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This document comprises an admission document for the purposes of the AIM Rules and has been drawn up in accordance with the AIM Rules. This document does not constitute a prospectus for the purposes of the Prospectus Rules.

Application has been made for the entire ordinary share capital of Everfor Diamonds Plc to be admitted to trading on the AIM market of London Stock Exchange plc. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. 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. Neither London Stock Exchange plc nor the United Kingdom Listing Authority has examined or approved the contents of this document. It is expected that Admission will become effective and that trading in the Ordinary Shares on AIM will commence on 6 April 2006.

The Company and the Directors, whose names are set out on page 6 of this document, accept individual and collective responsibility for the information contained in this document and compliance with the AIM Rules. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The whole of this document should be read. An investment in the Company involves a significant degree of risk, may result in the loss of the entire investment and may not be suitable for all recipients of this document. Investors should consider carefully the risk factors which are set out in Part II of this document.

EVERFOR DIAMONDS PLC

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 5025273)

ADMISSION TO TRADING ON AIM

Nominated Adviser and Broker

Canaccord Adams Limited

Share capital immediately following Admission

Authorised			Issued and fully paid	
Number	Amount		Number	Amount
200,000,000	£2,000,000	Ordinary Shares of 1p each	98,854,291	£988,542.91

This document does not constitute an offer, or the solicitation of an offer, to subscribe or buy any of the Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction. The Ordinary Shares have not been, and will not be, registered under the United States Securities Act 1933, as amended, or under the securities legislation of any state of the United States of America, Australia, Canada, Japan, the Russian Federation or the Republic of Ireland. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered or sold within the United States of America, Australia, Canada, Japan, the Russian Federation or the Republic of Ireland or to any person located in the United States.

All the Ordinary Shares will, on Admission, rank *pari passu* in all respects and will rank in full for all the dividends and other distributions declared, paid or made in respect of Ordinary Shares after Admission.

Canaccord Adams Limited (“**Canaccord**”), which is regulated and authorised in the United Kingdom by the Financial Services Authority and a member of London Stock Exchange plc, is acting as Nominated Adviser and Broker exclusively for the Company for the purposes of the AIM Rules and in relation to Admission is not acting for and will not be responsible to any other person other than the Company for providing the protections afforded to customers of Canaccord or for advising any other person on the contents of this document or any transaction or arrangement referred to in this document. Canaccord’s responsibilities as the nominated adviser to the Company are solely owed to London Stock Exchange plc. No representation or warranty, express or implied, is made by Canaccord as to any of the contents of this document for which the Company and the Directors are solely responsible. Canaccord has not authorised the content of, or any part of, this document and (without limiting the statutory rights of any person to whom this document is issued) no liability whatsoever is accepted by Canaccord for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which the Company and its Directors are solely responsible.

A copy of this document is available, free of charge during normal business hours on any weekday (except public holidays), to the public at the offices of Canaccord, 1st Floor Brook House, 27 Upper Brook Street, London W1K 7QF for one month from the date of Admission.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Admission and commencement of dealings in Ordinary Shares on AIM	6 April 2006
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MARKET STATISTICS

Number of Ordinary Shares in issue on Admission (undiluted)	98,854,291
Number of share options in issue on Admission	5,650,000
Number of warrants in issue on Admission	250,000
Number of Ordinary Shares in issue on Admission (diluted)	104,754,291

KEY INFORMATION

These key points are taken from and must be read in conjunction with the whole of this document. Sole reliance should not be placed on the information set out below. In particular, your attention is drawn to the section headed “Risk Factors” in Part II of this document.

Introduction

Everfor was incorporated on 26 January 2004 for the purpose of exploring for diamonds in the Kola Peninsula in the north-west of the Russian Federation. On 16 June 2004, pursuant to the Acquisition Agreements, the Group acquired an 80 per cent. participatory interest in the charter capital of each of the three Russian Subsidiaries. Between them, the Russian Subsidiaries own 100 per cent. of all interests in the Licences. The Group has also agreed, subject to the terms and conditions of the Acquisition Agreements, to acquire an additional 14 per cent. of the participatory interest in the charter capital of each of the Russian Subsidiaries. In addition, pursuant to the CKE Share Purchase Agreements, the Russian Subsidiaries, between them, acquired 41.35 per cent. of the issued share capital of CKE. The Group has contracted CKE to carry out exploration activities within the Licence Areas. Please refer to paragraph 3 of Part VI of this document for a more detailed summary of the Group structure.



Figure A: Location of the Kola Peninsula.

Projects and Licences

The four diamond exploration Licences held by the Russian Subsidiaries collectively cover a total of 12,700 square kilometres of the Kola Peninsula. The Kola Peninsula lies in the far north-western Russian Federation between the Barents Sea and the White Sea and partly within the Arctic Circle forming part of the Murmansk region. The Kola Peninsula is highly prospective for diamond exploration, as indicated by the presence of diamond-bearing kimberlites at Arkhangelsk to the southeast and in Finland to the south-west of the peninsula. There are two known diamondiferous kimberlites within the area covered by the Ermakovskaya Licence. The Kola Peninsula forms part of the Karelian Craton and has marked geographical and geological similarities to the Slave Craton in Canada where major kimberlite discoveries have been made. Exploration of the Karelian Craton in the Russian Federation is, however, at a very early stage.

Summary of SRK Report

In SRK's opinion, the Licence Areas in the Kola Peninsula have the potential to host kimberlites and further work is justified to explore this region further. Diamond-bearing kimberlites tend to occur in

clusters and the demonstrated existence of diamondiferous kimberlites within the Ermakovskaya Licence is therefore a particularly important factor. While there is no guarantee that kimberlites will be discovered during the coming year, the targets identified justify drilling and there is therefore a reasonable chance of discovery. Please see the SRK Report in Part III of this document for further information.

Strategy and Operations

The Group's principal strategy is to advance exploration of the Licence Areas as fast as is feasible, using a multi-disciplinary approach including sampling, geophysical surveying and the interpretation of satellite imagery. Limited areas of the Kola Peninsula have previously been the subject of sampling and aerogeophysical surveying. The results from the sampling and the aerogeophysical surveying have identified areas within the Licence Areas suitable for detailed sampling and simultaneous airborne geophysical surveying. Where there are few or no previous results, then sampling alone may be undertaken. However, if the acquisition of low-cost geophysical data is feasible, then surveys may be carried out.

As the Company moves into its third year of operations, a drilling programme is scheduled to test those targets of most interest generated from a synthesis of indicator mineral data, geophysical survey interpretations and the analysis of satellite images for geological structures. This is planned for the months of April and May of 2006, when access for drilling rigs is possible. If kimberlites are intersected then testwork will be required to evaluate those bodies of most interest.

Management

Everfor has a highly experienced board and senior management team which has extensive experience and expertise in international diamond exploration and of operating in the Russian Federation.

Risk Factors

Please review the risks associated with an investment in the Company as set out in Part II of this document.

