</b>	the South African Code for Reporting of Mineral Resources and Mineral Reserves, as published by the South African Mineral Committee under the auspices of the South African Institute of Mining and Metallurgy;
<b>“scrubber”</b>	a portion of a diamond treatment plant that breaks down and removes fine clay material from the ore;
<b>“sieve class”</b>	a granulometric size division, a set of which are often utilised to model diamond size frequency distributions;
<b>“size frequency distribution” or “SFD”</b>	a graph which plots the number of carats in each of the sieve size fractions as a cumulative fraction of the total diamond production of that sample. The graph can also be plotted on log/log axes to form a straight line;
<b>“spigot”</b>	the portion of a DMS that controls the underflow. The size of the spigot determines the solids carrying capacity of the underflow;
<b>“stripping”</b>	removal of waste overburden covering the mineral deposit;
<b>“stripping ratio”</b>	ratio of ore rock to waste rock;
<b>“t/m<sup>3</sup>”</b>	a measure of density in tonnes per cubic metre;
<b>“tailings”</b>	low grade material remaining after ore has been treated to extract minerals of value;
<b>“tonne”</b>	a metric unit of weight equivalent to 1000 kilograms;
<b>“tph”</b>	tonnes per hour;
<b>“tracers”</b>	particles that simulate the density of diamonds and are used to calibrate a DMS unit;
<b>“trommel”</b>	a portion of a diamond treatment plant that screens and removes coarse particles above a specific cut-off size;
<b>“tricone”</b>	a three-headed drilling bit;
<b>“Tuff”</b>	a type of rock consisting of consolidated volcanic ash ejected from vents during a volcanic eruption; and
<b>“xenolith”</b>	a rock fragment foreign to the igneous mass in which it occurs.

## PLACING STATISTICS

Number of Existing Ordinary Shares in issue immediately prior to Admission (taking account of the Capital Restructuring)	12,789,338
Placing Price	7 pence
Number of Placing Shares to be issued pursuant to the Placing	18,735,703
Enlarged Share Capital on Admission	31,525,041
Number of Share Options in issue on Admission	4,728,756
Percentage of Enlarged Share Capital represented by the Placing Shares	59.4%
Percentage of Enlarged Share Capital represented by the Share Options	15.0%
Gross proceeds of the Placing	£1.31 million
Approximate net proceeds of the Placing	£0.96 million
Market capitalisation at the Placing Price on Admission	£2.21 million
International Securities Identification Number (ISIN) of Ordinary Shares	GB00B84H1764
AIM ticker	BRD

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2013
Publication of this document	19 August
Latest time and date for receipt of Forms of Proxy	9.00 a.m. on 30 August
General Meeting	9.00 a.m. on 3 September
Record Date for the Capital Restructuring	3 September
Withdrawal of Existing Ordinary Shares from trading on the ISDX Growth Market	4.30 p.m. on 3 September
Admission and commencement of dealings in the Enlarged Share Capital on AIM	8.00 a.m. on 4 September
Settlement of Placing Shares through CREST	4 September
Despatch of definitive share certificates in respect of the Placing Shares to placees by	11 September

### Notes:

1. All references to times in this timetable are to be London (BST) times and each of the times and dates may be subject to change.
2. If any of the above times or dates change, the revised times and/or dates will be notified to Shareholders by an announcement on a RIS.

## **PART I: INFORMATION ON THE GROUP**

### **1. Introduction**

On 23 April 2013, the Company entered into the Kareevlei Option Agreement with Diamond Resources, a subsidiary of Tawana, an ASX and JSE listed company, pursuant to which the Company was granted an option to acquire the Mining Right and the Mining Equipment.

Conditional on the passing of the Resolutions at the General Meeting, the Kareevlei Option is to be exercised and as a result, the Company's Subsidiary, Kareevlei Mining will acquire the Mining Right in respect of the Kareevlei Tenements (subject to certain conditions including Ministerial Consent) and will acquire the Mining Equipment, which includes a diamond processing facility. The Kareevlei Tenements are located in the Northern Cape Province of South Africa, approximately 100 kilometres northwest of the town of Kimberley. The Kareevlei Tenements include the Kareevlei Kimberlites, five kimberlite pipes ranging in size from <0.5 hectares to <5.6 hectares.

The aggregate Consideration for the Kareevlei Option and the purchase of the Mining Right and Mining Equipment is R4,000,000 (approximately £261,000) plus SA VAT to be satisfied in cash of which R150,000 (approximately £10,000) has been paid for the grant of the Kareevlei Option. Detailed information on the Kareevlei Kimberlites, the Mining Right and the Mining Equipment is set out in this Part I and the Competent Person's Report in Part V of this document.

Following the execution of the Kareevlei Option Agreement, the Company engaged Z Star to produce a Competent Person's Report on the Kareevlei Tenements under the SAMREC code which is set out in Part V of this document.

The Company has conditionally raised £1.31 million (approximately £0.96 million net of expenses) by the issue of 18,735,703 new Ordinary Shares pursuant to the Placing at 7 pence per Placing Share. The Placing Shares will represent 59.4% of the Enlarged Share Capital. At the Placing Price the Group will be valued at approximately £2.21 million. The net proceeds of the Placing will be utilised to purchase the Mining Right and Mining Equipment, to fund plant upgrade, plant refurbishment and mine set up costs, the development of pipe K1 within the Kareevlei Tenements and working capital requirements of the Group.

The Existing Ordinary Shares are quoted on the ISDX Growth Market. In conjunction with the Acquisition, the Company is seeking admission to AIM. The Company's intention to withdraw from trading on the ISDX Growth Market was announced on 19 August 2013. Withdrawal from trading on ISDX will take place on 3 September 2013 and Admission is expected to occur on 4 September 2013.

### **2. Background and Strategy**

BlueRock Diamonds plc was incorporated in England and Wales on 11 October 2012 and was established to invest in under-exploited diamond mines and diamondiferous tailings dumps in South Africa and sub Saharan Africa, with an initial focus on the Kimberley area of South Africa. The Company was admitted to the ISDX Growth Market on 7 March 2013 and raised £0.28 million by way of a placing of 2,149,338 Ordinary Shares at 13 pence per share.

The Company's strategy was to make investments in opportunities that have some or all the following criteria:

- opportunities in the diamond mining sector in South Africa;
- other opportunities in the diamond mining sector and other mining sectors in South Africa and other countries in Sub Saharan Africa; and/or
- opportunities offering the Company a role as an active investor either through control or full ownership of the asset or investment.

In the short term, the Company intended to take advantage of the opportunity that the Directors believed existed for new entrants with access to capital to secure and develop under-exploited assets in South Africa, in particular:

- underperforming or dormant small to medium sized kimberlite and fissure mines; and/or
- tailings or the right to exploit tailings in order to reprocess the kimberlite ore to generate cash flow and establish an operational presence in South Africa.

Following the review and evaluation of a number of potential acquisition targets, the Directors identified the Kareevlei Tenements as an opportunity that fulfilled the Company’s investment criteria.

**3. Kareevlei Option Agreement and Supplemental Agreement**

On 23 April 2013, the Company entered into the Kareevlei Option Agreement with Diamond Resources, a subsidiary of Tawana, an ASX and JSE listed company, pursuant to which the Company was granted an option to acquire the Mining Right and the Mining Equipment.

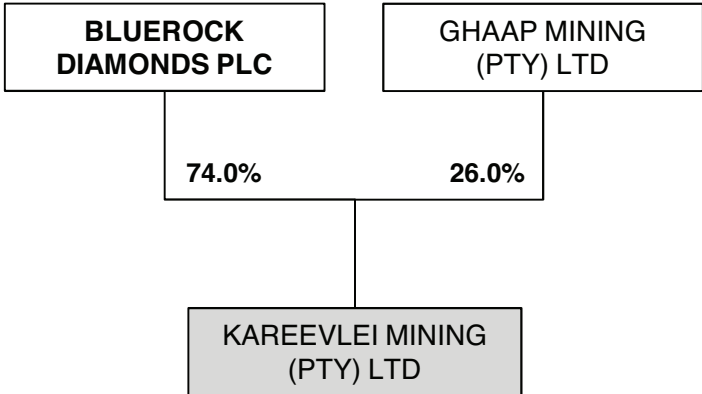
Prior to Admission, the Company, through its Subsidiary, Kareevlei Mining, is to exercise its rights under the Kareevlei Option Agreement to enter into and complete the Equipment Agreement and to enter into the Mining Agreement.

Under the terms of the Mining Agreement, Diamond Resources is to apply for the approval and Ministerial Consent (pursuant to an application to be lodged under section 11 of the MPRDA in a form acceptable to both Diamond Resources and BlueRock) of the Minister responsible for the MPRDA to the transfer by Diamond Resources to Kareevlei Mining of the Mining Right. Completion under the Mining Agreement is subject to obtaining that Ministerial Consent.

Under a Supplemental Agreement dated 3 August 2013 between Diamond Resources (1), BlueRock (2) and Kareevlei Mining (3), BlueRock assigned its rights to enter into the Mining Agreement and the Equipment Agreement to Kareevlei Mining, which is nominated to replace BlueRock as the contracting party in relation to the Mining Agreement and the Equipment Agreement. If the consent described above and therefore completion of the Mining Agreement is delayed beyond eight months, Kareevlei Mining may extend the period of the Trial Mining Operations for up to 24 months following inception of the Mining Agreement or until the date on which the requisite Ministerial Consent shall have been obtained, whichever is the earlier.

Further information on the Trial Mining Operations is set out below in paragraph 7 of this Part I headed “The Mining Right”.

**4. Group structure and Black Economic Empowerment**



**Figure 1: Group Structure and BEE Partner**

The black economic empowerment requirements in the South African mining industry arise from the equality provisions of the Constitution and the MPRDA.

The DMR has published and implemented the Broad Based Socio-Economic Empowerment Charter, September 2010 (“Mining Charter”) which is applicable to all mining companies operating within South Africa. The Mining Charter aims to facilitate participation of historically disadvantaged South Africans (“HDSAs”) in the mining and minerals industry by providing specific targets that must be met by 2014 in order to effect the equitable transformation to HDSAs and promote sustainable development and growth of the industry. HDSAs are defined as “any person, category of persons or community, disadvantaged by unfair discrimination” on the basis of race, gender or disability and includes females generally as well as black African, Indian, Chinese and Coloured people as defined in the BEE Act.

The most significant element of the Mining Charter is the ownership requirement which stipulates that mines must commit to obtaining 26 per cent. effective ownership by HDSAs (being the meaningful participation of HDSAs in the ownership, voting rights, economic interest and management control of mining entities) by 2014.



BlueRock’s subsidiary, Kareevlei Mining, is owned as to 26 per cent. by a Kimberley based company, Ghaap Mining (Pty) Limited, while BlueRock owns the remaining 74 per cent. Ghaap Mining is a South African private company wholly owned by Mr. William Alexander van Wyk who, in terms of South African legislation is considered to qualify as an HDSA.

Further information on the BEE Act and black economic empowerment is set out in Part II of this document. Further information on William van Wyk, the sole shareholder and director of Ghaap Mining and a director of Kareevlei Mining is set out in paragraph 13 of this Part I.

**5. Withdrawal from ISDX and Admission to AIM**

The Company is seeking admission to AIM in order to take advantage of the market’s higher profile, broader investor base, liquidity and access to institutional investors. The Directors and the Proposed Director believe that Admission should also provide the Company with the flexibility to issue new shares as consideration for any new acquisition.

The Existing Ordinary Shares are quoted on the ISDX Growth Market. The Company’s intention to withdraw from trading on the ISDX Growth Market was announced on 19 August 2013. Withdrawal from trading on ISDX will take place on 3 September 2013.

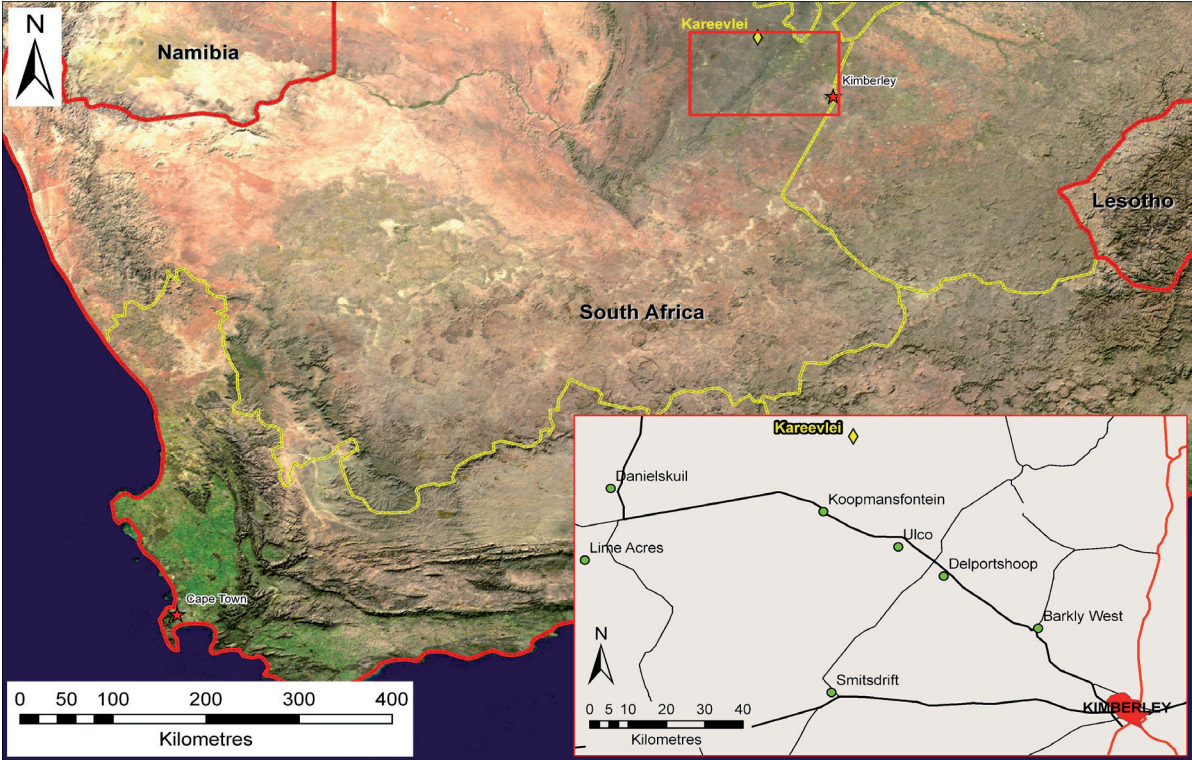
Application will be made to the London Stock Exchange for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings will commence on 4 September 2013.

If the Resolutions are not passed, the Enlarged Share Capital will not be admitted to trading on AIM.

**6. Overview of the Kareevlei Tenements**

**Location and Infrastructure**

The Kareevlei Tenements are located approximately 100km northwest of Kimberley in the Northern Cape Province of South Africa. Four of the kimberlite pipes (K1, K2, K3 and K4) are situated in close proximity to each other on the farm Weshoek 113 and the fifth kimberlite (K5) lies 1.5km further northeast on the farm Skietfontein 113.



**Figure 2: Location of the Kareevlei Tenements approximately 100km northwest of Kimberley**

The Kareevlei Tenements lie approximately 20km north of the main R31 tarmac road from Barkly West to Danielskuil. Accessibility to the site is by gravel road and does not require vehicles with a 4x4 capability. The area is adequately served by cellular phone operators and cell phone reception is available on site.

The nearest airport is at Kimberley, 100km to the south-east of the Kareevlei Tenements, with daily flights scheduled to Johannesburg.

Mains electricity is available 5km from the plant site, however, three generators are included within the Mining Equipment and these will be serviced and used to power the plant. Water will be sourced from existing boreholes on the property that are currently producing. A considerable portion of the plant water will be recycled.

## **Geology<sup>1</sup>**

The Ghaap Plateau is approximately 25,000km<sup>2</sup> in extent and is primarily comprised of carbonate sediments, predominantly dolomites, that were deposited in a shallow inland sea approximately 2.5 billion years ago. The Kareevlei Kimberlites have been emplaced into coarsely crystalline and recrystallised dolomites of the Campbellrand subgroup of the Ghaap Plateau Formation. The dolomite strata of the Campbellrand subgroup are approximately horizontal on the western edge of the plateau and steepen slightly to dip at 7-8° towards the west on the western edge of the plateau.

Diamondiferous kimberlite pipes are almost exclusively found in regions underlain by Archaen craton (crust older than 2.5 billion years) as high pressure and relatively low temperature (<1200°C) formation conditions occur that are suitable for diamonds to form.

A total of five kimberlite pipes (namely K1, K2, K3, K4 and K5) have been confirmed as part of the Kareevlei Tenements, although the smaller K4 pipe may coalesce with K1 at depth. The three pipes that have received the primary focus of the exploration programmes by Diamond Resources are K1, K2 and K3 which have sub-crop surface areas against the overburden calcrete of 1.2ha, 1.1ha and 5.6ha, respectively.

The logging by Tawana of the Kareevlei kimberlite intersections is in a more traditional nomenclature and therefore the general kimberlite description below has been aligned with this traditional approach. No kimberlite samples were available for review by the Competent Person.

The De Beers handbook on kimberlite exploration and mining ([www.debeersgroup.com](http://www.debeersgroup.com)) describes kimberlites as being traditionally divided into root, diatreme and crater zones. The root zone occurs at the base of the kimberlite pipe and typically is irregular in shape and comprised of Hypabyssal (magmatic) material. The Diatreme zone is usually the central portion of the kimberlite and the largest in terms of volume. It is characterised by the presence of Tuffisitic Kimberlite Breccia ("TKB") which can be easily weathered at higher levels in the pipe. The TKB consists of angular xenoliths of country rock combined with mantle derived fragments set in a fine-grained matrix. The crater zone is the upper level of the pipe where the kimberlite has often been reworked to form sub-horizontal, layered kimberlite-rich sedimentary deposits along with debris flows and pyroclastic units.

The logging by Tawana indicates that the vast majority of the Kareevlei pipe volumes that have been delineated are Diatreme zone kimberlite. However, there is evidence of an earlier Hypabyssal phase in K3 and to a lesser extent in K2. There is some tuff and mudstone in a basin-shaped feature at a higher level in K3 which may be an indication of a crater facies environment.

## **Prospecting to date<sup>2</sup>**

De Beers Group Exploration discovered the Kareevlei Kimberlites in 1991 following an extensive airborne magnetic survey of the Ghaap Plateau and drilled three holes to confirm the presence of kimberlite.

In 1993, a joint venture between Gencor and Diamond Resources (a wholly owned subsidiary of AfriOre Limited at the time) undertook further prospecting work including the drilling of nine percussion holes (for geological delineation) and seven tricone holes (for grade sampling).

In 1994, following the withdrawal of Gencor from the joint venture, Diamond Resources undertook a phase of 1m diameter auger drilling. A total of thirteen holes were drilled, three holes in each of K1 and K2 and seven holes in the larger K3 pipe.

In 2002, Diamond Resources, under the ownership of Tawana, conducted an extensive 10" percussion drilling programme (for geological delineation and grade and density sampling) on a grid of 40m on K3 and 20m on K2 to delineate these two pipes to a depth of 100m.

<sup>1</sup> Source: Competent Person's Report - paragraph 5, page 74, Part V

<sup>2</sup> Source: Competent Person's Report - paragraph 4, page 72, Part V

Treatment of the percussion material proved the presence of diamonds to a depth of 100m, but due to the relatively low grade of the pipes and the small sample support size, recoveries were insufficient for grade estimation; however, useful density measurements were realised.

As a result, in 2004, Tawana undertook a Bauer™ auger programme (initially on a diameter of 2.5m and then on a diameter of 1.5m) on four of the five pipes (K1, K2, K3 and K5) to provide grade and revenue data. A total of 5, 19, 21 and 2 holes were drilled on the K1, K2, K3 and K5 pipes, respectively. Two holes were sited on K4 but it appears that they terminated in the calcrete with no kimberlitic sample material being generated for treatment as no results were provided.

The results of the drilling programmes are sufficient to estimate grade and have been used by the Competent Person in arriving at an Inferred Mineral Resource. Prior to the Competent Person’s Report set out in Part V of this document, no mineral resource had been declared for the Kareevlei Tenements.

The detailed prospecting history including all sampling results is set out in paragraph 4 of the CPR in Part V of this document.

**Mineral Resource<sup>3</sup>**

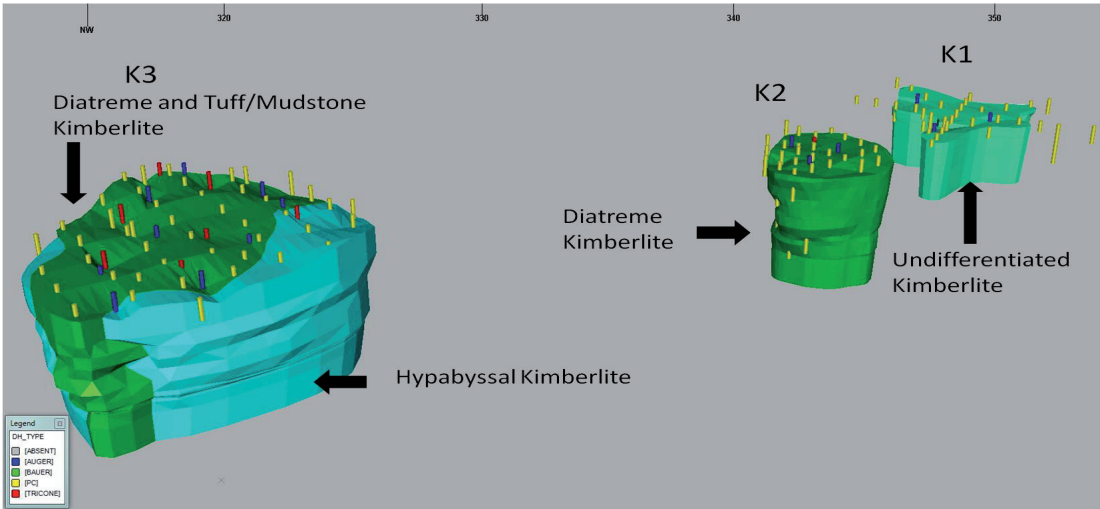
A summary of the Inferred Mineral Resource is set out below in Table 1:

Pipe	Tonnes	Carats	Grade (cpht)	Classification
K1	1,594,000	101,000	6.3	Inferred
K2	2,461,000	111,000	4.5	Inferred
K3	3,929,000	147,000	3.7	Inferred
<b>Total</b>	<b>7,984,000</b>	<b>359,000</b>		

**Table 1: Compilation of the Inferred Mineral Resources for the K1, K2 and K3 pipes at a bottom cut-off of 1mm**

Geological logging of the various phases of percussion holes were undertaken by the respective geologists on the project at the time. The most important phases of geological data acquisition are provided by the 10” percussion drilling of the K2 and K3 kimberlites and the 6.5” percussion drilling of the K1 pipe. Both of these phases involved vertically orientated drilling and were undertaken and logged by Tawana’s geologists. As the percussion chips were treated for diamond recoveries there is no possibility of verifying the geological logging. There was insufficient percussion data to model the K4 and K5 kimberlite pipes and therefore no resource can be declared for these pipes.

The data collected as a result of the prospecting to date as described above is sufficient to create the 3D models for pipes K1, K2 and K3, to depths of approximately 65m, 125m and 125m, respectively as set out below in Figure 3. These were based purely on Tawana’s geological logging and have not been re-interpreted.



**Figure 3: Schematic view of the modelled K1, K2 and K3 pipes**

<sup>3</sup> Source: Competent Person’s Report - paragraph 5.2 and 9, pages 74 and 85, Part V



There have been no previous attempts at analysing the sampling data with a view to producing a mineral resource. The data available was, however, sufficient for three dimensional models of the K1, K2 and K3 pipes to be created and for grade, density and revenue estimates to be completed. Reasonable prospects for eventual economic extraction (“RPEEE”) and a review of the confidence in the key estimation variables have both been considered and the Competent Person, Dr John Andrew Grills, was able to calculate an Inferred Mineral Resource in accordance with the SAMREC code for pipes K1, K2 and a portion of K3.

#### Density Estimation<sup>4</sup>

Density measurements in tonnes per metre cubed (t/m<sup>3</sup>) were available from the 10” percussion sampling programme on the K2 and K3 kimberlite pipes. This data was discretised to remove the bias related to sample size and then electronically coded onto the Datamine™ geological model. Density will not only vary in relation to rock type but also according to the extent of alteration or weathering that has occurred. An integral part of the geological modelling was the interpolation of surfaces to separate calcretised kimberlite from weathered kimberlite and weathered kimberlite from fresh kimberlite. Mean density values (zonal estimates) for each of the rock units and for each stage of alteration were calculated for the K2 and K3 pipes (Table 2). No robust density measurements were available for the K1 kimberlite and thus density estimates were extrapolated from the adjacent K2 pipe. No density estimate was prepared for the K5 kimberlite pipe.

Rock Code	Pipe		
	K1	K2	K3
	Density (t/m <sup>3</sup> )		
Calcrete	2.53	2.53	2.41
Calcretised Kimberlite	2.53	2.53	2.45
Weathered Diatreme	2.52	2.52	2.42
Weathered Hypabyssal	-	2.47	2.37
Weathered Tuff+Mud	-	-	2.28
Weathered Kimb Breccia	-	2.55	2.44
Fresh Diatreme	-	2.63	2.53
Fresh Hypabyssal	-	2.58	2.48
Fresh Tuff+Mud	-	-	2.37
Fresh Kimb Breccia	-	2.66	2.55

**Table 2: Density estimates for K1, K2 and K3 pipes**

#### Grade Estimation

The estimation variable utilised for grade is carats per cubic metre (c/m<sup>3</sup>) as the density has been estimated separately. Only the Bauer™ auger drilling was utilised for grade estimation as the earlier sampling programmes had an insufficient sample support size. However, it should be stressed that while the percussion drilling was not utilised in the grade estimate it did confirm the continuity of diamond recoveries to a depth of 100m in both the K2 and K3 pipes. As some of the Bauer™ auger samples had not been subjected to a re-crush treatment phase (which delivered significant diamond recoveries), factors per diamond sieve class from appropriate re-crushed samples were calculated and applied to these samples to ensure a consistent base for estimation. A decision was taken to utilise the theoretical Bauer™ auger hole volume (cross sectional area x sample length) as the sample volume in each case. In addition, the grade estimate was calculated at a 1mm square aperture sieve bottom cut-off. This involved the use of factors to add a small amount of carats (1-2%) back into each of the three smallest sieve classes.

A review of the grade samples in the Diatreme facies of the K3 kimberlite showed a significant change in grade between the north and south regions of the pipe. As a result a decision was taken to model a vertical grade boundary to subdivide the grade estimate for the Diatreme facies.

<sup>4</sup> Source: Competent Person’s Report - paragraph 6, pages 77 to 83, Part V

The estimation dataset was utilised to create c/m<sup>3</sup> grades for each of the facies modelled. The estimates were calculated by dividing the total carats by the total sampled volume in each facies. The adjusted carats and results of the zonal grade estimation are shown in Table 3.

<b>K1</b>	<b>Sample Volume (m<sup>3</sup>)</b>	<b>Carats (+2 sieve)</b>	<b>Carats Adjusted (+1mm)</b>	<b>Grade (c/m<sup>3</sup> +1mm)</b>
Calcrete	-	-	-	0.021
Undifferentiated Kimberlite	253.4	39.93	40.55	0.160
<b>K2</b>	<b>Sample Volume (m<sup>3</sup>)</b>	<b>Carats (+2 sieve)</b>	<b>Carats Adjusted (+1mm)</b>	<b>Grade (c/m<sup>3</sup> +1mm)</b>
Calcrete	301.1	4.48	4.55	0.015
Hypabyssal	-	-	-	0.117
Diatreme	604.2	69.59	70.68	0.117
Kimberlite Breccia				0.030
<b>K3</b>	<b>Sample Volume (m<sup>3</sup>)</b>	<b>Carats (+2 sieve)</b>	<b>Carats Adjusted (+1mm)</b>	<b>Grade (c/m<sup>3</sup> +1mm)</b>
Calcrete	-	-	-	0.012
Hypabyssal	146.7	0.19	0.19	0.001
Diatreme High	406.9	37.07	37.65	0.093
Diatreme Low	253.9	2.50	2.54	0.010
Tuff & Mudstone High	-	-	-	0.093
Tuff & Mudstone Low	-	-	-	0.010
Kimberlite Breccia High	-	-	-	0.023
Kimberlite Breccia Low	-	-	-	0.003
<b>K5</b>	<b>Sample Volume (m<sup>3</sup>)</b>	<b>Carats (+2 sieve)</b>	<b>Carats Adjusted (+1mm)</b>	<b>Grade (c/m<sup>3</sup> +1mm)</b>
Calcrete	-	-	-	0.016
Undifferentiated Kimberlite	165.9	20.29	20.52	0.124

**Table 3: Estimated facies grades with +1mm square aperture bottom cut-off applied**

As a number of facies were not sampled, grades had to be extrapolated from adjacent facies. In the case of the Calcrete, grades for K1, K3 and K5 were extrapolated from the Calcrete to Diatreme grade ratios in K2. As the Hypabyssal unit in K2 was not sampled, the Diatreme grade was extrapolated to this small volume unit. In K3 and K2 the kimberlite breccias which are significantly diluted with country rock were assigned 25% of the host Diatreme grade. It should be noted that the Tuff & Mudstone unit in K3 could not be estimated separately as it was sampled as part of the Diatreme facies.

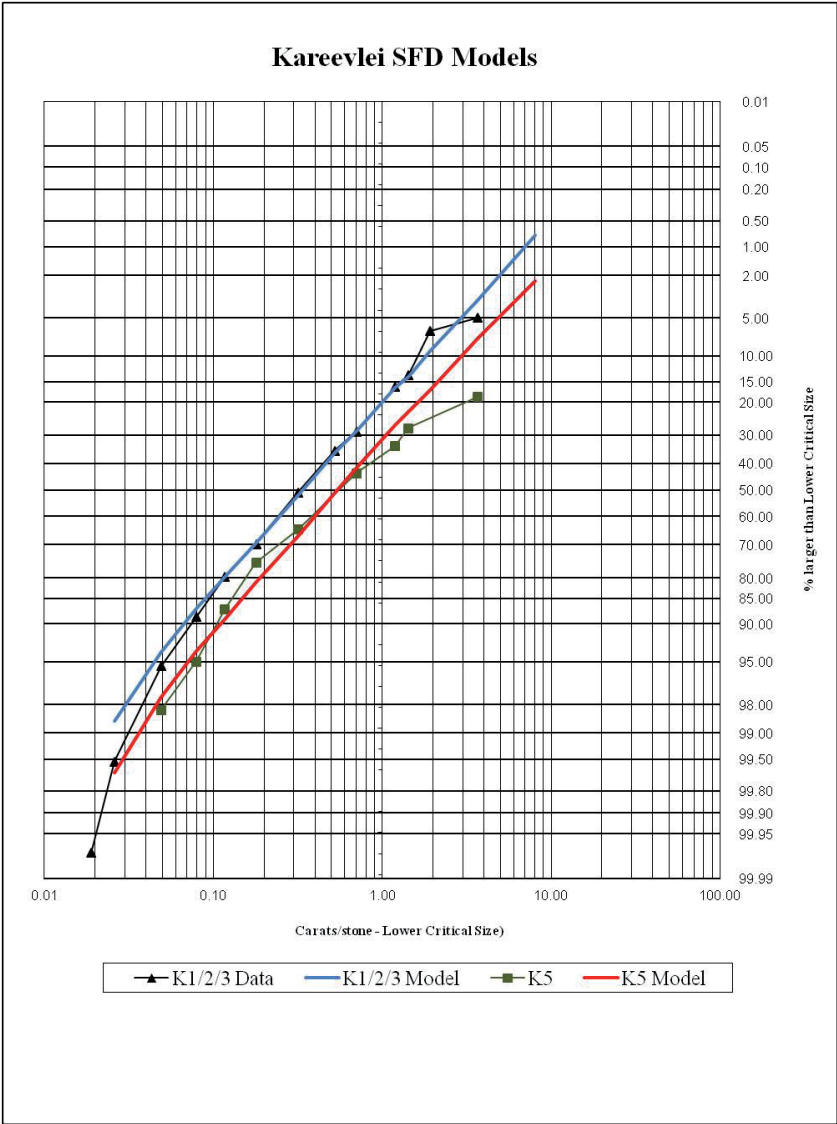
### Revenue Estimation

An estimate of the diamond revenue for a kimberlite pipe involves modelling of the diamond size frequency distribution and the diamond value (US\$ per carat per sieve class). Importantly, the revenue must be estimated at the same bottom cut-off (1mm in this case) used to calculate the grade estimate to ensure compatibility.

The raw diamond sieve data showed that there are clearly two different size frequency distributions, one for the K1, K2 and K3 kimberlite pipes that are situated in close proximity to each other and a second coarser SFD for the K5 pipe. The two size frequency distributions were modelled to allow for the 1mm square aperture bottom cut-off and to negate the loss of carats in the larger sieve classes due to a lack of sample support (Figure 4).

Two sets of US\$ per carat per sieve class data are available from valuations undertaken while Tawana were in control of the project. In 2005, Chapman (Chapman, J., 2005. Analysis of data relating to sizes and

values of diamonds from the Kareevlei deposit. Gemstyle (Pty) Ltd report) estimated a value for K1 and K2 from a parcel of 95.28 carats and, in 2008, Barker (Barker, M., 2008. Report on Kareevlei Tender Exercise Report) estimated a value from a total Kareevlei parcel of 222.90 carats. It should be noted that although the valued diamond parcels are clearly stated as being derived from the Kareevlei Tenements in the relevant reports, the caratage valued cannot be traced back to specific sample results.



**Figure 4: SFD Models at a +1mm square aperture bottom cut-off for the K1/K2/K3 pipes and the K5 pipe**

The two sets of valuation data were modelled and more representative US\$ per carat per sieve class values obtained to cover the range of the modelled K1/K2/K3 SFD. A decision was taken to select the model based on Chapman's data for the revenue estimate at Kareevlei as it represents two of the pipes that have been modelled (K1 and K2). The modelled values for Chapman's data are shown in Table 4.

<b>Modelled from Chapman's Data</b>	
<b>Sieve Class</b>	<b>Average US\$/carat</b>
>10CT	1526
5-9CTS	767
3-4CTS	464
8-10GR	312
6GR	252
5GR	221
4GR	176
3GR	139
+11	110
+9	77
+7	63
+5	47
3	41
2	40

**Table 4: Modelled values from Chapman's data**

When the US\$ per carat per sieve class data are applied to the modelled size frequency distribution for the combined K1/K2/K3 pipes, an average value of US\$141/carat is generated.

Rough diamond prices can fluctuate considerably and this is the case for the period from 2005 to 2013 which has seen a significant increase in rough diamond price, peaking between June 2011 and June 2012, followed by a more recent easing of the price. It is estimated that at the end of May 2013, diamond prices were approximately 30% higher than in 2005, therefore an average diamond price of US\$183/carat is estimated for the K1, K2 and K3 Kareevlei diamonds. It should be clearly understood that this value can vary considerably dependent on the economic environment in the major global diamond jewellery markets.

#### **Reasonable Prospects for Eventual Economic Extraction (RPEEE)<sup>5</sup>**

The SAMREC code for the reporting of mineral resources and reserves stresses the necessity for a mineral resource to have reasonable prospects for eventual economic extraction before it can be declared. This applies to Measured, Indicated and Inferred Mineral Resources.

RPEEE can be extremely difficult to quantify, especially in diamond deposits as gems are a luxury item and as a result the diamond price can exhibit considerable fluctuations based on the economic status of the major diamond markets around the world. A simple way of catering for RPEEE is to consider the economic viability of the estimates against a simplistic mining scenario to compare the potential revenue stream to realistic but generic mining and treatment costs. The RPEEE analysis is a generic model to aid definition of the mineral resource and not a detailed practical mine plan.

In terms of reasonable prospects for eventual economic extraction it is probable that only the Undifferentiated Kimberlite from K1, the Hypabyssal and Diatrema Kimberlite from K2 and the Diatrema High and Tuff & Mudstone High zones from K3 could be considered for mining. When combined with density the grades for these facies are 6.3cpht, 4.5cpht and 3.7cpht, for K1, K2 and K3, respectively.

<sup>5</sup> Source: Competent Person's Report - paragraph 7, pages 83 and 84, Part V

## Mineral Resource Classification<sup>6</sup>

In terms of assigning a level of confidence to the Kareevlei kimberlite cluster estimates, the following issues have been considered:

- The geological solid models created are based on a reasonable data density and the extrapolation has been kept to a minimum. Unfortunately, no core is available to review or check the geological interpretation. Nonetheless the models created are deemed to be a reasonable framework for the estimation of the grade, density and revenue variables and to provide representative volumes for estimation. The geology of the K3 pipe will need to be reviewed in terms of the High – Low Diatreme facies boundary.
- The density estimates are robust and based on good spatial sample coverage in both the K2 and K3 pipes. The density for K1 has been extrapolated from the adjacent K2 pipe and is of lower confidence.
- The grade estimates are zonal per facies and based on the Bauer™ auger drilling which has produced the only representative samples (in terms of size) taken at Kareevlei. Their spatial coverage is limited to the upper portions of the models in K2 and K3, although grade continuity to depth (100m) is confirmed by the 10” percussion drilling in the K2 and K3 pipes. The grades have been amended for a re-crush (where absent) and for a 1mm square aperture bottom cut-off. Zonal grades have been estimated with a fair degree of confidence and these grades are, to a large extent, replicated by less representative historic sampling programmes. The estimated grade of the Tuff & Mudstone unit in K3 is of low confidence as it was not sampled separately from the Diatreme facies. In terms of the estimate, a grade range has been calculated based on a normal distribution to reflect the risk in the estimate. The 5th and 95th percentiles of this distribution are 4.0cpht and 8.5cpht, 2.9cpht and 6.1cpht and 2.5cpht and 5.0cpht, for the K1, K2 and K3 pipes, respectively. These ranges give an indication of the scope for variability in the zonal grade values.
- The revenue estimate reflects the least confidence of any of the variables as the sample parcels are very limited in size. The combined sample parcels from K1, K2 and K3 provide a fairly robust size frequency distribution which is modelled relatively easily. The US\$/carat/sieve class data is much less robust and the valuation data will probably only stabilise with a considerably larger diamond parcel of the order of 1,000 carats. The risk in the revenue estimate is further increased by the introduction of a factor to bring the 2005 revenue estimate on to a current day price. A revenue range has therefore been calculated based on a normal distribution to reflect the risk in the estimate which gives an indication of the scope for variability in the average value of US\$183/carat. The 5<sup>th</sup> and 95<sup>th</sup> percentiles of this distribution are US\$94/carat and US\$281/carat, respectively.

Based on the considerations listed above and taking into account the RPEEE analysis the K1 (Undifferentiated), K2 (Diatreme) and K3 (Diatreme High/Tuff & Mud High) portions of the modelled kimberlite pipes can be considered to be at an Inferred level of confidence in accordance with the SAMREC code.

<sup>6</sup> Source: Competent Person's Report - paragraph 8, pages 84 and 85, Part V

## Mineral Resource and Reserve Statement

Based on the estimation of the key variables as detailed above the declarable mineral resources and reserves for the Kareevlei Kimberlites at a bottom cut-off of 1mm have been compiled (Table 5).

Kareevlei Kimberlite Cluster							
Category	Gross			Net Attributable			Operator
Mineral Reserves	Tonnes (Millions)	Grade (cpht)	Contained Carats	Tonnes (Millions)	Grade (cpht)	Contained Carats	
Proved	-	-	-	-	-	-	
Probable	-	-	-	-	-	-	
Subtotal	-	-	-	-	-	-	
Mineral Resources	Tonnes (Millions)	Grade (cpht)	Contained Carats	Tonnes (Millions)	Grade (cpht)	Contained Carats	
Measured	-	-	-	-	-	-	
Indicated	-	-	-	-	-	-	
Inferred	7.98	4.5	359,000	7.98	4.5	359,000	Diamond Resources (Pty) Ltd
Subtotal	7.98	4.5	359,000	7.98	4.5	359,000	Diamond Resources (Pty) Ltd
Total	7.98	4.5	359,000	7.98	4.5	359,000	Diamond Resources (Pty) Ltd

**Table 5: Summary of the Kareevlei Kimberlites mineral resources and reserves at a 1mm bottom cut-off**

## 7. The Mining Right

### *Mining Agreement*

Following Admission, under the terms of the Mining Agreement (which is to include amendments effected by the Supplemental Agreement), the Company may conduct Trial Mining Operations until such time as Diamond Resources obtains the approval and Ministerial Consent (pursuant to an application to be lodged under section 11 of the MPRDA in a form acceptable to both Diamond Resources and BlueRock).

BlueRock paid R150,000 to Diamond Resources on 30 April 2013 under the terms of the Kareevlei Option Agreement and following Admission shall pay R850,000 (approximately £55,000) to Diamond Resources' solicitors to be held in trust pending transfer of the Mining Right. Should the Ministerial Consent be refused the R850,000 will be returned to Kareevlei Mining on completion of all rehabilitation necessitated by any Trial Mining Operations.

The Mining Agreement, as modified by the Supplemental Agreement, provides that Kareevlei Mining may be engaged as a contractor to conduct Trial Mining Operations in the period prior to the transfer of the Mining Right. The amount that can be taken by way of bulk sample is limited to four consecutive tranches, the first two of up to 20,000 tonnes each and then a further two tranches of up to 24,000 tonnes each. Kareevlei Mining may elect to proceed with each tranche subject to providing for the increased financial obligations for rehabilitation. The amounts may be increased and further bulk samples may be taken by agreement with Diamond Resources. Trial Mining Operations are to commence within 30 days after payment by Kareevlei Mining of the R850,000 under the Mining Agreement following Admission and the second 20,000 tonne bulk sample may be taken if the first bulk sample of 20,000 tonnes has been taken within 6 months after the commencement date and the Mining Right has yet to be transferred. All diamonds recovered during the Trial Mining Operations shall be the property of Kareevlei Mining but will have to be alienated under the Mining Right which will still be held by Diamond Resources. Kareevlei Mining is to pay Diamond Resources a commission of one per cent. of gross sales after government royalty during this time.

If after eight months from the inception of the Mining Agreement, Ministerial Consent for the transfer of the Mining Right has not been obtained, under the Supplemental Agreement, unless the parties agree otherwise, Kareevlei Mining has the right to be appointed as a contractor to continue the Trial Mining Operations for an additional period of up to 24 months after the commencement date or until the Ministerial Consent is obtained, whichever occurs first.