DIRECTORS, SECRETARY AND ADVISERS

Directors	Dr Sergey Vladimirovich Kurzin (<i>Executive Chairman</i>) Donald James Duncan (<i>Managing Director</i>) David John Swan (<i>Finance Director</i>) Geoffrey Thomas Bush (<i>Non-Executive Director</i>) John Barry Hawthorne (<i>Non-Executive Director</i>)
Company Secretary	David John Swan
Registered Office	18 Upper Brook Street London W1K 7PU
Nominated Adviser	Canaccord Adams Limited 1st Floor, Brook House 27 Upper Brook Street London W1K 7QF
Lawyers to the Company	<i>As to English Law</i> McCarthy Tétrault 5 Old Bailey London EC4M 7BA <i>As to Russian Law</i> Padva & Partners 6 Bolshoi Golovin per. Moscow 107045 Russian Federation
Auditors and Reporting Accountant	BDO Stoy Hayward LLP 8 Baker Street London W1U 3LL
Lawyers to the Nominated Adviser and Broker	Hammonds 7 Devonshire Square Cutlers Gardens London EC2M 4YH
Reporting Geologists	SRK Consulting (UK) Limited Windsor Court 1-3 Windsor Place Cardiff CF10 3BX
Registrar	Computershare Investor Services plc PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH

DEFINITIONS

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

“Acquisition Agreements”	each of the share purchase agreements dated 16 June 2004 as amended by a supplemental agreement dated 3 February 2005 relating to the acquisition of the charter capital of the Subsidiaries as further described in paragraph 10(i) of Part VI;
“Act”	the Companies Act 1985, as amended;
“Admission”	admission of the Ordinary Shares of the Company to trading on AIM and such Admission becoming effective in accordance with the AIM Rules;
“Admission Document”	this document;
“AIM”	the AIM market operated by the London Stock Exchange;
“AIM Rules”	the rules applicable to AIM as published by the London Stock Exchange;
“Board” or “Directors”	the board of directors of the Company whose names are set out on page 6 of this document;
“Canaccord”	Canaccord Adams Limited;
“Combined Code”	the Principles of Good Governance and Code of Best Practice published by the Committee on Corporate Governance Chaired by Sir Ronald Hampel in June 1998 and revised in July 2003;
“CKE”	Central Kola Expedition, a Russian joint stock company;
“CKE Share Purchase Agreements”	each of the share purchase agreements pursuant to which the Russian Subsidiaries, between them, acquired 41.35 per cent. of the issued share capital of CKE as further described in paragraph 10(ii) of Part VI;
“Company” or “Everfor”	Everfor Diamonds plc, a company incorporated in England and Wales with registered number 5025273;
“CREST”	the relevant system (as defined in the Uncertificated Securities Regulations 2001) for holding of shares in paperless settlement of share transfers in uncertificated form which is administered by CRESTCo Limited;
“Edlin”	Edlin Finance Limited, a company incorporated in the British Virgin Islands with registered number 588766;
“Edlin Share Purchase Agreement”	the share purchase agreement for the purchase of the entire issued share capital of Edlin the details of which are set out in paragraph 10(i)(b) of Part VI;
“Ermakovskaya Licence”	licence Number 12286 issued on 10 March 2004 by the Ministry of Natural Resources to Olenegorskaya;
“Ermakovskaya Project”	the Group’s diamond exploration project within the area covered by the Ermakovskaya Licence;
“Federal Agency”	The State regulatory body, including its territorial divisions authorised to grant licences for the right to subsoil use;
“Group”	the Company and its Subsidiaries;
“Keiv”	Mining & Geological Company Keiv, a limited liability company incorporated in the Russian Federation on 26 December 2003;
“Kola”	Central Kola Mining & Geological Company, a limited liability company incorporated in the Russian Federation on 27 February 2004;

“Licence Area(s)”	the areas covered by the Licences in the Kola Peninsula in the Russian Federation;
“Licences”	collectively the Ermakovskaya Licence, the Varzugskaya Licence, the Pulongskaya Licence and the Tulomo-Teriberskaya Licence;
“London Stock Exchange”	London Stock Exchange plc;
“Ministry of Natural Resources”	the Ministry of Natural Resources of the Russian Federation, was the previous State regulatory body authorised to grant licences for subsoil use until 12 March 2004, when it was replaced by the Federal Agency;
“OFEX”	the unregulated share market operated by broker J.P. Jenkins;
“Official List”	the Official List of the UK Listing Authority;
“Olenegorskaya”	Olenegorskaya Mining & Geological Company, a limited liability company incorporated in the Russian Federation on 27 February 2004;
“Ordinary Shares”	ordinary shares of 1p each in the share capital of the Company;
“Project(s)”	the Ermakovskaya Project, the Pulongskaya Project, the Tulomo-Teriberskaya Project and the Varzugskaya Project, or any or all of them as the context admits;
“Prospectus Rules”	the rules published by the Financial Services Authority in the UK governing the publication of a prospectus as derived from the Prospectus Directive (Regulation EC/809/2004);
“Pulongskaya Licence”	licence Number 12284 issued on 10 March 2004 by the Ministry of Natural Resources to Keiv;
“Pulongskaya Project”	the Group’s diamond exploration project within the area covered by the Pulongskaya Licence;
“Reynalda”	Reynalda Holdings Limited, a company incorporated in the British Virgin Islands with registered number 588766;
“Reynalda Share Purchase Agreement”	the share purchase agreement for the purchase of the entire issued share capital of Reynalda the details of which are set out in paragraph 10(i)(a) of Part VI;
“Russian Subsidiaries”	Keiv, Olenegorskaya and Kola;
“Shareholder”	a holder of Ordinary Shares from time to time;
“Share Option Plan”	the unapproved share option plan adopted by the Company on 21 May 2004;
“SRK”	SRK Consulting (UK) Limited
“SRK Report”	the report from SRK which appears in Part III of this document;
“State”	the Federal Government of the Russian Federation;
“Subsidiaries”	Reynalda, Edlin and the Russian Subsidiaries;
“Subsoil Statute”	the Statute of the Russian Federation “On Subsoil” dated 21 February 1992, No. 2395-1 (as amended);
“Terskii Coast Licences”	the Pulongskaya Licence, the Varzugskaya Licence and the Ermakovskaya Licence;
“TSX”	the Toronto Stock Exchange;
“Tulomo-Teriberskaya Licence”	licence Number 12283 issued on 10 March 2004 by the Ministry of Natural Resources to Keiv;
“Tulomo-Teriberskaya Project”	the Group’s diamond exploration project within the area covered by the Tulomo-Teriberskaya Licence;

“UK”	the United Kingdom of Great Britain and Northern Ireland;
“UK GAAP”	UK Generally Accepted Accounting Principles;
“US” or “United States”	the United States of America (including the District of Columbia), its territories and possessions;
“US\$”	United States dollars, the lawful currency of the US;
“Varzugskaya Project”	the Group’s diamond exploration project within the area covered by the Varzugskaya Licence;
“Varzugskaya Licence”	licence Number 12297 issued on 10 March 2004 by the Ministry of Natural Resources to Kola;
“£” and “p”	respectively pounds and pence sterling, the lawful currency of the UK.