### *Mining Work Program, Social and Labour Plan and Environment Management Programme*

The transfer of the Mining Right is subject to the terms and conditions of the Mining Right itself and also the mining work programme ("MWP") and social and labour plan ("SLP") attached to the Mining Right, which was submitted by Diamond Resources in support of its mining right application in 2007, and identified in the agreement, and to the Environmental Management Programme ("EMPR") approved by the DMR on 21 August 2007.

Kareevlei Mining, as the prospective acquirer of the Mining Right, will be required in terms of the formal application made by Diamond Resources for Ministerial Consent to transfer the Mining Right to Kareevlei Mining, to undertake to comply with not only the terms and conditions of the Mining Right, but also the MWP, SLP and the EMPR, as well as furnishing appropriate evidence to the DMR of its financial and technical ability to do so.

The current approved MWP provides for initial capital expenditure of some R2.5 million to bring the mine into production and projected average annual operating costs of approximately ZAR5 million, based on 2007 values, during the 12-year period for which the Mining Right has been granted. The Group intends as soon as possible after completion of the acquisition of the Mining Right to review and, if necessary, amend and update the MWP in line with the Company's projections based also on the results of the Trial Mining Operations.

Additional information relating to the approved SLP attaching to the Mining Right and to the social investment obligations generally of holders of mining rights in South Africa is set out in paragraph 23 of this Part I and in the overview of South African mineral and mining legislation in Part II of this document.

Based on the scoping studies and environmental impact assessments undertaken by Diamond Resources in support of its original application for the Mining Right in 2004-2006, the currently approved EMPR itemises the various rehabilitation methodologies, awareness programmes and protective initiatives that the rights-holder will be obliged to implement in order to preserve the environment against avoidable degradation and, where necessary, rehabilitate to its original condition all unavoidable disturbances caused to the environment by the intended mining operations, both during such operations and upon closure of the mine. Currently, the total estimated costs for the rehabilitation of damage caused by the mining operations, both by sudden closure during the normal operation of the project and at final planned closure amounts to R360,000 but will likely be reassessed and possibly increased, once the full scale of Kareevlei Mining's potential mining operations on the Kareevlei Tenements has been definitively established during the interim-period Trial Mining Operations. Any amendment to the EMPR requires the approval of the DMR. A rights-holder is moreover required to submit annually to the DMR an environmental audit report referenced to its EMPR obligations, and ongoing substantive compliance with such obligations is a pre-requisite for the maintenance and, if applicable, renewal of the Mining Right.

## **8. The Mining Equipment**

The Mining Equipment to be acquired by BlueRock on Admission includes an on-site processing plant and a final recovery section which is based in a leased area at the De Beers facility in Kimberley, both of which are in good condition.

The on site processing plant includes crushers, screens and a 25 tonne per hour dense media separation plant ("DMS") plant. Electricity to operate the plant is generated by three diesel powered generators. The onsite plant is in good condition and following refurbishment of the screens and crushing circuits is expected to be suitable for kimberlite treatment.

The final recovery plant based in Kimberley at the De Beers facility includes conveyors, screens, a containerised dual station Flowsort™ (X ray) machine and a grease table.

The Directors and the Proposed Director believe that the moveable plant and equipment has been kept in storage by Diamond Resources, and that Diamond Resources has continued to maintain security staff at the mine site in order to preserve the fixed plant. Following Admission, the Enlarged Board intends to retain the security staff until such time as the Company employs its own security staff.

It is the Enlarged Board's intention following Admission to engage a contractor to re-commission the existing mothballed processing equipment and commission certain other additional processing equipment and plant and associated earth moving works. It is currently expected that the Mining Equipment including the DMS would be commissioned and ready to commence operations within 3 months of Admission.

## **9. Mining Plan**

The Competent Person has assigned an inferred level of confidence to the mineral resource and considers that the principal risk is related to the revenue estimate. Therefore the Competent Person has recommended that, as a high priority, a parcel of 1,000 carats is collected to improve the confidence in the revenue estimate, and has suggested that the required caratage is obtained from the highest grade pipe, K1. The collection of a diamond parcel of this size would be difficult to undertake through drilling and as such it is recommended by the Competent Person that the K1 pipe is opened up by removing a portion of the calcrete overburden to expose the calcretised and weathered kimberlite beneath for processing.



As a result, the Enlarged Board have concluded that they will begin mining operations on the K1 pipe. The Enlarged Board intends to use contractors to remove the calcrete overburden; this will involve waste stripping, hauling, drilling and blasting during the first three months following Admission with mining activities expected to commence in the fourth month following Admission. Rather than waiting to assess a larger 1,000 carat sample, it is expected that the Enlarged Board will assess diamond recovery on a continuous basis against the estimated grades and revenues in the CPR. In the event that no diamonds are recovered, mining operations may cease completely.

Similarly to other kimberlite pipes, which are characterised by having diamondiferous deposits relatively near the surface, the Kareevlei Tenements will be exploited using open cast mining techniques, which should enable the Company to reach production relatively quickly and inexpensively compared with deeper deposits which require underground mining techniques.

It is the intention of the Company to acquire loading and hauling machinery as and when the Enlarged Board decides that there is sufficient working capital available and only then if this approach is considered to be cost efficient.

The Enlarged Board expects that operational capacity of 12,000 tonnes per month (being 144,000 tonnes per annum) is achievable using the plant in its current condition, once recommissioned.

Once K1 is operational, the Company may commence exploration work on pipes K2, K3 and K5 if sufficient cash resources are generated following the initial work on K1. The K5 pipe has insufficient delineation data to create a model but limited grade and revenue data suggests that diamonds from the K5 pipe may potentially command a significantly higher revenue due to the coarser diamond SFD and therefore a delineation drilling programme and revenue bulk sample are recommended by the CP. Should additional funds be raised, in future the Enlarged Board may undertake further exploration work at K5 in order to provide a SAMREC compliant resource for this pipe. In addition, subject to availability of funding, the Enlarged Board may investigate further K2 and K3, with a particular emphasis on providing a more accurate revenue model.

## **10. Transfer of the Mining Right**

A specialist consultant has been appointed to assist the Company with the process of the transfer of the Mining Right to Kareevlei Mining. The consultant has held initial discussions with the relevant officials at the DMR and has confirmed in writing to the Company that following the meeting with the DMR in Kimberley regarding the proposed application for transfer of the Mining Right from Diamond Resources to Kareevlei Mining, the consultant is of the opinion that the proposed BEE structure is in line with the requirements of the MPRDA and that the proposed transaction will meet the requirements of the MPRDA provided that that application is supported by proof of financial and technical ability. The consultant is of the opinion that processing of the application for transfer of the Mining Right will take approximately four months.

Shareholders should note that transfer of the Mining Right from Diamond Resources to Kareevlei Mining under the Mining Agreement is conditional on Ministerial Consent to the cession and transfer of the Mining Right under section 11(1) of the MPRDA. Further details of the transfer of the Mining Right and limitations imposed on Kareevlei Mining under the Mining Agreement are set out in paragraphs 12.3.2 and 12.3.3 in Part VI of this document.

## **11. Principal terms of the Acquisition**

### *Kareevlei Option Agreement*

Under the Kareevlei Option Agreement dated 23 April 2013, BlueRock was granted by Diamond Resources the option to purchase the Mining Right, for the sum of R1,000,000 (approximately £65,000) plus SA VAT and the Mining Equipment for R3,000,000 (approximately £196,000) plus SA VAT net of the consideration paid for the Kareevlei Option. The Kareevlei Option was exercisable for a period of six months from 23 April 2013.

On exercising the Kareevlei Option prior to Admission, Diamond Resources and Kareevlei Mining (as nominee of BlueRock pursuant to the Supplemental Agreement) are to enter into the Mining Agreement and the Equipment Agreement, the terms of which are summarised below. The Supplemental Agreement entered into between BlueRock (1) Diamond Resources (2) and Kareevlei Mining (3) on 3 August 2013 altered the terms of Kareevlei Option Agreement, the Mining Agreement and the Equipment Agreement to be entered into on the exercise of the Kareevlei Option.



### *Mining Agreement*

Under the Mining Agreement, Diamond Resources agreed to sell to Kareevlei Mining, the Mining Right for a cash consideration of R1,000,000 plus SA VAT. The net consideration of R850,000 (from which the amount paid for the Kareevlei Option of R150,000 has been deducted), is to be paid to Diamond Resources' lawyers to be held in escrow pending completion. Completion of the transfer of the Mining Right to Kareevlei Mining is conditional upon Ministerial Consent. If Ministerial Consent is refused, the R850,000 consideration will be repaid, subject to any rehabilitation costs incurred as a result of the Trial Mining Operations.

The parties are to endeavour to obtain all requisite regulatory approvals as soon as possible and in any event within eight months after the inception of the Mining Agreement. If Ministerial Consent has not been received by that date, Kareevlei Mining may extend the period of Trial Mining Operations for up to 24 months following the inception of the Mining Agreement.

In the period following the inception of the Mining Agreement, until completion or termination, Kareevlei Mining will be entitled for its own account and benefit to conduct the Trial Mining Operations on the Kareevlei Tenements within defined limits under the Supplemental Agreement. Diamonds recovered during this period will belong to Kareevlei Mining, which may deal with them as it chooses, subject to paying to Diamond Resources a commission of one per cent. of gross sales after government royalty.

Upon transfer of the Mining Right, Kareevlei Mining is obliged to provide a bank guarantee to the DMR of an amount to be determined at that time, in order to release Diamond Resources' present guarantee of R360,000.

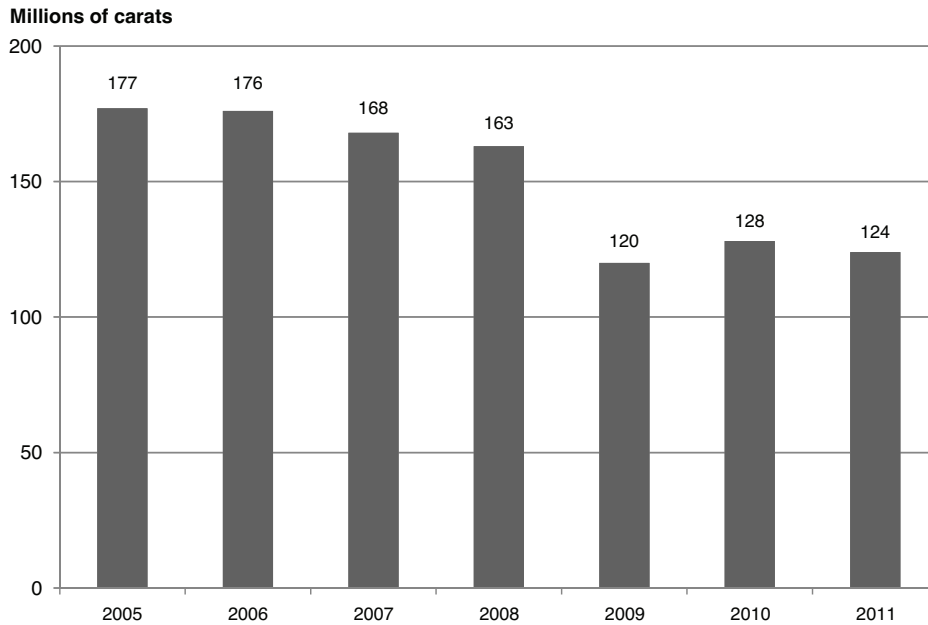
### *Equipment Agreement*

On the exercise of the Kareevlei Option, Diamond Resources and Kareevlei Mining are to enter into the Equipment Agreement, under which Diamond Resources sells and Kareevlei Mining purchases used mining plant and equipment listed in the Equipment Agreement for a consideration of R3,000,000 plus SA VAT payable under the terms of the Supplemental Agreement. On Admission, the Company then collects the equipment and becomes responsible for storage, maintenance, insurance and security. The sale is also conducted on a 'voet stoots' ("as is, where is") basis.

Further details of the Kareevlei Option Agreement, Supplemental Agreement, Mining Agreement and Equipment Agreement are set out in paragraphs 12.3.1, 12.3.2, 12.3.3 and 12.3.4 of Part VI of this document.

## **12. Overview of the diamond industry**

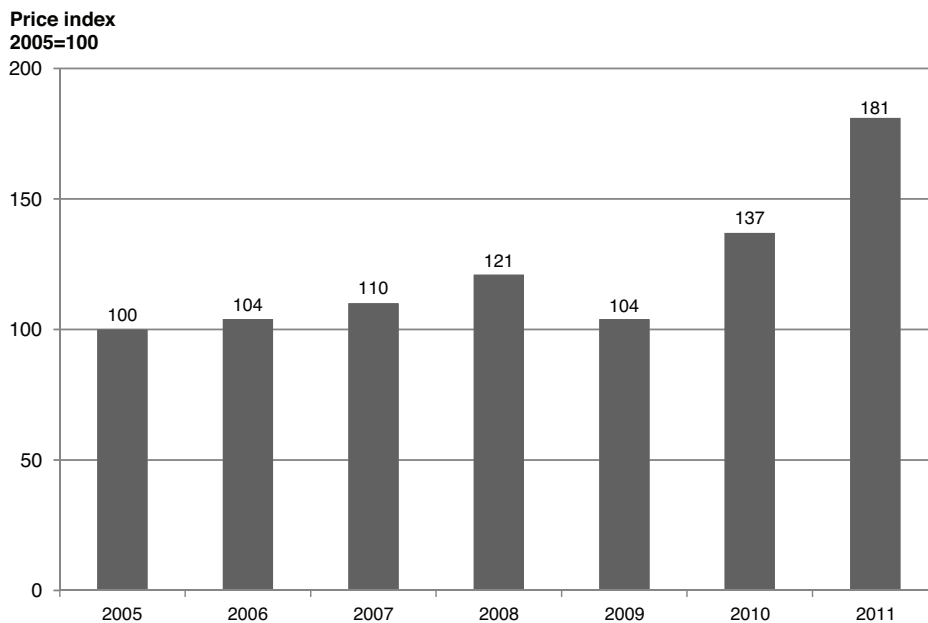
Natural diamonds are among the world's most precious natural resources, in 2011, 124 million carats of rough diamonds valued at US\$15 billion were produced. The rough diamond industry has seen a near continuous decline in production since 2005, when 177 million carats were produced. This drop in supply has been caused by a number of factors ranging from technical problems, adverse meteorological events, falling reserves and a lack of new discoveries of diamondiferous deposits.



**Figure 5: Global Rough Diamond Production**

The reducing supply to 2011 contrasts with increasing demand, predominantly from China and India, who are still experiencing strong economic growth, albeit at a slower rate than prior to the global financial crisis. As wealth and disposable income in both countries increases, diamond sales are booming, with China now the second largest diamond jewellery market after the United States, and both China and India recording double digit growth in demand as consumer adoption of Western gifting practices such as diamond rings for engagements become expected and the social norm for the more affluent.

China in particular has seen significant growth in the diamond jewellery market, averaging 32 per cent. per year since 2005, resulting in around 90 per cent. of affluent households, defined as those having a household income of more than US\$15,000, owning at least one piece of diamond jewellery. This growth has outstripped even that of luxury handbags which have averaged 25 per cent. growth and cars at 22 per cent., resulting in diamond jewellery being China's fastest growing discretionary purchase.



**Figure 6: Rough Diamond Pricing**

The strong demand growth and supply constraints led to a significant increase in the price of rough diamonds between 2009, the height of the financial crisis, and 2011. In 2012, pricing fell by approximately 14 per cent., with average prices on the open market recovering by between 5 per cent. and 12 per cent. in the first half of 2013.

At the start of the twentieth century, De Beers was the world's leading diamond producer, accounting for approximately 90 per cent. of the world's rough diamond production and distribution. Over the past 20 years, the diamond industry has experienced significant structural changes, brought about by De Beers changing its strategic focus, which has led to the market opening up with the introduction of additional competition on the supply side from new producers. Today, the three major rough diamond producers are Alrosa, De Beers and Rio Tinto, who together are responsible for more than 60 per cent. of global rough diamond production, with smaller producers making up the balance.

London, Moscow and Antwerp are the main centres for the purchase and trade of rough diamonds, along with, for locally produced diamonds, the tender houses of Kimberley and Johannesburg.

### **13. Directors, Proposed Director and directors of the Company's Subsidiary, Kareevlei Mining**

#### **Directors**

##### ***Paul John Beck, aged 68, Non Executive Chairman, British/South African***

Paul Beck was born and went to school in South Africa. He is a member of a well known South African mining family and has experience in the real estate and natural resource sectors, in the UK, US and South Africa. He was a founding Director and Chairman of Firstland Oil & Gas, which owned oil exploration assets in the Falklands and oil and gas producing wells in the US. Mr Beck has undertaken projects with black economic empowerment partners in South Africa, and has worked on tailings retreatment projects in the region.

##### ***Christiaan ("Riaan") Breytenbach Visser, aged 53, Chief Executive Officer, South African***

Riaan Visser is a Chartered Accountant based in Kimberley, and is responsible for the day to day running of the company and the finance function.

Riaan has been involved in diamond mining and tailings retreatment projects in the Kimberley area since 1995 and is currently CFO of Kimberley Consolidated Mines, formerly a Johannesburg Stock Exchange AltX listed company, where he was appointed by shareholders to wind down the business following suspension of trading of the company's shares.

He holds a Bachelor's Degree in Accounting Science from the University of South Africa and is a member of the South African Institute of Chartered Accountants.

##### ***John Leslie Courtney Kilham, aged 57, Chief Technical Officer, South African/British***

John Kilham is a geologist with 33 years of experience, 27 of which he spent with De Beers and most recently was responsible for resource evaluation projects in Kimberley. He has particular experience in resource estimation, open cast diamond mining, tailings retreatment and diamond recovery plant and machinery.

He is a member of the Geological Society of South Africa, a certified professional of the South African Council for Natural Scientific Professions (SACNASP) and is qualified as a competent person. He holds a Masters degree in Geology, has dual South African and British nationality and is based in Kimberley, South Africa.

John will assume technical responsibility for the implementation of the Group's mining plan.

##### ***Andries ("André") Thomas Markgraaff, aged 56, Non Executive Director, South African***

André Markgraaff started his business career in 1987 following a successful career playing rugby and is now based in Kimberley and Stellenbosch, South Africa. He has been awarded Northern Cape Business Man of the year, and in 2005, he was awarded first place overall in the category "Northern Cape leaders and achievers – Outstanding service and contribution to the Northern Cape economy by a business person" by Professional Management Review (PMR), a business publication which issues annual awards for achievement in business in South Africa.

##### ***Jonathan Stuart Quirk, aged 61, Non Executive Director, British***

Jonathan Quirk qualified as a Chartered Accountant and has worked in the financial services sector since 1974 for, among others, Morgan Grenfell and Deutsche Bank in their capital markets divisions. In 1997 he became a founding director of Cairnsea Investments Ltd, an investment company, where for the last 15 years he has specialised in investing in quoted and unquoted smaller companies, particularly in the financial and more recently the natural resources sector.

## Proposed Director

### **Timothy (“Tim”) Grahame Leslie, aged 47, Non Executive Director, British**

Tim Leslie has worked in the financial markets for over 25 years. He joined Paribas in 1986 and since has worked for JPMorgan, HSBC and then at Donaldson Lufkin & Jenrette (“DLJ”). In 2000, DLJ was bought by Credit Suisse and Tim left to join the hedge fund Moore Capital Management LLC as a portfolio manager. In 2003 Tim launched a new fund at Moore Capital, the Moore Credit Fund, for which he was the Chief Investment Officer. Tim left Moore Capital in 2008 and launched James Caird Asset Management LLP with assets under management of USD3.6bn as at launch. In 2011, Tim founded JCAM investments Ltd to run a family office and make longer term investments.

### **Kareevlei Mining**

Riaan Visser, Timothy Leslie and William van Wyk are directors of the Company’s Subsidiary, Kareevlei Mining.

### **William (“Willie”) Alexander van Wyk, aged 54, South African**

Kareevlei Mining’s BEE Partner is Ghaap Mining, a company wholly owned by William van Wyk. Mr van Wyk is an experienced diamond mining plant engineer with 26 years service with De Beers. He has particular expertise in the manufacturing, design, and maintenance of diamond recovery machinery and will be actively involved in Kareevlei Mining’s operations.

## 14. Summary of Financial Information

The tables below summarise the Company’s financial performance since incorporation extracted without material adjustment from the historical financial information on the Company contained within Part IV.B of this document.

	<b>11 October 2012 to 31 March 2013 £’000</b>
<b>Summary income statement</b>	
Other expenses	(152)
Operating loss and loss before tax for the period	(152)
Taxation	-
Loss and total comprehensive income for the period	<u>(152)</u>

The expenses incurred by the Company from incorporation to 31 March 2013 related primarily to costs in respect of research into potential investment and/or acquisition targets (including travel expenses), and legal and other professional costs related to the admission to the ISDX Growth Market.

As at 31 March 2013 the Company had net assets of £0.3 million comprising:

	<b>31 March 2013 £’000</b>
<b>Summary statement of financial position</b>	
<i>Total non-current assets</i>	-
<i>Current assets</i>	473
<i>Current liabilities</i>	<u>(149)</u>
Total net assets	<u>324</u>
Total equity	324

### **Kareevlei Mining**

Kareevlei Mining is a newly incorporated company, which has not traded and has not entered into any material transactions other than those set out in paragraph 12 of Part VI of this document and therefore summary financial information is not available.

## 15. Current Trading and Future Prospects

The Company has not traded since its incorporation save for the incurring of costs relating to the ISDX Admission, due diligence in relation to potential acquisitions (including the Kareevlei Tenements) and expenses in relation to Admission. In order to keep overheads low, the Directors and the Proposed Director have not received any remuneration from the date of incorporation to Admission.

Cash and cash equivalents at bank as at 31 July 2013 was approximately £224,000. Since the execution of the Kareevlei Option Agreement on 23 April 2013, the Company has been focussed on investigating the Kareevlei Tenements and completing the Acquisition.

### Prospects for the Group

Save as described in Parts I, IV and VI of this document, there has been no significant change in the financial position of the Company since 31 March 2013.

Following Admission, the Group's focus will be the development of the Kareevlei Tenements, with the intention that production will commence within four months following Admission. The Enlarged Board intends to continue to review other potential projects if opportunities arise.

## 16. Reasons for the Placing and Use of Proceeds

The gross proceeds of the Placing, being £1.31 million, will be used to purchase the Mining Right and the Mining Equipment, to fund plant upgrade, plant refurbishment, mine set up costs, the development of pipe K1, costs of Admission and working capital requirements of the Group, as follows:

Use of funds	(£)	(ZAR)
Purchase of Mining Right	55,556	850,000
Purchase of the Mining Equipment	196,078	3,000,000
Environmental rehabilitation guarantees	23,529	360,000
Plant refurbishment and initial plant upgrade	98,039	1,500,000
Mine set up costs	130,719	2,000,000
Discretionary plant upgrade	130,719	2,000,000
Working capital and costs relating to Admission	676,859	10,335,938
<b>Total</b>	<b>1,311,499</b>	<b>20,065,938</b>

## 17. Details of the Placing

The Company has conditionally raised £1.31 million, before expenses (£0.96 million net of expenses), through the Placing being undertaken by SP Angel of 18,735,703 Placing Shares at 7 pence per Placing Share. The Placing Shares will represent approximately 59.4 per cent. of the Enlarged Share Capital on Admission.

On 19 August 2013, the Company, the Directors and SP Angel entered into the Placing Agreement pursuant to which SP Angel agreed, subject to certain conditions, to use its reasonable endeavours to procure subscribers for Placing Shares pursuant to the Placing. Under the Placing, the Placing Shares have been conditionally placed with existing shareholders and other investors.

Paul Beck, Jonathan Quirk and Timothy Leslie have subscribed for 200,000, 428,571 and 4,285,714 Placing Shares, respectively. Immediately following Admission, the Enlarged Board and their immediate families are expected to hold in aggregate 8,382,785 Ordinary Shares amounting to approximately 26.6 per cent. of the Enlarged Share Capital on Admission.

The Placing is subject to the satisfaction of conditions contained in the Placing Agreement, including Admission occurring on or before 4 September 2013 (or such later date as SP Angel and the Company may agree, being not later than 18 September 2013). The Placing Agreement contains provisions entitling SP Angel to terminate the Placing (and the arrangements associated with it) at any time prior to Admission in certain circumstances. If this right is exercised, the Placing will lapse, any monies received in respect of the Placing will be returned to applicants without interest and Admission will not occur.

The Placing Shares will rank, on issue, pari passu in all respects with the Existing Ordinary Shares of the Company including the right to receive all dividends and distributions paid or made in respect of the Ordinary Shares. The Placing Shares will be issued free from all liens, charges and encumbrances.

Further details of the Placing Agreement are set out in paragraph 12.2.2 of Part VI of this document.

## 18. Share Options

The Enlarged Board believes that the Company's success is highly dependent on the quality and loyalty of the current and future directors and employees. To assist in the recruitment, retention and motivation of high quality directors and employees as necessary, the Company must have an effective remuneration strategy. The Enlarged Board considers that an important part of this remuneration strategy is the ability to award equity incentives and, in particular, share options.

The following Share Options have been granted to the Directors and the Proposed Director under the Share Option Agreements as described in paragraph 9 of Part VI of this document:

<b>Directors/Proposed Director</b>	<b>Number of Ordinary Shares subject to Share Options</b>	<b>Percentage of Enlarged Share Capital subject to Share Options</b>
André Markgraaff	472,876	1.5
John Kilham	472,876	1.5
Jonathan Quirk	945,750	3.0
Paul Beck	472,876	1.5
Riaan Visser	1,891,502	6.0
Timothy Leslie	472,876	1.5
<b>Total</b>	<b>4,728,756</b>	<b>15.0</b>

The Share Options are exercisable at any time up to five years after Admission. The Option Shares under each Share Option are divided into three equal tranches of one third. The exercise price that is to be paid on subscription for Ordinary Shares on the exercise of the Share Options is to be applied at different rates for each tranche of the Option Shares. For the first portion of one third of the Share Options the exercise price is 18p per share. For the second third of the Share Options, the exercise price will be 40p per share. For the remaining third of the Share Options, the exercise price will be 55p per share.

Further details of the Share Option Agreements are set out in paragraph 9 of Part VI.

## Future grants of Share Options

The Enlarged Board intends that a maximum of 15 per cent. of the issued share capital of the Company (as enlarged) from time to time will be under option.

## 19. Corporate Governance and Internal Controls

The Company is not required to comply with the provisions of the UK Corporate Governance Code. However, the Enlarged Board recognises the importance of sound corporate governance and will take appropriate measures to ensure that the Company complies with the main provisions of the UK Corporate Governance Code, as far as practicable and to the extent appropriate given the Company's size, assets, liabilities and other relevant information.

The Company will hold regular board meetings throughout the year at which reports relating to the Group's operations, together with financial reports will be considered. The Enlarged Board is responsible for formulating, approving and reviewing the Group's strategy, budgets, major items of expenditure and senior personnel appointments.

## Audit Committee

The Company has established an audit committee, which comprises Paul Beck, André Markgraaff and Jonathan Quirk, being non-executive members of the Board, with Jonathan Quirk appointed as chairman. The audit committee's main functions include, inter alia, reviewing and monitoring internal financial control systems and risk management systems on which the Company is reliant, considering annual and interim accounts and audit reports, making recommendations to the Enlarged Board in relation to the appointment and remuneration of the Company's auditors and monitoring and reviewing annually their independence, objectivity, effectiveness and qualifications.



### **Remuneration Committee**

The Company has established a remuneration committee, which comprises Paul Beck, André Markgraaff and Jonathan Quirk, is chaired by Jonathan Quirk, and meets as often as required to enable the remuneration committee to fulfil its obligations to the Company. The remuneration committee will be responsible for reviewing the performance of the Chairman and the executive directors and for setting the scale and structure of their remuneration, paying due regard to the interests of Shareholders as a whole and the performance of the Group. The remuneration committee will also approve the design of and determine targets for any performance-related pay schemes operated by the Company.

### **Nominations Committee**

The Company has established a Nominations Committee which comprises Paul Beck, André Markgraaff and Jonathan Quirk, is chaired by Jonathan Quirk, and meets when required. The Nominations Committee will consider the selection and re-appointment of board members. It will identify and nominate candidates to fill board vacancies and review regularly the structure, size and composition (including the skills, knowledge and experience) of the board and make recommendations to the board with regard to any changes.

### **Share dealing code and AIM Rule compliance policy**

The Company has adopted a model code for share dealings in Ordinary Shares which is appropriate for an AIM company, including compliance with Rule 21 of the AIM Rules for Companies relating to the Enlarged Board's and employees' dealings in Ordinary Shares. The Company has also adopted an AIM Rules compliance policy with effect from Admission.

### **Independence of Non-executive Directors**

The Company has departed from certain aspects of the guidelines set out in the UK Corporate Governance Code and the QCA Guidelines in that non-executive directors have been granted options. Share Options granted to the Enlarged Board are not subject to performance criteria. Details of the Share Options granted to the Enlarged Board and their terms, are set out in paragraph 9 of Part VI of this document.

## **20. Enlarged Board's interests, lock-in and orderly market agreements**

The Enlarged Board's aggregate interests in Ordinary Shares following Admission will amount to 8,382,785 Ordinary Shares representing approximately 26.6 per cent. of the Enlarged Share Capital and Share Options over a further 4,728,756 Ordinary Shares under the Share Option Agreements further details of which are set out in paragraph 9 of Part VI of this document.

The Enlarged Board, Front Square Securities Limited (a company wholly owned by Paul Beck and his wife, Marja Beck), Sarah Leslie (the wife of Timothy Leslie) and Mark Poole (being a substantial shareholder as defined by the AIM Rules) who will hold in aggregate 13,668,499 Ordinary Shares representing 43.4 per cent of the Enlarged Share Capital have agreed not to dispose of any interests in Ordinary Shares within a period of 12 months following Admission (the "Lock-In Period"), save subject to certain specific circumstances permitted by the AIM Rules (the "Lock-in Agreements").

Furthermore, each of the locked-in shareholders referred to above has undertaken to the Company and SP Angel, not to dispose of their Ordinary Shares for a period of 12 months after the end of the Lock-In Period without consulting SP Angel (or such other broker as may be appointed by the Company from time to time).

The Enlarged Board and the other shareholders referred to above have entered into the Lock-in Agreements that supersede the lock-in agreements that were entered into at the time of admission to the ISDX Growth Market in March 2013. At that time other shareholders entered into lock-in agreements in which they agreed to restrict the sale of their existing ordinary shares. Those shareholders are not required to enter into new lock-in agreements under the AIM Rules as a result of Admission but the restrictions imposed by the earlier lock-in agreements continue to apply.

## **21. Settlement and CREST**

Settlement of transactions in the Ordinary Shares following Admission may take place within CREST if relevant Shareholders so wish. CREST is a paperless share transfer and settlement system which allows shares and other securities to be held in electronic rather than paper form. CREST is a voluntary system and holders of Placing Shares who wish to receive and retain share certificates will be able to do so. It is anticipated that certificates in respect of any Placing Shares held in certificated form will be despatched by 11 September 2013.

## **22. Dividend Policy**

The Enlarged Board intends to commence the payment of dividends when it becomes commercially prudent to do so. The Company does not plan to pay cash dividends on the Ordinary Shares for the foreseeable future although this will be reviewed periodically by the Enlarged Board. The payment of dividends will be subject to the availability of financial resources and having regard to the need to retain sufficient funds to finance the development of the Company's activities. The Company may need to retain funds to finance the requirements of the Group.

## **23. Social, Ethical and Environmental Responsibilities**

The Company believes in supporting the local community and working closely with all communities that it engages with during the exploration and development process. The Group intends to hire local labour wherever possible to support exploration and operations in the field and provide accident cover and medical treatment for workplace accidents. The Company believes in developing relationships with local communities in the project areas and providing employees with suitable training to provide a positive local impact.

The Group is committed to causing the minimum environmental impact during all stages of development of the Kareevlei Kimberlites. The Group's activities will be designed to be low impact, environmentally friendly and ecologically sound. The Group will endeavour to operate in full conformity with South African environmental regulations and guidelines.

Upon acquiring the Mining Right, the Company's Subsidiary, Kareevlei Mining, will moreover be bound by the obligations imposed on Diamond Resources as the current holder of the Mining Right, in the Social and Labour Plan ("SLP") approved in 2007 which forms part of the Mining Right, unless or until the SLP is reviewed and amended with the approval of the DMR. The existing SLP makes provision for a wide range of human resource development initiatives, as well as procurement, enterprise development and social projects and programmes supportive of the local community in the project area to be implemented over the term of the Mining Right, which the Company, through Kareevlei Mining, will continue to support. The total estimated cost of the social development spend committed by Diamond Resources in the current SLP is approximately R500,000 per annum, totalling some R10.5 million over the then-projected 21-year life of mine of the Kareevlei Tenements.

## **24. The Bribery Act**

The Government of the United Kingdom has issued guidelines setting out appropriate procedures for companies to follow to ensure that they are compliant with the UK Bribery Act 2010. The Company has conducted a risk review into its operational procedures to consider the impact of the UK Bribery Act 2010 and the Enlarged Board will adopt an anti-bribery policy on Admission. The Company will implement appropriate procedures, including arranging training for the Enlarged Board, employees and consultants in order to comply with the legislation.

## **25. The Takeover Code**

The Panel has confirmed that the Takeover Code does not currently apply to the Company as the ISDX Growth Market is not a regulated market and the Company is not currently considered by the Panel to have its place of central management and control in the United Kingdom, the Channel Islands or the Isle of Man. In addition, the Company will not be subject to the Takeover Code on Admission. The Company will however become subject to the Takeover Code from 30 September 2013, when the Takeover Code's residency test is abolished in respect of UK multilateral trading facility companies (including AIM companies).

Under Rule 9 of the Takeover Code, any person who acquires an interest in shares (as defined in the Takeover Code), whether by a series of transactions over a period of time or not, which (taken together with any interest in shares in which he and persons acting in concert with him are interested) carry 30 per cent. or more of the voting rights of a company which is subject to the Takeover Code, that person is normally required by the Panel to make a general offer to all of the company's shareholders to acquire the remaining shares in that company not held by him.

Similarly, when any person, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. of the voting rights of such a company but does not hold shares carrying more than 50 per cent. of such voting rights, a general offer is required if any further interest in shares are acquired by any such person or persons acting in concert with him.

An offer under Rule 9 must be in cash and at the highest price paid by the person required to make the offer, or any person acting in concert with him, for any interest in shares of the company during the 12 months prior to the announcement of the offer.



Under the Takeover Code, a concert party arises where persons who, pursuant to an agreement or understanding (whether formal or informal), co-operate to obtain or consolidate control of a company or to frustrate the successful outcome of an offer for a company. Control means holding, or aggregate holdings, of shares carrying 30 per cent. or more of the voting rights of the company, irrespective of whether the holding or holdings give de facto control.

## **26. Shareholder notification and disclosure requirements**

Shareholders are obliged to comply (where necessary) with the notification and disclosure requirements set out in Chapter 5 of the DTR. The DTR can be accessed and downloaded from the FCA's website at <http://fshandbook.info/FS/html/handbook/DTR/5>. Shareholders are urged to consider their notification and disclosure obligations carefully as a failure to make a required disclosure to the Company may result in disenfranchisement.

## **27. Taxation**

General information regarding UK taxation is set out in paragraph 13 of Part VI of this document. These details are intended however only as a general guide to the current tax position under UK law. Shareholders who are in doubt as to their tax position or who are subject to tax in jurisdictions other than the UK are strongly advised to consult their own independent financial adviser.

## **28. Risk Factors**

**Your attention is drawn to the risk factors set out in Part III of this document. Potential investors should carefully consider the risks described in Part III before making a decision to invest in the Company.**

## **29. General Meeting**

The Acquisition is classed as a reverse takeover for the purposes of Rule 59 of the ISDX Growth Market Rules for Issuers and is therefore conditional upon the approval of Shareholders. A notice convening a general meeting of the Company, to be held at 9.00 a.m. on 3 September 2013 at the offices of SP Angel Corporate Finance LLP, Prince Frederick House, 35-39 Maddox Street, London W1S 2PP, is set out at the end of this document. At that meeting the Resolutions will be proposed in order to approve the Capital Restructuring, obtain Shareholder approval for the Acquisition, grant powers of allotment and disapplication of pre-emption rights in respect of the Placing and for the grant of Share Options, adopt new Articles of Association and appoint Timothy Leslie as a director, conditional on Admission. Further details of the Resolutions are set out below:

- Resolution 1 is an ordinary resolution to approve the Capitalisation Issue of new Ordinary Shares of 0.01p by the capitalisation of amounts standing to the benefit of the share premium account;
- Resolution 2 is an ordinary resolution to consolidate the Ordinary Shares of the Company on the basis of one new Ordinary Share of 1p for each one hundred existing Ordinary Shares of 0.01p;
- Resolution 3 is an ordinary resolution to approve the Acquisition for the purposes of the ISDX Growth Market Rules and the AIM Rules;
- Resolution 4 is an ordinary resolution to authorise the Directors under section 551 of the Act to issue Ordinary Shares up to a limit of £281,932.15 in nominal value of the share capital of the Company;
- Resolution 5 is a special resolution to authorise the Directors under section 570 of the Act to issue Ordinary Shares for cash up to a limit of £281,932.15 of the share capital of the Company on a non pre-emptive basis;
- Resolution 6 is a special resolution to adopt new Articles of Association; and
- Resolution 7 is an ordinary resolution to appoint Timothy Grahame Leslie as a Director with effect from and conditional upon, Admission.

## **30. Capital Restructuring**

At present the issued share capital of the Company consists of 12,789,338 Ordinary Shares of 0.01p each. In order to increase the nominal value of the issued Ordinary Shares, the Enlarged Board has resolved to restructure the ordinary share capital. As a first step the Company is to effect the Capitalisation Issue by which a total of £126,614.4462 credited to the share premium account is to be applied in paying up 1,266,144,462 Ordinary Shares of 0.01p each, which Ordinary Shares are to be issued to the holders of

Ordinary Shares on the register on 3 September 2013 (the "Record Date") on the basis of 99 new Ordinary Shares for each one Ordinary Share registered in the name of each shareholder on the Record Date. The effect of the Capitalisation Issue will be to increase the number of Ordinary Shares held by each Shareholder as at the close of business on 3 September 2013 by a factor of one hundred.

As a result a total of 1,278,933,800 Ordinary Shares will be in issue following the Capitalisation Issue. The Enlarged Board consider that this number of Ordinary Shares in issue would be unduly high and that it would be helpful to reduce the total number by way of the Consolidation. The effect of the Consolidation will be to reduce the number of Ordinary Shares held by each Shareholder as at the close of business on 3 September 2013 by a factor of one hundred.

The total number of issued Ordinary Shares following the Capitalisation Issue and the Consolidation will be 12,789,338 Ordinary Shares of 1p each. The value attributed to each member's holding as a proportion of the total issued share capital will not be reduced as a result of the Capitalisation Issue and the Consolidation.

The existing ISIN, GB00B84H1764, will remain current and Euroclear's records will be amended to reflect the new nominal value. Certificated holders will receive new share certificates which are expected to be despatched by 11 September 2013.

### **31. Articles of Association**

The existing articles of association of the Company were adopted on the incorporation of the Company and were considered suitable for a public company listed on the ISDX Growth Market. Certain adaptations to the CREST Regulations and to the constitutional provisions introduced by the Companies Act have occurred since adoption. Accordingly, the Enlarged Board proposes that new Articles of Association are to be adopted to take account of these changes and to replace the existing articles of association. The content of these new Articles of Association is summarised in paragraph 5 of Part VI of this document. The new Articles of Association are to be adopted by a special resolution at the General Meeting (Resolution 6).

### **32. Action to be taken**

Shareholders will find enclosed with this document a Form of Proxy for use at the General Meeting. Whether or not you intend to be present at the General Meeting you are requested to complete, sign and return the Form of Proxy to the Company's Registrars, Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL, as soon as possible but, in any event, so as to arrive by no later than 9.00 a.m. on 30 August 2013. The completion and return of a Form of Proxy will not preclude you from attending the meeting and voting in person should you wish to do so.

### **33. Recommendation**

The Directors and the Proposed Director consider that the terms of the Proposals are fair and reasonable and are in the best interests of Shareholders and the Company as a whole. Accordingly, the Directors and the Proposed Director recommend Shareholders to vote in favour of the Resolutions as they intend to do so in respect of their own shareholdings, amounting in aggregate to 3,468,500 Ordinary Shares, representing 27.1 per cent. of the Existing Ordinary Shares.

### **34. Further information**

**The attention of investors is drawn to the information contained in Parts II to VI of this document which provides additional information on the Company, and in particular Part III which set out certain risk factors relating to the Company and the Proposals.**

## **PART II: PRINCIPAL MINERAL AND MINING LEGISLATION IN SOUTH AFRICA**

### **1. Legal Framework**

There are three spheres of government in South Africa, namely national, provincial and local government, all of whom are competent to make legislation. The Constitution is the supreme law in South Africa. It prescribes the competence of the government to make and administer laws on various matters, and imposes an obligation on all spheres of government to co-operate with one another where their functions and powers overlap. The legislation specifically providing for mining activities in South Africa is the Mineral and Petroleum Resources Development Act No 28 of 2002 (MPRDA). The MPRDA recognises the State as the custodian and guardian of all mineral resources within South Africa and aims to assist historically disadvantaged persons by promoting equitable access to the country's resources and allows equal access to potential investors. The MPRDA regulates a number of matters including:

- the prospecting for, processing, utilisation and disposal of minerals;
- safety and health in the mining industry;
- rehabilitation of land disturbed by exploration and mining, in addition to the National Environmental Management, Act 107 of 1998 (as amended) ("NEMA"); and
- the beneficiation, purchase, sale and export of diamonds are, additionally, regulated in terms of the Diamonds Act, No 56 of 1986 (as amended) and the Diamond Export Levy Act, 15 of 2007.

The legal system in South Africa can be described as broadly transparent and enabling of participation. The Broad Based Black Economic Empowerment Act came into operation on 21 April 2004 (BBBEEA), and aims to establish a legislative framework for the promotion of black economic empowerment (BEE) as a means to redress the inequalities of apartheid by giving previously disadvantaged groups (black Africans, Coloureds, Indians and Chinese (declared "Black" in June 2008) who are citizens of South Africa) (referred to as HDSAs) economic opportunities previously not available to them. It includes measures such as employment equity, skills development, ownership, management, socio-economic development and preferential procurement.

The Minister of Trade and Industry is empowered to issue codes of good practice and to publish transformation charters. These codes and charters provide guidelines for stakeholders in the relevant sectors of the economy to draw transformation charters for their sector. BEE is relevant across all sectors of South Africa.

Mining activities in South Africa are regulated by two branches of government, namely the Mine Health and Safety Inspectorate of the Department of Mineral Resources (DMR) (represented in the various provinces by Principal Inspectors), and the Mineral Regulation branch of the DMR which regulates the mining and minerals industry by managing the administration and evaluation of prospecting and mining rights in the respective provinces.

Before the commencement of prospecting or mining activities, a person needs to obtain the necessary right. The nature of these rights, once registered, are limited real rights. An application for a permission, right or permit to a mineral must be lodged by submitting an appropriate completed form, accompanied by a prescribed plan of the land to which the application relates. Notice to, and consultation, with interested and affected parties must take place upon lodgement of certain applications. On compliance with the requirements for the granting of permissions, rights or permits, a delegate of the Minister or designated agency of the Minister will grant the respective permissions, rights or permits. Registration of all prospecting rights, mining rights, exploration rights or production rights must be finalised at the Mineral and Petroleum Titles Registration Office within a prescribed time.

### **2. Mining law and tenure**

#### **2.1 Introduction and historical perspective**

Until 30 April 2004, South Africa had a dual system of common-law mineral rights entitling the holder to prospect and mine for minerals and formal regulation through the Minerals Act, No 50 of 1991 (Minerals Act). The Minerals Act provided for authorisations to prospect or mine in terms of prospecting permits or mining authorisations, but these were granted only to the mineral right owner, or someone who had the consent of the mineral right holder in respect of the relevant land in question. The MPRDA became law on 1 May 2004 and repealed the Minerals Act. The MPRDA regulates the prospecting for, and optimal exploitation, processing and utilisation of minerals, provides for historically disadvantaged persons to enter the mineral and mining industry, and controls the rehabilitation of land disturbed by exploration and mining.

## **2.2 Prospecting rights and mining rights**

The MPRDA provides that South Africa's mineral and petroleum resources are the common heritage of all of the people of South Africa and that the State is the custodian of those resources for the benefit of all South Africans.

Owing to the change brought about by the new MPRDA system, provision had to be made for a transition from the common-law system as read with the Minerals Act, in which the role of the State was regulatory in nature and in which the right to prospect and mine vested in the holder of the relevant mineral rights, to the new regime which provides for the State to grant prospecting rights and mining rights. The MPRDA contains transitional provisions that provide for the preservation and validity of certain old order rights that were in force immediately before the MPRDA came into effect, for limited periods after the commencement of the MPRDA. The prescribed transitional periods have since expired, and these transitional provisions are largely of historic interest only save for applications for conversion thereunder which are still pending.

The mining right over the Kareevlei Tenements was granted to Diamond Resources as a "new-order" mining right in terms of section 22 of the MPRDA, based on its "old-order" prospecting right, and not pursuant to a conversion of such old-order right to a new-order right under the transitional provisions of the MPRDA.

The MPRDA seeks to facilitate participation by HDSAs in mining ventures and to ensure that unexploited mining rights and prospecting rights are exploited by using the "use-it or lose-it" principle which has been accepted and applied in many developed countries.

Complying with the BEE targets set by the South African Government is now a prerequisite for being granted prospecting rights and mining rights.

Applicants for a mining right under the MPRDA must demonstrate that the granting of such right will:

- substantially and meaningfully expand opportunities for HDSAs, including women, to enter the mineral and petroleum industry in order to benefit from the exploitation of the nation's mineral and petroleum resources; and
- promote employment and advance the social and economic welfare of all South Africans.

The Mining Charter (which was amended in 2010) and the scorecard relating to it, requires HDSA participation in management at both junior and senior level and an ownership or equity participation by HDSAs at a minimum of 15 per cent. by 2009 and 26 per cent. by 2014. The holder of a mining right must comply with approved social and labour plans. This includes committing to projects in relation to local communities for a period of 5 years after grant of the mining right that will be self-sustaining within that period. Furthermore, the holder of a mining right must comply with its mining work programme, failing which consent must be obtained to amend the mining work programme by way of application to the Minister of Mineral Resources.

## **2.3 Duration**

A mining right is valid for the period specified in the right, which period may not exceed 30 years. A mining right may be renewed for further periods, each of which may not exceed 30 years. A prospecting right is valid for the period specified in the right, which may not exceed 5 years, and may be renewed once only for a period of up to 3 years.

## **2.4 Environmental management**

Applicants for a mining right are required to conduct an environmental impact assessment and submit an environmental management programme for approval. Mining rights will only become effective once an environmental authorisation has been issued. Environmental approvals are currently adjudicated, dealt with and granted in terms of the MPRDA by the Ministry of Mineral Resources. Applicants for prospecting rights are required to prepare and submit an environmental management plan and the prospecting right will similarly become effective only after the environmental management plan has been approved and the requisite environmental authorisation has been issued.

South Africa has progressively adopted a comprehensive national environmental regime under the overarching provisions of NEMA. Specifically in relation to the minerals industry, parliament is in the process of finalising wide-ranging legislative amendments to the MPRDA aimed at aligning the environmental regulatory regime under the MPRDA with the provisions of NEMA, including the detailed regulations under NEMA dealing with public participation and consultations in connection with any proposed environmental disturbances arising from such operations. Pursuant thereto, it is envisaged that, for a limited transitional period of 18 months, all new prospecting and mining right applications and renewals thereof will have to comply with the NEMA

EIA Regulations, but that the competent authority will remain the DMR. Following the 18 month transitional period, the Department of Environmental Affairs (“DEA”) will become the competent authority.

In terms of the MPRDA, the holder of a prospecting or mining right remains responsible for any environmental liability, pollution or ecological degradation, and the management thereof, until the Minister has issued a closure certificate to the holder concerned. Requirements for making financial provision for remediation of environmental damage as well as for the issuing of a closure certificate are set out in the MPRDA and include the requirement that financial provision must be in place before the relevant environmental authorisation is issued. Amongst others, the proposed amendments to the MPRDA under discussion with industry seek to extend such liability in perpetuity and to entitle the approving authority to retain any financial provision indefinitely in order to address potential future remediation, despite the issue of a closure certificate.

Depending on the requirements of the mine and its environmental impacts, the mine may be required to obtain other environmental authorisations, such as a Water Use Licence in terms of the National Water Act, 36 of 1998, a Waste Management Licence in terms of the National Environmental Management: Waste Act, 59 of 2008 and an Atmospheric Emissions License in terms of the National Environmental Management: Air Quality Act, 39 of 2004. Other permits may also be required where the development of the mine may affect the natural heritage objects or bio-diversity of the area. Whether or not the mine would require any such additional licenses and permits will be determined during the EIA process.

## **2.5 The Mineral and Petroleum Resources Royalty Act**

The Mineral and Petroleum Resources Royalty Act 28 of 2008 (the Royalty Act) was promulgated in November 2008 and implemented from 1 March 2010.

The Royalty Act employs a formula which distinguishes between refined and unrefined minerals and accordingly 2 royalty percentage formulae will be applied:

- For refined minerals:  $Y (\%) = 0.5 + (\text{EBIT}/\text{gross sales} \times 12.5) \times 100$ , capped at a maximum of 5%;
- For unrefined minerals:  $Y (\%) = 0.5 + (\text{EBIT}/\text{gross sales} \times 9.0) \times 100$ , capped at a maximum of 7%.

In the above formula Y (%) represents the mineral royalty percentage rate calculated on the transfer price of the mineral. Rough diamonds are classified as an unrefined mineral for purposes of the Royalty Act, and subject to certain exemptions, also attract a flat 5 per cent. export levy.

All trading in, the beneficiation and export of diamonds, both polished and unpolished, are furthermore extensively regulated in terms of the Diamonds Act. South Africa is one of a handful of countries which makes it a criminal offence to possess or deal in or with diamonds without holding the requisite permits or licence. Both polished and unpolished diamonds (in whatever form) may furthermore only be traded through approved and licensed diamond trading premises, between licensed producers and permitted buyers and sellers, all of which falls under the jurisdiction of the office of the South African Diamond and Precious Metals Regulator (“SADPMR”).

Unpolished diamonds may only be exported by a producer after being offered for sale through a diamond exchange and export centre (DEEC”), of which only one has yet been established by the SADPMR, located in Johannesburg. Local buyers will also require official clearance before being permitted to export diamonds purchased in the domestic market. In addition, pursuant to a local beneficiation initiative, all diamond producers are required to offer the State Diamond Trader (“SDT”) a representative sample of up to 10 per cent., by value and carats, of each production run of its rough stones, before being entitled to otherwise dispose of the diamonds concerned. The SDT regime has had uneven success in promoting and supporting local beneficiation of South Africa’s diamonds and albeit an early focal point of the government’s objective to promote downstream beneficiation in the South African minerals industry, continues to face strong competition from more established secondary diamond cutting and polishing centres such as India, Israel and Belgium.



## **2.6 Occupational health and safety regulations of the mining industry**

Occupational health and safety of all employees in the mining industry is governed by the Mine Health and Safety, Act 29 of 1996 (“MHSA”) and its regulations, wherein both the rights and responsibilities of the employer and the employees are outlined. The MHSA sets out in detail the steps that employers must take to identify, assess, record, control and minimise health and safety hazards on mines in order to safeguard the health and safety of mine employees and communities affected by mining operations.

The MHSA entrenches basic worker rights, notably the rights of workers to participate in health and safety issues; the right to receive health and safety information; the right to receive an adequate supply of health and safety equipment; the right to health and safety training and the right to withdraw from the workplace in the face of danger. The MHSA further imposes certain reporting obligations on employers in regard to the submission of health and safety statistics to the Mine Health and Safety Inspectorate.

Various other legislative enactments govern aspects of the health and safety of employees engaged in mining operations, and must be read in conjunction with the provisions of the MHSA, including the Explosives Act 26 of 1956; Firearm Control Act 60 of 2000; Foodstuffs, Cosmetics and Disinfectants Act 54 of 1972; Hazardous Substances Act 15 of 1973; Health Professions Act 56 of 1974; Medicines and Related Substances Act 101 of 1965; the National Nuclear Regulator Act 47 of 1999; National Railway Safety Regulator Act 16 of 2002; National Road Traffic Act 93 of 1996; Nursing Act 33 of 2005 and Tobacco Products Control Act 83 of 1993.

## **2.7 Surface rights and use**

The holder of a prospecting or mining right is entitled in terms of the MPRDA to access to and the use of the surface area necessary or incidental for its prospecting and mining activities. This includes the right to bring its personnel, plant and equipment onto the relevant landowner’s or occupier’s property, and certain rights to use the natural water resources of the property, subject to the requirements of the National Water Act, 1998. Notwithstanding, the holder of a prospecting right or mining right must consult with the owner/occupier of the property prior to being granted any application for a right, and again before it gains access to the property after being granted the relevant prospecting or mining right.

A surface rights owner has, in addition to its common-law rights, a statutory entitlement under the MPRDA to be compensated by the rights-holder for any actual loss or damage it may suffer as a result of any prospecting or mining activities on its property. It is as a general rule prudent for the rights-holder, so as to obviate any dispute and resultant delays in the commencement of its operations, to negotiate an appropriate surface rights usage or lease agreement with the relevant landowner/occupier of the property on which it proposes conducting any prospecting or mining activities.

In terms of applicable regional or provincial land-use schemes, particularly where the land is zoned for agricultural use, re-zoning of land specifically for mining purposes may be required before any mining activities thereon may commence in certain provinces of South Africa. Re-zoning is a matter typically dealt with at local authority level in the area. The affected landowner or local municipality are normally the only competent applicants for a re-zoning approval and securing the support of the landowner for the proposed mining operations may hence be critical. The application of local land-use ordinances and zoning schemes is however uneven and any rezoning requirement should be verified in each particular case.

## **2.8 Cancellation**

The Minister of Mineral Resources is empowered to suspend or cancel a prospecting right or mining right if the holder is in breach of the provisions of the MPRDA or the terms and conditions of the relevant prospecting right or mining right. Before the Minister may invoke the right to suspend or cancel the relevant right the holder must however be notified thereof and afforded a proper opportunity to make representations to the DMR.

## **2.9 Environmental laws**

There are various laws and regulations controlling the environmental obligations of a mine operating within South Africa.

The MPRDA requires every applicant for a mining right to submit an environmental management programme (“EMPR”), based on a detailed Environmental Impact Assessment (“EIA”) of the proposed mining operations which is compliant with NEMA. The preparation of such environmental management programme entails establishing baseline information regarding the affected environment, and must investigate, assess and evaluate the impact of the proposed mining operations on the environment as well as the socio-economic

conditions of any person who may be affected thereby; must include the development of an environmental awareness plan; and contain a description of manner in which the applicant/holder intends to modify, remedy or control any activity or process which results in pollution or environmental degradation. The EMPR must in addition comply with prescribed waste management standards. Any application for an environmental authorisation pursuant to the proposed EMPR will not be considered by the Minister without first receiving recommendations from both the Regional Mining Development Committee ("REMDEC") and comments from all other state departments charged with the administration of any law relating to matters affecting the environment.

The MPRDA also requires holders of a mining right to:

- rehabilitate the environment "to its natural or predetermined state or to a land use which conforms to the generally accepted principle of sustainable development"; and
- restore any environmental damage, pollution or ecological degradation as a result of its mining operations and which may occur inside and outside the boundaries of the area to which such right relates.

Compliance with the requirements of the MPRDA is monitored on a regular basis and any non-compliance may attract significant penalties.

In terms of the MPRDA, mining right holders are required to make financial provision for the rehabilitation, management and closure of the environmental impacts of the mine. Should a holder not rehabilitate the environment or fail to restore any environmental damage, the DMR may use and apply the financial provision to rehabilitate such impact. Rehabilitation of the mine should take place both during and after the active life of exploration and mining activities.

Numerous licences are required in terms of other applicable environmental laws for operations ancillary to mining, such as building works, waste/discard disposal, water use, atmospheric emissions, as well as the use of explosives.

Any delays in obtaining such approvals may result in the delay of the commencement of mining activities.

## **2.10 Black economic empowerment**

The BEE requirements in the South African mining industry arise from the equality provisions of the Constitution and the MPRDA.

As noted in paragraph 1 above, the Mining Charter aims at facilitating the participation of historically disadvantaged South Africans (HDSAs) in the mining and minerals industry, by providing specific targets that must be met by 2014 in order to effect the equitable transformation to HDSAs and promote sustainable development and growth of the industry the most significant element of which is the ownership requirement stipulating that mines must commit to obtaining 26 per cent. effective ownership by HDSAs by 2014.

The Mining Charter also requires that all holders of mining rights procure a minimum of 40 per cent. of its capital goods, 50 per cent. of its consumer goods and 70 per cent. of its services from BEE entities (an entity of which a minimum of 25 per cent. + 1 vote of share capital is directly owned by HDSAs). Further, holders of mining rights need to ensure that all multinational suppliers of capital goods contribute 0.5 per cent. of annual income generated from domestic South African mining companies into a social development fund in order to promote the socio-economic development of local communities.

In furtherance of employment equity targets, mines must reach 40 per cent. HDSA representation at all levels of management and core skills by no later than 2014.

A holder of a mining right is also required to invest at least 5 per cent. of its annual payroll in essential skills development activities reflective of the demographics. The holder should also, in consultation with organised labour, facilitate the home ownership options of all mineworkers. Lastly, a holder of a mining right must implement policies on sustainable development commitments which cover aspects such as the improvement of environmental management as well as health and safety performance.

In order to ensure that mining right holders adhere to the provisions of the Mining Charter, the MPRDA requires all such holders to report their level of compliance on an annual basis. To this end, the DMR has also published a mining scorecard which provides a framework for measuring compliance with the Mining Charter. The scorecard measures three core elements: (1) direct empowerment through ownership and control of enterprises and assets; (2) human resource development and employment equity; and (3) indirect empowerment through preferential procurement and enterprise development.

Non-compliance with any of the above provisions of the Mining Charter will render the mining right holder in breach of the MPRDA which may attract strict consequences such as the suspension or cancellation of the relevant prospecting or mining right.

### **3. Foreign investment laws**

Under the new Companies Act, No 71 of 2008 (which became effective in May 2011) (Companies Act) certain transactions concluded by public limited liability companies and certain private companies (each hereinafter a “regulated company”) are subject to the approval of the Takeover Regulation Panel (Panel). These transactions involve, amongst other things, the disposal of all or the greater part of the assets or undertaking of a regulated company, an amalgamation or merger, a scheme of arrangement and a mandatory offer (“affected transactions”).

A private company will be a regulated company if, during the period of 24 consecutive months prior to the affected transaction, more than 10 per cent. of the issued securities of such private company were transferred, other than to or between related or inter-related parties; or the company’s memorandum of incorporation stipulates that it is subject to the Takeover Regulations.

Companies incorporated in South Africa are allowed to invest up to ZAR500 million abroad per calendar year and will only require the approval of the exchange control division of an authorised dealer (i.e. an approved local commercial bank). The percentage of voting rights to be acquired in the foreign target entity should be a minimum of 10 per cent.. Any investment exceeding ZAR500 million in a foreign target entity will require approval by the Financial Surveillance Department (also known as the Exchange Control Department (Excon) of the South African Reserve Bank (SARB). Inward investments by non-residents similarly require the approval of Excon – both in respect of equity investments and/or lending arrangements. These approvals ensure free repatriation of the investments, remittance of dividends off-shore and repayment of loans and interest.

Exchange control regulations are intended to prevent or neutralise any adverse fluctuations in the foreign exchange rate and foreign reserves of South Africa. Excon considers applications regarding inward investment, whereby non-residents may freely invest in or disinvest from the country.

Prior exchange control approval is required for a South African resident, which includes the Company’s Subsidiary, Kareevlei Mining, to raise foreign loans (whether from its shareholders or otherwise), as well as for the granting of local financial assistance to non-residents or to entities in respect of which 75 per cent. or more of the shares or voting rights are held by non-residents.

In terms of the Financial Intelligence Centre Act, Act 28 of 2001 (FICA), an anti-money laundering regulatory body and various mechanisms to combat money-laundering activities has been established since 2003 in South Africa, which imposes stringent customer identification and verification obligations on all accountable institutions or persons that may be exploited for money-laundering purposes, such as banks, estate agents, attorneys and the like.

### **4. Taxation applicable to South African mining companies**

The South African Income Tax Act, No 58 of 1962 (Tax Act) contains specific provisions relating to resident tax payers engaged in mining operations in South Africa. The main differences between the tax obligations of mining companies and other tax payers relate to the treatment of capital expenditure and to the different rates of tax applicable to companies earning income from certain minerals.

Specific mining tax provisions allow mining companies to deduct all capital expenditure (as defined in the mining tax provisions) incurred in any one year, limited to taxable income derived from mining. The aggregate capital expenditure (after reducing the capital expenditure amount by the proceeds from the disposal of mining assets) in respect of any year of assessment may be set-off against the income derived by that taxpayer from its mining operations. The taxpayer is, however, required to first set-off mining income against any balance of an assessed mining loss incurred by the taxpayer in relation to the mine concerned brought forward from any previous year of assessment.

Capital expenditure incurred in relation to a mine may, as a general rule, only be deducted against taxable income derived from mining. It is therefore imperative for mining companies to identify and separately account, for income tax purposes, for its mining operation income, and income from other non-mining activities and manufacturing activities. In order for income to be classified as mining income, there needs to be a causal nexus between the mining source and the income. Any unutilized capital expenditure may be carried forward to the following year of assessment as unredeemed capital expenditure and set-off against



mining income generated in subsequent years of assessment. In certain circumstances capital expenditure within one entity may be transferred to other mining operations within the same entity.

Capital expenditure includes, inter alia, expenditure incurred in respect of shaft sinking, mine equipment, development and general administration and management, mine housing, mining rights, the disposal of any low cost residential unit of a mining company to an employee, interest and other charges payable on loans utilized to acquire fixed assets utilized for mining purposes. Capital expenditure is deductible in full against any mining taxable income for that year of assessment. If assets, in respect of which the above allowance has been claimed, are sold, the full amount of proceeds is included in the gross income.

The Tax Act provides for a deduction of any expenditure incurred during the year of assessment in respect of prospecting operations conducted within South Africa. This is an exception, as costs incurred in respect of obtaining licences and the like, are of a capital nature and are therefore generally non-deductible.

Mining companies are required to rehabilitate areas where mining has taken place on conclusion of the mining activities. Mining companies are therefore required, during the life of the mine, to make ongoing provision for such rehabilitation expenses. Subject to compliance with certain rules and regulations, monies paid to an approved rehabilitation trust fund in terms of the applicable trust deed are allowed as a deduction against taxable mining income. Expenditure incurred on an ongoing basis in respect of rehabilitation is deductible in the year of assessment in which the expenditure is incurred.

As indicated above, following the introduction of the MPRDA, all mineral resources vest in the state as the custodian on behalf of South African citizens. In order to compensate the state (as custodian) for the country's permanent loss of non-renewable resources, a consideration for the exploitation of all mineral resources is payable to the state in the form of royalties. The Royalty Act and the Mineral and Petroleum Resources Royalty Administration Act No 29 of 2008 (Royalty Administration Act) were introduced to govern the payment of such royalties. In calculating the royalty payable, the Royalty Act distinguishes between refined and unrefined mineral resources, as set out in Schedule 1 and 2 of the Royalty Act. There is speculation that, following the government's declared intention of imposing restrictions on certain strategic and other minerals in order to encourage local investment in downstream beneficiation industries, the royalty regime may be modified in certain respects.

The Securities Transfer Tax Act No 25 of 2007 provides for securities transfer tax to be levied on the transfer of any security at a tax rate of 0.25 per cent. of the taxable amount of that security.

Since 1 April 2012, all dividends on South African shares are taxed at a rate of 15 per cent., which is levied against the shareholders, subject to the provisions of any applicable double-taxation agreements between South Africa and the shareholder jurisdiction to which such dividends are payable.

South African residents, within certain limited exceptions, are furthermore taxed in principle on their worldwide income, which includes income deriving from any controlled foreign companies (being a foreign registered company in which South Africans individually or collectively own more than 50 per cent. of the shares).

South Africa's income tax system until very recently provided for a blanket tax exemption on all interest payable to foreign residents. With effect from 1 July 2013, subject again to certain limited exemptions, interest that accrues (or is deemed to accrue) to, is received by or becomes payable to foreign residents will be subject to a 15 per cent. withholding tax, unless the recipient is otherwise subject to normal South African tax. Whilst the liability for such tax is ultimately that of the beneficial owner, the resident interest payor will from 1 July 2013 be obliged to withhold such tax and pay same over to the Revenue Authorities at the end of the month following the month in which the interest is paid or becomes due and payable (but not when it accrues). The 15 per cent. withholding tax rate must however be reduced if the non-resident to whom or for whose benefit the interest payment is made has in the prescribed form submitted a declaration to the South African Revenue Authorities that the interest is subject to a specified reduced rate as a result of the application of a double taxation agreement.

## PART III: RISK FACTORS

An investment in the Ordinary Shares of the Company involves a high degree of risk. Prospective investors should carefully consider all of the information in this document, including but not limited to the following general and business specific Risk Factors, before deciding whether to invest in the Company. The Directors and the Proposed Director consider the following risks and other factors to be most significant for potential investors but the risk factors set out below do not necessarily form an exhaustive list of risks that may be faced by the Company and are not set out in any particular order of priority. Potential investors should also consider additional risk factors relevant to their particular circumstances.

If any of the events described in the following risk factors actually occur, the Group's business, financial condition, results or future operations could be materially adversely affected. In such a case, the price of the Ordinary Shares could decline and investors may lose all or part of their investment. Additional risks and uncertainties not presently known to the Enlarged Board, or which the Enlarged Board currently deem immaterial, may also have an adverse effect upon the Company.

### Company-specific Risks

#### *Transfer of Mining Right*

The transfer of the Mining Right from Diamond Resources to Kareevlei Mining, under the Mining Agreement, is conditional on Ministerial Consent to the cession and transfer of the Mining Right under section 11(1) of the MPRDA.

There can be no guarantee that such transfer of the Mining Right to Kareevlei Mining will occur and if the transfer occurs there can be no guarantee as to the point in time at which the Mining Right will transfer. Under the Mining Agreement, until such time as Ministerial Consent under the MPRDA is granted, Kareevlei Mining shall be entitled to conduct Trial Mining Operations where the amount of material mined by it is limited to successive tranches amounting to 88,000 tonnes in total (or such higher amount as the parties to the Mining Agreement may agree).

Under the Mining Agreement, Kareevlei Mining is entitled to mine an amount not exceeding 20,000 tonnes in aggregate during the first six month period following inception of the Mining Agreement. Kareevlei Mining may elect to extend the Trial Mining Operations by a further tranche of 20,000 tonnes and two successive tranches of 24,000 tonnes of bulk sample. Kareevlei Mining is obliged to furnish Diamond Resources in advance with a cash deposit or bank guarantee in its favour for the estimated costs of rehabilitating the Kareevlei Tenements arising from such increased mining operations. In addition, to the extent required, all necessary amendments to the mining work programme and/or environmental management programme attaching to the Mining Right that may be required in order to entitle Kareevlei Mining to undertake such increased operations must have been effected, at Kareevlei Mining's sole cost, and been approved by the DMR. There can be no guarantee that Kareevlei Mining will have sufficient working capital for the necessary rehabilitation costs or that the DMR will approve any or all of the amendments to the mining work programme and/or environmental management programme.

Under the Mining Right, Diamond Resources is technically in breach of certain of its obligations to commence and maintain mining operations in accordance with the approved Mining Work Programme. On 15 August 2013, Diamond Resources was directed by the DMR to rectify its failure to submit its outstanding annual "Mining Charter" report for the 2012/2013 year, which was due by 28 March 2013 (being 3 months since its last annual performance report in December 2012), by submitting such report by no later than 27 September 2013, together with an explanation for its delay in submitting the same. This annual report is required to detail the extent of a right holder's compliance with the provisions of section 2(d) and (f) of the MPRDA, the Mining Charter and its approved Social and Labour Plan, to enable the DMR to monitor the holder's compliance with its black economic empowerment obligations and commitments under its Mining Right, in the light of the broader objectives of the MPRDA to meaningfully expand opportunities for historically-disadvantaged South Africans to participate in the mining industry and benefit from the exploitation of its mineral resources. Diamond Resources' failure to submit such report timeously is in contravention of Section 28 (2)(c) of the MPRDA and the provisions of clauses 18.1 and 18.2 of the Mining Right.

Diamond Resources has already instructed its consultant, in consultation with BlueRock's management, to prepare the outstanding Mining Charter report and both parties are taking all necessary steps to ensure that this outstanding report, as well as the section 11 application to transfer the Mining Right to Kareevlei Mining, will be submitted in advance of the deadline of 27 September 2013.

Non-compliance with this directive may lead to the suspension of the mining activities under the Mining Right in terms of section 93 (1) (b) (ii) of Act 28 of 2002 and/or cancellation of the Mining Right in terms of section 47 of Act 28 of 2002. Before suspending or cancelling a Mining Right, the Minister is obliged to give the holder written notice of such intention and afford it a reasonable opportunity to show why the right should not be suspended or cancelled.

If any of the above factors in isolation or together should occur, the Group's operations and business could be materially adversely affected.

### ***Limited operating history***

As a result of its limited operating history, the Group is subject to all the risks associated with the operations of a developing business. The Group's prospects may be jeopardised by the type of difficulties that often affect businesses in the early stages of their development. The Group has not earned income to date and there is no assurance it will do so in the future. There can be no guarantee the Group will move into overall profitability or, if it attains profitability, will remain profitable.

There can be no guarantee that the Kareevlei Tenements will be successfully exploited or managed by the Group and the Group's success will be dependent on the Enlarged Board's ability to implement the Group's strategy, generate cash flow from the Kareevlei Tenements and access equity capital markets. The Group will not generate any material income until mining has successfully started.

### ***Mining, Exploration and Development Risks***

The successful exploration and development of kimberlite deposits is speculative and subject to a number of uncertainties which even a combination of careful evaluation, experience and knowledge may not eliminate. There is no certainty that the expenditure made or to be made by the Group in the exploration and development of its mineral properties or properties in which it has an interest will result in the discovery of mineralised materials in commercial quantities and commercial viability will also depend on the diamond price and regulatory obligations. Most exploration projects do not result in the discovery of commercially mineable deposits. While discovery of diamond bearing structures may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. It is impossible to ensure that exploration and development programmes carried out by the Group will result in profitable commercial mining operations.

Pilot or test conditions and results reported in feasibility studies and or other reports may not be representative of the overall mining asset. The risks associated with mining are significant and include geological, geotechnical and seismic factors, environmental hazards, technical failures, adverse weather conditions, acts of God and government regulations or delays. Any one of these or other risks could result in damage to life or property, damage to or destruction of the Group's facilities, environmental damage, pollution and or legal liabilities that could have a material adverse impact on the Group's business, operations and financial performance. Although the Group will take precautions to minimise risk, not all hazards and risks can be eliminated.

### ***Title, Mining Right and Payment Obligations***

The Mining Right and any future licences or rights in which a member of the Group has or may earn an interest will be subject to applications for renewal or grant (as the case may be). The renewal or grant of the term of each licence is usually at the discretion of the relevant Government authority. If a licence is not renewed or granted, the Group may suffer significant damage through loss of the opportunity to discover any diamond resources on that licence area.

Under its licences and certain other contractual agreements to which the Group is or may in the future become party, the Group is or may become subject to payment and other obligations. In particular the Group may be required to expend the funds necessary to meet the minimum work commitments attaching to its licences. Failure to meet these work commitments will render the licences in question liable to be revoked.

Further, if any contractual obligations are not complied with when due, in addition to any other remedies which may be available to other parties, this could result in dilution or forfeiture of interests held by the Group. The Group may not have, or be able to obtain financing for all such obligations as they arise.

Any changes in the laws of countries in which the Group carries on business relating to mining could materially affect the rights and title to the interests held there by the Group. No assurance can be given that applicable governments will not revoke or significantly alter the conditions of the applicable exploration and mining authorisations nor that such exploration mining authorisations will not be challenged or impugned by third parties.

### ***Ability to Exploit Successful Discoveries***

It is possible that the Group may not be able to exploit commercially viable discoveries in which it holds an interest. Exploitation may require external approvals or consents from relevant authorities and the granting of these approvals and consents is beyond the Group's control. The granting of such approvals and consents may be withheld for lengthy periods, not given at all, or granted subject to the satisfaction of certain conditions which the Group may not be able to meet. As a result of such delays, the Group may incur additional costs, losses of revenue or part or all of its equity in a licence.

### ***Reliance on Key Personnel and Management***

The Group is highly dependent on the Enlarged Board. Whilst the Enlarged Board will continue to ensure that the Directors, consultants and any key employees are appropriately incentivised, their services cannot be guaranteed, and the loss of their services to the Group may have a material adverse effect on the performance of the Group.

The Enlarged Board believes that the Group's future success will depend largely on its ability to retain and attract highly skilled and qualified personnel, and to expand, train and manage its employee base. There can be no guarantee that suitably skilled and qualified individuals will be retained or identified and employed or contracted on satisfactory terms or at all. If the Group fails to retain or recruit the necessary personnel, or if the Group loses the services of any of its key executives, its business could be materially and adversely affected.

### ***Actions of Third Parties, including Contractors and Partners***

The Group will be reliant to an extent on third parties, including contractors and partners to provide contracting services. There can be no assurance that these business relationships will continue to be maintained or that new ones will be successfully formed. A breach or disruption in these relationships could be detrimental to the future business, operating results and/or profitability of the Company. To the extent that the Group cannot engage contractors according to its plans and budgets, its profit may be adversely impaired.

### ***Access to Capital Markets***

Whilst the Directors and the Proposed Director are of the opinion that the Company has enough funds for working capital purposes for a period of 12 months following the date of Admission, it is likely the Company will need to raise further funds in the future, either to continue funding its exploration and development activities, to complete a proposed investment or to raise additional working capital, either through debt or the issuance of new equity (which may be on terms which are dilutive to or which adversely affect Shareholders). There is no guarantee that the prevailing market conditions at such time will allow for a fundraising or that new investors will be prepared to subscribe for Ordinary Shares.

The availability of this capital is subject to general economic conditions and lender and investor interest in the Group's projects. To ensure the availability of capital, the Group will maintain investor relations in order to keep Shareholders informed of the Group's developments. Any investment in the Group should be regarded as an investment in the potential diamond resource rather than a direct investment in the commodity itself.

### ***Estimates of Resources, Reserves and Production Costs***

Although potential speculative estimate figures incorporated in this document have been carefully prepared by the competent person, these amounts are estimates only. There can be no assurance that any particular level of recovery of diamonds from such potential speculative exploration estimates will in fact be realised or that an identified resource will ever qualify as commercially mineable (or viable) and/or which can be legally and economically exploited. In addition, any future exploration rights acquired (including under any prospecting right held or which may be acquired in the future by the Group) may not result in the economic or feasible production of diamonds. Estimates of potential resources and production costs can also be affected by such factors as environmental permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. Material changes in resources and reserves, grades or recovery rates may affect the economic viability of projects and current projects could become commercially unviable as a result of any material reduction in estimates of resources. Estimates are reported as general indicators of mine life and should not be interpreted as assurances of mine life or the profitability of current or future operations.

The ultimate volume of production of diamonds may be lower than expected or even non-existent. The Group's operations are subject to the normal risks inherent in diamond exploration and production.

The Group's viability will require it to continue to replace and/or expand its resources and reserves and any failure to do so will affect the commercial viability of its projects. The business of exploration, mining and mineral processing by its nature involves significant risks and hazards.

The primary source of the data and documentation used to prepare the Competent Person's Report was provided by Diamond Resources to the Company and the Competent Person under the terms of the Kareevlei Option Agreement. The Competent Person and BlueRock have assumed that the data and technical documents used in the compilation of the CPR are accurate and complete in all material respects. No investigations to verify the source of the data or technical documents have been undertaken by BlueRock or the Competent Person.

### ***Licences and Contractual Commitments***

The interests of the Group are in some circumstances subject to licence and contractual requirements, which include, inter alia, certain financial commitments which, if not fulfilled, could result in the suspension or ultimate forfeiture of the relevant licence or of the Company's interests in prospects. Government action, which could include non-renewal of licences, may result in any income receivable by the Group being adversely affected.

The Mining Right which will be transferred to Kareevlei Mining conditional on Ministerial Consent is due to expire if not renewed or extended by 20 August 2019. There can be no assurance that the Mining Right will be renewed or extended or continue in force, of, if so, on what terms. If the Mining Right is not renewed or extended or continued then the business and the operations of the Group would cease from that time.

### ***Volatility of diamond prices***

Historically, diamond prices have been volatile and are affected by numerous factors which the Company is unable to control or predict, including world production levels, international economic trends, industrial and consumer demand, currency exchange fluctuations, speculative activity and political events.

The profitability of future mining operations is directly related to the prevailing diamond price; a significant and prolonged decline in the diamond price may result in it not being economically feasible to continue operations. The Company may also be required, in response to a decline in the diamond price, to write down the value of the resource which may have an adverse effect on the future earnings and profitability of the Company. The feasibility of the Group's proposed and actual operations may have to be re-assessed in circumstances where the diamond price decreases to a level below that assumed by the Group as the off-take price on production.

### ***Black Economic Empowerment***

On Admission, Kareevlei Mining (Pty) Limited will be held 26 per cent. by Ghaap Mining Pty Limited, its BEE Partner. Ghaap Mining is a South African private company wholly owned by Mr. William Alexander van Wyk who, in terms of South African legislation, is considered to qualify as a historically disadvantaged South African. The BEE programme was launched by the South African Government to redress the inequalities of apartheid and under this programme, it is a requirement that any mining asset owned by the Company will be at least 26 per cent. owned by a BEE partner. Although the Enlarged Board has no reason to believe that such is the case, there is a risk that the BEE Partner may not meet its obligations to the Company which may cause the Company to incur unforeseen additional costs or losses, although the BEE ownership will be at the local operating company level in Kareevlei Mining.

### ***Partner Risk***

The Group may in the future be reliant on joint venture partners and therefore this could adversely affect the Group's operations. Partner risks include but are not limited to:

- reliance on partners to complete work programmes;
- there can be no guarantee that partners will operate projects in a manner aligned to the Group's interests and that partners could act, exercise veto rights, or otherwise act in a manner which prevents the Group from acting in its own best interests;
- the Group in some instances holds minority positions in joint venture agreements and therefore cannot control decision making;
- there may be limits on the ability to exit joint venture arrangements;



- there may be additional calls on the Group's financial resources, and if the Group does not make payment, the Group's interest would be diluted or lost; and
- project budgets may not fall under the Group's control.

### ***Crime and Corruption***

Businesses which operate in South Africa may be subject to the influences and presence of crime and corruption. Its activities may have to change against these threats. Legal rights may be difficult to enforce in circumstances of corruption. Bribery is more prevalent in South Africa than in the United Kingdom. Despite the Group's procedures including the adoption by the Company of its anti-bribery policy, there can be no assurance that the Group will not be exposed to corrupt activities or prosecution under anti-corruption laws.

### **General Risks**

#### ***Currency Risks and Exchange Rate Fluctuations***

The Group will conduct its operations in South Africa receive income from sales of diamonds it generated in US Dollars, but will report in British Sterling and will therefore be subject to fluctuations in exchange rates between these countries in relation to the relative costs of inputs and labour and returns received from production. A significant fluctuation in any of the Group's key operating currencies, could have a material adverse effect on the business, financial condition and results of operations of the Group.

The Group's future income will be subject to exchange rate fluctuations and may become subject to exchange control or similar restrictions. Fluctuations in exchange rates between currencies in which the Group operates may cause fluctuations in its financial results, which are not necessarily related to the Group's underlying operations.

While hedging of exchange rates is possible, there is no guarantee that appropriate hedging will be available at an acceptable cost. The Company has no current hedging rate strategy in place.

#### ***Economic Risk***

Many African countries are dependent on sale proceeds from primary commodity production which are subject to fluctuations in world commodity prices. In general, these economies have also experienced devaluations, high inflation and high interest rates. All these economic risks may from time to time adversely affect the Group's operations. Historically, commodity prices (including diamonds) have displayed wide ranges and are affected by the numerous factors over which the Company does not have any control. These include world production levels, international economic trends, expectations for inflation, speculative activity, consumption patterns and global or regional political events.

#### ***Political and Economic Risk***

The Group's activities will be outside the UK and, accordingly, there are a number of risks over which it will have little or no control. There can be no assurance that political stability will continue in South Africa or any other country where the Group may in the future have operations. Whilst the Group will make every effort to ensure it has robust commercial agreements covering its activities, there is a risk that the Group's activities will be adversely impacted by economic and political factors.

The proposed exploration and extraction activities of the Company in South Africa are subject to laws covering prospecting, development, production, environmental protection, local development, taxation and other areas. Whilst the Enlarged Board intends that the Company will carry out its activities in accordance with all applicable laws, rules and regulations, it is possible that new laws, rules or regulations may be enacted or that the interpretation of current laws, rules or regulations may change, either of which may limit the ability of the Company to operate.

The Company's activities and profitability may be adversely affected by economic or political factors outside its control. Historically, South Africa has suffered from political unrest, a fluctuating exchange rate, high rates of inflation and high interest rates. The Company may be affected by these or other factors including but not limited to, worsening of economic and/or market conditions, changes to regulation governing mining and/or foreign investment, the imposition of additional taxes and charges, cancellation, amendment or suspension of licenses, employee strikes, expropriation of mining or prospecting rights, war, terrorism and insurrection. Any one of these factors may affect the operations of the Company.

### **Competition**

There is strong competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. The Group competes with other exploration and mining companies, many of which have greater financial resources than the Group, for the acquisition of mineral claims, leases, mining equipment and other mineral interests as well as for the recruitment and retention of qualified employees and other personnel.

### **Environment, Health and Safety Risks**

Mining projects may be subject to the environmental laws of areas in which the Group operates. These laws may result in limitations of mining activities, which may become increasingly strict in the future. Environmental awareness on the part of the public has been increasing, as has public pressure on environmental authorities. No assurance can be given that the need to comply with current or future environmental laws, regulations or commitments will not have a material adverse effect on the activities of the Group or that the liabilities resulting from any environmental damage caused by the activities of the Group will not be material.

There can be no assurance that all permits which the Group may require can be obtained or maintained on reasonable terms. There may be existing or future unforeseen liabilities arising from the Group's activities or the activities of any previous activities of third parties in the relevant licensed areas.

### **Insurance Risks**

The Group plans to insure its operations in accordance with industry practice and plans to insure the risks it considers appropriate for the Group's needs and for its circumstances. Insurance cover will not be available for every risk faced by the Group. The Group may be subject to liability for pollution or other hazards against which the Group or the operator may elect not to insure because of high premium costs or other reasons. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of operations of the Group. There is a risk that insurance premiums may increase to a level where the Group considers it is unreasonable or not in its interests to maintain insurance cover or not to a level of coverage which is in accordance with industry practice. In addition, the Group may, following a cost-benefit analysis, elect to not insure certain risks on the grounds that the amount of premium payable for that risk is excessive when compared to the potential benefit to the Group of the insurance cover. The occurrence of an event which is not covered, in whole or in part, by insurance could result in a significant cost to the Group which could have a material adverse effect on its business, financial condition and results of operations.

### **Liquidity of the Ordinary Shares and AIM generally**

An investment in the Ordinary Shares is highly speculative and subject to a high degree of risk. Application will be made for the Ordinary Shares to be traded on AIM. AIM is a market designed primarily for emerging or smaller companies. The rules of this market are less demanding than those of the Official List. Investments in shares traded on AIM carry a higher degree of risk than investments in shares quoted on the Official List. Neither the London Stock Exchange nor the UK Listing Authority have examined this document.

An investment in the Ordinary Shares may be difficult to realise and the price at which the Ordinary Shares will be traded and the price at which investors may realise their investment will be influenced by a large number of factors, some specific to the Group and its operations and some, which may affect quoted companies generally. Admission to AIM should not be taken as implying that there will be a liquid market for the Ordinary Shares. The market for shares in smaller public companies, such as the Company, is less liquid than for larger public companies. The Group is aiming to achieve capital growth and, therefore, Ordinary Shares may not be suitable as a short-term investment. Consequently, the share price may be subject to greater fluctuation on small volumes of shares, and thus the Ordinary Shares may be difficult to sell at a particular price. The value of the Ordinary Shares may go down as well as up. Investors may therefore realise less than their original investment, or sustain a total loss of their investment. Equally, the Group cannot control when large numbers of Ordinary Shares may be sold after Admission. Any such sales could result in a material fall in the price of Ordinary Shares.