PART I – INFORMATION ON THE GROUP

1 Introduction

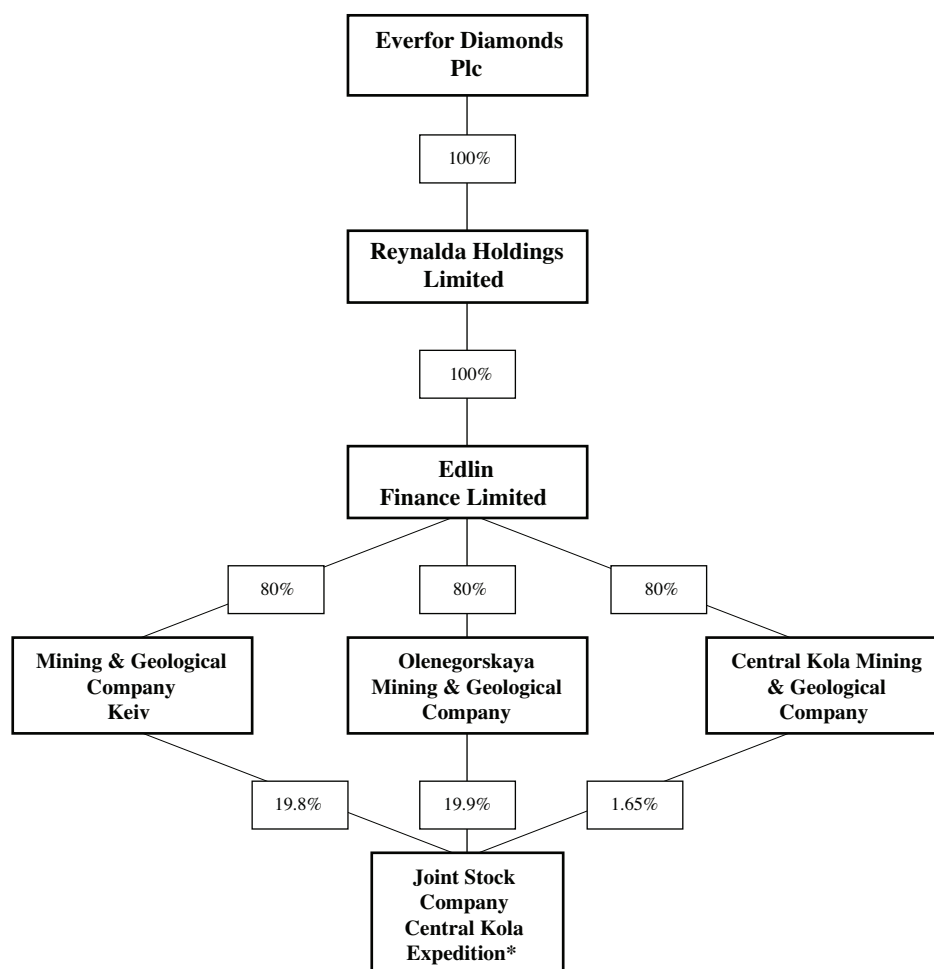
Everfor is the holding company of the Group which is in the business of diamond exploration with a primary focus on the Kola Peninsula, in the north-west of the Russian Federation. The Group owns four exploration licences: the Pulongskaya Licence, the Varzugskaya Licence, the Ermakovskaya Licence and the Tulomo-Teriberskaya Licence. These Licences cover a total of 12,700 square kilometres to the south and south-east of the region's capital, Murmansk and are believed to be prospective for diamondiferous kimberlites.

Licence	Holder	Interest (%)	Status	Licence Area (km²)	Annual Licence Fee (US\$)
Ermakovskaya	Olenegorskaya	100	Exploration	2100	10,500
Pulongskaya	Keiv	100	Exploration	2300	11,500
Tulomo- Teriberskaya	Keiv	100	Exploration	3800	19,000
Varzugskaya	Kola	100	Exploration	4500	22,500

Figure B: Summary table of the Licences.

2 Overview and History of the Group

Everfor was incorporated in England and Wales under the Act on 26 January 2004 with registered number 5025273. On 16 June 2004, pursuant to the Acquisition Agreements, the Group acquired an 80 per cent. participatory interest in the charter capital of each of the three Russian Subsidiaries. The remaining 20 per cent. of the participatory interest in the charter capital of each of the three Russian Subsidiaries was retained by the respective vendors of the Russian Subsidiaries (14 per cent.) and CKE (6 per cent.). Between them, the Russian Subsidiaries own 100 per cent. of all interests in the Licences. In addition, pursuant to the CKE Share Purchase Agreements, the Russian Subsidiaries, between them, acquired 41.35 per cent. of the issued share capital of CKE. The Group has contracted CKE to carry out exploration activities within the Licence Areas.



*CKE owns 6 per cent. of the participatory interest in each of the Russian Subsidiaries.

Figure C: The above diagram sets out the structure of the Group.

In addition, pursuant to the terms and conditions of the Acquisition Agreements, the Group has agreed to increase its participatory interest by 10 per cent. in the charter capital of each of the Russian Subsidiaries in the event that a positive feasibility study is completed on a particular Project. In addition, the Group has agreed to increase its participatory interest in the charter capital of each of the Russian Subsidiaries by a further 4 per cent. upon commencement of commercial production with respect to a Project. As consideration for the additional 10 per cent. participatory interest, the Group would be required to pay, on each Project, the sum of US\$2 per carat of rough diamonds, estimated pursuant to the feasibility study completed, within 90 days of such feasibility study being finalised. As consideration for the additional 4 per cent. participatory interest in the charter capital of each of the Russian Subsidiaries, the Group would be required to pay, on each Project, the sum of US\$3 per carat of rough diamonds, payable within 180 days of commencement of commercial production on the relevant Project. Please refer to paragraph 3 of Part VI of this document for a more detailed summary of the Group structure and to paragraph 10 of Part VI for a more detailed summary of the Acquisition Agreements.

On 15 October 2004 the Ordinary Shares of the Company were admitted to trading on OFEX. On 20 March 2006 the Company announced its intention to withdraw its Ordinary Shares from OFEX prior to its Ordinary Shares being admitted to AIM.

3 Business Strategy

The Group's principal strategy is to advance exploration of the Licence Areas as fast as is feasible, using a multi-disciplinary approach including sampling, geophysical surveying and the interpretation of satellite imagery. Traditional diamond exploration often begins with the sampling of streams and soils for kimberlite indicator minerals at intervals of several kilometres over the targeted area of interest. As minerals are identified, successive phases of sampling at progressively smaller intervals are employed to delineate drilling targets. Geophysical surveys are occasionally employed as primary kimberlite finding

tools but are more often undertaken in the latter phases of exploration to provide a focus for detailed sampling. Everfor's approach has been, wherever possible, to utilise the availability of previous results of significant interest for the selection of areas for detailed sampling and simultaneous airborne geophysical surveying. Other sources of data, such as the interpretation of satellite imagery for geological structures, have been used where possible.

Consultants and laboratories specialising in diamond-related matters are employed to carry out sample analysis and geophysical surveying.

The Russian Subsidiaries were granted their respective Licences on 10 March 2004 by the Ministry of Natural Resources and each is valid until 9 March 2009. All of the Projects are located within the north-eastern part of the Baltic Shield which forms part of the Archaean Karelian Craton in the Svecofennian and Sveconorwegian provinces. These provinces make up a large part of Scandinavia and north-west Russia.

Figure D: Geology of the Kola Peninsula.

Figure E: Location of the Licences.

	Tulomo-Teriberskaya	Ermakovskaya	Varzugskaya	Pulongskaya
Area (km²) Previous prospecting and results	3,800 Not explored for diamonds	2,100 Sampling, airborne and ground geophysics, two diamond- iferous kimberlites, indicator minerals recovered from streams	4,500 Sampling, airborne and ground geophysics, kimberlite indicator minerals recovered from streams and beaches	2,300 Sampling, airborne and ground geophysics, kimberlite indicator minerals and occasional diamonds recovered from streams and beaches
Area sampled since 2004 (km²)	2,920	850	1,330	740
Area flown with geophysics since 2004 (km²)	2,000 (in the western half of the Licence)	650 (over the sampled area)	0	800 (over the sampled area)

Figure F: Summary table of the work performed on the Licence Areas.