### **Litigation Risks**

While the Group has not been involved in any legal proceedings to date, there can be no guarantee that current or future actions of the Group will not result in litigation. Due to the inherent uncertainty of the litigation process, there can be no assurance that the resolution of any particular legal proceedings will not have a material effect on the Group's financial position or results of operations.



### ***Taxation Risk***

Any change in the Group's tax status or the tax applicable to holding Ordinary Shares or in taxation legislation or its interpretation, could affect the value of the investments held by the Group, affect the Group's ability to provide returns to Shareholders and/or alter the post-tax returns to Shareholders. Statements in this document concerning the taxation of the Group and its investors are based upon current tax law and practice which is subject to change.

### ***Currency risk***

Currency fluctuations may affect the Company's cash flow as diamonds are usually sold in US dollars. Much of the Company's costs are likely to be denominated in South African Rand and Pounds Sterling. Fluctuations in exchange rates between currencies may cause fluctuations in the Company's results which are not necessarily related to the underlying operations of the Company. In addition, South Africa still operates exchange control restrictions regarding inflows and outflows of currency.

## **Risks relating to an Investment in the Ordinary Shares**

### ***Market for the Ordinary Shares***

There can be no assurance that an active trading market will develop on Admission or, if developed, that an active trading market will be sustained. The Company cannot predict the extent to which investor interest in the Ordinary Shares will lead to the development of a trading market or how liquid such a market might become. Investors may experience greater price volatility and less efficient execution of buy and sell orders than expected.

### ***Trading and performance of Ordinary Shares***

The AIM Rules are less demanding than those of the Official List and an investment in a company whose shares are traded on AIM is likely to carry a higher risk than an investment in a company whose shares are quoted on the Official List. It may be more difficult for investors to realise their investment in a company whose shares are traded on AIM than to realise an investment in a company whose shares are quoted on the Official List. The share price of publicly traded, early stage exploration companies can be highly volatile. The price at which the Ordinary Shares will be traded and the price at which investors may realise these investments will be influenced by a large number of factors, some specific to the Company and its operations and some which may affect junior mining and exploration companies or quoted companies generally. The market perception of junior mining and exploration companies may impact upon the value of investors' holdings and on the ability of the Company to raise funds by the issue of further securities. The value of Ordinary Shares will be dependent upon the success of the operational activities undertaken by the Company, as well as further resource analysis, and prospective investors should be aware that the value of the Ordinary Shares can go down as well as up. Furthermore, there is no guarantee that the market price of an Ordinary Share will accurately reflect its underlying value.

### ***Volatility of share price***

The trading price of the Ordinary Shares may be subject to wide fluctuations in response to a number of events and factors, such as variations in operating results, announcements of innovations or new services by the Group or its competitors, changes in financial estimates and recommendations by securities analysts, the share price performance of other companies that investors may deem comparable to the Company, news reports relating to trends in the Group's markets, large purchases or sales of Ordinary Shares, liquidity (or absence of liquidity) in the Ordinary Shares, currency fluctuations, legislative or regulatory changes and general economic conditions. These fluctuations may adversely affect the trading price of the Ordinary Shares, regardless of the Group's performance.

### ***Future sales of Ordinary Shares could adversely affect the price of the Ordinary Shares***

Certain existing shareholders have given lock-in and orderly market undertakings that, save in certain circumstances, they will not until twelve months following Admission, dispose of the legal or beneficial ownership of, or any other interest in, Ordinary Shares held by them at Admission and for a period of 12 months thereafter not dispose of their Ordinary Shares without consulting SP Angel. There can be no assurance that such parties will not effect transactions upon the expiry of the lock-in or any earlier waiver of the provisions of their lock-in. The sale of a significant number of Ordinary Shares in the public market, or the perception that such sales may occur, could materially adversely affect the market price of the Ordinary Shares.

Shareholders not subject to lock-in arrangements and, following the expiry of twelve months following Admission (or earlier in the event of a waiver of the provisions of the lock-in), Shareholders who are otherwise subject to lock-in arrangements, may sell their Ordinary Shares in the public or private market and the Company may undertake a public or private offering of Ordinary Shares. The Company cannot predict what effect, if any, future sales of Ordinary Shares will have on the market price of the Ordinary Shares. If the Company's existing shareholders were to sell, or the Company was to issue a substantial number of Ordinary Shares in the public market, the market price of the Ordinary Shares could be materially adversely affected. Sales by the Company's Shareholders could also make it more difficult for the Company to sell equity securities in the future at a time and price that it deems appropriate.

**The specific and general risk factors detailed above do not include those risks associated with the Company which are unknown to the Enlarged Board. Although the Enlarged Board will seek to minimise the impact of the Risk Factors, investment in the Company should only be made by investors able to sustain a total loss of their investment. Investors are strongly recommended to consult an investment adviser authorised under FSMA who specialises in investments of this nature before making any decision to invest.**

### **Forward-Looking Statements**

Certain statements contained herein are forward looking statements and are based on current expectations, estimates and projections about the potential returns of the Group and industry and markets in which the Group will operate, the Enlarged Board's beliefs and assumptions made by the Enlarged Board. Words such as "expects", "anticipates", "should", "intends", "plans", "believes", "seeks", "estimates", "projects", "pipeline" and variations of such words and similar expressions are intended to identify such forward looking statements and expectations. These statements are not guarantees of future performance or the ability to identify and consummate investments and involve certain risks, uncertainties, outcomes of negotiations and due diligence and assumptions that are difficult to predict, qualify or quantify. Therefore, actual outcomes and results may differ materially from what is expressed in such forward looking statements or expectations. Among the factors that could cause actual results to differ materially are: the general economic climate, competition, interest rate levels, loss of key personnel, the result of legal and commercial due diligence, the availability of financing on acceptable terms and changes in the legal or regulatory environment.

## PART IV: HISTORICAL FINANCIAL INFORMATION ON THE COMPANY

### IV. A. ACCOUNTANT'S REPORT ON THE COMPANY'S HISTORICAL FINANCIAL INFORMATION FOR THE PERIOD FROM INCORPORATION TO 31 MARCH 2013



The Directors and the Proposed Director  
BlueRock Diamonds plc  
39 St James' Street  
London  
SW1A 1JD

19 August 2013

Dear Sirs

#### **Accountant's Report on the Historical Financial information of BlueRock Diamonds plc (the "Company")**

We report on the historical financial information of the Company for the period from incorporation to 31 March 2013 set out in Part IV.B of this admission document (the "Company Historical Financial Information"). The Company Historical Financial Information has been prepared for inclusion in the AIM admission document of the Company dated 19 August 2013 (the "Admission Document") under the basis of preparation and the accounting policies set out in notes 2 and 3 of the Company Historical Financial Information.

This report is required by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that paragraph and for no other purpose.

#### **Responsibilities**

Save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Paragraph (a) of Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

The directors and the proposed director of BlueRock Diamonds plc are responsible for preparing the Company Historical Financial Information in accordance with International Financial Reporting Standards as adopted by the European Union. It is our responsibility to form an opinion on the Company Historical Financial Information and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Company Historical Financial Information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the Company Historical Financial Information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

#### **Opinion**

In our opinion, the Company Historical Financial Information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of BlueRock Diamonds plc as at 31 March 2013 and of its results, cash flows, recognised gains and losses and changes in equity for the period from incorporation to 31 March 2013 in accordance with International Financial Reporting Standards adopted by the European Union.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully

**GRANT THORNTON UK LLP**

**IV. B. COMPANY'S HISTORICAL FINANCIAL INFORMATION FOR THE PERIOD FROM INCORPORATION TO 31 MARCH 2013**

**Statement of Comprehensive Income for the period 11 October 2012 to 31 March 2013**

	£ '000
Other expenses	(152)
<b>Operating loss and loss before tax for the period</b>	<b>(152)</b>
Taxation	-
<b>Loss and total comprehensive income for the period</b>	<b>(152)</b>

There were no other items of other comprehensive income during the period.

**Statement of Changes in Equity for the period 11 October 2012 to 31 March 2013**

	Share capital £ '000	Share premium £ '000	Retained earnings /(losses) £'000	Total equity £' 000
<b>At 11 October 2012</b>	-	-	-	-
Issue of ordinary share capital in the period (note 4)	1	509	-	510
Share issue costs (note 4)	-	(34)	-	(34)
	<u>1</u>	<u>475</u>	<u>-</u>	<u>476</u>
Transactions with owners				
Loss and total comprehensive income for the period	-	-	(152)	(152)
	<u>-</u>	<u>-</u>	<u>(152)</u>	<u>(152)</u>
<b>At 31 March 2013</b>	<b><u>1</u></b>	<b><u>475</u></b>	<b><u>(152)</u></b>	<b><u>324</u></b>

**Statement of Financial Position as at 31 March 2013**

	£ '000
<b><i>Current assets</i></b>	
Trade and other receivables (Note 6)	26
Cash and cash equivalents (Note 3b)	447
	<hr/> 473 <hr/>
<b><i>Current liabilities</i></b>	
Trade and other payables (Note 5)	(149)
	<hr/>
<b>Total net assets</b>	<hr/> <b>324</b> <hr/>
<b><i>Equity</i></b>	
Share capital (Note 4)	1
Share premium (Note 4)	475
Retained loss	(152)
	<hr/>
<b>Total equity</b>	<hr/> <b>324</b> <hr/>



**Statement of Cash Flows for the period 11 October 2012 to 31 March 2013**

£ '000

**Operating activities**

Loss before tax for the period	(152)
Movements in working capital:	
Increase in trade and other payables	149
Increase in other current assets	(26)
	<hr/>
Net cash flow from operating activities	<b>(29)</b>
	<hr/> <hr/>

**Financing activities**

Proceeds from issue of share capital (Note 4)	510
Share issue costs	(34)
	<hr/>
Net cash inflow from financing activities	<b>476</b>
	<hr/> <hr/>
Net increase in cash and cash equivalents	447
	<hr/>
Cash and cash equivalents at beginning of period	-
Cash and cash equivalents at end of period	<b>447</b>
	<hr/> <hr/>

## **Notes to the Historical Financial Information**

### **1. General information**

The Company was incorporated as BlueRock Diamonds plc and registered in England and Wales on 11 October 2012 as a public limited company, limited by shares.

The registered number of the Company is 8248437 and the Company's registered office is 39 St James's Street, London, SW1A 1JD.

On 7 March 2013 the Company's ordinary shares were admitted to trading on the ISDX Growth Market. As explained in Part I of the Company's admission document in which this Historical Financial Information is included, the Company is proposing to withdraw from the ISDX Growth Market and be admitted to the AIM Market.

During the period from incorporation to 31 March 2013 the Company commenced its search for suitable investment and/or acquisition targets and held preliminary discussions with a number of parties. On 23 April 2013 the Company entered into an option to purchase a mining licence and certain assets (as described in Note 8), however as at the date of this admission document, the Company had not entered into any commitments with respect to any investments or acquisitions, other than the agreements described in this document in relation to the Kareevlei Tenements.

### **2. Basis of preparation**

The Company's directors and the proposed director are responsible for the preparation of this Historical Financial Information.

This Historical Financial Information of the Company has been prepared for the sole purpose of publication within this admission document. It has been prepared in accordance with the requirements of the AIM Rules and in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The Historical Financial Information does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

The Historical Financial Information has been prepared on a going concern basis and under the historical cost convention.

### **3. Accounting policies**

#### **(a) Use of Accounting Estimates and Judgements**

The directors and the proposed director consider that in the proper preparation of this Historical Financial Information there were no critical nor significant areas which required the use of accounting estimates and exercise of judgement by management while applying the Company's accounting policies.

#### **(b) Cash and cash equivalents**

Cash and cash equivalents consist of highly liquid instruments, such as bank deposits, certificates of deposit, time deposits, treasury notes and other money market instruments, which generally have maturities of less than three months.

#### **(c) Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### **(d) Equity and reserves**

Shares are classified as equity where there is no obligation to transfer cash and other assets. The Company's capital is represented by Ordinary Shares of £0.0001 par value and share premium. Each Ordinary Share carries one vote and is entitled to dividends when declared. The relevant movements on capital will be shown in the statement of changes in equity.

Share capital represents the nominal value of shares that have been issued. Share premium includes any premiums received on the issue of share capital. Any transaction costs directly associated with the issuing of shares are deducted from share premium.

The other component of equity is retained losses. Retained losses include all current period retained losses/profits.

**(e) Operating expenses**

Operating expenses are recognised in profit or loss upon utilisation of the service on an accruals basis.

**(f) Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

**(g) Trade and other payables**

Trade and other payables are not interest bearing and are recognised initially at fair value. Subsequently they are carried at amortised cost.

**4. Called up share capital and share premium account**

	31 March 2013	
	Number	£ '000
Ordinary Shares allotted, issued and fully paid		
At beginning of period	-	-
Share issues in period	12,789,338	1
At end of period	<u>12,789,338</u>	<u>1</u>

On incorporation, three Ordinary shares of £0.0001 par value were issued, one Ordinary Share to each of the three Directors in office on incorporation, being Paul Beck, Jonathan Quirk and Paul Munday. These Ordinary Shares are fully paid.

On 8 November 2012, 8,339,997 Ordinary Shares of £0.0001 par value were issued to certain investors (including Directors) and are fully paid.

On 18 December 2012, 1,500,000 Ordinary Shares of £0.0001 par value were issued at £0.10 (a premium of £0.0999) to certain investors and are fully paid.

On 8 January 2013, 800,000 Ordinary Shares of £0.0001 par value were issued at £0.10 (a premium of £0.0999) to certain investors and are fully paid.

On 7 March 2013, 2,149,338 Ordinary Shares of £0.0001 par value were issued at £0.13 (a premium of £0.1299) on admission to trading on the ISDX Growth Market to certain investors and are fully paid.

**Share premium**

Proceeds received in addition to the nominal value of the shares issued during the period have been included in share premium, less transaction costs directly associated with the issuing of the shares. Costs of issuing new shares charged to equity amounted to £34,000.

**5. Trade and other payables**

	31 March 2013
	£ '000
Trade payables	85
Accrued expenses	62
	<u>147</u>

The accrued expenses related primarily to obligated costs in respect of research into potential investment and/or acquisition targets (including the cost of related business trips to South Africa), and legal and other professional costs related to the admission to the ISDX Growth Market.

## 6. Trade and other receivables

	31 March 2013 £ '000
Prepayments and other receivables	6
Social security and other taxes	20
	<hr/>
	26
	<hr/>

## 7. Directors' remuneration

None of the Company's Directors received, or were entitled to receive, any remuneration from the Company for their services during the period from incorporation to 31 March 2013.

## 8. Subsequent events

### *Formation of subsidiary*

On 14 May 2013 the Company incorporated Kareevlei Mining (Pty) Limited to act as a special purpose vehicle for its proposed acquisition of the Mining Right and Mining Equipment (discussed below). Pursuant to Black Economic Empowerment legislation, a Kimberley based company, Ghaap Mining (Pty) Limited, owns 26% of the issued shares of Kareevlei Mining (Pty) Limited while the Company owns the remaining 74%.

Ghaap Mining (Pty) Limited is a South African private limited company wholly owned by Mr. William Alexander van Wyk who, in terms of South African legislation, qualifies as a Black Empowerment Partner.

### *Kareevlei Option Agreement*

On 23 April 2013, the Company entered into the Kareevlei Option Agreement under which for a cash consideration of R150,000 (one hundred and fifty thousand rand) paid by the Company to Diamond Resources (Pty) Limited, the Company was granted the option to purchase the Mining Right for the sum of R1,000,000 (one million rand) (plus SA VAT) and the Mining Equipment used by Diamond Resources (Pty) Limited for R3,000,000 (three million rand) (plus SA VAT) net of the consideration paid for the Kareevlei Option. The Kareevlei Option is exercisable for a period of six months expiring on 23 October 2013. On exercising the Kareevlei Option, Diamond Resources (Pty) Limited and Kareevlei Mining would enter into (a) a Mining Agreement in respect of the Mining Right, completion of which is to be conditional, inter alia, on consent from the Department of Mineral Resources of South Africa under the Mineral and Petroleum Resources Development Act 28 of 2002 (South Africa) and Admission; and (b) an Equipment Agreement in respect of the Mining Equipment (as amended by a Supplemental Agreement dated 3 August 2013).

### *Share Options*

On 19 August 2013, the Company issued Share Options to the Directors and the Proposed Director over 4,728,756 Ordinary Shares. Further details are given in paragraph 9 of Part VI of this document.

No other events requiring disclosure have occurred subsequent to 31 March 2013, being the date to which this Historical Financial information has been prepared.

**PART V: COMPETENT PERSON'S REPORT**



**COMPETENT PERSON'S REPORT**

**ON**

**THE DIAMONDIFEROUS KAREEVLEI KIMBERLITES**

**PREPARED FOR**

**BLUEROCK DIAMONDS PLC AND SP ANGEL CORPORATE FINANCE  
LLP**

**19 August 2013**

**Dr J. A. Grills B.Sc. (Hons), Ph.D., CFSG, Pr. Sci. Nat.**

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## 1 EXECUTIVE SUMMARY

### 1.1 Background

BlueRock Diamonds plc ('BRD') was incorporated in England and Wales on 11<sup>th</sup> October 2012 (Registered Number 08248437) and was established to acquire or invest in under exploited diamond mines and diamondiferous tailings dumps in South Africa and sub Saharan Africa. BRD was admitted as an investment vehicle to trading on the ISDX Growth Market on 7<sup>th</sup> March 2013.

On 23<sup>rd</sup> April 2013, BRD entered into an option agreement with Diamond Resources (Pty) Limited ('DR') (a wholly owned subsidiary of Tawana Resources NL, an ASX and JSE listed company ('TR')), pursuant to which BRD was granted the exclusive right to acquire the mining right over the Kareevlei Tenements (MR70/2007) ('Mining Right') and associated plant and equipment. Following Admission to AIM, BRD will own the associated plant and equipment however completion of the transfer of the mining right is conditional on the Section 11 approval of the transfer of such Mining Right by the minister of the South African Department of Mineral Resources. The Mining Right as granted to DR terminates on 20<sup>th</sup> August 2019. Under current legislation, an application for the renewal of the Mining Right can be lodged with the Regional Manager of the South African Department of Mineral Resources (in line with Section 24 of the Mineral and Petroleum Resources Development Act No. 28 of 2002).

Following Admission and prior to the transfer of the Mining Right, DR has given consent under the option agreement to BRD to conduct a trial mining exercise subject to the conditions as further described in paragraph 7 of Part I of this admission document headed 'The Mining Right'.

Z\* Mineral Resource Consultants (Pty) Limited ('Z\*') have been engaged by BRD to undertake a review of the available information and data related to the Kareevlei Kimberlites and to produce a Competent Person's Report ('CPR'). This report will be included in an admission document issued by BRD in relation to the admission of BRD's issued and to be issued share capital to trading on the AIM Market of the London Stock Exchange plc.

### 1.2 Property and Assets

Following Admission, DR will continue to hold the Mining Right as detailed in Table 1-1 below. The transfer of the Mining Right from DR to Kareevlei Mining (Pty) Limited, a subsidiary of BRD ('Kareevlei Mining') is subject to the Section 11 approval of the transfer of such right by the minister of the South African Department of Mineral Resources.

Asset	Holder	Interest	Status	Licence Expiry Date	Licence Area	Comments
Kareevlei Kimberlites South Africa	Diamond Resources (Pty) Ltd	100%	Exploration & Development	20 August 2019	30.9km <sup>2</sup>	Exploration and development to occur concurrently

**Table 1-1:** Summary of BRD's assets

Following Admission, Kareevlei Mining will also hold the associated plant and equipment as set out in Appendix 2 (only significant items specified) on page 36 of this report. The estimated value of these material assets is R3.25million (this excludes any value estimate for the Mining Right). The treatment plant at the Kareevlei site was visited and is in good condition.

The Mining Right covers an area of 30.9km<sup>2</sup> and at this stage is known to host five kimberlites. Three of the kimberlites have portions that have been classified at an Inferred level of confidence and as such have reasonable prospects for eventual economic extraction.

Kareevlei Mining's financial obligations following the execution of the Mining Agreement include the following:

- a cash deposit or bank guarantee to secure the cost of rehabilitation if commercial mining is not implemented (R360,000);
- payments to owners of the surface rights of the land (R26,000 per annum plus SA VAT);



- rental payments for the storage of equipment (R9,000 per annum plus SA VAT); and
- security services (R28,349 per annum plus SA VAT).

On completion, Kareevlei Mining is obliged to provide a bank guarantee to the DMR of an amount to be determined, in order to release Diamond Resources' present guarantee of R360,000.

Under the Mineral and Petroleum Resources Royalty Act, No. 28 of 2008 which was promulgated on 1<sup>st</sup> March 2010 “a person that wins or recovers a mineral resource from within the Republic (of South Africa) must pay a royalty for the benefit of the National Revenue Fund in respect of the transfer of the mineral resource”. The percentage royalty applicable to rough diamonds which are classified as an “unrefined mineral resource” is  $0.5 + ((\text{earnings before interest and taxes} / (\text{gross sales in respect of unrefined mineral resources} \times 9)) \times 100)$ . At the Kareevlei operation where exploration and development will occur simultaneously it is reasonable to expect royalties of the order of 1.5%.

The minimum funding requirement includes the asset purchase price of R4million, capex costs of R3.9million and running costs for the first year of R17million. Revenue of US\$1million can be expected from the first year of sampling and mining. This assumes that the 1,000carat bulk-sample from K1 to verify the revenue estimate is successful.

Final rehabilitation costs are difficult to define at this stage as they will depend on the results of further planned exploration. The bulk-sampling of K1 will not disturb additional ground. The disturbed area (due to historic prospecting) at the time of Admission is approximately 17ha. The current rehabilitation guarantee posted by DR is R0.36million.

### 1.3 Geology

The Kareevlei Kimberlites are located on the Ghaap Plateau and the pipes have been emplaced into dolomites of the Campbellrand Subgroup. Importantly, these dolomites are part of a stable craton (>2.5 billion years old) that is known to host diamondiferous kimberlite pipes.

A total of five kimberlite pipes (namely K1, K2, K3, K4 and K5) have been confirmed as part of the Kareevlei Kimberlites, although the smaller K4 pipe may coalesce with K1 at depth. The three pipes that have received the primary focus of the exploration programmes by DR are K1, K2 and K3 which have sub-crop surface areas against the overburden calcrete of 1.2ha, 1.1ha and 5.6ha, respectively.

### 1.4 Historical Exploration

De Beers Group Exploration discovered the Kareevlei Kimberlites in 1991 following an airborne magnetic survey of the Ghaap Plateau and drilled three holes to confirm the presence of kimberlite. A Gencor/DR joint venture undertook further prospecting work before Gencor pulled out of the joint venture. DR were purchased by TR in 2002 and an extensive percussion programme on a grid of 40m on K3 and 20m on K2 was undertaken to delineate these two pipes to a depth of 100m. Due to the relatively low grade of the pipes, treatment of the percussion material proved the presence of diamonds to a depth of 100m but recoveries were insufficient for grade estimation due to the small sample support size; however, useful density measurements were realised. As a result, a Bauer™ auger programme (initially on a diameter of 2.5m and then on a diameter of 1.5m) was completed on four of the five pipes to provide grade and revenue data.

Prior to this CPR, a mineral resource has not been declared for the Kareevlei Kimberlites.

### 1.5 Resource Statement

Sufficient prospecting has been undertaken historically to model in three dimensions the K1, K2 and K3 pipes to depths of approximately 65m, 125m and 125m, respectively. Zonal grade and densities have been estimated for these three pipes and a fairly robust diamond size frequency distribution model has been combined with a low confidence US\$/carat/sieve class model to create a revenue estimate. Reasonable prospects for eventual economic extraction (RPEEE) have been considered and confirmed that mineral resources at an Inferred level of confidence could be declared. These are summarised in Table 1-2 below.

Kareevlei Kimberlites							Operator
Category	Gross			Net Attributable			
	Tonnes (Millions)	Grade (cpht)	Contained Carats	Tonnes (Millions)	Grade (cpht)	Contained Carats	
Mineral Reserves							
Proved	-	-	-	-	-	-	
Probable	-	-	-	-	-	-	
Subtotal	-	-	-	-	-	-	
Mineral Resources							
Measured	-	-	-	-	-	-	
Indicated	-	-	-	-	-	-	
Inferred	7.98	4.5	359,000	7.98	4.5	359,000	Diamond Resources (Pty) Ltd
Subtotal	7.98	4.5	359,000	7.98	4.5	359,000	Diamond Resources (Pty) Ltd
Total	7.98	4.5	359,000	7.98	4.5	359,000	Diamond Resources (Pty) Ltd

**Table 1-2:** Summary of the Kareevlei Kimberlites resources and reserves by category

## 1.6 Conclusions and Recommendations

The Inferred mineral resource confidence assigned to the K1, K2 and K3 pipes is principally due to the low level of confidence in the revenue estimate. It is recommended, as a high priority, that a parcel of 1,000carats is collected to improve the confidence in the revenue estimate. Due to the relatively low grade of the pipes, the collection of a diamond parcel of this size will be difficult to undertake remotely, therefore it is recommended that a portion of calcrete is removed from the K1 pipe and a bulk-sample excavated from the calcretised and weathered kimberlite.

The K5 pipe has insufficient delineation data to create a model but limited grade and revenue data suggests that it is prospective and, as such, a delineation drilling programme and revenue bulk sample are recommended.

## 1.7 Budgeted Expenditure for Further Work and Minimum Funding Requirement

As stipulated earlier, providing the 1,000carat bulk-sample verifies the revenue estimate, the minimum funding requirement includes the asset purchase price of R4million, capex costs of R3.9million and running costs for the first year of R17million. Revenue of US\$1million can be expected from the first year of sampling and mining.

An exploration budget has been proposed to, firstly, secure the 1,000carat revenue sample from K1 and, secondly, delineate the volume of the K5 pipe to a depth of 125m and secure a 1,000carat revenue sample. These costs are detailed in Table 10-1 and Table 10-2 for K1 and K5, respectively.

## 2 TERMS OF REFERENCE

On 23<sup>rd</sup> April 2013, BRD entered into an option agreement with DR (a wholly owned subsidiary of TR), pursuant to which BRD has the exclusive right to acquire the Mining Right over the Kareevlei Tenements and associated plant and equipment. Following Admission, BRD will own the associated plant and equipment however completion of the transfer of the Mining Right is subject to the Section 11 approval of the transfer of such right by the minister of the South African Department of Mineral Resources from DR to BRD. The Mining Right (as granted to DR) terminates on 20<sup>th</sup> August 2019.

BRD engaged Z\*, a South African registered company, to complete an independent CPR on the diamondiferous Kareevlei Kimberlites. This CPR is compliant with the June 2009 Note for Mining, Oil and Gas Companies issued by AIM Regulation of the London Stock Exchange plc.

### 2.1 Information Sources

The primary source of the data and documentation utilised to prepare this CPR were provided by TR under the terms of the option agreement. This included various reports completed during the exploration and evaluation programmes on the Kareevlei Kimberlites and a number of Microsoft Excel™ spreadsheets containing various datasets related to the exploration phases undertaken by DR and other companies that undertook work on Kareevlei. The author of this CPR, Dr John Andrew Grills, also undertook a field visit to the Kareevlei site on 23 May 2013 and, in addition, had a meeting with Mr A. B. Horwitz, the TR legal representative in Kimberley, South Africa.

Although various evaluation phases had been undertaken on the Kareevlei Kimberlites, the work to produce a declarable mineral resource had not been completed. This work which included the creation of three dimensional geological models in Datamine™ and the estimation of grade, density and revenue was undertaken by the author in accordance with the South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC code), 2007 Edition as amended in July 2009.

Z\* understands that this CPR may be used by BRD in relation to the Company's admission to AIM and to raise funds for further exploration and the development of the Kareevlei project.

## 2.2 Site Visit

A site visit was made to Kareevlei by Dr John Andrew Grills to:

- review evidence of the prospecting work undertaken in the field;
- visit the on-site sampling plant (while non-operational) to take a high level view on the suitability of its metallurgical process; and
- assess the physiography and accessibility of the area.

Evidence of the drilling was available for the majority of the exploration phases and certainly the most recent phases undertaken by DR. The approximate position of a number of the percussion and auger holes were verified for each of the kimberlite pipes by GPS. The DR 10" percussion drill holes are generally well demarcated with named cement blocks, but the Bauer™ auger holes have been filled in for the protection of farm livestock. However, the untreated, near surface, calcrete samples which were not trammed to the sampling plant are evident at each drill site.

The on-site sample plant was found to be in good condition and after refurbishment of the screens and crushing circuits (which could be simplified from a twin system to a single crushing circuit) will be suitable for kimberlite treatment. DMS concentrate will be transported securely in metal drums from the plant to the Final Recovery section in Kimberley which includes a Flowsort™ and final hand-sorting. The Final Recovery section was not viewed during the site visit.

While in Kimberley, a visit was made to the TR representative (Mr A. B. Horwitz) and the diamond register for the Kareevlei exploration was checked to verify the sample recoveries quoted in the various electronic files provided by TR. The carat recoveries could be matched exactly to the official diamond register. The Kareevlei diamond parcel was, however, not available for viewing as the diamonds have been sold. However, the report by Barker contains photographs of the Kareevlei diamond parcels that were prepared for tender in 2008.

## 2.3 Competence of Author

This report has been prepared by Dr John Andrew Grills, a Principal Mineral Resource Analyst and Z\* Director. Z\* was founded in 2008 and is a mineral resource consultancy that specialises in the analysis and estimation of diamond deposits. Z\*'s Principal Mineral Resource Analysts have undertaken the estimation of the vast majority of the major kimberlite deposits being mined today, including the Orapa and Jwaneng pipes in Botswana, the Venetia pipe in South Africa and the Victor and Snap Lake kimberlites in Canada.

The author holds a B.Sc. Honours degree and a Ph.D. in Geology from the Queens University of Belfast in the United Kingdom. In addition, a Diploma in Advanced Geostatistics (CFSG) was obtained from the Ecole des Mines de Paris in France.

The author has been directly involved in the estimation and classification of mineralised diamond deposits for the last 17 years. He worked at De Beers Namaqualand Mines as the Geologist in charge of the production service and contiguous evaluation for a seven year period from 1995-2002. He was then transferred to De Beers Group Services where he led the Placer Estimation Department before being made Head of Estimation. This role involved the management of the provision of mineral resource estimation services to the De Beers operations globally. The author left De Beers with three estimation colleagues to found Z\* in 2008.

The author is a member of the Geostatistical Society of South Africa and is registered as a Geological Scientist with the South African Council for Natural Scientific Professions (Registration No. 400426/04). Dr John Andrew Grills qualifies as a Competent Person as defined in the SAMREC code.

#### **2.4 Independence of the Author and Z\***

Z\* is a fully independent mineral resource consultancy. Neither Z\* nor the author of this report (Dr John Andrew Grills) have any business relationship with BRD nor stand to benefit financially from any future transactions related to the properties considered in this admission document, apart from the engagement to undertake this CPR. As such, the views expressed in this CPR are genuinely held by the author and are impartial and unbiased.

BRD have accepted that the qualifications, professional memberships, experience, expertise and competence of both Z\* and the author undertaking this CPR are appropriate and relevant for the preparation of this CPR.

#### **2.5 Disclaimer & Reliance on Other Experts**

Although a site visit was undertaken to review the evidence of the various prospecting phases in the field, the drilling methodologies were percussion and auger with the entire sample being sent for treatment. As such, there are no available duplicates or stored samples to review the geological interpretation or process check samples. The author was not present during any of the prospecting phases that were undertaken on Kareevlei.

The various electronic files and reports provided by BRD therefore become critical in terms of the data utilised, the mineral resource estimate undertaken and the subsequent views expressed in this CPR. The author can only assume that the data and technical documents utilised (listed in section 13) in the compilation of this CPR are accurate and complete in all material aspects. No investigations to verify the source of the documents provided by BRD were undertaken. It should be noted, however, that the author has taken due care and diligence in terms of the use of the data and information provided by BRD.

The author has had sight of copies of the original documents granting the mining right (MR70/2007) to DR (a wholly owned subsidiary of TR). The mining right covers an area of 3088.9ha and includes:

- Remainder of Farm 113;
- Portion 1 of Farm 113;
- Portion 2 of Farm 113; and
- Portion 2 of Farm 142.

The documentation states that “The mining right shall commence on 21<sup>st</sup> August 2007, and unless cancelled or suspended in terms of this clause 13 of this right or Section 47 of the act, will continue to be in force for a period of 12 (twelve) years ending on August 20 2019”. The author accepts BRD’s assurances that the Mining Right held by DR is still in good standing. However, the author is not qualified to report on the legal status of mining rights.

Figure 2-1 is a copy of the map included in the appendix of the Mining Right document. The details of the Mining Right boundary have been overlain on the official government 1:50000 scale map of the Kareevlei area in Figure 2-2. The location of the K1, K2, K3 and K5 kimberlites have been included to verify their position on the Mining Right.

BRD has warranted that a full disclosure of all material in their possession was made to the author. BRD have agreed that no claim will be made against Z\* or the author in relation to the recovery of any loss or damages incurred as a result of Z\* and the authors reliance on the material provided by BRD. In addition, BRD have indemnified the author and Z\* against any claim arising from the preparation of this report, except where it is proven that wilful misconduct or negligence is attributable to Z\* or the author. Any claim of whatever nature is bound by the conditions agreed in the CPR engagement letter signed by Z\* and BRD.

The CPR has been reviewed by BRD for factual errors, but any changes made have not affected the results nor the views expressed in the report. Should additional historical information become available, Z\* reserve the right to amend the results and conclusions of the CPR.

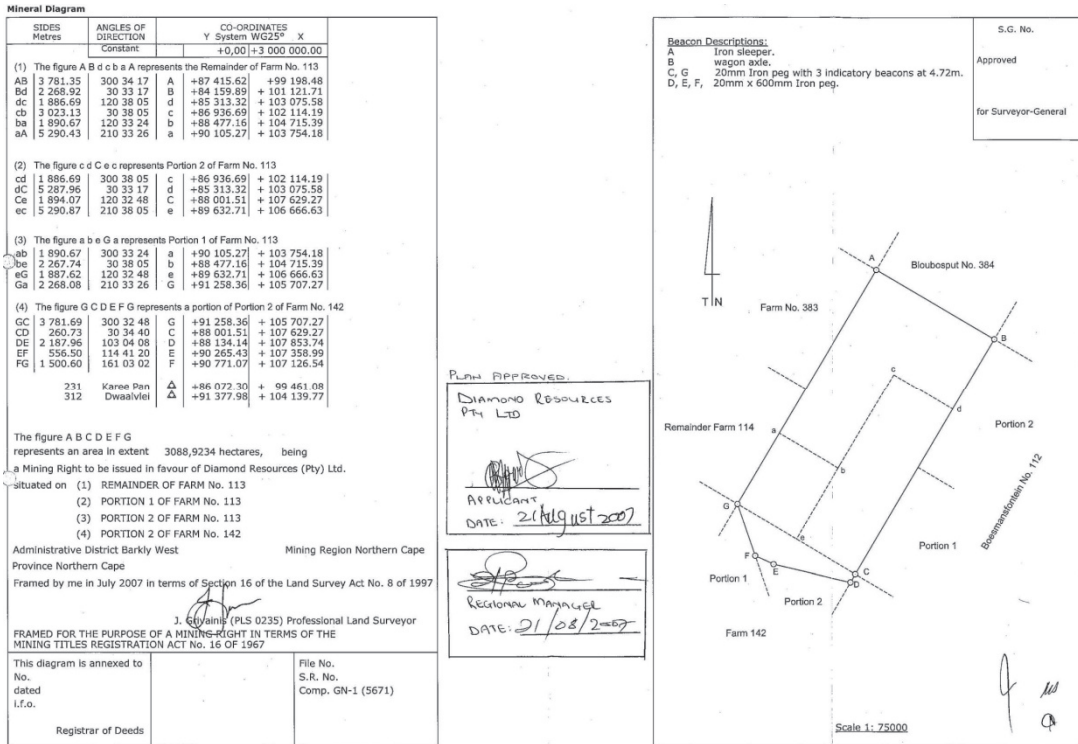


Figure 2-1: Copy of original notarial mining right details as approved in 2007

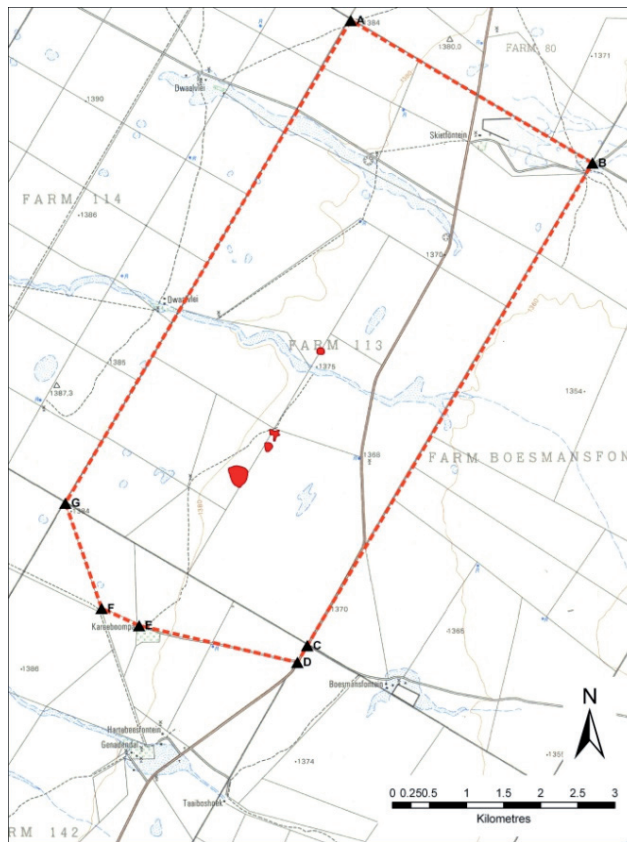


Figure 2-2: Overlay of mining right on a 1:50000 scale map with the locality of the Kareevlei Kimberlites shown



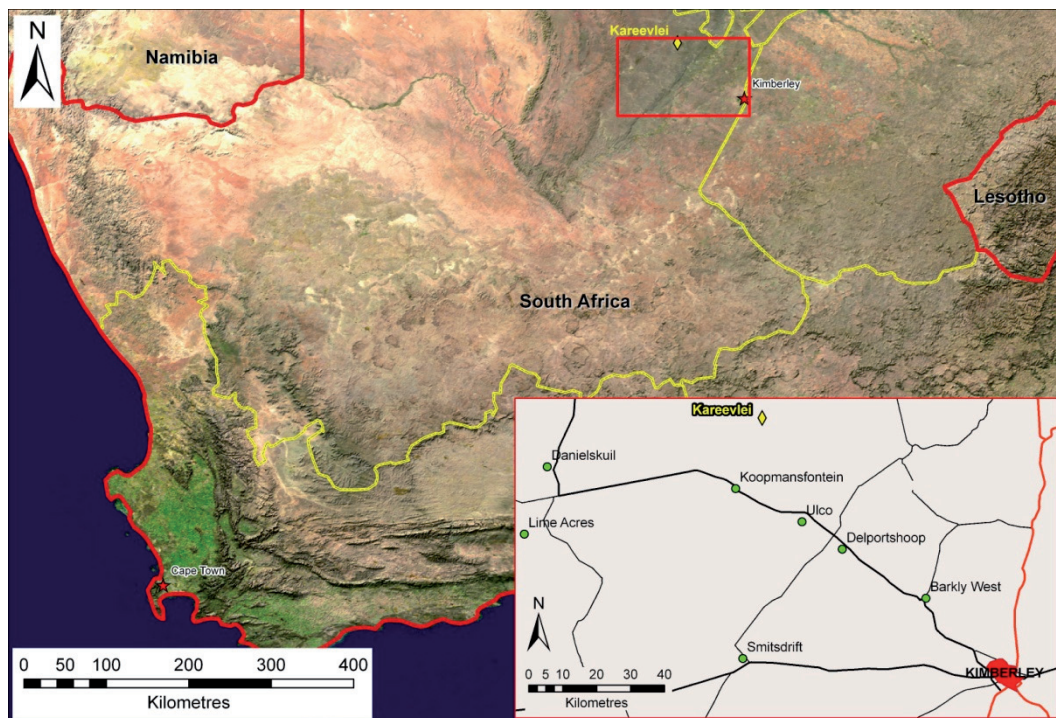
## 2.6 No Material Change

Z\* and the author are not aware of the non disclosure of any information that would materially change the views expressed in this report.

## 3 INTRODUCTION

### 3.1 License Location

The Kareevlei Kimberlites are located approximately 100km northwest of Kimberley in the Northern Cape Province of South Africa (Figure 3-1). Four of the kimberlites (K1, K2, K3 and K4) are situated in close proximity to each other on the farm Weshoek 113, the fifth kimberlite (K5) lies 1.5km further northeast on the farm Skietfontein 113.



**Figure 3-1:** Location of the Kareevlei Kimberlites approximately 100km northwest of Kimberley

### 3.2 Accessibility and Communications

The Kareevlei Kimberlites lie approximately 20km north of the main R31 tar road from Barkly West to Danielskuil. Access from the R31 at Koopmansfontein is via a gravel road of reasonable quality. Once the Kareevlei Wes farm is reached, the project site is approximately 1km from the gravel road on a second smaller gravel road. Accessibility to the site is adequate for exploration and mining development purposes as witnessed by the presence of a 50tonne/hour plant that has been installed on the Kareevlei Tenements. Access to site does not require vehicles with a 4x4 capability.

The nearest airport is at Kimberley, 100km to the south-east of the Kareevlei Tenements with daily flights scheduled to Johannesburg.

Mains electricity is available 5km from the plant site, however, three generators are included on the TR asset list (Appendix 2) and these will be serviced and used to power the plant. Water will be sourced from existing boreholes on the property that are currently producing. A considerable portion of the plant water will be recycled.

The area is adequately served by cellular phone operators and cell phone reception is available on site.



### 3.3 Climate

The Kareevlei Kimberlites are at an elevation of approximately 1378m amsl. Summer days are typically hot, whereas in winter it is very cold at night but generally warm and sunny during the day. The minimum and maximum mean daily temperatures vary from 14 to 32°C in summer and 0 to 20°C in winter. The mean annual precipitation varies from 200-600mm.

### 3.4 Vegetation

The vegetation of the Kareevlei Tenements area has been described as Ghaap Plateau Vaalbosveld by Mucina and Rutherford (2006). The vegetation is typified by a well developed shrub layer dominated by *Tarchonanthus camphorates*, *Acacia karroo* and *A. hebeclada*. An open tree layer exists which is dominated by *Olea europaea*, *A tortilis*, *Zizphus mucronata* and *Rhus lancea*. The vegetation system of the Ghaap Plateau has typically been impacted by livestock grazing and this is the case on the Kareevlei Tenements. The main economic uses of the area are livestock farming, game farming and mining.