The Terskii Coast Licences

The Terskii Coast Licences are located in the south and south-east of the peninsula. These were all subject to intermittent kimberlite sampling programmes and to a limited amount of aerial geophysical surveying from the mid 1980's onwards. These project areas were chosen by the Company on the basis of those results. Two diamondiferous kimberlites are known to be located within the Ermakovskaya Licence Area. Limited testwork undertaken indicates that, although diamonds are present, neither body appears to be commercially viable.

Access to these Licence Areas is by helicopter and then by foot during the summer months of June to September during which period sampling is possible. In the short winter work season, from late February to late April or early May, vehicles can be used in the frozen coastal and near-coastal areas. There are small permanent settlements which can be used as bases for aerial survey operations, but for sampling and drilling campaigns, most logistical supply is undertaken by helicopter. The last permanent village is Varzuga, located 25 km east of the south-east corner of the area covered by the Ermakovskaya Licence, some 15 km inland. Fuel for drilling or helicopters can be brought in by boat and stockpiled in a number of summer-only fishing villages along the coast.

The Tulomo-Teriberskaya Licence

The Tulomo-Teriberskaya Project lies in the centre-north of the peninsula, to the south of Murmansk and was not previously subject to kimberlite exploration programmes. The main Murmansk-St Petersburg highway bisects the area covered by the Tulomo-Teriberskaya Licence, allowing access via logging tracks. This Project was chosen on theoretical grounds, the elements of which are discussed in paragraph 7 of Part I. This Licence Area is host to rocks ranging from 2.5 to 3.1 Ga and lies well within the area of low heat flow noted in Figure B. Both of these factors are pre-requisites for the occurrence of diamondiferous kimberlites. There is also significant geological evidence of deep-seated sub-vertical pathways which could provide a route for ascending kimberlite magmas.

5 Current Trading, Recent Trends and Prospects

According to WWW International Diamond Consultants Ltd., an independent valuation and advisory service, world diamond demand is expected to increase by approximately 50 per cent. by the year 2012. A number of conventional sources of supply will be close to the end of their productive lives by that time,

although there are proposed Canadian mines, including the De Beers Snap Lake and Victor projects, that are expected to open during this period. The Directors expect explorers to increase expenditure globally to try to exploit this opportunity. Rough diamond prices in 2004 were an estimated 14 per cent. higher than in 2003, and 2005 saw a recorded price increase of 9.5 per cent. by De Beers.

The Karelian Craton, of which the Kola Peninsula occupies a small part, has marked geological and geographical similarities to the Slave and Superior Cratons in Canada where major kimberlite discoveries have been made in the last fifteen years. Exploration in the Russian Federation region of the Karelian Craton is, however, at a very early stage. The results of the sampling and surveying work that the Company has undertaken since its inception are consistent with earlier exploration results. The Directors believe that such results continue to enhance the Company's prospects.

6 Exploration and Mining in the Russian Federation

The State owns all subsoil within the territory of the Russian Federation, including all mineral, energy and other resources contained in the subsoil. However, a licence holder has the right to use the subsoil within a licensed area in compliance with the terms and conditions of its licence. Licences are currently issued by the Federal Agency. Exploration licences entitle the licence holder to explore only for the mineral commodities within the boundaries stipulated in the licence document.

A holder of an exploration licence does not have a pre-emptive right to a corresponding mining licence. There are a number of procedures pursuant to which an applicant can apply for a mining licence in the Russian Federation, the most common being by way of auction or competition. Alternatively, in the event that a licence holder of an exploration licence establishes, following confirmation by the Federal Agency, that a licence area contains a deposit of mineral resources which is commercially viable, then a licence holder will be granted a certificate of establishment (the "**Certificate of Establishment**"). The Certificate of Establishment enables a licence holder of an exploration licence to apply for a mining licence within three months of being granted the Certificate of Establishment by the Federal Agency. A licence holder is required to submit an application setting out its proposed terms and conditions for the use of the relevant subsoil area. The Federal Agency is under no obligation to grant an applicant a mining licence and will only grant an applicant a mining licence if the application complies with certain requirements of the Subsoil Statute which include, compliance with environmental policies.

A licence holder is not permitted to sell or transfer a subsoil licence to a third party. However, Russian law may permit a licence holder to assign a licence in certain specific circumstances, including, for example, where a group of companies undertakes a reorganisation. It is also possible for a licence holder to apply to the Federal Agency to relinquish a part of the licence area. The licence fee payable on the licence area will be recalculated according to the revised size of the licence area.

The Licences were granted by the Ministry of Natural Resources which has since been replaced by the Federal Agency with respect to granting mineral licences. However, a new Federal statute is expected to be introduced in 2006 which, if enacted, may change the current Russian licensing regime.

7 Synopsis of Conditions for Each Licence

The Licences held by the Russian Subsidiaries are each subject to the same material conditions which are as follows:

- Each Licence holder was required to prepare an exploration programme by no later than December 2004 which was required to be agreed with the Ministry of Natural Resources and with State ecological experts. Each of these programmes was prepared and agreed within this time frame.
- The Geological exploration was to commence not later than 30 June 2004. Please see paragraph 8 of this Part I for detailed information on the exploration programmes.
- The first stage of work is to be completed by December 2006 together with the preparation of a report on the results of the kimberlite exploration programme.
- The second stage of work, entailing the evaluation of the production potential of any discovered kimberlite deposits, is to be completed by 30 June 2009.
- A report on the results of the work is to be prepared for review by the relevant State experts not later than 30 June 2009.
- The Licence holder is to provide all the finance necessary for the satisfaction of these conditions.

There is an additional obligation upon each Licence holder to prepare an analysis of the ecological conditions within the relevant Licence Area not later than 9 months from the date of registration, and to agree with the relevant State authorities, not later than 12 months from such date, a programme of annual monitoring of ecological conditions within the area covered by the relevant Licence. The Group has satisfied this obligation.

The Group is required to pay to the Federal Service for the Supervision of the Natural Resource Usage, a sub-division of the Ministry of Natural Resources annual licence fees of US\$5 per square kilometre with respect to each Licence. Otherwise there are no other material monetary commitments attached to the Licences, save that the Group is required to finance its own exploration work. A broad programme of planned activities was submitted at the time of application for the Licences but modifications to this programme have been submitted for negotiation with the relevant authorities on the basis of results received. In addition, there are annual audits, carried out by the Federal Service for Supervision of Natural Resource Usage to reconcile what was planned and what was actually undertaken. To date, there have been no material violations of the Licences.

8 Diamond Geology & Exploration

Diamond exploration differs from the exploration of other commodities for a number of reasons including the time frame required to explore the relevant licence areas; the number of analytical methods used to substantiate the kimberlitic nature of the indicator minerals; and the substantial volumes of material required to obtain grades for any deposit. However, if certain conventionally accepted conditions are met, such as:

- the area is underlain by Archaean-age rocks (greater than 2.5 billion years old); and
- there is low crustal heat flow (less than 40mW/m²); and
- there is a lithospheric “keel” in excess of approximately 150 kilometres,

then the area can be considered to be prospective for diamondiferous source rocks. Other indications that the area is prospective for diamondiferous source rocks are the presence of known diamond-bearing rocks in or adjacent to the area being considered for exploration. All of these conditions appear to be satisfied in the Licence Areas.

Further information with respect to diamond geology and exploration is set out in the SRK Report in Part III of this document.