### 3.5 Physiography

The Kareevlei Kimberlites lie at approximately 1378m amsl and the land surface exhibits a relatively constant elevation. The Google™ image (Figure 3-2) shows a fairly constant coverage of shrub with an open tree layer. A prominent vlei separates the K1, K2, K3 and K4 kimberlites on Kareevlei Wes from the K5 pipe on the farm Skietfontein. This vlei lies approximately 3m lower than the surrounding plateau.



**Figure 3-2:** Image of the K1, K2, K3 and K5 kimberlites superimposed on a recent Google™ satellite image. The treatment plant site is also evident adjacent to K2



## 4 KAREEVLEI EXPLORATION AND PROSPECTING HISTORY

A number of exploration companies have worked on the Kareevlei Kimberlites and this has resulted in various phases of prospecting through time.

### 4.1 De Beers Exploration Services ('DBES')

Following an airborne magnetic survey of the Ghaap Plateau by DBES, a set of anomalies were identified as kimberlite targets. DBES proceeded to drill three holes on the larger anomalies and discover the Kareevlei Kimberlites in 1991.

### 4.2 Gencor/Diamond Resources (Pty) Ltd ('DR') Joint Venture

In 1993, a Gencor/DR (a wholly owned subsidiary of AfriOre at the time) Joint Venture drilled a total of nine percussion holes (for geological delineation) and seven tricone holes (for grade sampling) to further investigate the kimberlite occurrences. One and six tricone holes were drilled into the K2 and K3 pipes, respectively. Treatment was through a pan plant with later grease recovery of the combined pan plant tailings. The results are summarised in Table 4-1. Based on a limited sample mass of 108tonnes, a grade of 2.6cpht can be calculated for this mixed sampling programme on the K2 and K3 kimberlite pipes.

Treatment	Pan Plant		Grease
Kimberlite Pipe	K2	K3	K2 & K3
Stones	33	35	28
Carats	0.54	1.91	0.37

**Table 4-1:** 1993 Gencor/DR JV tricone sampling results

### 4.3 Diamond Resources (Pty) Ltd ('DR')

Following the withdrawal of Gencor from the Joint Venture, DR undertook a phase of 1m diameter auger drilling for evaluation purposes in 1994. A total of 13 holes were drilled, three holes into each of the K1 and K2 pipes and seven holes into the larger K3 pipe. The sample material was crushed and treated through an eight foot pan plant. Coarser fractions were hand-sorted whilst the finer fractions were concentrated on a Pleitz jig. Tracer recovery, to test the efficiency of the pan plant, was poor at 80% due to problems relating to the stabilisation of the density of the "puddle". Excluding the pan cleaning (0.36carats) a total of 58 diamonds weighing 18.03carats were recovered. A breakdown of the recoveries per hole are summarised in Table 4-2. It should be noted that no sample tonnage was available in the literature for drill hole D11, an approximate tonnage has been estimated by Z\* from the drill length. Based on the limited sample volumes, individual pipe grades of 5.3cpht, 7.8cpht and 2.5cpht can be calculated for the K1, K2 and K3 kimberlite pipes, respectively, from this sampling programme.

Kimberlite Pipe	K1			K2			K3						
Auger Hole	D10	D11	D12	D13	D14	D15	D1	D3	D4	D5	D6	D8	D9
Sample weight (t)	25.0	31.9*	27.4	46.0	37.8	38.9	29.9	20.0	21.1	25.2	17.6	14.7	29.6
Stones	9	0	8	9	13	2	4	2	4	5	0	0	2
Carats	3.29	0	1.16	5.18	4.18	0.19	1.24	0.28	0.49	1.01	0	0	1.01

\* Approximate tonnage estimate by Z Star based on the intersected kimberlite length in D11

**Table 4-2:** 1994 DR (AfriOre) 1m auger sampling results

### 4.4 Tawana Resources NL ('TR')

In early 2002, TR purchased DR and thus acquired ownership of the Kareevlei Kimberlites. A phased evaluation programme was planned which started with percussion drilling (for geological delineation and grade and density sampling) to evaluate the K2 and K3 kimberlite pipes in 2003. Sampling grids of 40m and 20m were chosen for the K3 and K2 kimberlites, respectively. A decision was taken to drill 10" percussion holes to a depth of 100m. Sample collection was, however, not enclosed with percussion drill chips being collected in a flat metal tray that surrounded the drill stem. The sample was transported by wheelbarrow and stockpiled for sample processing. The sample treatment process included scrubbing followed by a trommel with the +1mm -6.5mm material being fed to a Pleitz jig (fitted with a 1.5mm screen) and the +6.5mm material going straight to hand-sorting. The finer fraction of the Pleitz jig concentrate proved time consuming to treat and as a result Bromoform was utilised to aid concentration.

After two months of slow progress a decision was taken to terminate the on-site treatment and the remaining samples were collected and treated, under contract, by the De Beers Evaluation Services Department ('ESD') in Kimberley. The samples were passed through a jaw crusher with an 18mm closed gap and onto a scrubber. The scrubber product was screened to +1.6mm -12mm. The +12mm material was crushed to -8mm and re-introduced to the process. The product was then mixed with Ferro-Silicon ('FeSi') and fed into a dense media separation ('DMS') unit with a 150mm diameter cyclone and a 30mm spigot. The post DMS concentrate was sealed and exported for final recovery in Kimberley. A Flowsort™ machine was utilised to produce post X-ray concentrate which was hand-sorted at the De Beers ESD facility. The sampling results are summarised in Table 4-3.

In the data provided by TR, sampling intervals for the percussion holes varied from 20 to 100m. Importantly, although the sample size for the 20m lifts was insufficient in terms of representative individual sampling of these relatively low grade pipes, it is evident that diamond recoveries have occurred at all depths throughout the two pipes, thus confirming the presence and reasonable continuity of grade to a depth of 100m.

Based on this sampling campaign which has good spatial coverage but, unfortunately, a limited sample size, grades of 6.0cph and 2.4cph can be calculated for the K2 and K3 kimberlite pipes, respectively.

Kimberlite Pipe	K2	K3
Sample Tonnage (dry headfeed)	169.5	252.0
Stones	49	30
Carats	10.23	6.06

**Table 4-3:** 2003 DR 10" percussion sampling results

In 2004, a decision was taken by TR to implement a Bauer™ auger sampling programme to significantly increase the sample size and obtain more representative individual sample results. Initially a 2.5m diameter (cross sectional area of 4.909m<sup>2</sup>) auger bucket was utilised but it quickly became apparent that this large tool had difficulty in penetrating the ground conditions. As a result a change was made to a smaller 1.5m diameter (cross sectional area of 1.767m<sup>2</sup>) auger bucket. The holes were drilled as close as possible to the maximum kelly bar length of 54m. As the kimberlite became more competent with depth a considerable number of the holes had to be terminated early.

A total of 5, 19, 21 and 2 holes were drilled on the K1, K2, K3 and K5 pipes, respectively. Two holes were sited on K4, but it appears that they terminated in the calcrete with no kimberlite sample material being generated for treatment as no results were provided.

The calcrete and kimberlite was stockpiled separately adjacent to each hole for transport and treatment at a 10tph DMS plant that was commissioned on site. The process incorporated a scrubber and trommel that sized material to a +1.5mm -16mm DMS feed. Oversize from the scrubber and +6mm -16mm DMS tailings were collected and in certain cases this material was subjected to a re-crush circuit to produce +1.5mm -6mm material that was fed through the DMS as a separate sample. It should be noted that there appears to be a discrepancy in the bottom cut-off reporting (1mm in the plant flowsheet and 1.5mm in the Snowden CPR) in the various reports. During a site visit the screens were viewed and found to be slotted 1.5mm screens. The 1.5mm bottom cut-off is more in keeping with the observed raw data size frequency distribution curves when they were plotted (see Section 6.3). DMS concentrates were stored and transported in sealed plastic drums. Final recovery involved a double pass through a Flowsort™ X-ray machine and hand-sorting. X-ray tails were also passed over a grease table. Both the DMS and X-ray components of the process were audited regularly with real diamonds. The author assumes that these diamonds were accurately accounted for as tracers.

The Bauer™ auger sample results per hole are summarised in Table 4-4. It should be noted that these samples have been assigned geological codes that are compatible with the 3D Datamine™ model created by Z\*. Where samples have mixed facies the percentage split is shown (D = Diatreme, B = Kimberlite Breccia, T = Tuff/Mudstone).

Pipe	Bauer™ Hole	Hole Diam (m)	Cross-Sectional Area (m <sup>2</sup> )	From (m)	To (m)	Sample Length (m)	Sample Volume (m <sup>3</sup> )	Rock Type	Pre Crush Recovery		Post Crush Recovery		Total Recovery	
									Stones	Carats	Stones	Carats	Stones	Carats
K1	LD1	1.5	1.767	7.3	35.6	28.3	50.0	Undiff Kimb	27	5.15	11	0.88	38	6.03
K1	LD2	1.5	1.767	8.4	44.3	35.9	63.4	Undiff Kimb	34	9.12	13	1.47	47	10.59
K1	LD3	1.5	1.767	11.5	21.7	10.2	18.0	Undiff Kimb	3	1.13	0	0.00	3	1.13
K1	LD4	1.5	1.767	7.6	37.1	29.5	52.1	Undiff Kimb	48	8.44	7	2.59	55	11.03
K1	LD5	1.5	1.767	7.5	47.0	39.5	69.8	Undiff Kimb	72	9.35			72	9.35
K2	LD1	2.5	4.909	0.0	10.0	10.0	49.1	Calcrete	2	0.67	1	0.37	3	1.04
K2	LD1	2.5	4.909	10.0	37.0	27.0	132.5	Diatreme	63	14.58	20	2.11	83	16.69
K2	LD5	2.5	4.909	0.0	12.5	12.5	61.4	Calcrete	0	0.00			0	0.00
K2	LD5	2.5	4.909	12.5	48.1	35.6	174.8	Diatreme	28	5.24	2	0.13	30	5.37
K2	LD6	1.5	1.767	0.0	12.6	12.6	22.3	Calcrete	0	0.00			0	0.00
K2	LD6	1.5	1.767	12.6	34.2	21.6	38.2	Diatreme	30	4.75	7	1.91	37	6.66
K2	LD8	1.5	1.767	0.0	14.0	14.0	24.7	Calcrete	0	0.00			0	0.00
K2	LD8	1.5	1.767	14.0	33.3	19.3	34.1	Diatreme	18	2.89	6	0.76	24	3.65
K2	LD8	1.5	1.767	33.3	41.1	7.8	13.8	Diatreme	5	0.64	1	0.10	6	0.74
K2	LD7	1.5	1.767	0.0	13.6	13.6	24.0	Calcrete	10	1.67			10	1.67
K2	LD7	1.5	1.767	13.6	36.2	22.6	39.9	Diatreme	27	4.37	13	1.44	40	5.81
K2	LD7	1.5	1.767	36.2	51.0	14.8	26.2	Diatreme	30	3.51	9	2.37	39	5.88
K2	LD9	2.5	4.909	0.0	13.2	13.2	64.8	Calcrete	8	1.09			8	1.09
K2	LD9	2.5	4.909	13.2	20.8	7.6	37.3	Diatreme	23	4.45	6	0.40	29	4.85
K2	LD3	1.5	1.767	0.0	10.0	10.0	17.7	Calcrete	1	0.02			1	0.02
K2	LD3	1.5	1.767	10.0	45.9	35.9	63.4	Diatreme	52	12.55	5	1.15	57	13.70
K2	LD4	1.5	1.767	0.0	12.3	12.3	21.7	Calcrete	3	0.57	1	0.09	4	0.66
K2	LD2b	1.5	1.767	0.0	8.7	8.7	15.4	Calcrete	0	0.00			0	0.00
K2	LD2b	1.5	1.767	11.5	36.4	24.9	44.0	Diatreme	38	5.56	4	0.70	42	6.26
K3	LD11/b	1.5	1.767	13.5	23.0	9.5	16.8	Diatreme	13	2.83			13	2.83
K3	LD8	1.5	1.767	9.9	31.1	21.2	37.5	Hypabyssal	2	0.11			2	0.11
K3	LD9	1.5	1.767	10.1	38.5	28.4	50.2	Hypabyssal	0	0.00			0	0.00
K3	LD7	1.5	1.767	15.0	39.7	24.7	43.6	Diatreme	20	2.60			20	2.60
K3	LD6	1.5	1.767	12.2	28.1	15.9	28.1	69 D - 31 T	6	0.52			6	0.52
K3	LD5	1.5	1.767	15.0	43.7	28.7	50.7	Diatreme	26	4.26			26	4.26
K3	LD1	1.5	1.767	10.0	30.8	20.8	36.8	Diatreme	7	0.65			7	0.65
K3	LD10	1.5	1.767	14.0	36.5	22.5	39.8	12 D - 88 T	15	3.55			15	3.55
K3	LD2	1.5	1.767	16.0	45.4	29.4	51.9	Diatreme	15	2.78			15	2.78
K3	LD3	1.5	1.767	20.0	32.3	12.3	21.7	Diatreme	5	4.58			5	4.58
K3	LD4	1.5	1.767	12.0	48.9	36.9	65.2	Diatreme	20	6.75			20	6.75
K3	LD12	1.5	1.767	10.4	40.0	29.6	52.3	75 D - 25 B	38	4.27			38	4.27
K3	LD16	1.5	1.767	10.5	26.6	16.1	28.4	Diatreme	4	0.74			4	0.74
K3	LD15#	1.5	1.767	20.0	49.4	29.4	51.9	61 D - 39 T	1	0.12			1	0.12
K3	LD18	1.5	1.767	20.0	35.1	15.1	26.7	62 D - 38 T	1	0.11			1	0.11
K3	LD21	1.5	1.767	17.0	31.8	14.8	26.2	Hypabyssal	1	0.04			1	0.04
K3	LD19	1.5	1.767	14.5	38.5	24.0	42.4	53 D - 47 T	0	0.00			0	0.00
K3	LD17	1.5	1.767	14.2	29.20	15.0	26.5	Diatreme	4	0.44			4	0.44
K3	LD13	1.5	1.767	10.0	27.80	17.8	31.5	Diatreme	7	0.39			7	0.39
K3	LD14	1.5	1.767	14.8	33.40	18.6	32.9	Hypabyssal	0	0			0	0.00
K3	LD20	1.5	1.767	13.7	40.00	26.3	46.5	Diatreme	3	0.28			3	0.28
K5	LD1	1.5	1.767	9.0	58.0	49.0	86.6	Undiff Kimb	36	6.27			36	6.27
K5	LD2	1.5	1.767	5.2	50.1	44.9	79.3	Undiff Kimb	29	11.86			29	11.86

Table 4-4: 2004-2005 TR Bauer™ auger sampling results (total recovery shown)

## 5 KAREEVLEI GEOLOGY

### 5.1 Regional and Local Geology

The Ghaap Plateau is approximately 25,000km<sup>2</sup> in extent and is primarily comprised of carbonate sediments, predominantly dolomites, that were deposited in a shallow inland sea approximately 2.5 billion years ago. The Kareevlei Kimberlites have been emplaced into coarsely crystalline and recrystallised dolomites of the Campbellrand subgroup of the Ghaap Plateau Formation. The dolomite strata of the Campbellrand subgroup are approximately horizontal on the western edge of the plateau and steepen slightly to dip at 7-8° towards the west on the western edge of the plateau.

Diamondiferous kimberlite pipes are almost exclusively found in regions underlain by Archaen craton (crust older than 2.5 billion years) as high pressure and relatively low temperature (<1200°C) formation conditions occur that are suitable for diamonds to form.

The TR logging of the Kareevlei Kimberlites intersections is in a more traditional nomenclature and therefore the general kimberlite description below has been aligned with this traditional approach. It should be remembered that no kimberlite samples were available for review.

The De Beers handbook on kimberlite exploration and mining ([www.debeersgroup.com](http://www.debeersgroup.com)) describes kimberlites as being traditionally divided into root, diatreme and crater zones. The root zone occurs at the base of the kimberlite pipe and typically is irregular in shape and comprised of Hypabyssal

(magmatic) material. The Diatreme zone is usually the central portion of the kimberlite and the largest in terms of volume. It is characterised by the presence of Tuffitic Kimberlite Breccia (‘TKB’) which can be easily weathered at higher levels in the pipe. The TKB consists of angular xenoliths of country rock combined with mantle derived fragments set in a fine-grained matrix. The crater zone is the upper level of the pipe where the kimberlite has often been reworked to form sub-horizontal, layered kimberlite-rich sedimentary deposits along with debris flows and pyroclastic units.

The TR logging indicates that the vast majority of the Kareevlei pipe volumes that have been delineated are Diatreme zone kimberlite. However, there is evidence of an earlier Hypabyssal phase in K3 and to a lesser extent in K2. There is some tuff and mudstone in a basin-shaped feature at a higher level in K3 which may be an indication of a crater facies environment.

## 5.2 Geological and Volume Modelling

Geological logging of the various phases of percussion holes were undertaken by the respective geologists on the project at the time. The most important phases of geological data acquisition are provided by the 10” percussion drilling of the K2 and K3 kimberlites and the 6.5” percussion drilling of the K1 pipe. Both of these phases involved vertically orientated drilling and were undertaken and logged by TR’s geologists. As the percussion chips were treated for diamond recoveries there is no possibility of verifying the geological logging. There was insufficient percussion data to model the K4 and K5 kimberlite pipes and therefore the possibility of generating mineral resources for these pipes was not considered.

The 10” percussion holes were drilled to a depth of 100m on a 20m and 40m grid for the K2 and K3 pipes, respectively. The 6.5” percussion holes on K1 were drilled to an average depth of 20m on a star pattern due to the shape of the kimberlite. A number of older generation percussion holes also exist on all three pipes. The quantity of information on all three pipes is sufficient for 3D geological solid models to be created. Datamine™ software was utilised to create the models which were based purely on the TR geological logging, i.e. no re-interpretation of the geological model was undertaken. It should be noted that the more recent 6.5” percussion holes were logged with different geological codes to the 10” percussion drilling and as such were assigned an Undifferentiated Kimberlite code as Diatreme and Hypabyssal facies were not differentiated in the logging. Strings for the kimberlite facies were modelled in plan view on a 10m vertical spacing (or closer if required) and on the drill hole section lines for the various weathering surfaces. In both cases the strings were then connected to create the required solids and surfaces to represent the various facies. For each of the three pipes the solid models were constrained to a depth of 25m below the deepest drill hole.

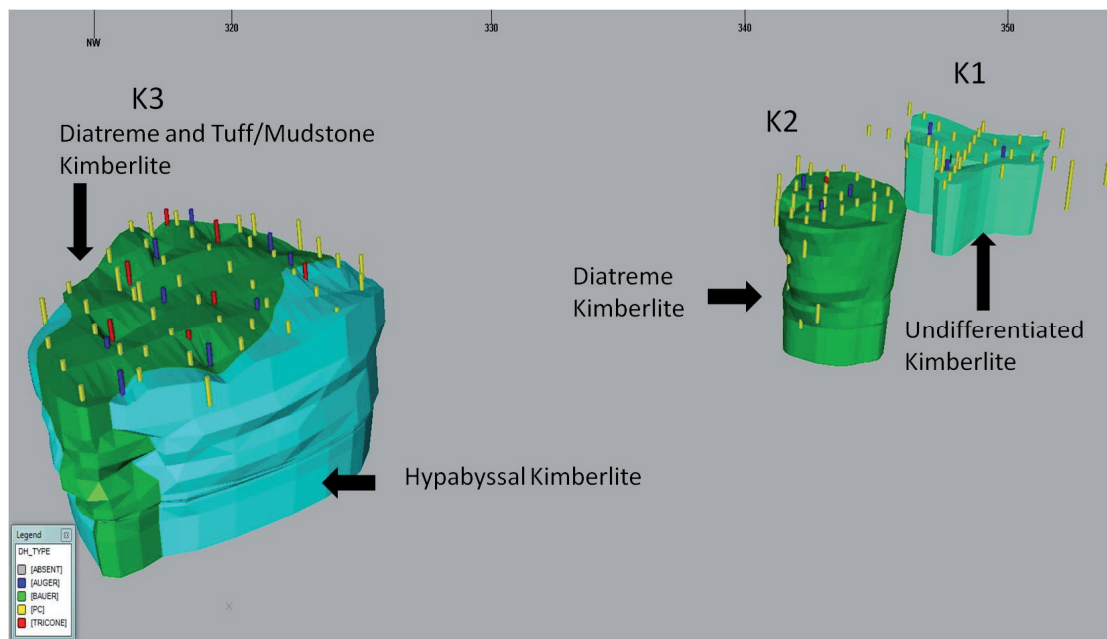


Figure 5-1: Schematic view of the modelled K1, K2 and K3 pipes

The modelled cross-sectional areas of the kimberlite pipes where they abut against the calcrete are 1.2ha, 1.1ha and 5.6ha for the K1, K2 and K3 pipes, respectively (Figure 5-1). All the pipes exhibit a calcrete capping which varies from 3-15m in depth. Below this a calcretised kimberlite unit is present (0-11m in thickness) before intersecting the weathered kimberlite. The weathering profile is highly variable, ranging from 2-40m in thickness. The kimberlite, as logged by TR (in somewhat outdated nomenclature), is primarily Diatreme facies although a partial ring of an earlier phase of Hypabyssal facies kimberlite has to be modelled in both the larger K3 pipe (Figure 5-3) and the K2 pipe (Figure 5-2). The K3 kimberlite has a tuff and mudstone unit towards the top of the pipe and this has also been modelled separately.

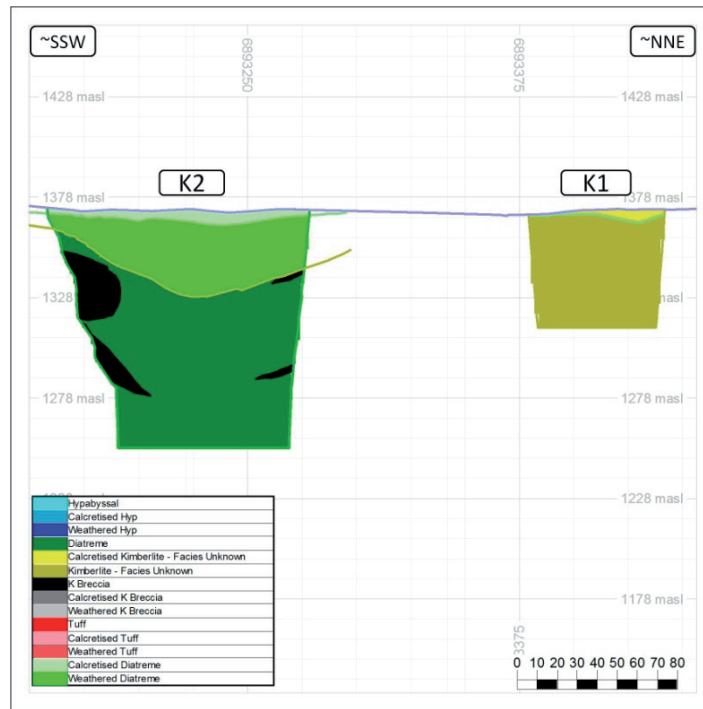


Figure 5-2: South-southwest north-northeast section through the modelled K1 and K2 kimberlite pipes

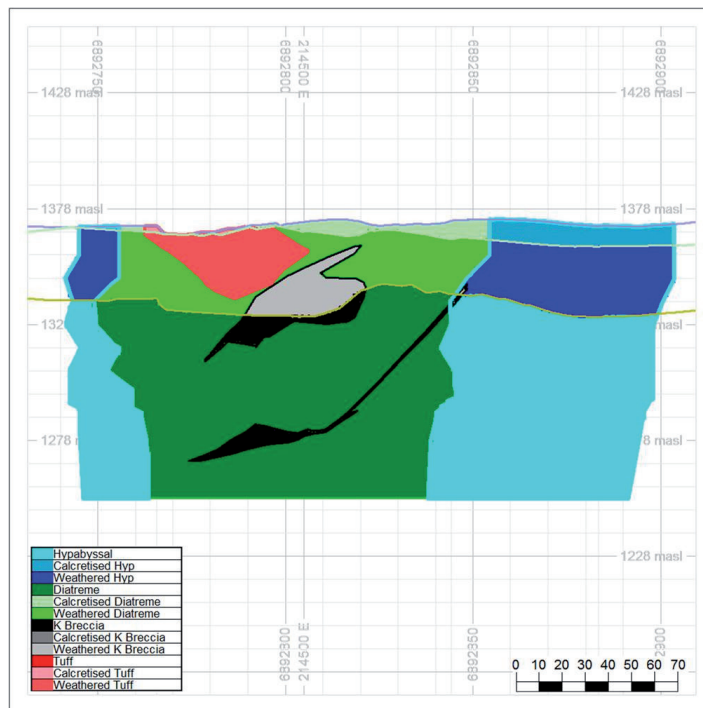


Figure 5-3: West-southwest east-northeast section through the modelled K3 kimberlite pipe



The modelled volumes (rounded to nearest 1,000m<sup>3</sup>) for each pipe's facies are summarised in Table 5-1.

K1		K2		K3	
Kimberlite Type	Volume (m <sup>3</sup> )	Kimberlite Type	Volume (m <sup>3</sup> )	Kimberlite Type	Volume (m <sup>3</sup> )
Calcretised Kimberlite	34,000	Calcretised Diatreme	33,000	Calcretised Diatreme High	107,000
				Calcretised Diatreme Low	153,000
				Calcretised Hypabyssal	85,000
				Calcretised Tuff High	10,000
				Calcretised Tuff Low	8,000
				Calcretised Kimberlite Breccia Low	0
Weathered Kimberlite	598,000	Weathered Diatreme	229,000	Weathered Diatreme High	391,000
				Weathered Diatreme Low	511,000
		Weathered Hypabyssal	0	Weathered Hypabyssal	396,000
				Weathered Tuff High	64,000
				Weathered Tuff Low	115,000
		Weathered Kimberlite Breccia	4,000	Weathered Kimberlite Breccia High	26,000
				Weathered Kimberlite Breccia Low	17,000
		Fresh Diatreme	664,000	Fresh Diatreme High	999,000
				Fresh Diatreme Low	1,559,000
		Fresh Hypabyssal	21,000	Fresh Hypabyssal	1,566,000
				Fresh Tuff High	11,000
				Fresh Tuff Low	53,000
		Fresh Kimberlite Breccia	40,000	Fresh Kimberlite Breccia High	70,000
				Fresh Kimberlite Breccia Low	43,000
Total	632,268		991,000		6,182,000

**Table 5-1:** Modelled volumes for the K1, K2 and K3 pipes per facies

## 6 ESTIMATION

No previous attempts at analysing the sampling data with a view to producing a mineral resource had been attempted. But three dimensional models have been created for the K1, K2 and K3 pipes and sufficient data is available to estimate their grade, density and revenue. Thereafter the application of reasonable prospects for eventual economic extraction ('RPEEE') and a review of the confidence in the key estimation variables will be considered prior to a decision being taken regarding the declaration of a mineral resource in accordance with the SAMREC code.

### 6.1 Density Estimation

Density measurements are available for the 10" percussion sampling programme on the K2 and K3 kimberlite pipes. Due to the variable sample length a decision was taken to discretise the data into 0.5m sample lengths to remove bias related to sample size. The data was then electronically coded onto the Datamine™ geological model. Density will not only vary in relation to rock type but also according to the extent of alteration or weathering that has occurred. An integral part of the geological modelling was the interpolation of surfaces to separate calcretised kimberlite from weathered kimberlite and weathered kimberlite from fresh kimberlite. Mean density values (zonal estimates) for each of the rock units for the K2 and K3 pipes were then calculated (Table 6-1).

Rock Code	K1	K2	K3
	Density (t/m <sup>3</sup> )		
Calcrete	2.53	2.53	2.41
Calcretised Kimberlite	2.53	2.53	2.45
Weathered Diatreme	2.52	2.52	2.42
Weathered Hypabyssal	-	2.47	2.37
Weathered Tuff+Mud	-	-	2.28
Weathered Kimb Breccia	-	2.55	2.44
Fresh Diatreme	-	2.63	2.53
Fresh Hypabyssal	-	2.58	2.48
Fresh Tuff+Mud	-	-	2.37
Fresh Kimb Breccia	-	2.66	2.55

**Table 6-1:** Density estimates for K1, K2 and K3 pipes

No robust density measurements were available for the K1 kimberlite and thus density estimates were extrapolated from the adjacent K2 pipe. As expected, the weathered kimberlite units exhibit lower densities than their fresh equivalents.

## 6.2 Grade Estimation

It is important that a suitable variable is chosen for the grade estimation of the various pipes. Previous estimates at Kareevlei were undertaken in carats per hundred tonne (cpht) but this mixes the grade and density variables which vary spatially for different reasons. This Z\* estimate will utilise a carats per metre cubed ( $c/m^3$ ) variable for grade as the density has been estimated separately in tonnes per metre cubed ( $t/m^3$ ).

Due to the insufficient sample support of the earlier sampling campaigns a decision was taken to only use the Bauer™ auger sample results for grade estimation. The sample data summarised in Table 4-4 shows that significant recoveries were returned by a post crush (re-crush) sample in the kimberlites. It is imperative that the grade estimates are calculated from a consistent base and therefore a decision was taken to apply a re-crush factor to those kimberlite samples that had not been subjected to this phase of treatment. A single sample, LD5, from K1 had not been re-crushed and a factor per sieve class was calculated for this sample from the other four K1 samples. No re-crush had been undertaken for the K3 and K5 Bauer™ samples and a factor per sieve class was calculated from the K2 Bauer™ results where pre and post crush results were available for all samples. The factors were applied to generate carat recoveries per sieve class per sample. No factors were applied to the calcrete unit as initial sampling shows that it is low grade and will be stripped as waste during mining. A decision was taken to utilise the theoretical Bauer™ auger hole volume (cross sectional area x sample length) as the sample volume in each case. The amended sample dataset (at a +2 diamond sieve bottom cut-off) with allowances made for the re-crush (kimberlite samples only) is shown in Table 6-2.

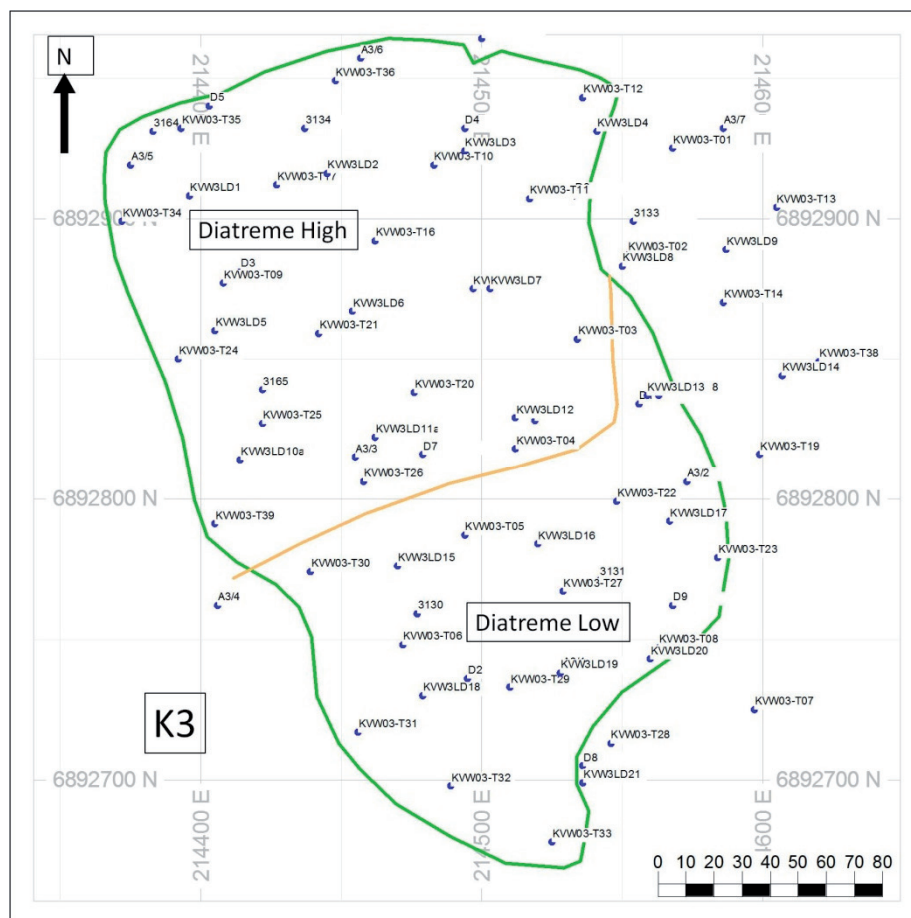


Figure 6-1: Diatreme High – Diatreme Low grade boundary in K3



The estimation dataset was utilised to create c/m<sup>3</sup> grades for each of the facies modelled. The estimates were calculated by dividing the total carats by the total sampled volume in each facies. Prior to the calculation, however, a change had to be made to address the ambiguity in terms of the bottom cut-off used for the treatment of the Bauer™ auger samples. As the size frequency distributions ('SFD's) show that the K1, K2 and K3 kimberlites are relatively fine stone size producers a decision was taken to model the SFDs to a 1mm square aperture sieve bottom cut-off. This involved the use of factors to add a small amount of carats (1.56% and 1.12% for the K1/K2/K3 and K5 kimberlites, respectively) back into the three smallest sieve classes. The adjusted carats and results of the zonal grade estimation are shown in Table 6-3.

A review of the grade samples in the Diatreme facies of the K3 kimberlite showed a significant change in grade between the north and south regions of the pipe. As a result a decision was taken to model a vertical grade boundary to subdivide the grade estimate for the Diatreme facies (Figure 6-1). The K3 Diatreme samples in Table 6-2 have been assigned a High or Low code based on this boundary.

Pipe	Bauer Hole	Sample Volume (m <sup>3</sup> )	Rock Type	Carats (+2 sieve)
K1	LD1	50.0	Undiff Kimb	6.03
K1	LD2	63.4	Undiff Kimb	10.58
K1	LD3	18.0	Undiff Kimb	1.13
K1	LD4	52.1	Undiff Kimb	11.02
K1	LD5	69.8	Undiff Kimb	11.17
K2	LD1	49.1	Calcrete	1.04
K2	LD1	132.5	Diatreme	16.69
K2	LD5	61.4	Calcrete	0.00
K2	LD5	174.8	Diatreme	5.35
K2	LD6	22.3	Calcrete	0.00
K2	LD6	38.2	Diatreme	6.66
K2	LD8	24.7	Calcrete	0.00
K2	LD8	34.1	Diatreme	3.65
K2	LD8	13.8	Diatreme	0.74
K2	LD7	24.0	Calcrete	1.67
K2	LD7	39.9	Diatreme	5.81
K2	LD7	26.2	Diatreme	5.88
K2	LD9	64.8	Calcrete	1.09
K2	LD9	37.3	Diatreme	4.85
K2	LD3	17.7	Calcrete	0.02
K2	LD3	63.4	Diatreme	13.70
K2	LD4	21.7	Calcrete	0.66
K2	LD2b	15.4	Calcrete	0.00
K2	LD2b	44.0	Diatreme	6.26
K3	LD11/b	16.8	Diatreme High	3.44
K3	LD8	37.5	Hypabyssal	0.14
K3	LD9	50.2	Hypabyssal	0.00
K3	LD7	43.6	Diatreme High	3.09
K3	LD6	28.1	69 D - 31 T High	0.62
K3	LD5	50.7	Diatreme High	4.83
K3	LD1	36.8	Diatreme High	0.80
K3	LD10	39.8	12 D - 88 T High	4.26
K3	LD2	51.9	Diatreme High	3.09
K3	LD3	21.7	Diatreme High	4.71
K3	LD4	65.2	Diatreme High	7.19
K3	LD12	52.3	75 D - 25 B High	5.02
K3	LD16	28.4	Diatreme Low	0.85
K3	LD15	51.9	61 D - 39 T Low	0.14
K3	LD18	26.7	62 D - 38 T Low	0.14
K3	LD21	26.2	Hypabyssal	0.05
K3	LD19	42.4	53 D - 47 T Low	0.00
K3	LD17	26.5	Diatreme Low	0.53
K3	LD13	31.5	Diatreme Low	0.49
K3	LD14	32.9	Hypabyssal	0.00
K3	LD20	46.5	Diatreme Low	0.34
K5	LD1	86.6	Undiff Kimb	7.36
K5	LD2	79.3	Undiff Kimb	12.93

**Table 6-2:** Estimation dataset with post crush sample factorisation (+2 diamond sieve bottom cut-off)

K1	Sample Volume (m <sup>3</sup> )	Carats (+2 sieve)	Carats Adjusted (+1mm)	Grade (c/m <sup>3</sup> +1mm)
Calcrete	-	-	-	0.021
Undifferentiated Kimberlite	253.4	39.93	40.55	0.160
K2	Sample Volume (m <sup>3</sup> )	Carats (+2 sieve)	Carats Adjusted (+1mm)	Grade (c/m <sup>3</sup> +1mm)
Calcrete	301.1	4.48	4.55	0.015
Hypabyssal	-	-	-	0.117
Diatreme	604.2	69.59	70.68	0.117
Kimberlite Breccia				0.030
K3	Sample Volume (m <sup>3</sup> )	Carats (+2 sieve)	Carats Adjusted (+1mm)	Grade (c/m <sup>3</sup> +1mm)
Calcrete	-	-	-	0.012
Hypabyssal	146.7	0.19	0.19	0.001
Diatreme High	406.9	37.07	37.65	0.093
Diatreme Low	253.9	2.50	2.54	0.010
Tuff & Mudstone High	-	-	-	0.093
Tuff & Mudstone Low	-	-	-	0.010
Kimberlite Breccia High	-	-	-	0.023
Kimberlite Breccia Low	-	-	-	0.003
K5	Sample Volume (m <sup>3</sup> )	Carats (+2 sieve)	Carats Adjusted (+1mm)	Grade (c/m <sup>3</sup> +1mm)
Calcrete	-	-	-	0.016
Undifferentiated Kimberlite	165.9	20.29	20.52	0.124

**Table 6-3:** Estimated facies grades with +1mm square aperture bottom cut-off applied

As a number of facies were not sampled, grades had to be extrapolated from adjacent facies. In the case of the calcrete, grades for K1, K3 and K5 were extrapolated from the Calcrete to Diatreme grade ratios in K2. As the Hypabyssal unit in K2 was not sampled, the Diatreme grade was extrapolated to this small volume unit. In K3 and K2 the kimberlite breccias which are significantly diluted with country rock were assigned 25% of the host Diatreme grade. It should be noted that the Tuff & Mudstone unit in K3 could not be estimated separately as it was sampled as part of the Diatreme facies.

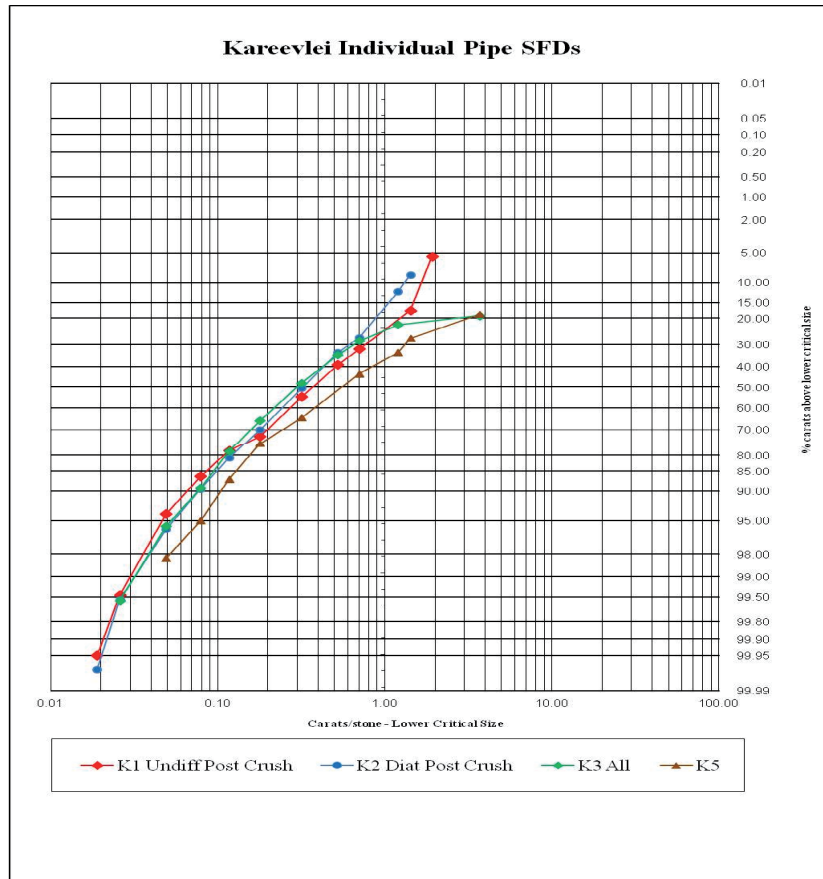
In terms of reasonable prospects for eventual economic extraction it is probable that only the Undifferentiated Kimberlite from K1, the Hypabyssal and Diatreme Kimberlite from K2 and the Diatreme High and Tuff & Mudstone High zones from K3 could be considered for mining. When combined with density the grades for these facies are 6.3cpht, 4.5cpht and 3.7cpht, for K1, K2 and K3, respectively.

These grades are based on the Bauer™ auger sampling which is typically limited to the upper half of the kimberlites being modelled and therefore has poor spatial coverage of the entire estimated volume. In terms of the estimate, a grade range has been calculated based on a normal distribution to reflect the risk in the estimate. The 5<sup>th</sup> and 95<sup>th</sup> percentiles of this distribution are 4.0cpht and 8.5cpht, 2.9cpht and 6.1cpht and 2.5cpht and 5.0cpht, for the K1, K2 and K3 pipes, respectively. These ranges give an indication of the scope for variability in the zonal grade values.

### 6.3 Revenue Estimation

An estimate of the diamond revenue for a kimberlite pipe involves modelling of the diamond size frequency distribution and the diamond value (US\$ per carat per sieve class). Importantly, the revenue must be estimated at the same 1mm bottom cut-off used to calculate the grade estimate to ensure compatibility.