9 Review of Operations to Date

General

An exploration programme was formulated in May 2004 and sampling work in the Licence Areas was contracted in the same month to CKE. CKE is a Russian joint-stock company with over 20 years of experience in diamond exploration in the region and is currently a 6 per cent. shareholder in each of the Russian Subsidiaries, which in turn own, between them, 41.35 per cent. of the issued share capital in CKE, as illustrated in Figure C.

CKE had identified several areas of interest searching for diamondiferous source rocks within the Group's Licence Areas. These areas are believed to contain theoretical resources in the Russian resource category P3 because of the two known kimberlites and the widespread recovery of kimberlite indicator mineral results from sampling programmes.

Everfor's programme of work focused on these areas, with close-interval sampling being undertaken to try to locate diamondiferous source rocks more swiftly than in the relatively unknown areas of each Licence, where greater sample intervals were employed. The ecological obligations incurred in each Licence were addressed and final agreement was reached with the relevant authorities in Murmansk. The Company achieved the target dates relating to various conditions imposed by the Licences, and has put procedures in place to meet future deadlines and obligations. These include the digitisation of maps, compilation of work undertaken and results received and the preparation of reports using the Russian system of resource classification.

(a) Sampling

Sampling operations for 2004 within the Terskii Coast Licences began on schedule. Work in the Tulomo-Teriberskaya Licence Area was delayed slightly due to logistical issues. As a result of the rate of sample

collection being ahead of schedule, the forecasted number of samples was revised upwards during the course of a field visit made by Everfor's Managing Director, Donald Duncan, in July 2004. A total of approximately 3,100 glacial till and stream samples were collected by the end of the field season in early October 2004.

In 2005, sampling was planned to follow up the results generated from the 2004 programme and to continue general exploration within each Licence Area. Some 2,500 samples were collected between June and September 2005.

Laboratory sample treatment commenced in South Africa in September 2004 with the first visual results reported in the following month. Results were received on a fortnightly or monthly basis during 2005. Approximately 9 per cent. of the samples taken in 2004 were positive with kimberlite indicator mineral grains in one or more varieties. Surface texture studies, which attempt to quantify the probable distances the grains have been transported from their host rock, were undertaken on over 900 grains. These grains were then subject to microprobe analysis, which determines the chemistry of each mineral species. The analyses were cross-checked against grains from known diamondiferous sources to determine the propensity of the unknown host rocks to also contain diamonds.

Those sample sites from which the grains were recovered which displayed either surface textures or mineral chemistry of interest were selected for additional sampling in 2005. Initial results from priority samples from this programme have been received and integrated into the planning for a drilling programme in 2006.

(a) Geophysical Surveying

Airborne geophysical survey contracts were agreed for four surveys. With respect to the Ermakovskaya Licence and the Pulongskaya Licence, geophysical surveying took place over core areas identified from previous prospecting results and a significant anomaly noted in satellite imagery. The selection of methods employed, entailing a combination of electromagnetic and magnetic surveys, was as a direct result of these methods having been successful in the detection of kimberlites in Canada's Slave Craton. The selection of contractor was also made on the basis of success and technology, with Fugro Airborne Surveys Limited being contracted to use their RESOLVEtm technology in conjunction with Aerogeophisica, a Moscow-based geophysical contractor. Everfor's consulting geophysicist was on-site to control quality and manage any operational difficulties during the surveys which were completed by April 2005.

Management decided to survey approximately half of the Tulomo-Teriberskaya Licence Area with aerial magnetics. A line spacing of 100 metres was chosen so that any coincident magnetic and sampling targets could be drilled without the need for any intermediate surveying. This survey was undertaken by Aerogeophisica and completed in October 2004.

10 Competent Person's Report

Your attention is drawn to the full text of the report carried out by SRK which is set out in Part III of this document. Valuations were not requested as part of this report.

11 Directors

Dr Sergey V. Kurzin – Executive Chairman (46)

Dr Sergey V. Kurzin graduated from Moscow State Technical University in 1983 and in 1990 he received a PhD in applied nuclear physics from Moscow Energy Institute. In 1990 he moved to the UK. Between the years 1991 and 1994 he worked with Exploration Consultants Ltd, investigating and studying hydrocarbon opportunities in the newly established independent nations of the Russian Federation and the Republic of Kazakhstan. In 1995 he became co-founder and Vice-President, Corporate Development, at Arian Resources Corporation (previously a TSX listed company) and Kazakhstan Minerals Corporation (later renamed European Minerals Corporation). European Minerals Corporation is listed on the TSX and on AIM. Both companies have pursued gold and base metals mining opportunities in the Russian Federation and the Republic of Kazakhstan.

Dr Kurzin was also a director of Dragon Management International Services Ltd. In 1999, he left the Dragon Group and began working independently through his private consultancy company, SJK Management Ltd (a company incorporated in England). He became closely associated with Bema Gold Corporation ("Bema") and played a key role in progressing Bema's Julietta project in the Russian Federation and also in the identification and acquisition of Bema's Kupol project in the Russian

Federation. Other client companies with which he has been closely associated on corporate development and in the supervision of operations include: Consolidated Puma Minerals Corporation (a subsidiary of Bema, publicly traded on the TSX Venture Exchange in Canada, which explores for Platinum Group Metals in north-western Russia); Ennex International Plc (a polymetallic project based in the Republic of Kazakhstan); and Eurasia Mining Plc (a company involved in the exploration for precious metals in the Russian Federation).

Since early in 2003 he has been very closely involved in establishing Oriel Resources plc (“**Oriel**”), a company listed on AIM and on the TSX, the primary focus of which is the development of its Shevchenko and Voskhod nickel and chromite projects in the Republic of Kazakhstan. On 1 December 2003 he was appointed as the Executive Chairman and Chief Executive Officer of Oriel.

He was a co-founder of the Company in 2004. Dr Kurzin has both British and Russian citizenship and resides in East Sussex, United Kingdom.

Donald James Duncan – Managing Director (52)

After graduating in 1975 with a BSc (Honours) in Geology from the University of Aberdeen, Mr Duncan worked with the Anglo American/De Beers Group of companies for 25 years, 22 of which were spent in diamond exploration and mining in three continents. His last position with De Beers was Exploration Manager for the countries of Botswana and Tanzania. He is a Member of the Australian Institute of Geoscientists and is qualified as a “competent person” under the requirements of various stock exchanges.

After leaving De Beers at the end of 2000, Mr Duncan undertook independent consultancy work on a variety of projects. In early 2004, with the assistance of a number of personal associates, he delivered two new kimberlite discoveries for an Australian client, DiamonEx Limited, operating in Botswana, for whom he continues to act as a non-executive director. He joined Everfor as its Chief Operating Officer in April 2004 and since that time he has had overall responsibility for the Company’s exploration programme. He was appointed Managing Director on 15 February 2005. Mr Duncan’s employment contract permits him to spend two-thirds of his working time on the business of the Group.

David John Swan – Finance Director (50)

David Swan is a Chartered Accountant, whose professional background in Perth, Western Australia, introduced him to the hard rock mining and exploration industry in 1981. In 1992, he commenced his first hand experience in a series of financial controller and director roles of several publicly listed mining companies. Mr Swan has gained experience in a number of initial public offerings and merger negotiation proceedings and he has been responsible for the review and assessment of many mining opportunities. After five years consulting to the mining industry in Sydney, he re-located to the UK in 2001. Mr Swan has held previous public listed company directorships with Hunter Resources Limited, Capital Energy NL and is Finance Director and company secretary of Oriel Resources plc. Mr Swan joined Everfor on 1 June 2005 and is contracted to the Company for one day per week.