The unmodelled SFDs for the four Kareevlei kimberlite pipes that have Bauer™ auger data are shown in Figure 6-2. All diamond data available have been utilised in these SFDs and they include a re-crush factor for the kimberlite samples. Although there is limited diamond data available, the plot shows that there are clearly two different SFDs, one for the K1, K2 and K3 kimberlite pipes that are situated in close proximity to each other and a second coarser SFD for the K5 pipe.



**Figure 6-2:** Individual Kareevlei kimberlite pipe SFDs

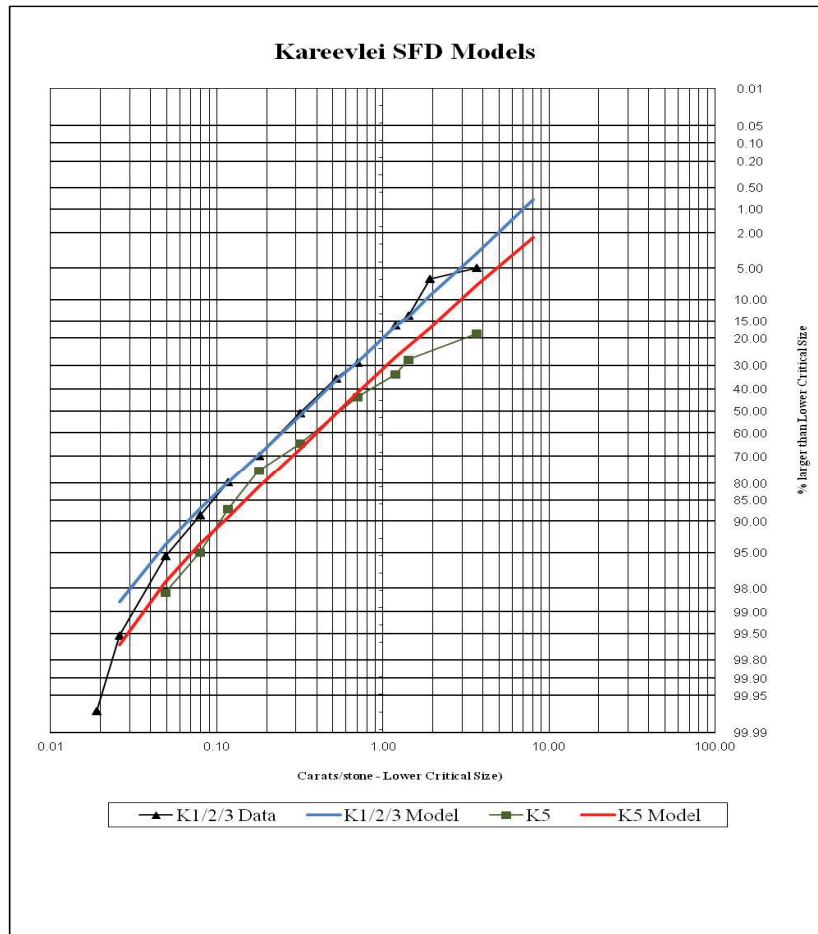
The two SFDs were modelled to allow for a 1mm square aperture bottom cut-off and to negate the loss of carats in the larger sieve classes due to a lack of sample support. Very large diamonds will typically only be recovered when significant kimberlite volumes are treated; these volumes are larger than the combined Bauer™ auger programme per pipe. The SFD models have therefore been extended up to the +23 sieve class. The finalised models are summarised in Table 6-4 and shown in Figure 6-3.

Sieve Class	K1/K2/K3 Model	K5 Model
+23	0.74%	2.27%
+21	2.70%	5.12%
+19	5.73%	9.67%
+17	4.72%	5.69%
+15	2.49%	3.98%
+13	12.14%	14.79%
+12	7.42%	9.67%
+11	16.18%	15.92%
+9	17.53%	14.22%
+7	10.11%	7.96%
+6	7.42%	4.55%
+5	6.74%	3.77%
+3	4.72%	2.05%
+2	1.35%	0.34%
Total	100.00%	100.00%

**Table 6-4:** Modelled SFDs for K1/K2/K3 and K5

Two sets of US\$/carat/sieve class data are available from valuations undertaken while TR were in control of the project. In 2005 a parcel of 95.28 carats taken from the Bauer™ auger sampling of K1 and K2 was valued by G. Katz and M. Farrar. This sieve and carater/grainer data was utilised by J. Chapman in 2005 to estimate a value for these two pipes. In 2008, M. Barker estimated a US\$/carat/sieve class value on DTC sieve classes from a total Kareevlei parcel of 222.9 carats. Both of these valuations are summarised in Table 6-5. It should be noted that although the valued diamond

parcels are clearly stated as being derived from Kareevlei in the relevant reports, the caratage valued cannot be traced back to specific sample results.



**Figure 6-3:** SFD Models at a +1mm square aperture bottom cut-off for the K1/K2/K3 pipes and the K5 pipe

Chapman Data		Barker Data	
Sieve Class	Average US\$/carat	Sieve Class	Average US\$/carat
6 gr	326	+19	561
5 gr	148	+17	238
4 gr	132	+15	185
3 gr	167	+13	97
+11	102	+12	90
+9	92	+11	80
+7	62	+9	85
+5	49	+7	66
+3	33	+5	47
		+3	39

**Table 6-5:** Valuation data documented by Chapman (2005) and Barker (2008)

The two sets of valuation data were modelled and more representative US\$/carat/sieve class values obtained to cover the range of the modelled K1/K2/K3 SFD. The modelled values for the two sets of raw data are detailed in Table 6-6.

When these US\$/carat/sieve class data are applied to the modelled size frequency distribution for the combined K1/K2/K3 pipes, average values of US\$141/carat and US\$137/carat can be generated. The close proximity of the two values gives some confidence in the raw valuation data despite its small sample support size as well as potential differences in “price book” between 2005 and 2008.

Modelled from Chapman's Data		Modelled from Barker's Data	
Sieve Class	Average US\$/carat	Sieve Class	Average US\$/carat
>10CT	1526		
5-9CTS	767	+23	1585
3-4CTS	464	+21	717
8-10GR	312	+19	368
6GR	252	+17	271
5GR	221	+15	227
4GR	176	+13	132
3GR	139	+12	98
+11	110	+11	90
+9	77	+9	70
+7	63	+7	61
+5	47	+5	51
3	41	-5	46
2	40		

**Table 6-6:** Modelled values from Chapman's and Barker's raw data

As the values are similar, a decision was taken to utilise the US\$141/carat value from Chapman's data as it represents two of the pipes that have been modelled (K1 and K2). Barker's data includes the K5 pipe parcel which exhibits a coarser SFD and therefore it is less representative geologically despite the increased sample support size of the parcel.

Rough diamond prices can fluctuate considerably, however, it has been estimated that prices were approximately comparable when the two valuations were undertaken. This is not the case for the period from 2008 to 2013 which has seen a significant increase in rough diamond price, peaking between June 2011 and June 2012, followed by a more recent easing of the price. It is estimated that current (end May 2013) diamond prices are approximately 30% higher than in 2005, therefore an average diamond price of US\$183/carat is estimated for the K1, K2 and K3 Kareevlei diamonds. It should be clearly understood that this value can vary considerably dependent on the economic environment in the major global diamond jewelry markets.

The degree of confidence in the SFD model for the revenue estimate of the K1/K2/K3 pipes is reasonable as the amount of modelling required is fairly limited. An estimate of the US\$/carat/sieve class is not as straightforward as the parcel is extremely limited in size. A revenue range has therefore been calculated based on a normal distribution to reflect the risk in the estimate. The 5<sup>th</sup> and 95<sup>th</sup> percentiles of this distribution are US\$94/carat and US\$281, respectively, which gives an indication of the scope for variability in the average value of US\$183/carat.

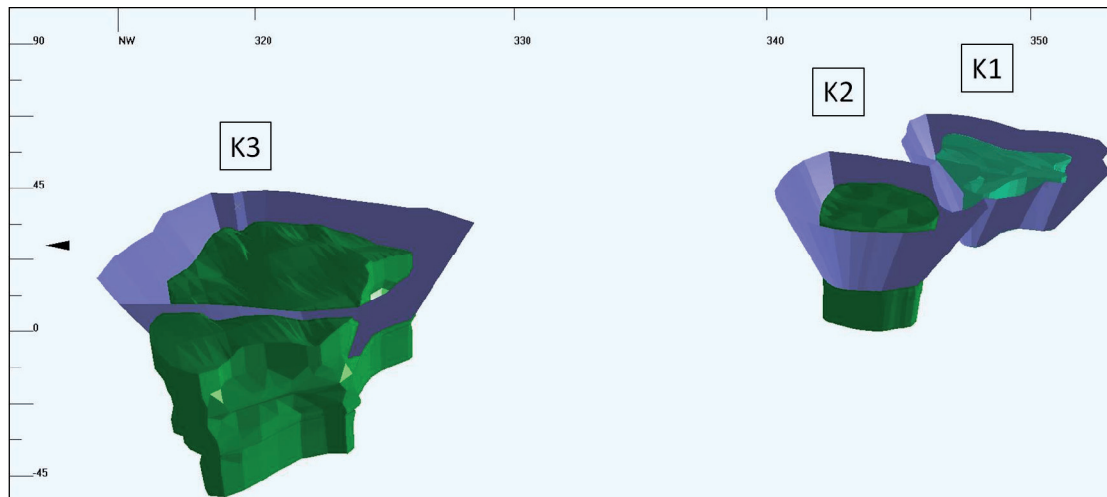
## 7 APPLICATION OF REASONABLE PROSPECTS OF EVENTUAL ECONOMIC EXTRACTION (RPEEE)

The SAMREC code for the reporting of mineral resources and reserves stresses the necessity for a mineral resource to have reasonable prospects for eventual economic extraction before it can be declared. This applies to Measured, Indicated and Inferred mineral resources.

RPEEE can be extremely difficult to quantify, especially in diamond deposits as gems are a luxury item and as a result the diamond price can exhibit considerable fluctuations based on the economic status of the major diamond markets around the world. A simple way of catering for RPEEE is to consider the economic viability of the estimates against a simplistic mining scenario to compare the potential revenue stream to realistic but generic mining and treatment costs. It must be stressed that the RPEEE analysis is a generic model to aid definition of the mineral resource and not a detailed practical mine plan.

This philosophy was adopted in the case of the K1, K2 and K3 pipes. An approximation of the open pits required to mine K1, K2 and K3 to depths of 65m (base of the model), 80m (model extends to 125m) and 80m (model extends to 125m), respectively, were created in Datamine™ (Figure 7-1). The pits were assigned 60° slope angles (5m vertical benches with 3m horizontal steps between benches) as this was considered reasonable in the competent dolomite waste rock). The following costing parameters were used:

• Overburden and waste drilling and blasting:	R8/tonne
• Contractor overburden and waste removal:	R14/tonne
• Fresh kimberlite drilling and blasting:	R8/tonne
• BRD loading and hauling of kimberlite to treatment facility:	R10/tonne
• Treatment of kimberlite (includes Flowsort™):	R25/tonne
• Hand-sort of Flowsort™ super concentrate:	Negligible
• Plant utilisation (10hours of a 12hour shift):	83.3%
• Peak production feed (200tonnes/hour):	250,000tonnes/annum
• R/US\$ exchange rate:	1US\$=R10



**Figure 7-1:** Schematic showing the simplistic pit shells used to calculate RPEEE

The RPEEE spreadsheets are included as Appendix 1. The highest grade pipe, K1, would presumably be mined first and therefore attracts the upfront capital costs, these include:

- Purchase price (R4M)
- Refurbishment of the screening and crushing sections of the plant prior to treatment (R1M)
- Set-up costs (offices, accommodation and vehicles) (R2M)
- Plant upgrade to increase the headfeed capacity from 50 to 100tonne/hour (R2M)
- Purchase of refurbished excavation and hauling equipment (R6M)

The simplistic RPEEE run has K2 being mined after K1 and then K3 being mined last. Capex for K2 and K3 is constrained to plant refurbishment and equipment replacement on a routine basis. Additional Capex, to increase the capacity of the plant, would be required should pipes be mined simultaneously. Contractors are utilised to strip the calcrete and dolomite in the first year and stockpile kimberlite at the plant. From the second year it is assumed that BRD take over stripping and loading and the hauling of kimberlite.

The generic mining scenarios all exhibit a positive contribution if only operational costs are considered. If Capex is included in the cost stream K3 only just achieves a positive contribution.

Importantly, all three pipes qualify in terms of RPEEE and exhibit the potential to be mined at some point in the future, bearing in mind the confidence associated with the grade and, in particular, the revenue estimate and potential fluctuations in the diamond price.

## 8 MINERAL RESOURCE CLASSIFICATION

In terms of assigning a level of confidence to the K1, K2 and K3 pipes estimates the following issues have been considered:

- The geological solid models created are based on a reasonable data density and the extrapolation has been kept to a minimum. Unfortunately, the drilling methodologies were percussion and auger and as such no core is available to review or check the geological



interpretation and/or amend the nomenclature to current standards. It should also be noted that the logging of drill chips is traditionally difficult. Nonetheless the models created are deemed to be a reasonable framework for the estimation of the grade, density and revenue variables and to provide representative volumes for estimation. The geology of the K3 pipe will need to be reviewed in terms of the High – Low Diatreme facies boundary;

- The density estimates are robust and based on good spatial sample coverage in both the K2 and K3 pipes. The density for K1 has been extrapolated from the adjacent K2 pipe and is of lower confidence;
- The grade estimates are zonal per facies and based on the Bauer auger drilling which has produced the only representative samples (in terms of size) taken at Kareevlei. Their spatial coverage is limited to the top half of the models in K2 and K3, although grade continuity to depth (100m) is confirmed by the 10” percussion drilling in these two pipes. The grades have been amended for a re-crush (where absent) and for a 1mm square aperture bottom cut-off. Carat recoveries are relatively limited but zonal grades have been estimated with a fair degree of confidence and these grades are, to a large extent, replicated by less representative historic sampling programmes. The estimated grade of the Tuff & Mudstone unit in K3 is of low confidence as it was not sampled separately from the Diatreme facies;
- The revenue estimate reflects the least confidence of any of the variables as the sample parcels are very limited in size. The combined sample parcels from K1, K2 and K3 provide a fairly robust SFD which is modelled relatively easily. The US\$/carat/sieve class data is much less robust and the valuation data will probably only stabilise with a considerably larger diamond parcel of the order of 1,000carats. However, the two sets of valuation data from Chapman (2005) and Barker (2008) produce relatively similar average US\$/carat values when applied to the modelled SFD. The risk in the revenue estimate is further increased by the introduction of a factor to bring the 2005 revenue estimate on to a current day price.

Based on the considerations listed above and taking into account the RPEEE analysis the K1 (Undifferentiated), K2 (Diatreme) and K3 (Diatreme High/Tuff & Mud High) portions of the modelled kimberlite pipes can be considered to be at an Inferred level of confidence in accordance with the SAMREC code.

## 9 MINERAL RESOURCE STATEMENT

Table 9-1 provides the detail of the compilation of the Inferred mineral resources of pipes K1, K2 and K3 at a 1mm bottom cut-off. It should be noted that the volume, tonnes and carats have been rounded to the nearest 1,000.

Pipe	Kimberlite Type	Volume (m <sup>3</sup> )	Grade C/m3	Density (t/m3)	Tonnes	Carats	Grade (cpht)	Classification
K1	Calcretised Kimberlite	34,000	0.160	2.53	86,000	5,000	5.8	Inferred
	Weathered Kimberlite	598,000	0.160	2.52	1,508,000	96,000	6.4	Inferred
	Total	632,000			1,594,000	101,000	6.3	Inferred
K2	Calcretised Diatreme	33,000	0.117	2.53	84,000	4,000	4.8	Inferred
	Weathered Diatreme	229,000	0.117	2.52	577,000	27,000	4.7	Inferred
	Weathered Hypabyssal	0	0.117	2.47	0	0	4.7	Inferred
	Fresh Diatreme	664,000	0.117	2.63	1,745,000	78,000	4.5	Inferred
	Fresh Hypabyssal	21,000	0.117	2.58	54,000	2,000	3.7	Inferred
	Total	947,000			2,461,000	111,000	4.5	Inferred
K3	Calcretised Diatreme High	107,000	0.093	2.45	262,000	10,000	3.8	Inferred
	Calcretised Tuff High	10,000	0.093	2.45	23,000	1,000	4.3	Inferred
	Weathered Diatreme High	391,000	0.093	2.42	946,000	36,000	3.8	Inferred
	Weathered Tuff High	64,000	0.093	2.28	145,000	6,000	4.1	Inferred
	Fresh Diatreme High	999,000	0.093	2.53	2,528,000	93,000	3.7	Inferred
	Fresh Tuff High	11,000	0.093	2.37	26,000	1,000	3.8	Inferred
Total	1,581,000			3,929,000	147,000	3.7	Inferred	
All Pipes	Grand Total	3,160,000			7,984,000	359,000	4.5	Inferred

**Table 9-1:** Compilation of the Inferred mineral resources for the K1, K2 and K3 pipes at a bottom cut-off of 1mm



A summary of the declarable mineral resources and reserves for pipes K1, K2 and K3 under the SAMREC code at a bottom cut-off of 1mm is contained in Table 9-2.

Kareevlei K1, K2 and K3							
Category	Gross			Net Attributable			Operator
	Tonnes (Millions)	Grade (cpht)	Contained Carats	Tonnes (Millions)	Grade (cpht)	Contained Carats	
Mineral Reserves							
Proved	-	-	-	-	-	-	
Probable	-	-	-	-	-	-	
Subtotal	-	-	-	-	-	-	
Mineral Resources							
Measured	-	-	-	-	-	-	
Indicated	-	-	-	-	-	-	
Inferred	7.98	4.5	359,000	7.98	4.5	359,000	Diamond Resources (Pty) Ltd
Subtotal	7.98	4.5	359,000	7.98	4.5	359,000	Diamond Resources (Pty) Ltd
Total	7.98	4.5	359,000	7.98	4.5	359,000	Diamond Resources (Pty) Ltd

**Table 9-2:** Summary of the Kareevlei pipes K1, K2 and K3 mineral resources and reserves at a 1mm bottom cut-off

Source: Dr John Andrew Grills

## 10 CONCLUSIONS AND RECOMMENDATIONS

A reasonable amount of exploration work has been undertaken on the Kareevlei Kimberlites, but this is the first time that a mineral resource has been compiled. The estimation process has facilitated a thorough review of the project and the following recommendations are documented for consideration:

- The principal risk is related to the revenue estimate and in this regard a diamond parcel of approximately 1,000carats would facilitate a far superior revenue estimate. A parcel of this size will be difficult to generate from drilling and therefore it is recommended that a bulk sample pit is opened on the highest grade pipe, K1, to secure the required caratage. This revenue sample is high priority and will significantly improve the confidence in the mineral resource estimates. Based on the RPEEE costing it is estimated that R1.54M must be budgeted to secure the 16,000 tonne sample required from K1 to produce a higher confidence revenue estimate (Table 10-1). It is recommended this bulk-sample is taken as soon as possible to reduce the risk associated with the revenue estimate.

Revenue sample from K1	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Total
Stripping (tonnes)	60000						
Drilling & Blasting Costs (Rate R8/m3)	480000						480000
Stripping Rate Costs (Rate R14/m3)	840000						840000
Sampling (tonnes)		16000					
Sample Loading & Hauling (R14/m3)		224000					224000
Sample Treatment (R25/m3)			400000				400000
Geological Modelling (Consultant)	30000						30000
Revenue Re-Estimation (Consultant)						50000	50000
<b>Total Costs K1</b>							<b>1544000</b>

**Table 10-1:** Budget for a 1,000carat revenue sample from K1

- Diamonds from the K5 pipe may potentially command a significantly higher revenue due to the coarser diamond SFD and therefore this kimberlite should be subjected to a delineation programme to facilitate 3D modelling and generate a mineral resource. K5 is expected to be in the 1 to 2ha range; 1,600m of core drilling will delineate the size of pipe fairly accurately to a depth of 125m. The drilling and associated logging, modelling and estimation costs are estimated at R1,74M. In addition, a 20,000 tonne revenue sample has also been planned from K5 to confirm the coarser SFD and obtain a more accurate US\$/carat/sieve class estimate. This adds a further R1.70M to the exploration budget (Table 10-2).

Delineation of K5 (Year 4)	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Total
Drilling (m)		400	400	400	400		
Rate (R/m)		900	900	900	900		
Core Drilling Cost		360000	360000	360000	360000		1440000
Geological Logging/Logistics	30000	30000	30000	30000	30000		150000
Geological Modelling (Consultant)						80000	80000
Resource Estimation (Consultant)						70000	70000
<b>Delineation of K5 costs</b>							<b>1740000</b>
Revenue sample from K5 (Year 4)	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Stripping (tonnes)	60000						
Drilling & Blasting Costs (Rate R8/m <sup>3</sup> )	480000						480000
Stripping Rate Costs (Rate R14/m <sup>3</sup> )	840000						840000
Sampling (tonnes)		20000					
Sample Loading & Hauling (R14/m <sup>3</sup> )		280000					280000
Sample Treatment (R25/m <sup>3</sup> )			500000				500000
Geological Modelling (Consultant)	30000						30000
Revenue Re-Estimation (Consultant)					50000		50000
<b>Revenue sample from K5 costs</b>							<b>1700000</b>
<b>Total Costs K5</b>							<b>3440000</b>

**Table 10-2:** Exploration budget for the K5 delineation drilling

- The K3 pipe is low grade but appears to show a considerable variation of grade in the Diatreme facies. A better understanding of the geology of the pipe is required to explain the grade variability and this may well result in specific volumes of kimberlite that can be selectively mined. No budget has been planned at this stage for K3 as it is considered to be of lower priority.

## 11 DATE AND SIGN-OFF

The Competent Person responsible for this CPR is Dr John Andrew Grills.

The format and content of the report are intended to confirm to the requirements stipulated in the “Note for Mining and Oil and Gas Companies” of June 2009 as prepared by AIM.

I, the undersigned, Dr John Andrew Grills, hereby confirm that I am the author of the report “Competent Person’s Report on the Diamondiferous Kareevlei Kimberlites” with an effective date of 19 August 2013.



Dr John Andrew Grills

## 12 QUALIFIED PERSON CERTIFICATE

I, Dr John Andrew Grills, the author of the report “Competent Person’s Report on the Diamondiferous Kareevlei Kimberlites” with an effective date of 19 August 2013, hereby certify that:

- i. I am a Principal Mineral Resource Analyst and Executive Director of Z Star Mineral Resource Consultants (Pty) Limited whose premises are located at Suite 4, Steenberg House, Steenberg Office Park, Tokai, Cape Town, South Africa.
  - a. Tel: +27 83 302 6952
  - b. Email: [andy.grills@zstar.co.za](mailto:andy.grills@zstar.co.za)
- ii. I graduated with a B.Sc. Honours degree and a Ph.D. in Geology from the Queens University of Belfast in the United Kingdom. In addition, I graduated with a Diploma in Advanced Geostatistics (CFSG) from the Ecole des Mines de Paris in France.
- iii. I am registered as a Professional Natural Scientist in the field of Geological Science with the South African Council for Natural Scientific Professions, Registration Number: 400426/04.

- iv. I have worked as a geologist since leaving University in 1988. I have the following relevant experience:
  - a. 1996-2001: I worked as a Divisional Geologist in charge of production control and contiguous evaluation at De Beers Namaqualand Mines, an alluvial diamond mine;
  - b. 2001-2004: I managed the Placer Estimation Department for De Beers Group Services providing specialist advice and estimation services to the De Beers alluvial diamond operations, globally;
  - c. 2004-2008: I managed the Estimation Department for De Beers Group Services providing specialist advice and estimation services to the De Beers kimberlite and alluvial operations, globally; and
  - d. 2008-Present: I am a founding Director and Principal Mineral Resource Analyst with Z Star Mineral Resource Consultants (Pty) Limited. The company specialises in diamonds and provides a consultancy service that includes sample optimisation studies, mineral resource and reserve estimation, risk analysis and mineral resource classifications and due diligence reviews.
  
- v. I hereby certify that I qualify as a Competent Person and meet the requirements stipulated in the “Note for Mining and Oil and Gas Companies” of June 2009 as prepared by AIM. I qualify in terms of my education, my professional membership and my experience in the fields of diamond exploration, diamond resource estimation and classification and diamond mining. Furthermore, this CPR was prepared to comply with the “Note for Mining and Oil and Gas Companies” of June 2009, which I have read.
  
- vi. I undertook a site visit to Kareevlei on 23<sup>rd</sup> May 2013.
  
- vii. I am the author and am responsible for each and every section of this CPR.
  
- viii. As of the date of this Competent Person Certificate, I certify that, to the best of my knowledge, the CPR contains the required disclosure of scientific and technical information so as not to be misleading.
  
- ix. I hereby certify that both I and Z Star Mineral Resource Consultants (Pty) Limited are completely independent of the BlueRock Diamonds plc and its Directors and advisors.
  
- x. I hereby certify that neither I nor Z Star Mineral Resource Consultants (Pty) Limited have any current or past interest in the Kareevlei Kimberlites nor any associated plant or equipment.

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14. [www.maps.google.co.za](http://www.maps.google.co.za)

## 14 GLOSSARY OF TECHNICAL TERMS

“airborne magnetic survey”	a survey conducted from the air for the purpose of recording the natural magnetic characteristics of rocks on and below the surface of the earth
“alteration”	changes in the mineralogical composition of a rock typically brought about by the action of hydrothermal (hot water) solutions
“amsl”	above mean sea level
“Archean”	a geological eon that represents the earth’s past (3.8 to 2.5 billion years ago)
“Auger Drilling”	a drilling methodology that incorporates a helical drilling tool to remove sample material
“Bauer <sup>TM</sup> ”	German manufacturer of auger drills
“bench”	a single level of operation for mining operations in an open pit
“breccia”	a rock type composed of sharp angled fragments embedded in a fine-grained matrix
“bromoform”	a heavy liquid that can be used to separate diamonds from concentrate
“bulk sample”	a descriptive term used to imply a large volume sample that is processed in order to determine the grade of a deposit where mineralisation is unevenly distributed and of low grade within the deposit
“c/m <sup>3</sup> ”	a measure of diamond grade in carats per cubic metre
“calcrete”	a calcium-rich hardened layer formed as a result of climatic fluctuations in arid and semi-arid regions
“carat” or “ct”	a unit of weight for diamonds, equivalent to 0.2 of a gram
“concentrate”	the residual product of heavy particles separated by a density media separation (DMS) process
“country rock”	the rock bodies which enclose an intrusive mass of igneous rock
“cph <sup>t</sup> ”	a measure of diamond grade in carats per hundred tonnes
“craton”	portions of the old continental crust (>2.5billion years old) that host the vast majority of the economically viable diamondiferous kimberlite pipes
“Datamine <sup>TM</sup> ”	a brand of software that facilitates the modelling of geological deposits in three dimensions
“diamondiferous”	containing diamonds

“diatrema”	a rock type characterised by fragmented volcanoclastic kimberlite and xenoliths ripped from margins of the vent on the magma’s rise to the surface through the earth’s crust
“dolomite”	a term used to describe the calcium magnesium carbonate rich rock, dolostone
“DMS”	dense media separation, a machine that utilises a dense media in a cyclone to separate heavier concentrate from lighter particles
“facies”	an assemblage or association of mineral, rock or fossil features reflecting the environment and the conditions of the origin of the rock
“Ferro-Silicon”	a powdered alloy of iron and silicon that can be used as a dense media to separate heavy and light particles
“final recovery”	the section of a diamond treatment plant that separates the diamonds from the concentrate
“Flowsort™”	a brand of X-ray fluorescence machine that identifies and separates fluorescing particles, including diamonds, from the concentrate
“Geographic Positioning System (GPS)”	a hand-held computerised system for navigation using a constellation of earth orbiting satellites that provides information as to location, elevation and speed of movement across the earth’s surface
“grade”	in economic geology, the term is used to express the relative quantity of an ore in a rock or unconsolidated sediment mass; in diamond exploration it is commonly expressed as carats per hundred tonnes (cph <sup>t</sup> ) or carats per cubic metre (c/m <sup>3</sup> )
“grease table”	an apparatus for concentrating diamonds as they repel water and readily adhere to grease
“ha”	hectare
“hypabyssal”	a rock type formed by the crystallisation of hot, volatile-rich kimberlite magma that exhibits an intrusive appearance
“inferred mineral resource”	that part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be of limited or uncertain quality and reliability
“Kelly Bar”	a drilling rod that transfers torque from the rotary drive to the drilling bit
“kimberlite”	a type of potassic volcanic rock typically found as pipe structures that may contain diamonds
“mudstone”	a fine-grained sedimentary rock

“overburden”	the overlying cover of whatsoever nature over useful materials or ores
“parcel”	a collection of diamonds of various sizes made available for sale as a single package
“percussion”	a drilling methodology that involves repeatedly raising and lowering a drilling bit to impact and break material to create a sample for removal from the drill hole
“pipe” or “diatreme”	the carrot shaped volcanic vent that has been formed by explosive action and is characteristic of kimberlite
“Pleitz”	a brand of jig that pulsates and separates heavier concentrate from lighter particles
“Proterozoic”	a geological eon that represents the earth’s past (2.5 billion to 570 million years ago)
“Pyroclastic”	a term that means to form by or involve fragmentation as a result of volcanic action
“RPEEE”	reasonable prospects of eventual economic extraction: a term used in the SAMREC code to test whether a mineral resource exists and can be declared
“SACNASP”	the South African Council for Natural Scientific Professions, a legislated regulatory body for natural science professionals in South Africa
“SAMREC”	the South African Code for Reporting of Mineral Resources and Mineral Reserves, as published by the South African Mineral Committee under the auspices of the South African Institute of Mining and Metallurgy
“scrubber”	a portion of a diamond treatment plant that breaks down and removes fine clay material from the ore
“sieve class”	a granulometric size division, a set of which are often utilised to model diamond size frequency distributions
“size frequency distribution” or “SFD”	a graph which plots the number of carats in each of the sieve size fractions as a cumulative fraction of the total diamond production of that sample. The graph can also be plotted on log/log axes to form a straight line
“spigot”	the portion of a DMS that controls the underflow. The size of the spigot determines the solids carrying capacity of the underflow
“stripping”	removal of waste overburden covering the mineral deposit
“stripping ratio”	ratio of ore rock to waste rock
“t/m <sup>3</sup> ”	a measure of density in tonnes per cubic metre
“tailings”	low grade material remaining after ore has been treated to extract minerals of value

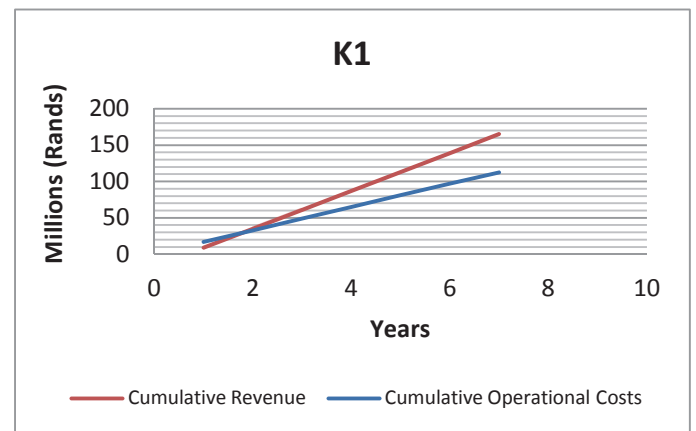


“tonne”	a metric unit of weight equivalent to 1000 kilograms
“tph”	tonnes per hour
“tracers”	particles that simulate the density of diamonds and are used to calibrate a DMS unit
“trommel”	a portion of a diamond treatment plant that screens and removes coarse particles above a specific cut-off size
“tricone”	a three-headed drilling bit
“Tuff”	a type of rock consisting of consolidated volcanic ash ejected from vents during a volcanic eruption
“xenolith”	a rock fragment foreign to the igneous mass in which it occurs.

## APPENDIX 1: RPEEE RUNS FOR K1, K2 AND K3

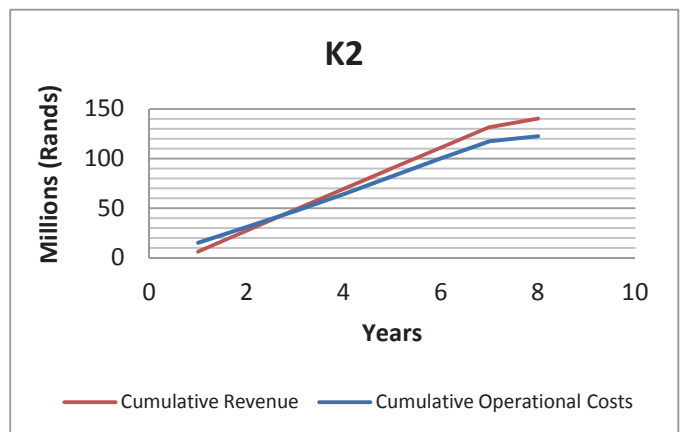
RPEEE run for K1								
K1	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
Stripping (Calcrete)	300,000	50,000	50,000	50,000	50,000	50,000	10,355	560,355
Stripping (Dolomite)	225,797	225,797	225,797	225,797	225,797	225,797	225,797	1,580,579
Stripping Total	525,797	275,797	275,797	275,797	275,797	275,797	236,152	2,140,934
Mining (Calcretised Kimberlite)	85,848	0	0	0	0	0	0	85,848
Mining (Weathered Kimberlite)	0	250,000	250,000	250,000	250,000	250,000	257,806	1,507,806
Mining (Total)	85,848	250,000	250,000	250,000	250,000	250,000	257,806	1,593,654
Grade (cpht)	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Carats Recovered	5,408	15,750	15,750	15,750	15,750	15,750	16,242	100,400
Revenue (USS/Carat)	183	183	183	183	183	183	183	183
Revenue (Total USS)	989,742	2,882,250	2,882,250	2,882,250	2,882,250	2,882,250	2,972,245	18,373,237
Exchange Rate (R/USS)	10	10	10	10	10	10	10	10
Revenue (R)	9,897,416	28,822,500	28,822,500	28,822,500	28,822,500	28,822,500	29,722,454	183,732,370
Operational Costs								
Waste Stripping and Hauling	11,567,534	4,964,346	4,964,346	4,964,346	4,964,346	4,964,346	4,250,736	40,640,000
Ore Excavation and Hauling	1,201,872	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,578,060	16,279,932
Treatment Plant (Incl Labour)	2,146,200	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000	6,445,150	39,841,350
Pit Roadworks	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	7,000,000
Maintenance (Ex Labour)	100,000	100,000	100,000	100,000	100,000	100,000	100,000	700,000
Security	240,000	240,000	240,000	240,000	240,000	240,000	240,000	1,680,000
Employee Costs (non plant)	960,060	960,060	960,060	960,060	960,060	960,060	960,060	6,720,420
Total Operational Costs (R)	17,215,666	16,014,406	16,014,406	16,014,406	16,014,406	16,014,406	15,574,006	112,861,702
Cost/Tonne Treated (R)	201	64	64	64	64	64	60	71
Profit/Loss before Capex (R)	-7,318,250	12,808,094	12,808,094	12,808,094	12,808,094	12,808,094	14,148,448	70,870,668
Capex								
Purchase Price	4,000,000	0	0	0	0	0	0	4,000,000
Plant Refurbishment	1,000,000	0	0	0	0	0	0	1,000,000
Plant Upgrade	0	2,000,000	0	0	0	0	0	2,000,000
Excavator/ADT/FEL (Refurb)	0	6,000,000						6,000,000
Set-up Costs (Office, Accom, Vehicles)	2,000,000	0	0	0	0	0	0	2,000,000
Total Capex Costs (R)	7,000,000	8,000,000	0	0	0	0	0	15,000,000
Profit/Loss after Capex (R)	-14,318,250	4,808,094	12,808,094	12,808,094	12,808,094	12,808,094	14,148,448	55,870,668

Activity	R/Tonne
Stripping Internal	10
Stripping Contractor	14
Drill and Blast	8
Kimberlite to Plant	10
Ore Treatment	25



RPEEE run for K2									
K2	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Total
Stripping (Calcrete)	250,000	50,000	50,000	50,000	50,000	46,700	0	0	496,700
Stripping (Dolomite)	217,217	217,217	217,217	217,217	217,217	217,217	217,217	0	1,520,519
Stripping (Breccia)	0	620	7,855	24,893	23,482	18,950	4,956	7,549	88,305
Stripping Total	467,217	267,837	275,072	292,110	290,699	282,867	222,173	7,549	2,105,524
Mining (Calcretised Kimberlite)	61,924	26,069	0	0	0	0	0	0	87,993
Mining (Weathered Diatreme)	9,425	197,799	224,867	138,483	6,058	0	0	0	576,632
Mining (Fresh Diatreme)	0	26,132	25,133	109,078	240,972	238,511	212,304	103,924	956,054
Mining (Weathered Hypabyssal)	0	0	0	158	0	0	0	0	158
Mining (Fresh Hypabyssal)	0	0	0	2,281	2,970	11,489	37,696	0	54,435
Mining (Total)	71,349	250,000	250,000	250,000	250,000	250,000	250,000	103,924	1,675,272
Grade (Calc Kimberlite) (cpht)	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Grade (Weath Diatreme) (cpht)	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Grade (Fresh Diatreme) (cpht)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Grade (Weath Hypabyssal) (cpht)	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Grade (Fresh Hypabyssal) (cpht)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Carats Recovered	3,298	11,569	11,575	11,489	11,356	11,349	11,346	4,718	76,699
Revenue (US\$/Carat)	183	183	183	183	183	183	183	183	183
Revenue US\$	603,572	2,117,064	2,118,201	2,102,407	2,078,101	2,076,837	2,076,362	863,421	14,035,966
Exchange Rate (R/US\$)	10	10	10	10	10	10	10	10	10
Revenue (R)	6,035,722	21,170,637	21,182,007	21,024,068	20,781,008	20,768,374	20,763,625	8,634,214	140,359,655
Operational Costs									
Waste Stripping and Hauling	10,278,774	4,816,106	4,888,456	5,058,836	5,044,726	4,940,006	3,959,466	75,490	39,061,860
Ore Excavation and Hauling	713,490	2,709,056	2,701,064	3,390,868	4,451,528	4,499,995	4,500,005	1,870,632	24,836,638
Treatment Plant (Incl Labour)	1,783,725	6,250,000	6,250,000	6,249,995	6,249,990	6,249,993	6,250,007	2,598,100	41,881,810
Pit Roadworks	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	0	7,000,000
Maintenance (Ex Labour)	100,000	100,000	100,000	100,000	100,000	100,000	100,000	40,000	740,000
Security	240,000	240,000	240,000	240,000	240,000	240,000	240,000	100,000	1,780,000
Employee Costs (non plant)	960,060	960,060	960,060	960,060	960,060	960,060	960,060	400,000	7,120,420
Total Operational Costs (R)	15,076,049	16,075,222	16,139,580	16,999,759	18,046,304	17,990,054	17,009,538	5,084,222	122,420,728
Cost/Tonne Treated (R)	211	64	65	68	72	72	68	49	73
Profit/Loss before Capex (R)	-9,040,327	5,095,415	5,042,427	4,024,310	2,734,704	2,778,320	3,754,087	3,549,992	17,938,927
Capex									
Purchase Price	0	0	0	0	0	0	0	0	0
Plant Refurbishment	1,000,000	0	0	0	0	0	0	0	1,000,000
Plant Upgrade	0	0	0	0	0	0	0	0	0
Excavator/ADT/FEL (Refurb)	6,000,000	0	0	0	0	0	0	0	6,000,000
Set-up Costs	1,000,000	0	0	0	0	0	0	0	1,000,000
Total Capex (R)	8,000,000	0	0	0	0	0	0	0	8,000,000
Profit/Loss after Capex (R)	-17,040,327	5,095,415	5,042,427	4,024,310	2,734,704	2,778,320	3,754,087	3,549,992	9,938,927

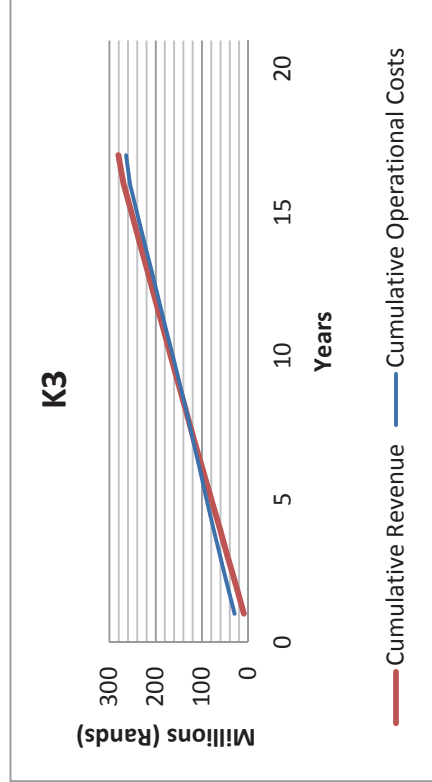
Activity	R/Tonne
Stripping Internal	10
Stripping Contractor	14
Drill and Blast	8
Kimberlite to Plant	10
Ore Treatment	25





RPEEF run for K3																			
K3	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Total	
Stripping (Calcrete)	900,000	100,000	100,000	100,000	50,000	50,000	43,187	0	0	0	0	0	0	0	0	0	0	0	1,343,187
Stripping (Dolomite + Kimb Waste)	169,822	169,822	169,822	169,822	169,822	169,822	169,822	169,822	169,822	169,822	169,822	169,822	169,822	169,822	169,822	169,822	169,822	0	2,717,152
Stripping Total	1,069,822	269,822	269,822	269,822	219,822	219,822	213,009	169,822	169,822	169,822	169,822	169,822	169,822	169,822	169,822	169,822	169,822	0	4,060,339
Mining (Calcretised Kimberlite)	123,195	197,068	73,312	0	2,198	0	0	0	0	0	0	0	0	0	0	0	0	0	395,773
Mining (Weathered Diatreme + Tuff)	11,338	52,932	176,688	250,000	247,802	247,733	250,000	175,306	24,497	41,734	14,084	5,082	0	0	0	0	0	0	1,497,196
Mining (Fresh Diatreme + Tuff)	0	0	0	0	2,267	2,267	0	74,694	225,403	208,266	235,916	244,918	250,000	250,000	250,000	250,000	250,000	0	2,157,139
Mining Total	134,533	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	0	4,050,108
Mining (Calcretised Kimberlite)	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	0	39.9
Mining (Weathered Diatreme + Tuff)	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	0	3.9
Mining (Fresh Diatreme + Tuff)	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	0	3.7
Carats Recovered	5,124	9,553	9,677	9,750	9,748	9,745	9,750	9,601	9,299	9,333	9,278	9,260	9,250	9,250	9,250	9,250	9,250	0	153,244
Revenue (US\$/Carat)	183	183	183	183	183	183	183	183	183	183	183	183	183	183	183	183	183	0	183
Revenue US\$	937,617	1,748,187	1,770,834	1,784,250	1,783,848	1,783,420	1,784,250	1,756,912	1,701,716	1,708,025	1,697,905	1,694,610	1,692,750	1,692,750	1,692,750	1,692,750	1,692,750	0	28,043,681
Exchange Rate (R/US\$)	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	0	10
Revenue (R)	9,376,173	17,481,866	17,708,339	17,842,500	17,838,478	17,834,203	17,842,500	17,569,120	17,017,159	17,080,246	16,979,047	16,946,100	16,927,500	16,927,500	16,927,500	16,927,500	16,927,500	0	280,436,815
Mining Costs																			
Waste Stripping and Hauling	22,905,705	4,226,417	4,226,417	4,226,417	3,326,417	3,326,417	3,203,783	2,426,417	2,426,417	2,426,417	2,426,417	2,426,417	2,426,417	2,426,417	2,426,417	2,426,417	2,426,417	0	67,279,322
Ore Excavation and Hauling	1,345,330	2,500,000	2,500,000	2,500,000	2,518,136	2,500,000	3,097,552	4,304,024	4,166,128	4,166,128	4,387,328	4,459,344	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	0	57,758,192
Treatment Plant (incl Labour)	3,363,325	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000	0	101,252,700
Roadworks	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	0	16,000,000
Maintenance (Ex Labour)	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	0	1,660,000
Security	240,000	240,000	240,000	240,000	240,000	240,000	240,000	240,000	240,000	240,000	240,000	240,000	240,000	240,000	240,000	240,000	240,000	0	3,990,000
Employee Costs (non plant)	960,060	960,060	960,060	960,060	960,060	960,060	960,060	960,060	960,060	960,060	960,060	960,060	960,060	960,060	960,060	960,060	960,060	0	15,960,960
Total Mining Costs (R)	29,914,420	15,276,477	15,276,477	15,276,477	14,394,613	14,253,843	14,074,029	15,280,501	15,280,501	15,142,605	15,363,805	15,435,821	15,476,477	15,476,477	15,476,477	15,476,477	15,476,477	0	263,901,174
Cost/Tonne Treated (R)	222	61	61	61	58	58	57	56	61	61	61	62	62	62	62	62	62	48	65
Profit/Loss before Capex (R)	-20,538,246	2,205,389	2,431,862	2,566,023	3,462,001	3,439,590	3,588,657	3,495,091	1,736,658	1,937,642	1,615,243	1,510,279	1,451,023	1,451,023	1,451,023	1,451,023	1,451,023	3,281,358	16,535,641
Capex																			
Purchase Price	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Plant Refurbishment	1,000,000	0	0	0	0	0	0	0	1,000,000	0	0	0	0	0	0	0	0	0	2,000,000
Plant Upgrade	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Excavator/ADT/FEL (Returb)	6,000,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	12,000,000
Set-up Costs	1,000,000	0	0	0	0	0	0	0	1,000,000	0	0	0	0	0	0	0	0	0	2,000,000
Total	8,000,000	0	0	0	0	0	0	0	8,000,000	0	0	0	0	0	0	0	0	0	16,000,000
Profit/Loss after Capex (R)	-28,538,246	2,205,389	2,431,862	2,566,023	3,462,001	3,439,590	3,588,657	3,495,091	-6,263,342	1,937,642	1,615,243	1,510,279	1,451,023	1,451,023	1,451,023	1,451,023	1,451,023	3,281,358	535,641

Activity	R/Tonne
Stripping Internal	10
Stripping Contractor	14
Drill and Blast	8
Kimberlite to Plant	10
Ore Treatment	25





**APPENDIX 2**

**LIST OF MATERIAL PLANT AND MINING EQUIPMENT TO BE ACQUIRED**

<b>Location</b>	<b>Asset Description</b>
<b>Kareeveli Site</b>	Plant infrastructure including 25tonne per hour DMS Plant, conveyors, screens and crushers 3 x Gensets Kohler 3 phase 307 KVA 2 x Front End Loaders
<b>Dairy Farm Site</b>	Miscellaneous equipment and stores Containerised dual station Flowsort™ machine and associated equipment Miscellaneous equipment and stores

## PART VI: ADDITIONAL INFORMATION

### 1. Responsibility

- 1.1 The Company, the Directors and the Proposed Director, whose names and functions appear on page 3, accept responsibility, individually and collectively, for the information contained in this document and for compliance with the AIM Rules. To the best of the knowledge and belief of the Company, the Directors and the Proposed Director (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. All Directors and the Proposed Director accept responsibility accordingly.
- 1.2 Z Star Mineral Resource Consultants (Pty) Ltd accepts responsibility for its report set out in Part V of this document. To the best of the knowledge of Z Star (which has taken all reasonable care to ensure that such is the case), the information contained in such report is in accordance with the facts and does not omit anything likely to affect the import of such information.