Geoffrey Thomas Bush, MSc, FCA – Non-Executive Director (53)

Amongst other positions Mr Bush is the Director of Corporate Citizenship with Diageo plc, and has extensive knowledge in international corporate social responsibility matters, as well as earlier financial and general management experience. He is former chairman of the Corporate Responsibility Group and director of Business in the Community. He has also been an adviser to a wide range of networks including the UK Committee of Inquiry on a new vision for business and the World Economic Forum global corporate citizenship initiative. He is also a non-executive director of Oriel Resources plc. Mr Bush is the brother-in-law of Dr Kurzin.

J Barry Hawthorne – Non-Executive Director (71)

Mr Hawthorne graduated with a First-Class Honours degree in Geology from Rhodes University in 1956 before joining the Anglo American Corporation of South Africa/De Beers Consolidated Mines Group with which he remained until his retirement as Deputy Technical Director in 1997. Early in his career, Mr Hawthorne began pioneering research into kimberlites, the rocks which host the majority of diamonds ever mined. Mr Hawthorne’s recognition that kimberlite exploration must be grounded on sound scientific principles led to him establishing enduring links between industry and academia. The 4-yearly International Kimberlite Conferences are a direct result of this relationship.

In the 1970's Mr Hawthorne championed an in-house scientific centre of excellence within De Beers, with the mandate to increase the understanding of kimberlite genesis, emplacement and classification. The findings of many of the research projects undertaken led to much improved methods of exploration. Mr Hawthorne has travelled widely in his increasingly senior role within the Group, including establishing relationships with key diamond exploration individuals and organisations in both Russia and the People's Republic of China. In recognition of his outstanding contribution to geological sciences, he was the recipient, in 2004, of the Draper Memorial Award from the Geological Society of South Africa.

Mr. Hawthorne was appointed as a non-executive director at the Company's Annual General Meeting held on 26 July 2005.

12 Consultants and Senior Managers

Vladimir Petrovich Dubyagin – Consultant

After graduating in 1969 from Leningrad (St Petersburg) University as a geologist-physicist, Mr Dubyagin worked in Karelia and the Kola Peninsula as a geophysicist at various levels of seniority up to Chief Manager. In 1989, he was appointed as the Chief Engineer (Administration and Logistics Manager) of CKE in Monchegorsk. In 2000, he was appointed to his current position of Director General of CKE.

Mr Dubyagin's appointment in mid-2004 as a consultant to Everfor brings the necessary practical experience of carrying out exploration in the physical conditions experienced in the Kola Peninsula and access to a network of administrative contacts gained through almost 35 years of working in exploration. Mr Dubyagin is a director of each of the Russian Subsidiaries.

Ron Harry Palmer MSc, MBA – Chief Geophysicist

Ron Palmer obtained his geophysical qualifications in Sweden then moved to Australia, specialising in airborne surveys. He joined De Beers in Australia and worked in all aspects of geophysical surveying, principally in the Northern Territory and Western Australia. In the late 1990's Mr Palmer was seconded to De Beers' Canadian operations, followed by a two-year stint in Africa. Since 2001, Mr Palmer has been in private practice. His wide-ranging experience, including that in the Canadian Arctic, allows Everfor to use the best geophysical techniques available for kimberlite exploration.

13 Project Funding

Funding for the Projects is provided by the Company on a monthly cash call, based on approved budgeted spend. Provision has been made for the maintenance of a small office in the town of Monchegorsk, in the Murmansk Region, and for the payment of the services of specialist laboratories outside of Russia.

14 Financial Information

The attention of investors is drawn to the Accountant's Report on Everfor which is set out in Part IV of this document and the interim results of the Company for the period ended 30 June 2005 which are set out in Part V of this document.

15 Corporate Governance

The Directors support the highest standards of corporate governance and intend to observe the requirements of the Combined Code to the extent they consider appropriate in light of the Company's size, stage of development and resources.

The Company will hold board meetings as appropriate to the Company's needs. The Directors will be responsible for formulating, reviewing and approving the Group's strategy, budget, major items of capital expenditure and senior personnel appointments.

On 22 June 2005, the Company set up Remuneration, Nomination and Audit committees with formally delegated duties and responsibilities with effect from Admission.

The Audit Committee, which comprises Mr Bush as Chairman and Mr Hawthorne, will meet twice a year and will be responsible for making recommendations to the Board on the appointment of auditors and the audit fee, is responsible for ensuring the financial performance of the Company is properly monitored and reported on and will receive and review reports from management and the auditors relating to the interim report, the annual report and accounts and the internal control systems of the Company.

The Remuneration Committee, which comprises Mr Hawthorne as Chairman and Mr Bush, will be responsible for the review and recommendation of the scale and structure of remuneration for senior

management, including any bonus arrangements or the award of share options with due regard to the interests of the shareholders and the performance of the Group.

The Nomination Committee, which comprises Mr Bush as Chairman and Mr Hawthorne, will be responsible for regularly reviewing the Board structure, size and composition and making recommendations to the Board with regard to any adjustments that are deemed necessary.

The Company will abide by Rule 21 of the AIM Rules (regarding directors' dealings) and will take all reasonable steps to ensure compliance by Directors and applicable employees.

16 Dividend Policy

The Company has not paid any dividends to date. It is the intention of the Directors to achieve capital growth. In the short term, the Directors intend to reinvest any future profits in the Company and, accordingly, are unlikely to declare dividends in the foreseeable future. However, the Directors will consider the payment of dividends out of distributable profits of the Company when they believe it is appropriate to do so.

17 Lock-in Agreements

The Directors and one employee who falls within the definition of "applicable employee" pursuant to the AIM Rules, have undertaken, save in certain limited circumstances, not to dispose of any of their Ordinary Shares for a period of not less than 12 months from Admission. These undertakings relate to a total of 8,750,000 Ordinary Shares (being approximately 8.85 per cent. of the anticipated issued share capital after Admission). In addition the Directors have further undertaken that for a further period of 12 months from the first anniversary of Admission they will only sell or otherwise dispose of their Ordinary Shares (having first consulted with the Company's nominated adviser and broker) on an orderly market basis.

18 CREST

CREST is a paperless settlement procedure enabling securities to be held and transferred without the need to use share certificates or written instruments of transfer. The Company's Ordinary Shares, which previously have been traded on OFEX are admitted to CREST. Accordingly, settlement of transactions in all Ordinary Shares following Admission may take place within the CREST system if the relevant Shareholders so wish.

CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so.

19 Mandatory Offers and Company Acquisition of Shares

The Company is subject to the City Code on Takeovers and Mergers which, *inter alia*, provides that if any person, or group of persons acting in concert, acquires Ordinary Shares carrying 30 per cent. or more of the voting rights of the Company exercisable in general meetings, that person shall normally be required to make an offer for all the issued Ordinary Shares not already held by him (or persons acting in concert with him) in cash at the highest price paid by that person, or any person acting in concert with him during the 12 month period prior to the purchase of shares which triggered the obligation. Section 428 to 430F inclusive of Part XIII A (Takeover Offers) of the Act provide that if an offer, the terms of which comply with such provisions, is made for the issued share capital of the company, the offeror is entitled to acquire compulsorily any remaining shares if it has received acceptances or purchased shares subsequent to the making of the offer amounting (in aggregate) to 90 per cent. of the shares to which the offer relates. Certain time limits apply. The above provisions of the Act also permit a minority shareholder to require an offeror to buy his shares if that offeror has received acceptances or purchased shares subsequent to the making of such offer amounting (in aggregate) to 90 per cent. of the shares to which the offer relates. Certain time limits apply. Both the City Code on Takeovers and Mergers and the Act are due to be amended in the near future which may change the above provisions.