### 2. The Company

- 2.1 The Company was incorporated and registered in England and Wales on 11 October 2012 as a public limited company with registered number 8248437 under the Companies Act 2006.
- 2.2 The principal legislation under which the Company operates is the Act and the regulations made thereunder.
- 2.3 The liability of the members of the Company is limited to the amount, if any, unpaid on the shares respectively held by them.
- 2.4 The registered office of the Company and its principal place of business is at 39 St James's Street, SW1A 1JD. The Company is domiciled in England & Wales. The telephone number is +44 (0)20 7408 1067.
- 2.5 The business of the Company and its principal activity is that of a holding company.
- 2.6 The Company is a holding company and details of its Subsidiary are set out below:

Name	Place of incorporation	Principal Activity	Shareholding held by the Company
Kareevlei Mining (Pty) Limited	South Africa	Currently dormant. Established to pursue diamond mining and exploration	74%

- 2.7 Since incorporation on 11 October 2012, as at the date of this document and following Admission, the Group had, and will have no employees other than the executive directors, being Riaan Visser and John Kilham. In the short term, the Group will subcontract for all services required which cannot be provided by the Enlarged Board.
- 2.8 As at the date of this document, the Company has no administrative, management or supervisory bodies other than the Board, the Audit Committee, the Remuneration Committee and Nominations Committee, all of whose members are Directors.
- 2.9 The Company's auditor is Grant Thornton UK LLP, which is registered to carry out audit work by the Institute of Chartered Accountants of England and Wales and also has been the Company's auditor since 10 December 2012.
- 2.10 The Company has been incorporated as a public limited company in England and Wales under the Companies Act 2006 ("the Act"). In order to be permitted to conduct business and exercise any borrowing powers the Company is required to obtain a trading certificate under Section 761 of the Act. To obtain a trading certificate that is to be issued by the Registrar of Companies the nominal value of the issued share capital of the Company is to be not less than £50,000. As a result of the Capitalisation Issue and the Consolidation the issued share capital of the Company will be greater than £50,000. Immediately following the passing of the Resolutions and the implementation of the Capital Restructuring the Enlarged Board is to apply for a trading certificate. The Company will proceed to complete the Placing, the Acquisition and the Admission after it has obtained the trading certificate at which time the Company will be able to conduct business and to exercise any borrowing

powers. The Enlarged Board is to ensure that the Company does not conduct business or exercise any borrowing powers unless and until the trading certificate is obtained.

### 3. Share capital

3.1 The following is a summary of the changes to the issued share capital of the Company since incorporation:

3.1.1 On the date of incorporation, one Ordinary Share of 0.01p was issued fully paid to each of Jonathan Stuart Quirk, Paul John Beck and Paul Munday at nominal value.

3.1.2 On 8 November 2012, the Company issued fully paid for cash consideration 8,339,997 Ordinary Shares of 0.01p each at nominal value.

3.1.3 On 18 December 2012, the Company issued for cash consideration 1,500,000 Ordinary Shares of 0.01p each at an issue price of 10p per share.

3.1.4 On 8 January 2013, the Company issued for cash consideration 800,000 Ordinary Shares of 0.01p each at an issue price of 10p per share.

3.1.5 On 7 March 2013, the Company issued for cash consideration 2,149,338 Ordinary Shares of 0.01p each at 13 pence per share.

3.1.6 On 7 March 2013, the entire issued share capital of the Company was admitted to trading on the ISDX Growth Market.

3.1.7 On 3 September 2013, subject to the passing of the Resolutions the Company will issue for cash consideration 18,735,703 Ordinary Shares of 1p each at 7 pence per share and application will have been made to admit the issued and to be issued share capital of the Company to trading on AIM.

3.2 The issued share capital of the Company at the date of this document and immediately following Admission (taking into account the Capitalisation Issue and the Consolidation) will be as follows:

<b>As at the date of this document (Ordinary Shares of 0.01p each)</b>		<b>On Admission (Ordinary shares of 1p each)</b>	
<b>Number of Ordinary Shares</b>	<b>Amount (£)</b>	<b>Number of Ordinary Shares</b>	<b>Amount (£)</b>
12,789,338	1,278.93	31,525,041	315,250.41

3.3 The Ordinary Shares are denominated in Pounds Sterling.

3.4 The Ordinary Shares are in registered form and may be held in certificated form or under the CREST system, which is a paperless settlement procedure enabling securities to be evidenced and transferred, otherwise than by a written instrument, in accordance with the CREST Regulations. The Registrar is responsible for keeping the Company's register of Shareholders.

3.5 18,735,703 Ordinary Shares are being issued pursuant to the Placing at a price of 7p per Ordinary Share which represents a premium of 6p over their nominal value of 1p each. It is anticipated that the Placing Shares will be issued on 3 September 2013.

3.6 Section 561(1) of the Act gives the Company's shareholders pre-emption rights on any new issue of equity securities (as defined in Section 560 of the Act) for cash by the Company except for issues of shares under an employee share scheme as defined in Section 1166 of the Act, to the extent that such pre-emption rights have not been disapplied by a special resolution passed pursuant to Section 569(1) of the Act.

3.7 Under the existing articles of association, the Directors have authority to allot shares or grant rights to subscribe for or to convert any security into shares in the Company ("Rights") up to an aggregate amount of £1,000,000 for a period of five years from the adoption of the existing articles of association and the Directors were empowered to allot equity securities (as defined in Section 560 of the Act) in connection with the authority to allot equity securities, as if Section 561(1) of the Act did not apply to any such allotment. The authority granted under the existing articles of association is to be replaced by the authorities to be given under Resolution 4 to be proposed at the General Meeting.

3.8 On completion of the Placing, holders of Existing Ordinary Shares (to the extent that they are not Placees and do not preserve their current interests in Ordinary Shares by participating in the Placing) will incur a dilution of 59.4 per cent. in their interests in the Company.



- 3.9 The Ordinary Shares have been created under the Articles and will rank pari passu in all respects including the right to receive all dividends and other distributions declared, made or paid on the Ordinary Shares from the date of this document. The Ordinary Shares are entitled on a pari passu basis with all issued Ordinary Shares to share in any surplus on a liquidation of the Company.
- 3.10 The Ordinary Shares have no right to share in the profits of the Company other than through a dividend, distribution or return of capital, further details of which are set out in paragraph 5 of this Part VI. The voting and dividend rights attaching to the Ordinary Shares are also set out in paragraphs 5.1.1 and 5.1.3 of this Part VI.
- 3.11 The Ordinary Shares have no redemption or conversion rights.
- 3.12 Save as disclosed in this document, there are no acquisition rights or obligations over authorised but unissued capital, nor is there an undertaking to increase the share capital of the Company.
- 3.13 Save as disclosed in paragraph 9 below:
- 3.13.1 no share or loan capital of the Company has been issued or is proposed to be issued;
  - 3.13.2 no person has any preferential or subscription rights for any share capital of the Company;
  - 3.13.3 there are no convertible securities, exchangeable securities or securities with warrants issued by the Company;
  - 3.13.4 the Company does not have in issue any securities not representing share capital, and none of the Company's shares are held by or on behalf of the Company itself; and
  - 3.13.5 no share or loan capital of the Company is proposed to be issued or is under option or is the subject of an agreement, conditional or unconditional, to be put under option and no Ordinary Shares have been issued to the Directors or the Proposed Director or any other person pursuant to the exercise of options.
- 3.14 The Ordinary Shares are to be freely transferable provided that such shares are fully paid, the Company has no lien over such shares, the instrument of transfer is duly stamped, is in favour of not more than four joint holders as transferees and is in respect of only one class of shares, and the transfer procedure set out at paragraph 5.1.7 of this Part VI has been complied with. Transfer restrictions may apply to shares where a member has failed to comply with a notice requesting information served by the Company under Section 793 of the Act. A shareholder is required pursuant to the AIM Rules and the Disclosure and Transparency Rules to notify the Company when he acquires or disposes of a material interest in shares in the capital of the Company equal to or in excess of 3 per cent. of the nominal value of that share capital (and thereafter any whole percentage change in such interests).
- 3.15 The Company will be subject to the Takeover Code from 30 September 2013. Under Rule 9 of the Takeover Code where: (i) any person acquires, whether by a series of transactions over a period of time or not, an interest in shares which (taken together with shares in which persons acting in concert with him are interested), carry 30 per cent. or more of the voting rights of a company subject to the Takeover Code; or (ii) any person, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30 per cent. of the voting rights of the company subject to the Takeover Code but does not hold shares carrying more than 50 per cent. of such voting rights and such a person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested, that person is normally obliged to make a general offer to all shareholders to purchase in cash their shares at the highest price paid by him or any person acting in concert with him within the preceding 12 months.
- 3.16 No person has made a public takeover bid for the Company's issued share capital in the financial period to 31 December 2012 or in the current financial period.

#### **4. Control of the Company**

- 4.1 To the best of the knowledge of the Company, following Admission, there will be no person(s) who directly or indirectly control the Company, where control means owning 30 per cent. or more of the voting rights attaching to the share capital of the Company.
- 4.2 The Company is not aware of any arrangements which may at a subsequent date result in a change of control of the Company.

## **5. Articles of Association**

Under the Act, all provisions of the Company's memorandum of association are deemed to form part of the Company's articles of association including, in particular, the statement of objects and the statement of authorised share capital. The Act does not require a company to set out its objects. It provides that, unless the articles of association state otherwise, a company's objects will be unrestricted. The Act also removes the requirement for a company to have an authorised share capital.

5.1 The Articles of Association of the Company that are to be adopted by special resolution (that is Resolution 6) contain, inter alia, provisions to the following effect:

### **5.1.1 Voting Rights**

Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held (as to which there are none at present), on a show of hands every holder of an Ordinary Share present in person or by proxy (if an individual) or duly authorised representative (if a corporation) shall have one vote, and on a poll every holder of an Ordinary Share shall have one vote for each Ordinary Share of which he is the holder. Unless the directors determine otherwise, a member of the Company is not entitled in respect of any shares held by him to vote at any general meeting of the Company if any amounts payable by him in respect of those shares have not been paid or if the member has a holding of at least 0.25 per cent. of any class of shares of the Company and has failed to comply with a notice under section 793 of the Act and the Articles.

### **5.1.2 Variation of rights**

If at any time the capital of the Company is divided into different classes of shares, none of the rights, privileges or conditions for the time being attached to or belonging to any class of shares forming part of the issued share capital for the time being of the Company shall be modified, varied or abrogated in any manner except with the consent in writing of the holders of three fourths in nominal value of the issued shares of the class or, subject to the provisions of the Act, the sanction of a special resolution passed at a separate meeting of the members of that class but not otherwise.

### **5.1.3 Dividends**

Subject to the provisions of the Act and to any special rights attaching to any shares, the Shareholders are to distribute amongst themselves the profits of the Company according to the amounts paid up on the shares held by them, provided that no dividend will be declared in excess of the amount recommended by the directors. Subject to the provisions of the Act and if the profits of the Company justify such payments, the directors may declare and pay interim dividends on Ordinary Shares in such amounts as and when they see fit. A member will not be entitled to receive any dividend if he has a holding of at least 0.25 per cent. of any class of shares of the Company and has failed to comply with a notice under section 793 of the Act. Interim dividends may be paid if profits are available for distribution and if the directors so resolve. Subject to the provisions set out in the Articles, the directors may resolve to issue script dividends. Any dividend unclaimed after a period of 12 years from the date of its declaration shall, if the directors so resolve, be forfeited and will revert to the Company.

### **5.1.4 Untraceable members**

Subject to various notice requirements, the Company may sell any shares of a shareholder if, during a period of 12 years, at least three dividend payments on those shares have become payable and the cheques or warrants have remained uncashed and on or after the expiry of that period of 12 years, the Company has published advertisements both in an international newspaper and in a newspaper circulating in the area of the last known address of the shareholder and the Company has received no indication of the existence of such shareholder during such period. Notice of the intention to sell must also be given to the corporate adviser of the Company for the time being.

### **5.1.5 Return of capital on winding up**

On a winding-up of the Company, the balance of the assets available for distribution will, subject to any sanction required by the Act, be divided amongst the members.

### **5.1.6 Power to issue shares**

Subject to the Statutes (as defined in the Articles) and to the authority of the company in General Meeting required by the Statutes, the directors may allot, grant options over, offer or otherwise deal with or dispose of any share of the Company to such persons, at such times and generally on such terms and conditions as the directors may determine. The directors may not issue any relevant securities unless authorised to do so by an ordinary resolution of the Company and relevant securities may not be allotted for cash unless authorised to do so by a special resolution of the Company. Any such resolution shall state the maximum amount of relevant securities that can be allotted under it and shall also state the date on which such authority shall expire. Any authority must not be for more than five years from the date on which the resolution is passed.

### **5.1.7 Restrictions on transferability of share**

Subject to the provisions of the Articles relating to CREST, in order to transfer Ordinary Shares, all transfers must be in any usual form or in such other form which the directors may approve, and must be signed by or on behalf of the transferor and, in the case of a partly paid share, by or on behalf of the transferee. The transferor is deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of it. The directors may, in their absolute discretion and without assigning any reason (but must provide the transferee with a notice of the refusal within two months), refuse to register the transfer of a share if it is not fully paid or if the Company has a lien on it, or if it is not duly stamped, or if it is by a member who has a holding of at least 0.25 per cent. of any class of shares of the Company and has failed to comply with a notice under section 793 of the Act.

The directors may also decline to register any instrument of transfer unless: (i) it is in respect of only one class of share; (ii) it is lodged with the Company, together with the relevant share certificate(s); and (iii) it is in favour of not more than four transferees jointly in respect of a single transfer. Notwithstanding any other provision of the Articles the directors may (in their absolute discretion and without given any reason therefor) refuse to register any transfer of a share to a "Prohibited Person" (being, inter alia, a person who, by virtue of his holding, may, in the opinion of the Board, cause or be likely to cause the Company and/or Shareholders some regulatory, pecuniary, legal or material administrative disadvantage that might not otherwise be suffered or incurred). If any transferee is a Prohibited Person or the Board otherwise determines that the holding of shares by such transferee would be in breach of any relevant legal or regulatory requirement or would subject the Company to any adverse legal, regulatory or taxation consequences or the Board otherwise determines (in its sole discretion and without being obliged to provide its reasons thereof) that such holding is not in the Company's interest, the Company may direct such transferee to sell his shares to a person who is not a Prohibited Person within thirty clear days of the notice of refusal. In exceptional circumstances approved by the corporate adviser of the Company, the directors may refuse to register any such transfer, provided that their refusal does not disturb the market.

The Articles contain no other restrictions on the free transferability of fully paid ordinary shares provided that the transfers are in favour of not more than four transferees, the transfers are in respect of only one class of share and the provisions in the Articles, if any, relating to registration of transfers have been complied with.

### **5.1.8 Notifiable interest in holdings of shares**

A person is required by law to notify the Company if he has a "notifiable interest" in holdings of three per cent. or more of the Company's total voting rights and capital in issue. The obligation also arises if such holdings change to reach, exceed or fall below every one per cent. increment above three per cent. of the Company's total voting rights and capital in issue. "Notifiable interests" in this context include both direct and indirect interests in the voting rights of the Company, and financial instruments which give the holder the formal entitlement to acquire shares with voting rights attached. The obligations to notify the Company as aforesaid are subject to certain exceptions set out in the Disclosure and Transparency Rules published by the FCA.

### **5.1.9 Alteration of share capital**

The Company may by ordinary resolution cancel any unissued shares, consolidate all or any of its share capital into shares of larger amount and, subject to the provisions of the Statutes, subdivide its shares into shares of smaller amount. Subject to the provisions of the Act, the

Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.

#### **5.1.10 *Purchase by the Company of its own shares***

Subject to the provisions of the Act and to the authority of the Company in general meeting required by the Act, the Company may purchase its own shares.

#### **5.1.11 *Borrowing powers***

The directors may exercise all the powers of the Company to borrow upon such terms and in such manner as they think fit and, subject to the provisions of the Act, to grant any mortgage, charge or debentures, debenture stock or other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

#### **5.1.12 *Board of Directors***

No shareholding qualification is required of a director. Unless otherwise determined by ordinary resolution of the Company, the number of directors (other than alternate directors) shall not be subject to any maximum but shall be not less than two but not more than eight. The directors shall not require a share qualification, but shall nevertheless be entitled to attend and speak at any general meetings of the Company.

The Company may by ordinary resolution appoint any person to be a director or may by ordinary resolution remove any director. Subject to the provisions of the Articles, at the annual general meeting of the Company in each year, one-third of the directors for the time being shall retire from office by rotation. The directors to retire by rotation on each occasion shall be those directors that have been longest in office since their last appointment or reappointment but, as between persons who became or were last reappointed directors on the same day, those to retire shall (unless otherwise agreed among themselves) be determined by lot. In addition, any director who would not otherwise be required to retire, shall retire by rotation at the third annual general meeting after his last appointment or reappointment.

The directors shall have the power at any time to appoint any person as a director, either to fill a casual vacancy or as an additional director provided that the appointment does not cause the number of directors to exceed any number fixed by or in accordance with the Articles as the maximum number of directors. Any director so appointed shall retire at the next annual general meeting but shall then be eligible for election and any director who so retires shall not be taken into account in determining the number of directors who are to retire by rotation.

Subject to the provisions of the Articles, the directors may regulate their proceedings as they think fit.

#### **5.1.13 *Disclosure of Interests in Contracts***

Any director may hold any other office or place of profit under the Company (except that of auditor) in conjunction with his office of director and, subject to Section 188 of the Act, on such terms as to remuneration and otherwise as the Board shall arrange. Any director may continue to be or become a director, managing director, manager, executive or other officer or member of any other company or a party to any contract, transaction or arrangement with, or otherwise interested in, any body corporate in which the Company may be interested as shareholder or otherwise or any parent undertaking or subsidiary undertaking of any parent undertaking of the Company, and (unless otherwise agreed) no such director shall be accountable for any remuneration or other benefits received by him as a director, managing director, manager, executive or other officer or member of any such other company which derive from any such office or employment or from any contract, transaction, or arrangement with or from his membership or interest in such other body corporate or undertaking. No such office, employment, contract, transaction or arrangement or interest shall be liable to be avoided on the ground of any such interest or benefit.

The directors may exercise the voting powers conferred by the shares in any other company held or owned by the Company, or exercisable by them as directors of such other company, in such manner in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of the directors, managing directors, managers, executives or other officers of such company) and any director of the Company may vote in favour of the

exercise of such voting rights in manner aforesaid, notwithstanding that he may be, or be about to be, appointed a director, managing director, manager, executive or other officer of such other company, and as such is or may become interested in the exercise of such voting rights in manner aforesaid. Subject to the provision of the Statutes (as defined in the Articles), no director or intending director shall be disqualified by his office from contracting with the Company (or otherwise entering into any arrangement, transaction or proposal with the Company) either as vendor, purchaser or otherwise nor, subject to the interest of the director concerned being duly declared as required by Articles 94 of the Articles, shall any such contract or arrangement, transaction or proposal or any contract, arrangement, transaction or proposal entered into by or on behalf of the Company in which any director shall be in any way interested be liable to be avoided nor shall any director so contracting or being so interested be liable to account to the Company for any profit, remuneration or other benefit realised by any such contract or arrangement by reason of such director holding that office or of the fiduciary relationship thereby established.

A director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) on any resolution including:

- (i) the giving of any guarantee, security or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub underwriting thereof;
- (iv) any proposal concerning any other company in which he is interested directly or indirectly and whether as an officer or shareholder or otherwise howsoever provided that he (together with any person connected with him) is not the holder or beneficially interested in one per cent or more of any class of shares (excluding any shares held as treasury shares) or of any third company through which his interest is derived or of the voting rights available to members of the relevant company (any such interest being deemed for the purpose of this Article to be a material interest in all circumstances);
- (v) any proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme under which he may benefit and which has been approved by or is subject to and conditional upon approval by the Board of HM Revenue & Customs for taxation purposes or which does not accord to any director as such any privilege or benefit not accorded to the employees to which the scheme or fund relate;
- (vi) any contract, arrangement or proposal for the benefit of employees of the group under which the director benefits in a similar manner as the employees or which does not accord to any director as such any privilege or benefit not accorded to the employees to which the scheme or fund relates; and
- (vii) any proposal concerning insurance which the Company proposes to maintaining or purchase for the benefit of directors or for the benefit persons including directors.

Subject to and only to the extent permitted by the Act, the directors may (subject to such terms and conditions, if any, as they may think fit to impose from time to time, and subject always to their right to vary or terminate such authorisation) authorise:

- (i) any matter which would otherwise result in a director infringing his duty to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company and which may reasonably be regarded as likely to give rise to a conflict of interest (including a conflict of interest and duty or conflict of duties); and
- (ii) a director to accept or continue in any office, employment or position in addition to his office as a director of the Company and without prejudice to the generality of Article 95.6.1 may authorise the manner in which a conflict of interest arising out of



such office, employment or position may be dealt with, either before or at the time that such a conflict of interest arises, provided that the authorisation is only effective if:

- a. any requirement as to the quorum at the meeting at which the matter is considered is met without counting the director in question or any other interested director, and
- b. the matter was agreed to without their voting or would have been agreed to if their votes had not been counted.

The Company may by ordinary resolution suspend or relax the provisions of this Article to any extent or ratify any transaction not duly authorised by reason of a contravention of Article 95 of the Articles.

#### **5.1.14 Remuneration and other compensation of directors**

The directors shall determine the remuneration of the directors. The directors shall be paid all travelling, hotel and other expenses properly incurred by them in connection with the business of the Company, or to receive a fixed allowance in respect thereof as may be determined by the directors, or a combination of the two. The directors may also by resolution approve additional remuneration to any director for any services other than his ordinary routine work as a director.

There shall be available to be paid out of the funds of the Company to the directors as fees for their services as directors (excluding amounts payable under any other provisions in the Articles and the remuneration of any managing director or director holding executive office) in each year such sums as the Board may determine from time to time not exceeding an aggregate sum of £200,000 or such other higher amount as sanctioned by ordinary resolution of the Company.

The quorum for the transaction of the business of the directors may be fixed by the directors, and unless so fixed shall be two if there are two or more directors, and shall be one if there is only one director.

#### **5.1.15 General Meetings**

The Company shall in each year hold a general meeting as its annual general meeting. The annual general meetings shall be held at such time and place as the directors shall determine. The directors may, (in addition) call a general meeting other than the annual general meeting and shall, upon a shareholders' requisition convene a general meeting. A shareholders' requisition is a requisition of shareholders of the Company holding at the date of deposit of the requisition not less than five per cent. in par value of the capital of the Company as at that date that carries the right of voting at general meetings of the Company. At the least 21 days' notice shall be given of any annual general meeting and at least 14 clear days' notice shall be given in respect of any other general meeting of the Company to those members who under the provisions of the Articles or under the rights attached to the shares held by them are entitled to receive the notice, and to the auditors. The notice shall specify the place, the day and the hour of the meeting and the general nature of the business to be transacted at the meeting.

Subject to the provisions of the Act, a resolution may be put to a vote at a general meeting of the Company or any class of shareholders only if: (i) it is proposed by or at the direction of the directors; (ii) it is proposed at the direction of the court; (iii) it is proposed on the requisition in writing of such number of shareholders as is prescribed by, and is made in accordance with, the relevant provisions of the Act; or (iv) the chairman of the meeting, in his absolute discretion, decides that the resolution may properly be put to a vote at that meeting. No business shall be transacted at any general meeting unless a quorum is present. Two shareholders being individuals present in person or by proxy or if a corporation or other non-natural person by its duly authorised representative shall be a quorum unless the Company has only one shareholder entitled to vote at such general meeting in which case the quorum shall be that one shareholder present in person or by proxy or (in the case of a corporation or other non-natural person) by a duly authorised representative. In the case of an equality of votes, the chairman of the Meeting shall be entitled to a further or casting vote in addition to the votes to which he may be entitled as a member. Unless a poll is demanded in accordance with Article 65 of the Articles, a declaration by the chairman that a resolution has been carried, or carried unanimously or by a particular majority, or lost, or not carried by a particular majority, and an entry to that effect

in the book containing the minutes of the proceedings of general meetings of the Company is conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

No member shall be entitled to vote at any general meeting either personally or by proxy or to exercise any privilege as a member, unless all calls or other sums presently payable to him in respect of shares in the Company have been paid. The instrument appointing a proxy must be in writing in any usual or common form, or such other form as may be approved by the directors, and will be signed by the appointor or by his agent duly authorised in writing or if the appointor is a corporation, must be either under its common seal or signed by an officer or agent so authorised, or if permitted by the directors, in electronic form in the manner and form and subject to such terms and conditions as the directors may decide. The directors may, but will not be bound to, require evidence of authority of such officer or agent. An instrument of proxy need not be witnessed.

## **6. Mandatory bids, Squeeze Out Rights and Sell Out Rights**

- 6.1 Under the Act, if an offeror were to acquire or contract to acquire 90 per cent. of the Ordinary Shares to which the offer relates within four months of making its offer, it could then compulsorily acquire the remaining 10 per cent. It would do so by sending a notice to outstanding shareholders telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose shares are compulsorily acquired under the Act must, in general, be the same as the consideration that was available under the takeover offer.
- 6.2 The Act also gives minority shareholders in the Company a right to be bought out in certain circumstances by an offeror who had made a takeover offer. If a takeover offer related to all the Ordinary Shares and, at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90 per cent. of the Ordinary Shares to which the offer relates, any holder of shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those shares. The offeror would be required to give any shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a shareholder exercises his/her rights, the offeror is bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.
- 6.3 Other than as provided by the Act and the Articles, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules in relation to the Ordinary Shares.



## 7. Significant Shareholders

7.1 Other than as set out below, the Company is not aware of any holding (within the meaning of the AIM Rules) in the Company's ordinary share capital which amounts to or would, immediately following Admission, amount to 3 per cent. or more of the Company's issued share capital:

Name	Number of Existing Ordinary Shares	Percentage of Existing Ordinary Shares	Number of Ordinary Shares immediately following Admission	Percentage of Enlarged Share Capital
Alexander Catto <sup>1</sup>	639,346	5.0%	925,060	2.9%
Alice Bordini	400,000	3.1%	400,000	1.3%
Andries Markgraaff	600,000	4.7%	600,000	1.9%
Beaufort Securities Limited	-	-	1,428,571	4.5%
David Abromowitz <sup>2</sup>	832,000	6.5%	957,000	3.0%
Glazewood Ventures Limited	400,000	3.1%	400,000	1.3%
Jonathan Quirk <sup>1</sup>	485,500	3.8%	914,071	2.9%
Mark Poole	1,000,000	7.8%	5,285,714	16.8%
Paul Beck <sup>3</sup>	1,183,000	9.2%	1,383,000	4.4%
Sedor Investment Holdings Limited	1,900,000	14.9%	1,900,000	6.0%
Tamla Limited	-	-	2,000,000	6.3%
Timothy Leslie <sup>4</sup>	1,000,000	7.8%	5,285,714	16.8%
Vidacos Nominees Limited	1,576,922	12.3%	2,291,207	7.3%
WB Nominees Limited <sup>1</sup>	180,779	1.4%	1,705,775	5.8%
Wildcrest Global Inc.	1,060,000	8.3%	1,060,000	3.4%

<sup>1</sup> WB Nominees Limited holds 820,124 Existing Ordinary Shares of which 485,499 Existing Ordinary Shares are held on behalf of Jonathan Quirk and his SIPP, 153,846 Existing Ordinary Shares are held on behalf of Alexander Catto and 180,779 Existing Ordinary Shares are held on behalf of others. On Admission, WB Nominees Limited will hold 3,755,833 Ordinary Shares of which 914,070 Ordinary Shares will be held on behalf of Jonathan Quirk and his SIPP, 439,560 Ordinary Shares will be held on behalf of Alexander Catto, 250,000 Ordinary Shares will be held on behalf of Touch Rugby International Limited and 1,580,775 Ordinary Shares on behalf of others.

<sup>2</sup> David Abromowitz owns 832,000 Existing Ordinary Shares, and on Admission will have a beneficial interest in an additional 125,000 Ordinary Shares held by WB Nominees Limited on behalf of Touch Rugby International Limited.

<sup>3</sup> Mr Beck and his wife own 100% of the share capital in Front Square Securities Limited of which Mr Beck is also a director. Front Square Securities Limited holds 160,000 Existing Ordinary Shares and will own 360,000 Ordinary Shares on Admission.

<sup>4</sup> 1,000,000 Existing Ordinary Shares are held by Sarah Leslie, Timothy Leslie's wife.

7.2 The voting rights of the Shareholders set out in this paragraph 7 and paragraph 8 below do not differ from the voting rights held by other Shareholders.

## 8. Directors' and Proposed Director's Interests

8.1 As at the date of this document and as expected to be immediately following Admission, the holdings of the Directors and the Proposed Director and their families in the share capital of the Company (i) which would have been required to be notified by the Company pursuant to Rule 17 of the AIM Rules; or (ii) which are holdings of a person connected with a Director or Proposed Director which would, if the connected person were a Director or Proposed Director, be required to be disclosed under (i) above and the existence of which is known to or could, with reasonable diligence, be ascertained by the Directors are:

Name	Number of Existing Ordinary Shares	Percentage of Existing Ordinary Shares	Number of Ordinary Shares immediately following Admission	Percentage of Enlarged Share Capital
Andries Markgraaff	600,000	4.7%	600,000	1.9%
John Kilham	-	-	-	-
Jonathan Quirk	485,500	3.8%	914,071	2.9%
Paul Beck <sup>1</sup>	1,183,000	9.2%	1,383,000	4.4%
Riaan Visser	200,000	1.6%	200,000	0.6%
Timothy Leslie <sup>2</sup>	1,000,000	7.8%	5,285,714	16.8%
<b>Total</b>	<b>3,468,500</b>	<b>27.1%</b>	<b>8,382,785</b>	<b>26.6%</b>

<sup>1</sup> Mr Beck and his wife own 100% of the share capital in Front Square Securities Limited of which Mr Beck is also a director. Front Square Securities Limited holds 160,000 Existing Ordinary Shares in the Company and will own 360,000 Ordinary Shares on Admission.

<sup>2</sup> 1,000,000 Existing Ordinary Shares are held by Timothy Leslie's wife, Sarah Leslie.

- 8.2 Except as disclosed above, as at the date of this document, the Directors and the Proposed Director are not aware of any interests of persons connected with them which would, if such connected person were a Director or Proposed Director, be required to be notified to the Company pursuant to Chapter 3 of the Disclosure and Transparency Rules and could be required to be entered in the register of directors' interests pursuant to section 809 of the Act.
- 8.3 Save as disclosed in paragraph 8.1 above, none of the Directors, the Proposed Director nor any persons connected with them, is interested in any related financial product (as defined in the AIM Rules) whose value in whole or in part is determined directly or indirectly by reference to the price of the Ordinary Shares, including a contract for difference or a fixed odds bet.
- 8.4 There are no outstanding loans granted or guarantees provided by any member of the Group to or for the benefit of any of the Directors or the Proposed Director, nor are there any outstanding loans or guarantees provided by the Directors or the Proposed Director to or for the benefit of the Group.
- 8.5 Save as disclosed in this document, no Director or Proposed Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company taken as a whole and which was effected by the Company during the current or immediately preceding financial year, or during any earlier financial year and which remains in any respect outstanding or unperformed.
- 8.6 In the case of those Directors or the Proposed Director who have roles as directors of companies which are not a part of the Group, although there are no current conflicts of interest, it is possible that the fiduciary duties owed by those Directors or the Proposed Director to companies of which they are directors from time to time may give rise to conflicts of interest with the duties owed to the Group. Except as expressly referred to in this document, there are no potential conflicts of interest between the duties owed by the Directors or the Proposed Director to the Company and their private duties or duties to third parties.

## 9. Share Option Agreements

The Directors and the Proposed Director have been granted the following Share Options under the Share Option Agreements dated 19 August 2013, conditional upon Admission.

<b>Directors/Proposed Director</b>	<b>Number of Ordinary Shares subject to Share Options</b>	<b>Percentage of Enlarged Share Capital subject to Share Options</b>
Andries Markgraaff	472,876	1.5
John Kilham	472,876	1.5
Jonathan Quirk	945,750	3.0
Paul Beck	472,876	1.5
Riaan Visser	1,891,502	6.0
Timothy Leslie	472,876	1.5
<b>Total</b>	<b><u>4,728,756</u></b>	<b><u>15.0</u></b>

The Share Option Agreements include the following terms:

#### *Grant of Share Options*

The Share Options will not be capable of transfer or assignment (other than at the Enlarged Board's discretion to personal representatives on death). The Share Options will not be capable of being charged. No amount is payable on grant of the Share Options.

#### *Exercise Price*

The Share Options are divided into three equal portions of Ordinary Shares, each amounting to one third of the total number of Share Options, to which differing exercise prices are applied. For the first portion of the Share Options the exercise price is 18p per share. For the second portion of the Share Options the exercise price is 40p per share. For the third portion of the Share Options the exercise price is 55p per share.

The number of Option Shares and the exercise price may be adjusted to take account of any consolidation subdivision or comparable capital reorganisation.

#### *Exercise of Share Options*

The Share Options are exercisable in the period of five years from Admission. The options may not be exercised later than the fifth anniversary of the date of Admission.

If the person to whom the Share Options are issued are the subject of termination of their service contracts or other terms of appointment or if that person ceases to hold office as a director, his entitlement to exercise the Share Options will cease on the date of termination or cessation unless the Board of Directors by a resolution supported by at least four other directors determines that the Share Options are to continue notwithstanding the termination or cessation.

Where the relevant optionholder becomes bankrupt or otherwise deprived of legal or beneficial ownership of the option, the option will lapse.

#### *Takeovers*

The optionholder will be notified of any takeover bid and may exercise his option. On a change of control the option holder may exercise all of his options but they will lapse if not exercised.

#### *Liquidation*

The Enlarged Board must immediately notify the optionholder of any voluntary winding-up of the Company and he may exercise any remaining part of the option within 42 days after the passing of the resolution for such winding-up provided that any conditions subject to which the option was granted have been fulfilled or waived. The shares will be deemed to have been issued prior to the passing of such a resolution.

### *Adjustment of Share Options*

Upon a reorganisation of the Company, the number of shares subject to the option and the exercise price may be adjusted as the Company may determine if this is confirmed to be reasonable by the Company's auditors. This may be retrospective if relevant to an already exercised option.

### *Termination*

The grant of the option is not intended to form any contract of employment and there will be no rights to damages for any loss, or potential loss of benefit, in the event of termination of office or employment.

## **10. Service Contracts and Letters of Appointment**

- 10.1 On 19 August 2013, Paul John Beck entered into a letter of appointment with the Company. The letter of appointment is conditional on Admission and is to be in substitution for the letter of appointment dated 16 December 2012. Under the terms of the letter of appointment, Mr Beck is to continue to act as a non-executive Chairman of the Company. He will not receive any fees under his letter of appointment. The appointment will continue for a period of 12 months from Admission and is terminable by 3 months' notice on either side to expire at the end of the initial term or at any time thereafter. There will be no benefits payable upon termination of the agreement.
- 10.2 On 19 August 2013, Christiaan Breytenbach Visser entered into a service contract with the Company. The service contract is conditional on Admission and is to be in substitution for the service contract with a commencement date of 21 November 2012. Under the terms of the service contract, Mr Visser agreed to act as Chief Executive Officer of the Company. Mr Visser is an employee of Kareevlei Mining and is entitled to a salary at a rate of £24,000 per annum. The agreement continues until terminated by not less than 12 months' notice on either side. There will be no benefits payable upon termination of the agreement.
- 10.3 On 19 August 2013, John Leslie Courtney Kilham entered into a service contract with the Company. The service contract is conditional on Admission and is to be in substitution for the service contract with a commencement date of 1 July 2013. Under the terms of the service contract, Mr Kilham agreed to act as Chief Technical Officer of the Company. Mr Kilham is an employee of Kareevlei Mining and will not be paid a salary under his service contract. The agreement continues until terminated by not less than 12 months' notice on either side. There will be no benefits payable upon termination of the agreement.
- 10.4 On 19 August 2013, Jonathan Stuart Quirk entered into a letter of appointment with the Company. The letter of appointment is conditional on Admission and is to be in substitution for the letter of appointment dated 18 December 2012. Under the terms of the letter of appointment, Mr Quirk is to continue to act as a non-executive director of the Company. He will receive a fee at the rate of £6,000 per annum payable by the Company. The appointment will continue for a period of 12 months from Admission and is terminable by 3 months' notice on either side to expire at the end of the initial term or at any time thereafter. There will be no benefits payable upon termination of the agreement.
- 10.5 On 19 August 2013, Andries Thomas Markgraaff entered into a letter of appointment with the Company. The letter of appointment is conditional on Admission and is to be in substitution for the letter of appointment dated 11 January 2013. Under the terms of the letter of appointment, Mr Markgraaff is to continue to act as a non-executive director of the Company. Mr Markgraaff will not receive any fees under his letter of appointment. The appointment will continue for a period of 12 months from Admission and is terminable by 3 months' notice on either side to expire at the end of the initial term or at any time thereafter. There will be no benefits payable upon termination of the agreement.
- 10.6 On 19 August 2013, Timothy Grahame Leslie entered into a letter of appointment with the Company, conditional on Admission. Under the terms of the letter of appointment, Mr Leslie will act as a non-executive director of the Company. Mr Leslie will not receive any fees under his letter of appointment. The appointment will continue for a period of 12 months from Admission and is terminable by 3 months' notice on either side to expire at the end of the initial term or at any time thereafter. There will be no benefits payable upon termination of the agreement.

10.7 The aggregate remuneration paid and benefits in kind granted to the Directors for period from incorporation to Admission amounted to £1. It is estimated that the aggregate remuneration payable to the Directors and the Proposed Director from the date of Admission to 31 December 2013 under arrangements that are in force will amount to approximately £10,000.