20 Further Information

Your attention is drawn to the additional information contained in Parts II to VI of this document.

PART II - RISK FACTORS

The exploration and development of natural resources are speculative activities that involve a high degree of financial risk which could potentially lead to the loss of part or all of any investment. The risk factors which should be taken into account in assessing the Company's activities and an investment in the Company include, but are not necessarily limited to, those set out below. Any one or more of these risks could have a material adverse effect on the value of any investment in the Company and the business, financial position or operating results of the Company and should be taken into account in assessing the Company's activities.

The risks noted below do not necessarily comprise all those faced by the Company.

Exploration and Mining Licences

The Company's exploration activities are dependent upon the grant of appropriate licences, concessions, leases, permits and regulatory consents, which may be withdrawn or made subject to limitations. There can also be no absolute assurance that any exploration licence, including the Licences, will be renewed or, if so, on what terms. There is no irrevocable guarantee or pre-emptive right that, upon completion of any exploration, a mining licence will be granted with respect to any mineral resources contained within any exploration licence.

The Licences place a range of past, current and future obligations on the Company. In some cases there could be adverse consequences for breach of these obligations, ranging from penalties to, in extreme cases, suspension or termination of the relevant licence or related contract.

Additional Financing to Fund Exploration

The Company is required to fund exploration expenditure on all of the properties on which it has exploration rights, failing which the Company's exploration rights in the relevant property may be either reduced or forfeited. The Company may acquire exploration rights in other exploration properties in the Russian Federation and elsewhere, which may require acquisition payments to be made and exploration expenditures to be incurred. The only sources of funding currently available to the Company are through the issue of additional equity capital, project finance or borrowing. There is no assurance that the Company will be successful in raising sufficient funds to meet its obligations with respect to the exploration properties in which it has or may acquire exploration rights.

Operating History

The Company has no properties producing positive cash flow and its ultimate success will depend on its ability to generate cash flow from active mining operations in the future and its ability to access equity markets for its development requirements. The Company has not earned profits to date and there is no assurance that it will do so in the future. All of the Company's activities will be directed to the search for and the development of new mineral deposits. Significant capital investment will be required to achieve commercial production.

Regulatory Approvals

The operations of the Company and the exploration agreements which it has entered into require approvals, licences and permits from various regulatory authorities, governmental and otherwise (including project specific governmental decrees). The Directors believe that the Company holds or will obtain all necessary approvals, licences and permits under applicable laws and regulations in respect of its main Projects and believe it is presently complying in all material respects with the terms of such approvals, licences and permits including the Licences. However, such approvals, licences and permits are subject to change in various circumstances and further project specific governmental decrees and/or legislative enactments may be required. There can be no guarantee that the Company will be able to obtain or maintain all necessary approvals, licences and permits that may be required and/or that all project specific governmental decrees and/or required legislative enactments will be forthcoming to explore and develop the properties on which it has exploration rights, commence construction or operation of mining facilities or to maintain continued operations that economically justify the costs involved.

Political Risk

The Company is conducting its exploration activities solely in the Russian Federation. The Directors are hopeful that the State will support the development of natural resources by foreign operators, but there have been cases of mineral licences being revoked in the past. There can be no assurance that future political and economic conditions in the Russian Federation will not result in the State adopting different policies in relation to foreign development and ownership of mineral resources. Any such changes in policy may result in changes in laws affecting ownership of assets, taxation, rates of exchange, environmental protection, labour relations, repatriation of income, return of capital and other areas, each of which may affect both the Company's ability to undertake exploration and development activities in respect of future properties in the manner currently contemplated, as well as its ability to continue to explore and develop those properties in respect of which it has obtained exploration and development rights.

Limitations on Foreign Control of Mining Companies, Expropriation and Nationalisation

There are no restrictions on the foreign ownership of mining companies in the Russian Federation. However, there can be no assurance that legal requirements as to the foreign ownership and control of mining companies in this jurisdiction will not change.

The Russian Government has enacted legislation to protect foreign investment and other property against expropriation and nationalisation to the effect that the provision of fair compensation is payable if these actions are taken. However, there is no absolute assurance that this legislation would be enforced.

Holding Company Structure

The Russian Civil Code and Federal Laws on joint-stock companies and limited liability companies provide that the shareholders in a Russian company are not liable for the obligations of the company but bear the risk of the loss of their investment. However, this situation may not apply when a parent company determines the decisions made by a subordinate company. The parent company may bear joint and several liability for any transactions carried out or debts incurred by the subordinate as a result of those decisions.

Economic, Political, Judicial, Administrative, Taxation or Other Regulatory Factors

The Group may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors, in the Russian Federation.

Since the 1998 Russian debt crisis, the investment risk profile in the Russian Federation is thought to have gradually improved. However, although steps have been taken to strengthen the legal and tax regimes including those applicable to foreign companies and to facilitate currency movements, there remain areas of uncertainty in the legislation and its interpretation and in relation to the enforcement of judgements.

Risks relating to Russian Legislation and the Russian Legal System

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity and could have a material adverse effect on the Group's business and the value of the Ordinary Shares.

The Russian Federation is still developing the legal framework required to support a market economy. The following risks relating to the Russian legal system create uncertainties with respect to the legal and business decisions that the Group makes, many of which do not exist in countries with more developed market economies:

- inconsistencies among (1) federal laws; (2) decrees, orders and regulations issued by the president, the government and federal ministries; and (3) regional and local laws, rules and regulations;
- the lack of judicial and administrative guidance on interpreting Russian legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing regulations;
- the relative inexperience of judges and courts in interpreting Russian legislation;
- alleged corruption within the judiciary and the governmental authorities;
- a high degree of unchecked discretion on the part of governmental authorities;
- a problematic and time-consuming enforcement of both Russian and non-Russian judicial orders;

- new licensing legislation is expected to be introduced in 2006 which may materially change the current licensing regime and potentially create additional obligations for existing licence holders; and
- bankruptcy procedures that are not well developed and are subject to abuse.

Governmental authorities have a high degree of discretion in Russia and at times act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law or influenced by political or commercial considerations. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions.

The State has enacted legislation to protect foreign investment and other property against expropriation and nationalisation. In the event that such property is expropriated or nationalised, legislation provides for fair compensation. However, there is no assurance that such protections would be enforced. This uncertainty is due to several factors, including:

- the apparent lack of political will to enforce legislation to protect property against expropriation and nationalisation;
- the lack of an independent judiciary and insufficient mechanisms to enforce judgments; and
- alleged corruption among government officials.

Diamond Prices

The profitability of any diamond mining operations in which the Company may ultimately have an interest will be significantly affected by changes in the market price of rough diamonds. Rough diamond prices were not historically subject to short-term fluctuations on a daily or monthly basis because of the single-channel marketing employed by De Beers. The advent of other suppliers of goods to the market, from the mid 1990's onwards, has seen a decrease in De Beers' market share but little adverse change to a sustained annual increase in the average price of rough diamonds. However, prices have varied and do vary for different sizes and qualities of diamonds, dependent ultimately upon consumer demand for polished goods. This demand, driven by many variables including personal sentiment, marketing spend and acceptable profit margins, influences the price relationship between rough and polished diamonds in a complex manner.