10.8 Except as disclosed in this paragraph 10, there are no existing or proposed service contracts between the Company and any of the Directors or the Proposed Director which are not terminable on less than 12 months' notice, nor have any of their letters of appointment or service contracts been amended in the six months prior to the date of this document.

10.9 Pursuant to the terms of the Articles, Paul Beck, Jonathan Quirk and Andries Markgraaff will be required to offer themselves for re-election at the Company's next Annual General Meeting in 2014. Details of the commencement and expiration of the term of office of each Director are set out below:

<b>Name</b>	<b>Commencement of period in office</b>	<b>Date of expiration of term of office</b>
Paul Beck	11 October 2012	2014 AGM
Riaan Visser	26 November 2012	4 September 2014
John Kilham	1 July 2013	4 September 2014
Jonathan Quirk	11 October 2012	2014 AGM
Andries Markgraaff	11 January 2013	2014 AGM
Timothy Leslie	4 September 2013	4 September 2014

Paul Munday was appointed a director of the Company on 11 October 2012 and resigned on 4 December 2012.

## **11. Additional Information on the Enlarged Board**

11.1 Other than the directorships of the Company, the current directorships and partnerships of the Enlarged Board and the directorships and partnerships held by them over the five years prior to the date of this document are as follows:

<b>Director</b>	<b>Current Directorships or Partnerships</b>	<b>Past Directorships or Partnerships</b>
Paul John Beck	BlueRock Diamonds Limited Front Square Securities Limited Hampshire House 12 Hyde Park Place Management Limited Segar Properties (Hyde Park) Limited Strathearn House (Freehold) Limited	Old River Diamonds Limited
Christiaan Breytenbach Visser	African Compass Trading 523 CC Bedford Avenue Trading Co (Pty) Ltd CB Visser (CA) SA Channal Mining (Pty) Ltd Enzel 167 CC Fibreglass Marketing CC Fynbosland Mining CC Kimberley Consolidated Mining Ltd Kleinkor Sewentien (Pty) Ltd Lexian Holdings (Pty) Ltd Swanvest 286 (Pty) Ltd Winsbeslis Negentien (Pty) Ltd	None

John Leslie Courtney Kilham	Kgalagadi Geoservices CC Kgalagadi Geoservices (Botswana) (Pty) Ltd Kgalagadi Engineering & Mining Supplies (Pty) Ltd Kgalagadi Asset Management	None
Jonathan Stuart Quirk	Blackdown Sporting Estates Limited BlueRock Diamonds Limited Cairnsea Investments Ltd Tri-star Resources plc	Campden Partners Ltd Hayward Group Limited ILEX Asset Management (UK) LLP (partner) Longaevus Limited Metropolitan Safe Deposits Limited Mount Street Advisory Services Limited Mount Street Investment Management Limited Payday Loan 4U Ltd The River Barle Fishing Club Ltd Trivelles Management Limited
Andries Thomas Markgraaff	Afriland Property Solutions (Pty) Ltd Afriland Investments (Pty) Ltd Afrileisure (Pty) Ltd Anlar Beleggings CC Andre en Larry Eiendomme CC ATM Group (Pty) Ltd ATM Property Projects CC Broadway Business Centre (Pty) Ltd Carlandre (Pty) Ltd Carmelo Investments 164 (Pty) Ltd Chanbe Game Lodge CC Empire Earth Investments 22 (Pty) Ltd Grammar Financial Services (Pty) Ltd I E Eiendomme CC Kalahari Aviation (Pty) Ltd Kalahari Care (Pty) Ltd Kalahari Commercial Solutions (Pty) Ltd Kalahari Golf and Jag (Pty) Ltd Kalahari Holdings (Pty) Ltd Kalahari Land and Cattle Company (Pty) Ltd Kalahari Lifestyle (Pty) Ltd Kalahari Motlakase (Pty) Ltd Kalahari Shopping Centre (Pty) Ltd Marcu Handelaars 3600 New Park Properties (Pty) Ltd Outfox Netball CC PZK Beleggings 3000 CC Sideling Hill (Pty) Ltd Skuitbaai Inwonersvereniging NPC Southern Fissures (Pty) Ltd Tredex Property Developers (Pty) Ltd Tswelelele (Pty) Ltd Yenza Trading 508 CC	Arcy Eiendomme CC Griqualand West Rugby Griqualand West Rugby Stadium Inglewood Estates CC

<b>Proposed Director</b>	<b>Current Directorships or Partnerships</b>	<b>Past Directorships or Partnerships</b>
Timothy Grahame Leslie	Bundoran Limited Crunchcare Properties LLP Flichity Estate Partnerships Lochailort Hydro Limited Lochailort Investments Limited Lochailort Sevenoaks Limited James Caird Asset Management LLP James Caird Asset Management (UK) Limited JCAM Investments Limited Pembury Projects TL Aviation Instrad LLP	Bourne Homes Byfleet Limited High Hatton Farms Limited Ingenious Film Partners 2 LLP Lochailort West Byfleet Limited

11.2 Jonathan Quirk was a director of Advanced Visual Security plc which appointed an administrative receiver on 9 October 1998. There was a deficiency to creditors of £78,595.42.

11.3 Jonathan Quirk was a director of Masterpack DSK Limited which was put into administration on 29 April 1999. Preferential creditors received 100p in the pound and unsecured creditors received 68p in the pound. There was no return to shareholders.

11.4 Riaan Visser was a director of Kimberley Consolidated Mining Ltd, a diamond mining company placed in provisional liquidation in November 2010 with total liabilities of R12 million. Mr Visser was appointed as a director of Kimberley Consolidated Mining Ltd by the shareholders specifically to wind down the company. The assets realised to date exceed the liabilities and final liquidation is expected within the next six months.

11.5 Save as disclosed above, no Director or Proposed Director has:

11.5.1 had any convictions in relation to fraudulent offences or unspent convictions in relation to indictable offences;

11.5.2 had any bankruptcy order made against him or entered into any individual voluntary arrangements;

11.5.3 been a director of any company or been a member of the administrative, management or supervisory body of an issuer or a senior manager of an issuer which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, administration, or company voluntary arrangement or which entered into any composition or arrangement with its creditors generally or any class of its creditors whilst he was acting in that capacity for that company or within the 12 months after he ceased to so act;

11.5.4 been a partner in any partnership placed into compulsory liquidation, administration or partnership voluntary arrangement where such Director or Proposed Director was a partner at the time of or within the 12 months preceding such event;

11.5.5 been subject to receivership in respect of any asset of such Director or Proposed Director or of a partnership of which the Director or Proposed Director was a partner at the time of or within 12 months preceding such event; or

11.5.6 been subject to any official public criticisms by any statutory or regulatory authority (including recognised professional bodies) nor has such Director or Proposed Director been disqualified by a court from acting as a director of any company or from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any company.

## **12. Material Contracts**

The following contracts (i) not being contracts entered into in the ordinary course of business, are contracts which are or may be material and have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of this document; or (ii) have been entered into by the Company or any of its subsidiaries at any time before the date of this document



where those contracts contain provisions under which any member of the Group has an obligation or entitlement which is or may be material to the Group as at the date of this document, or (iii) include all material subsisting agreements which are included within, or which relate to, the assets and liabilities of the Group as at the date of this document:

### **12.1 Agreements relating to the ISDX Admission**

- 12.1.1 a letter of engagement entered into on 8 January 2013 between the Company and SP Angel pursuant to which SP Angel agreed to act as the Company's corporate advisor in connection with the ISDX Admission;
- 12.1.2 a letter of engagement between the Company and Grant Thornton UK LLP dated 8 November 2012 pursuant to which Grant Thornton UK LLP agreed to act as the Company's reporting accountant in connection with the ISDX Admission;
- 12.1.3 a letter of engagement between the Company and Grant Thornton UK LLP dated 10 December 2012 pursuant to which Grant Thornton UK LLP agreed to act as the Company's auditor;
- 12.1.4 a corporate adviser and broker agreement entered into on 28 January 2013 between the Company, the Directors and SP Angel in relation to the provision of corporate advisory and broking services to be provided by SP Angel to the Company;
- 12.1.5 a placing agreement dated 5 March 2013, SP Angel agreed as agent for the Company to use its reasonable endeavours to procure subscribers for placing shares at the placing price. The placing agreement contained representations, warranties and indemnities given by the Company, and representations and warranties given by the Directors to SP Angel as to the accuracy of the information contained in the ISDX admission document and other matters relating to the Company and its business;
- 12.1.6 the Registrars Agreement dated 5 December 2012 between the Company and Share Registrars Limited appointing Share Registrars Limited from 15 January 2013 to provide share registration services; and
- 12.1.7 lock-in agreements between certain shareholders in the Company, the Company and SP Angel pursuant to which each of these shareholders undertook not to sell any of their Existing Ordinary Shares save in accordance with the terms of that agreement within the period of 12 months from the ISDX Admission.

### **12.2 Agreements relating to Admission**

#### **12.2.1 Nominated Adviser and Broker Agreement**

On 19 June 2013, the Company and SP Angel entered into a financial adviser, nominated adviser and broker agreement pursuant to which the Company appointed SP Angel to act as its nominated adviser and broker to advise and assist the Company in respect of Admission and on an ongoing basis as required by the AIM Rules. The agreement contains indemnities and warranties given by the Company to SP Angel. Under this agreement, SP Angel will receive from the Company a corporate finance fee, conditional on Admission and a fee per annum for retaining its services as nominated adviser and broker. These arrangements contain certain undertakings and indemnities given by the Company in respect of, inter alia, compliance with all applicable laws and regulations. These arrangements continue for an initial period of 6 months unless terminated for reason prior to such date in accordance with the terms of the agreement and thereafter until terminated in accordance with the terms thereof.

#### **12.2.2 Placing Agreement**

On 19 August 2013, the Company, the Directors and SP Angel entered into the Placing Agreement, pursuant to which SP Angel, subject to certain conditions, including Admission taking place on or before 4 September 2013 (or such later date as the Company and SP Angel may agree, but not later than 18 September 2013), SP Angel has agreed to use reasonable endeavours to procure placees. Under the Placing Agreement, the Company is to pay SP Angel a commission charged at a rate of 5 per cent. The Company has agreed to pay all other costs and expenses relating to the application for Admission. The Placing Agreement contains certain warranties given by the Directors and the Company,

and indemnities given by the Company in favour of SP Angel. It also contains provisions entitling SP Angel to terminate the agreement prior to Admission if, among other things, a breach of any of the warranties occurs or on the occurrence of an event fundamentally and adversely affecting the position of the Company. The liability of the Company under the warranties and indemnities is not subject to a financial limit, but the liability of each of the Directors is subject to maximum financial limits.

### **12.2.3 Directors' and Proposed Director's Lock-in Agreements**

In accordance with the AIM Rules each of the Directors and the Proposed Director (and their related parties as defined in the AIM Rules for Companies) on 19 August 2013, entered into a lock-in undertaking with the Company and SP Angel pursuant to which they have undertaken not to dispose of any interest in Ordinary Shares (or any interest in Ordinary Shares arising through the exercise of Share Options) which they may have on Admission for 12 months following Admission except in certain restricted circumstances permitted by the AIM Rules, and thereafter for a further 12 months only to dispose of any interest in Ordinary Shares following consultation with, and through, SP Angel (or the broker at that time if it is not SP Angel). These lock-in agreements supersede the lock-in agreements that were entered into at the time of admission to the ISDX Growth Market in March 2013.

### **12.2.4 Other Lock-in Agreements**

The Company (1), SP Angel (2) and Mark Poole (3) entered into Lock-in Agreements pursuant to which Mark Poole and Sarah Leslie agreed with the Company and SP Angel not to dispose of any shares in the capital of the Company for a period of 12 months from Admission except in certain restricted circumstances permitted by the AIM Rules, and thereafter for a further 12 months only to dispose of any interest in Ordinary Shares following consultation with, and through, SP Angel (or the broker at that time if it is not SP Angel). These lock-in agreements supersede the lock-in agreements that were entered into at the time of admission to the ISDX Growth Market in March 2013.

## **12.3 Agreements relating to the Kareevlei Tenements**

### **12.3.1 Kareevlei Option Agreement**

On 23 April 2013, BlueRock, for a cash consideration of R150,000 (one hundred and fifty thousand rand) paid on 30 April 2013 by the Company to Diamond Resources, was granted by Diamond Resources the option to purchase the Mining Right known as the Kareevlei Tenement, for the sum of R1,000,000 (one million rand) (plus SA VAT) and the Mining Equipment used by Diamond Resources for R3,000,000 (three million rand) (plus SA VAT) net of the consideration paid for the Kareevlei Option.

The Kareevlei Option is exercisable for a period of six months from 23 April 2013. On exercising the Kareevlei Option, Diamond Resources and the Company would enter into (a) a Mining Agreement in respect of the Mining Right, completion of which is to be conditional on, inter alia, Ministerial Consent; and (b) an Equipment Agreement in respect of the Mining Equipment, which is to be completed on execution.

In the period before the Kareevlei Option is exercised the agreement contains restrictions on Diamond Resources' ability to conduct mining activity or to use the Mining Equipment and Diamond Resources may not encumber these assets.

### **12.3.2 Supplemental Agreement**

Under a Supplemental Agreement dated 3 August 2013 between Diamond Resources (1), BlueRock (2) and Kareevlei Mining (3), BlueRock assigned its rights to enter into the Mining Agreement and the Equipment Agreement to Kareevlei Mining, which is nominated to replace BlueRock as the contracting party to the Mining Agreement and the Equipment Agreement.

Under the Supplemental Agreement, BlueRock is only able to deliver an exercise notice if it simultaneously delivers an irrevocable bank guarantee or confirmation by its South African solicitors, Mervyn Taback Inc, that they hold sufficient funds in trust from BlueRock (or Kareevlei, as the case maybe) for payment under the Equipment Agreement (being R3,000,000 plus SA VAT).

The Supplemental Agreement causes the Mining Agreement and the Equipment Agreement to take effect as legally binding agreements in the form of the documents that are attached to the Kareevlei Option Agreement, but subject to the alterations applied by the Supplemental Agreement. The parties will not enter into separate executed versions of the Mining Agreement and the Equipment Agreement, but will be bound by the terms of those agreements by virtue of the Supplemental Agreement. The Supplemental Agreement provides that notice to exercise the Kareevlei Option will constitute the inception of the Mining Agreement and the Equipment Agreement as binding agreements between Diamond Resources and Kareevlei Mining.

The Mining Agreement, as modified by the Supplemental Agreement, provides that Kareevlei Mining may be engaged as a contractor to conduct Trial Mining Operations in the period prior to the transfer of the Mining Right. The amount that can be taken by way of bulk sample is limited to four consecutive tranches, the first two of up to 20,000 tonnes each and then a further two tranches of up to 24,000 tonnes each. Kareevlei Mining may elect to proceed with each tranche subject to providing for the increased financial obligations for rehabilitation. The amounts may be increased and further bulk samples may be taken by agreement with Diamond Resources. Trial Mining Operations are to commence within 30 days after payment by Kareevlei Mining of the R850,000 under the Mining Agreement following Admission and the second 20,000 tonne bulk sample may be taken if the first bulk sample of 20,000 tonnes has been taken within 6 months after the commencement date and the Mining Right has yet to be transferred. All diamonds recovered during the Trial Mining Operations shall be the property of Kareevlei Mining but will have to be alienated under the Mining Right which will still be held by Diamond Resources. Kareevlei Mining is to pay Diamond Resources a commission of one per cent. of gross sales after government royalty during this time.

If after eight months from the inception of the Mining Agreement, Ministerial Consent for the transfer of the Mining Right has not been obtained, under the Supplemental Agreement, unless the parties agree otherwise, Kareevlei Mining has the right to be appointed as a contractor to continue the Trial Mining Operations for an additional period of up to 24 months after the commencement date or until the Ministerial Consent is obtained, whichever occurs first.

In addition, BlueRock or Kareevlei Mining (as the case may be), must ensure to the extent required, that all necessary amendments to the mining work programme and/or environmental management programme attaching to the Mining Right that may be required in order to entitle Kareevlei Mining to undertake such increased Trial Mining Operations shall have been effected and approved by the DMR, for the account of Kareevlei Mining.

### **12.3.3 Mining Agreement**

On exercising the Kareevlei Option, the Mining Agreement in respect of the Mining Right will be incepted as an agreement between Diamond Resources (1) and Kareevlei Mining (2) in a form that is attached to the Kareevlei Option Agreement, subject to the amendments effected by the Supplemental Agreement.

Under the Mining Agreement, Diamond Resources agrees to sell to Kareevlei Mining the Mining Right for a consideration of R1,000,000. The consideration (from which the amount paid for the Kareevlei Option is to be deducted), is to be paid to Diamond Resources' lawyers to be held in escrow pending completion. If Ministerial Consent is refused, the balance of the consideration (R850,000) will be repaid once any rehabilitation necessitated by Kareevlei Mining's Trial Mining Operations has been completed.

Completion of the transfer of the Mining Right is subject to conditions, in particular Ministerial Consent to the transfer of the Mining Right to Kareevlei Mining. It is also a condition that any other required governmental approvals shall have been obtained, but at present no such approvals have been identified.

The parties are to endeavour to obtain Ministerial Consent as soon as possible and in any event within eight months following execution. If completion of the Mining Agreement is delayed beyond eight months, Kareevlei Mining shall have the right and option to be appointed as the contractor under the MPRDA and may continue to conduct mining operations on the Kareevlei Tenements (subject to the terms and conditions under the

Mining Agreement) for a period not exceeding 24 months following the exercise date of the Kareevlei Option Agreement or until the date on which the requisite Ministerial Consent shall have been obtained, whichever occurs first.

The Mining Right is sold on the basis that the Company is to have ascertained the effectiveness and value of the licences and other rights; Diamond Resources' obligation in this regard is limited to delivering good title on completion.

In the period following the execution of the Mining Agreement, until completion or termination, the Company is appointed as controller and is able to conduct Trial Mining Operations within defined limits. Diamonds recovered during this period will belong to the Company which may deal with them as it chooses, subject to paying to Diamond Resources a commission of one per cent. of gross sales after government royalty.

Kareevlei Mining's financial obligations following the execution of the Mining Agreement include the following:

- a cash deposit or bank guarantee to secure the cost of rehabilitation if commercial mining is not implemented;
- payments to owners of the surface rights of the land;
- rental payments for the storage of equipment; and
- security services.

On transfer of the Mining Right, Kareevlei Mining is obliged to provide a bank guarantee to the Department of Mineral Resources of an amount to be determined, in order to release Diamond Resources' guarantee of R360,000.

The transfer of the Mining Right is subject to the terms and conditions of the Mining Right themselves and also the Mining Work Program and Social and Labour Plan identified in the agreement and to the approved Environmental Management Plan.

The Company has given a warranty that it will be able to show that it has the financial resources and technical know-how necessary to conduct mining under the Mining Right for the purpose of obtaining Ministerial Consent and that it knows of no reason that the approvals would not be obtained.

Diamond Resources sells the Mining Right on a 'voet stoots' basis which corresponds to "as is, where is" – attributing no responsibility to Diamond Resources for the status and viability of the Mining Right, except in relation to certain specific limited warranties. Warranty claims are limited to R250,000 in aggregate.

The Mining Agreement is subject to the laws of the Republic of South Africa.

#### **12.3.4 Equipment Agreement**

On the exercise of the Kareevlei Option, the Equipment Agreement will be incepted as an agreement between Diamond Resources (1) and Kareevlei Mining (2) in the form attached to the Kareevlei Option Agreement, subject to the amendments effected by the Supplemental Agreement. Under the Equipment Agreement, Diamond Resources sells and Kareevlei Mining (as assignee of the Company) purchases, used mining plant and equipment listed in the document for a price of R3,000,000 that is paid in cash on the inception of the agreement. Kareevlei Mining then collects the equipment and becomes responsible for storage, maintenance, insurance and security. The sale is also conducted on a 'voet stoots' basis.

#### **12.3.5 Shareholders' Agreement**

Under a Shareholders' Agreement dated 3 August 2013 between the Company (1), Ghaap Mining (2) and Kareevlei Mining (3), the Company and Ghaap agreed that they intend to co-operate as long term investors through Kareevlei Mining in the commercial exploitation of the Kareevlei Tenements.

Kareevlei Mining has issued 100 ordinary shares of no par value that are held as to 74 ordinary shares by the Company and 26 ordinary shares by Ghaap. The Ordinary Shares rank *pari passu* in all respects.

The Directors of Kareevlei Mining are Riaan Visser and Timothy Leslie, (who have been nominated by the Company) and William van Wyk (who has been nominated by Ghaap). The Shareholders' Agreement provides that each shareholder is entitled to nominate, remove and replace one director for each 15 per cent. of the issued shares held by that shareholder. Accordingly, the Company is entitled to nominate up to four directors and Ghaap may nominate a single director. For so long as Mr van Wyk is the majority shareholder of Ghaap, he is to be the director of Kareevlei Mining nominated by Ghaap, unless the Company agrees otherwise.

The remuneration of the directors of Kareevlei Mining is subject to a special resolution of the shareholders, which requires approval by the holders of 75 per cent. of the issued shares.

Certain specific matters require the approval of a special resolution of the shareholders, which is to be approved by shareholders holding at least 75 per cent. of the issued shares, hence needing the approval of both the Company and Ghaap. Apart from matters that require a special resolution under the relevant corporate legislation and the Memorandum of Incorporation, the specific matters that require approval by special resolution include certain transactions such as acquisitions and disposals that are fundamental or that fall outside the ordinary course of business.

The Company is to be responsible for providing the funding needed for the initial stages of Kareevlei Mining's operation in the period before the commercial production commences. These initial expenditure includes the costs associated with the acquisition, legal and other expenses, the financial provision to the DMR and the transfer of the Mining Right to Kareevlei Mining. There are then further loans to be provided for working capital and other budget expenditure in relation to the operation of the Kareevlei Project. These loans will be advanced by the Company to Kareevlei Mining on terms that the principal amount is repayable, subject to available cash resources and with priority to earlier loans and in any event insolvency of Kareevlei Mining.

Additional funding required once Kareevlei Mining commences commercial production is to be funded either by its own resources or external funding. If no other funding is available, Kareevlei Mining may require further funding to be contributed by shareholders on a pro rata basis, provided that if either the shareholder fails to contribute, the other shareholder may contribute the deficit which will carry priority and preferred terms.

There is provision that not less than 50 per cent. of the amount available for distribution as dividends or otherwise is to be applied in repayment of loans advanced by the Company and other loans. These loans advanced by the Company are to be repaid in any event no later than 30 months after completion of the Acquisition.

The transfer of shares in Kareevlei Mining is subject to pre-emption procedures under which a shareholder wishing to sell shares must first offer those shares for sale to the other shareholder on the same terms as those offered by the proposed external buyer. If the other shareholder does not accept the offer in respect of all the shares offered, the shareholder who wishes to sell may sell all the shares offered to the external buyer. Transfers of shares are in any event subject to Ministerial Consent in the circumstances prescribed by the MPRDA. Any sale of shares must be accompanied by the transfer of the corresponding amount of loans owing by Kareevlei Mining to the selling shareholder on a proportionate basis.

Where shareholders accept an offer to purchase their shares and not less than 70 per cent. of the issued shares are to be sold, the remaining shareholders will be obliged to accept the same offer and to sell their shares.

Where an offer is made those shareholders accepting in respect of at least 65 per cent. of the issued shares of the Company may only accept if the same offer has been made to all other shareholders.

A shareholder that is subject to liquidation or other business rescue proceedings is deemed to offer to sell its shares to other shareholders at a fair value determined by an independent valuer.



On a change of beneficial ownership or control of a shareholder other than the Company, that shareholder is obliged to offer its shares to the other shareholder at a discount of 15 per cent. to the fair value of the shares.

Ghaap is to remain a black-controlled company and to maintain the Empowerment status of Kareevlei Mining until Kareevlei Mining is listed or Ghaap, with the consent of the Company and the DMR, ceases to hold at least 15 per cent. of the issued shares of Kareevlei Mining.

#### **12.3.6 Competent Person Engagement Letter**

An agreement dated 6 May 2013 between the Company (1) and Z Star Mineral Resource Consultants (Pty) Limited (2) under which Z Star were appointed to prepare the Competent Person's Report on the Kareevlei Tenements for the Company and the agreement is terminable by either party on 15 days written notice.

#### **12.4 Other Agreements Relating to the Company**

On 10 January 2013 the Company appointed Geo-Consult International (Pty) Ltd to carry out an assessment of and geological report on a potential target. The total amount paid under this agreement was R158,249. No further amounts are due under the contract.

### **13. United Kingdom Taxation**

The following summary, which is intended as a general guide only, outlines certain aspects of current UK tax legislation, and what is understood to be the current practice of HMRC in the United Kingdom regarding the ownership and disposal of Ordinary Shares. This summary is not a complete and exhaustive analysis of all the potential UK tax consequences for holders of Ordinary Shares and should not be construed as constituting advice. It addresses certain limited aspects of the UK taxation position of UK resident, ordinarily resident and domiciled Shareholders who are beneficial owners of their Ordinary Shares and who hold their Ordinary Shares as an investment. Any person who is in any doubt as to his tax position or who is subject to taxation in a jurisdiction other than the UK should consult his professional advisers immediately as to the taxation consequences of their purchase, ownership and disposition of Ordinary Shares. This summary is based on current United Kingdom tax legislation. Shareholders should be aware that future legislative, administrative and judicial changes could affect the taxation consequences described below.

#### **Taxation of Dividends**

No tax will be withheld by the Company when it pays a dividend. A UK resident individual shareholder who receives a dividend from the Company will be entitled to a tax credit, currently at the rate of 1/9th of the cash dividend paid (or 10 per cent. of the aggregate of the net dividend and related tax credit). The individual is treated as receiving for tax purposes gross income equal to the cash dividend plus the tax credit. The tax credit is set against the individual's tax liability on that gross income. The lower rate of income tax on dividend income is currently 10 per cent.

An individual shareholder who is not liable to income tax at a rate greater than the basic rate (currently 20 per cent.) will have no income tax to pay in respect of the dividend. The higher rate of income tax on dividends is currently 32.5 per cent. within the 40 per cent. income tax bracket and 37.5 per cent. within the 45 per cent. bracket. This means that an individual shareholder who is taxed on the dividend in the 40 per cent. bracket will have further income tax to pay at a rate of 22.5 per cent. of the cash dividend paid plus the related tax credit (or 25 per cent. of the net dividend). An individual shareholder in the 45 per cent. bracket will have further income tax to pay at a rate of 27.5 per cent. of the cash dividend paid plus the related tax credit (or approximately 30.6 per cent. of the net dividend). UK resident shareholders who do not pay income tax or whose liability to income tax on the dividend and related tax credit is less than the tax credit, including pension funds, charities and certain individuals are not generally entitled to claim repayment of any part of the tax credit associated with the dividend from HM Revenue & Customs.

A UK resident corporate shareholder will not generally be liable to corporation tax on any dividend received from the Company and the dividend received and related tax credit will constitute franked investment income.

Whether a shareholder who is not resident in the UK for tax purposes is entitled to a tax credit in respect of dividends paid by the Company and to claim payment of any part of the tax credit will



depend, in general, on the provisions of any double taxation convention which exists between the shareholder's country of residence and the UK. A non-UK resident shareholder may also be subject to foreign taxation on dividend income.

Persons who are not resident in the UK should consult their own tax advisers on the possible application of such provisions or what relief or credit may be claimed in the jurisdiction in which they are resident.

### **Taxation of Chargeable Gains**

For the purpose of UK tax on chargeable gains, the issue of Ordinary Shares pursuant to the Acquisition will be regarded as an acquisition of a new holding in the share capital of the Company.

The Ordinary Shares so allotted will, for the purpose of tax on chargeable gains, be treated as acquired on the date of allotment. The amount paid for the Ordinary Shares will usually constitute the base cost of a shareholder's holding. If a shareholder disposes of all or some of his Ordinary Shares a liability to tax on chargeable gains may, depending on their circumstances arise.

UK resident individuals and trustees are generally subject to capital gains tax at a current flat rate of 28 per cent. (reduced to 18 per cent. where a gain falls within an individual's unused basic rate income tax band).

Gains made by UK resident companies are subject to corporation tax but there is an entitlement to indexation allowance which may reduce the chargeable gain.

A shareholder who is neither resident nor ordinarily resident in the UK for tax purposes, but who carries on a trade, profession or vocation in the UK through a permanent establishment or through a branch or agency (where the shareholder is not a company) and has used, held or acquired the Ordinary Shares for the purposes of such trade, profession or vocation or such permanent establishment, branch or agency (as appropriate) will be subject to UK tax on capital gains on the disposal of Ordinary Shares.

In addition, any holders of Ordinary Shares who are individuals and who dispose of shares while they are temporarily non resident may be treated as disposing of them in the tax year in which they again become resident in the UK.

### **Stamp Duty and Stamp Duty Reserve Tax**

No UK stamp duty will be payable on the issue by the Company of Ordinary Shares. Transfers of Ordinary Shares for value will generally give rise to a liability to pay UK ad valorem stamp duty (if in certificated form), or stamp duty reserve tax (if in uncertificated form), at the rate in each case of 50 pence per £100 of the amount or value of the consideration (rounded up in the case of stamp duty to the nearest £5).

The UK Government indicated in the 2013 Budget its intention to abolish stamp taxes on shares quoted on growth markets, including AIM, and announced that its legislation would be included in the 2014 Finance Bill.

## **14. Working capital**

The Company, the Directors and the Proposed Director are of the opinion, having made due and careful enquiry and taking into account the expected proceeds of the Placing, that the Group will have sufficient working capital for its present requirements, that is, for at least 12 months from the date of Admission.

## **15. Environmental Issues**

As far as the Directors and the Proposed Director are aware, there are no environmental issues that may affect the Group's utilisation of its tangible fixed assets.

## **16. No litigation, governmental or arbitration proceedings**

The Group is not involved in any governmental, legal or arbitration proceedings which have or, since incorporation, may have had, a significant effect on the Group's financial position or profitability nor, so far as the Directors and the Proposed Director are aware, are any such proceedings pending or threatened by or against the Group.

## **17. Intellectual property**

Other than the Mining Right as described in Part I of this document, the Group is not dependent on any patents, licences, industrial, financial or commercial contracts or new manufacturing processes which have a material effect on the Group's business or profitability.

## **18. Premises**

The Company does not own any premises.

## **19. Significant change**

Except for the execution of the Kareevlei Option Agreement and the Supplemental Agreement and the inception of the Mining Agreement and the Equipment Agreement, there has been no significant change in the financial or trading position of the Company since 31 March 2013, being the balance sheet date to which the Company's most recent published financial information is made up.

## **20. Related Party Transactions**

During the period from its incorporation to the date of this document, the Company has not entered into any related party transactions.

## **21. General**

21.1 There have been no interruptions in the business of the Group, nor are there any significant recent trends, which may have or have had in the 12 months preceding the publication of this document a significant effect on the financial position of the Group or which are likely to have a material effect on the prospects of the Group for the next 12 months.

21.2 Except as disclosed in paragraph 12.3 of this Part VI, there have been no significant authorised or contracted capital commitments at the date of publication of this document.

21.3 The gross proceeds of the Placing receivable by the Company are expected to be approximately £1.31 million. The total costs and expenses payable by the Company in connection with the Placing and Admission (including professional fees, costs of printing and other fees payable and sales commissions) are estimated to be approximately £350,000 excluding UK VAT.

21.4 Except as stated in this document and for the advisers named on page 3 of this document to the extent disclosed elsewhere in this document and trade suppliers, no person has received, directly or indirectly, from the Company within the 12 months preceding the date of this document or has entered into any contractual arrangements to receive, directly or indirectly, from the Company on or after Admission, fees totalling £10,000 or more or securities in the Company with a value of £10,000 calculated by reference to the Placing Price or any other benefit with a value of £10,000 or more at the date of Admission.

21.5 Other than pursuant to the Placing, the Ordinary Shares have not been sold, nor are they available, in whole or in part, to the public in conjunction with the application for Admission.

21.6 Application will be made to the London Stock Exchange for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and dealings in the Enlarged Share Capital will commence on AIM at 8.00 a.m. on 4 September 2013.

21.7 It is expected that definitive share certificates will be dispatched by hand or first class post by 11 September 2013. In respect of uncertificated shares it is expected that shareholders' CREST stock accounts will be credited on 4 September 2013.

21.8 The Ordinary Shares are in registered form. No temporary documents of title will be issued.

21.9 SP Angel Corporate Finance LLP has given and not withdrawn its written consent to the issue of this document with the inclusion of its name and the references to it in the form and context in which such references appear.

21.10 Z Star Mineral Resource Consultants (Pty) Ltd, has given and not withdrawn its written consent to the issue of this document with the inclusion of its name and the references to it in the form and context in which such references appear.

- 21.11 Grant Thornton UK LLP, reporting accountant's to the Company has given and not withdrawn its written consent to the inclusion of its accountants' report in Part IV.A of this document and the references to such accountant's report in the form and context in which they appear. Grant Thornton UK LLP's responsibility for its accountant's report appearing in Part IV.A is as set out in that accountant's report. Grant Thornton UK LLP is a member firm of the Institute of Chartered Accountants in England and Wales.
- 21.12 Where information contained in this document has been sourced from a third party this information has been accurately reproduced. So far as the Company, the Directors and the Proposed Director are aware and are able to ascertain from the information provided by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 21.13 The financial information relating to the Company contained in this document does not comprise statutory accounts for the purposes of section 434(3) of the Act.
- 21.14 The accounting reference date of the Company is 31 December.
- 21.15 Except as disclosed in this document, as far as the Directors and the Proposed Director are aware there are no known trends, uncertainties, demands, commitments or events that are reasonably expected to have a material effect on the Group's prospects for at least the current financial year.
- 21.16 Except as disclosed in this document, since the date of incorporation of the Company, the Company has had no significant or principal investments and there are no significant or principal investments in progress and there are no significant or principal future investments on which the Enlarged Board has made a firm commitment.
- 21.17 The Company has not declared a dividend for any of the financial years in the period covered by the historical financial information set out in Part IV of this document.
- 21.18 The ISIN of the Existing Ordinary Shares is GB00B84H1764.

## **22. Documents available for Inspection**

Copies of this document for the Company are available free of charge from the offices of SP Angel Corporate Finance LLP, Prince Frederick House, 35 - 39 Maddox Street, London, W1S 2PP, United Kingdom during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) and shall remain available for at least one month after Admission. A copy of the Admission Document will also be available on the Company's website: [www.bluerockdiamonds.co.uk](http://www.bluerockdiamonds.co.uk).

Dated: 19 August 2013

## NOTICE OF GENERAL MEETING

### BLUEROCK DIAMONDS PLC

*(incorporated and registered in England & Wales with registered number 08248437)*

**NOTICE IS HEREBY GIVEN** that a general meeting of BlueRock Diamonds plc (the “**Company**”) will be held at the offices of SP Angel Corporate Finance LLP at Prince Frederick House, 35-39 Maddox Street, London W1S 2PP on 3 September 2013 at 9.00 a.m. for the following purposes:

To consider and, if thought fit, pass the following resolutions numbered 1 to 4 and 7 as ordinary resolutions and resolutions 5 and 6 as special resolutions:

#### **RESOLUTIONS**

##### **Capitalisation**

- 1 THAT the directors be authorised to resolve to capitalise the sum of £126,614.4462 (the “Capitalised Sum”) standing to the credit of the share premium account of the Company and to appropriate the Capitalised Sum to the persons who would have been entitled to the Capitalised Sum if it were distributed by way of dividend and in the same proportions to the holders of Ordinary Shares (the “Persons Entitled”) on 3 September 2013 (the “Record Date”) and that the Capitalised Sum is to be applied in paying up 1,266,144,462 new Ordinary Shares of 0.01p each of a nominal amount equal to the Capitalised Sum which are to be allotted credited as fully paid to the Persons Entitled in the same proportions as a dividend would have been distributed to them.

##### **Consolidation**

- 2 THAT, pro rata between the existing holders thereof the existing issued 1,278,933,800 Ordinary Shares of 0.01p in the capital of the Company be consolidated into Ordinary Shares of 1p each, on the basis of one new Ordinary Share of 1p for each 100 existing Ordinary Shares of 0.01p provided that no Shareholder will be entitled to a fraction of a share and all fractional entitlements resulting from the consolidation are to be aggregated into whole shares and such numbers of shares so arising are to be sold by the Company and the net proceeds of sale retained by the Company.

##### **Acquisition of Mining Right and Mining Equipment**

- 3 THAT, in accordance with Rule 59 of the ISDX Growth Market Rules for Issuers subject to and conditional upon, admission to trading on the AIM Market of the London Stock Exchange Plc (“AIM”) of the issued and to be issued share capital of the Company comprising 31,525,041 Ordinary Shares of 1p each (“Ordinary Shares”), the acquisition by the Company of the Mining Right and the Mining Equipment on the exercise of the Kareevlei Option Agreement dated 23 April 2013 between Diamond Resources Limited (“Diamond Resources”) (1) and the Company (2), pursuant to and conditional on the terms of which:
  - 3.1 the Mining Agreement is to be entered into between Diamond Resources (1) and Kareevlei Mining (Pty) Limited (“Kareevlei Mining”) (2) for the sale by Diamond Resources of the Mining Right to Kareevlei Mining for a consideration of R1,000,000, the completion of which is conditional upon the required Ministerial Consent; and
  - 3.2 the Equipment Agreement is to be entered into between Diamond Resources (1) and Kareevlei Mining (2) for the sale by Diamond Resources of Mining Equipment to Kareevlei Mining for a consideration of R3,000,000;

be and hereby is approved and the Directors be and are hereby authorised to carry out all acts as they may consider necessary and/or desirable in connection therewith.

##### **Authority to Allot Shares**

- 4 THAT, subject to, and conditional upon, resolutions 1, 2 and 3 being passed, in addition to all existing authorities granted to the directors of the Company (the “Directors”) in respect of the allotment of shares in the Company or the granting of rights to subscribe for or to convert any security into shares in the Company (“Rights”) but without prejudice to the proper exercise of such authorities, the Directors be and are generally and unconditionally authorised in accordance with section 551 of the Company Act 2006 (the “Act”) to exercise all the powers of the Company to allot shares in the

Company or grant Rights up to a maximum nominal value of:

- 4.1 £187,357.03 in respect of up to 18,735,703 Ordinary Shares of 1p each in the Company to be issued pursuant to the Placing (as defined in the Admission Document); and
- 4.2 £47,287.56 in respect of up to 4,728,756 Ordinary Shares of 1p in the Company, in connection with the grant (on or prior to the date of Admission) of options to Directors of the Company; and
- 4.3 other shares in the Company and/or Rights up to an aggregate nominal amount of £47,287.56.

Such authority shall expire at the end of the next annual general meeting of the Company save that the Company may, before such expiry, make an offer or agreement which would, or might, require shares in the Company to be allotted or Rights to be granted after such expiry and the Directors may allot shares in the Company or grant Rights in pursuance of such an offer or agreement as if the authority conferred by this resolution had not expired.

#### **Authority to disapply Pre-emption Rights**

- 5 THAT, subject to, and conditional upon, resolutions 1, 2, 3 and 4 being passed, in addition to all existing authorities granted to the Directors, the Directors be empowered, in accordance with section 570 of the Act, to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred by resolution 4 as if section 561(1) of the Act did not apply to such allotment but without prejudice to the prior exercise of such authorities, provided that this power shall be limited to the allotment of:

- 5.1 equity securities to be issued pursuant to the Placing up to an aggregate nominal amount of £187,357.03; and
- 5.2 equity securities to be issued in connection with the grant (on or prior to the date of Admission) of options to Directors of the Company up to an aggregate nominal amount of £47,287.56; and
- 5.3 other equity securities up to an aggregate nominal amount of £47,287.56;

and shall expire at the end of the next annual general meeting of the Company, save that the Company may, before such expiry, make an offer or agreement which would, or might, require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the authority conferred by this resolution had not expired.

#### **Adoption of Articles of Association**

- 6 THAT the regulations in the form attached to this Resolution be and are hereby adopted as the Articles of Association of the Company in substitution for and to the exclusion of all the existing Articles of Association.

#### **Appointment of Proposed Director**

- 7 THAT, subject to, and conditional upon, resolutions 1, 2, 3, 4, 5 and 6 being passed, Mr Timothy Grahame Leslie be appointed as a Director of the Company with effect from Admission.

Dated: 19 August 2013

By order of the Board

Paul Beck

*Chairman*

Registered office: 39 St James's Street, London SW1A 1JD

Notes:

1. As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
2. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out below and in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
3. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.  
To be valid, a form of proxy and the power of attorney or other written authority, if any, under which it is signed, or an office or notarially certified copy in accordance with the Powers of Attorney Act 1971 of such power or written authority, must be delivered to Share Registrars Limited, Suite E, First Floor, 9 Lion & Lamb Yard, Farnham, Surrey GU9 7LL no later than 9.00 a.m. on 30 August 2013 (or 48 hours before the time fixed for any adjourned meeting or, in the case of a poll taken more than 48 hours after it was demanded, not less than 24 hours before the time appointed for taking the poll at which the proxy is to attend, speak and vote provided that in calculating such periods no account shall be taken of any part of a day that is not a working day and where the poll is not taken forthwith but is taken not more than 48 hours after it was demanded, at the meeting at which the poll was demanded).
4. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy complete and submit more than one proxy form and make it clear how many shares the proxy has voting rights over. Failure to specify the number of shares each proxy appointment relates to or specifying a number of shares in excess of those held by you on the record date will result in the proxy appointment being invalid.
5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
6. Use of the proxy form does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.
7. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the registrars of the Company, Share Registrars Limited, Suite E, First Floor, 9 Lion & Lamb Yard, Farnham, Surrey GU9 7LL (in the case of a member which is a company, the revocation notice must be executed in accordance with note 10 below).
8. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by the registrars of the Company no later than 48 hours before the time fixed for the holding of the Meeting or any adjourned meeting (or in the case of a poll before the time appointed for taking the poll) at which the proxy is to attend, speak and vote.  
If you attempt to revoke your proxy appointment but the revocation is received after the time specified then your proxy appointment will remain valid.
8. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
10. In the case of a member which is a company, the form of proxy must be executed under its common seal or under the hand of a duly authorised officer or attorney.
11. Except as provided above, members who have general queries about the Meeting should call Share Registrars Limited on +44 (0) 1252 821390 (no other methods of communication will be accepted).
12. You may not use any electronic address provided either in this notice of general meeting or any related documents (including the Chairman's letter and proxy form) to communicate with the Company for any purposes other than those expressly stated.





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