The availability of a ready market for rough diamonds to be sold by the Company depends upon numerous factors beyond the Company's control, the exact effects of which cannot be accurately predicted. These factors include inter alia: general economic activity, world diamond prices, action taken by other producing countries or business entities, speculative activity, the availability and pricing of other substitute minerals, and the extent of governmental regulation and taxation. The aggregate effect of these factors is impossible to predict.

There is also uncertainty as to the possibility of increases in world production both from existing mines, from proposed mines and as a result of mines currently closed being reopened in the future if price increases make such projects economic. As a result of the above factors, price forecasting can be difficult to predict and imprecise, although there are independent organisations with a significant level of expertise in the commodity who provide such predictive modelling services.

Competition

The diamond exploration and mining business is highly competitive in all of its phases. The Company competes with numerous other companies, enterprises and individuals, including those with greater financial, technical and other resources than the Company, in the search for and acquisition of exploration and development rights on attractive mineral properties. The Company's ability to acquire exploration and development rights on properties in the future will depend not only on its ability to develop the properties on which it currently has exploration rights, but also on its ability to select and acquire exploration and development rights on additional suitable properties. There is no assurance that the Company will continue to be able to compete successfully in acquiring exploration and development rights on such properties.

Environmental Factors

The Company's operations are subject to environmental regulation (including regular environmental impact assessments and the requirement to obtain and maintain certain permits) in all the jurisdictions in which it operates. Such regulation covers a wide variety of matters, including, without limitation, prevention of waste, pollution and protection of the environment, labour regulations and health and safety. The Company may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations. Environmental legislation and permitting requirements are likely to evolve in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors and employees.

Nature of Mineral Exploration and Mining

The exploration and development of mineral deposits involves significant financial risks over a prolonged period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. While discovery of a mineral deposit may result in substantial rewards, few properties that are explored are ultimately developed into economically viable operating mines. Major expenditure may be required to establish reserves by drilling and in constructing mining and processing facilities at a site, and it is possible that due diligence will result in adverse conclusions, leading to the abandonment of projects. It is impossible to ensure that preliminary feasibility studies or full feasibility studies on the Company's projects or the current or proposed exploration programmes on any of the properties in which the Company has exploration rights will result in a profitable commercial mining operation.

The Company's operations are subject to all of the hazards and risks normally associated with the exploration, development and production of diamonds, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all such damage caused. The Company's activities may be subject to prolonged disruptions due to weather conditions depending on the location of operations in which the Company has interests. Hazards, such as flooding or other conditions may be encountered in the drilling and removal of material.

In addition, the potential costs that could be associated with compliance with applicable laws and regulations may also cause substantial delays and require significant capital outlays, adversely affecting the Company's earning and competitive position in the future and, potentially, its financial position.

Whether a diamond deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit (such as its size, grade and average diamond value), proximity to infrastructure, financing costs and governmental regulations (including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of precious stones and environmental protection). The effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Key Personnel

The Company relies on a limited number of key employees. However, there is no assurance that the Company will be able to retain such key executives or other senior management. If such personnel do not remain active in the Company's business, its operations could be adversely affected. In addition, Everfor may find it difficult to recruit new executives and employees.

Projects

Exploration programmes entail risks relating to the location of economic ore bodies and diamondiferous kimberlite or gravels, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and regulatory approvals, and the timely completion of capital projects, including the construction of mining and processing facilities at mining sites.

Currency Risk

The Company's funds are raised in British pounds sterling and costs are incurred principally in United States dollars and Russian roubles as well as British pounds sterling. Any significant or sustained appreciation of the United States dollar or Russian rouble against the British pound could have a material impact on the Company's finances.

Uninsured Risks

The Company, as a participant in exploration programmes, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. While the Company may obtain insurance against certain risks in such amounts as it considers adequate, the nature of these risks are such that liabilities could exceed policy limits or that certain risks could be excluded from coverage. The potential costs that could be associated with any liabilities not covered by insurance which may be, but is not, taken out or in excess of insurance coverage actually taken out may cause substantial delays and require significant capital outlays, adversely affecting the Company's earning and competitive position in the future and, potentially, its financial position. The Company may incur a liability to third parties (in excess of any insurance cover) arising from pollution or other damage or injury.

Areas of Investment Risk

The share prices of publicly quoted companies may be volatile. The price of shares is dependent upon a number of factors some of which are general, market or sector specific and others that are specific to the Company.

It is the intention that the Company's shares will not be listed on the Official List of the UK Listing Authority and although application will be made for the Ordinary Shares to be traded on AIM, this should not be taken as implying that there will always be a liquid market in them. In addition, the market for shares in smaller public companies is less liquid than for larger public companies. Therefore an investment in the Company's shares may be difficult to realise and the share price may be subject to greater fluctuations than might otherwise be the case. An investment in shares quoted on AIM may carry a higher risk than an investment in shares quoted on the Official List. AIM has been in existence since June 1995 but its future success and liquidity in the market for the Company's shares cannot be guaranteed. Investors should be aware that the value of the Company's shares may be volatile and may go down as well as up and investors may not recover their original investment.

The market price of the Ordinary Shares may not reflect the underlying value of the Company's net assets or future cash flows. The price at which investors may dispose of their Ordinary Shares may be influenced by a number of factors, some of which may pertain to the Company and others of which are extraneous. On any disposal of their shares investors may realise less than the original amount invested.

Market Perception

Market perception of small mining exploration companies may change which could impact on the value of investors' holdings and impact on the ability of the Company to raise further funds by issue of further Ordinary Shares.

PART III - COMPETENT PERSON'S REPORT

Set out below is the full text of a report by SRK on the Group's mineral properties.

INDEPENDENT TECHNICAL REVIEW OF EVERFOR DIAMONDS PLC's EXPLORATION ASSETS IN THE KOLA PENNINSULA

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Dear Sirs

EXECUTIVE SUMMARY

This report comprises SRK Consulting (UK) Ltd (SRK)'s independent technical review of the assets held by Everfor Diamonds PLC (Everfor) and has been produced in connection with Everfor's proposed admission to the Alternative Investment Market of the London Stock Exchange (AIM).

The company's main focus of kimberlite exploration interests lies in the Kola Peninsula, in the northwest region of the Russian Federation, where the company was granted diamond prospecting rights to four licence areas in March 2004 which are valid to March 2009. Key information regarding the licence areas is summarised in the table below.

Asset	Holder	Everfor Interest	Status	Expiry Date	Licence Area (km ²)	Comments
Pulongskaya	Keiv	80%	Exploration	March 2009	2,300	Geochemical Sampling and Geophysics
Varzugskaya	Kola	80%	Exploration	March 2009	4,500	Geochemical Sampling and Geophysics
Ermakovskaya	Olenegorskaya	80%	Exploration	March 2009	2,100	Geochemical Sampling and Geophysics
Tulomo-Teriberskaya	Keiv	80%	Exploration	March 2009	3,800	Geochemical Sampling and Geophysics

Fieldwork completed by Everfor to date has comprised glacial till and stream sediment sampling and sample processing, which has yielded diamond indicator minerals. By the end of 2005, a limited amount of drilling and four airborne geophysical surveys had also been commissioned and completed. The interpretation of data from all of the above work has enabled some 40 high priority targets to be identified which will be the subject of follow up investigation through drilling during 2006.

The work undertaken to date to explore the Everfor licence areas is appropriate to the geology, has been completed by experienced geologists and support staff and the steps taken in the preliminary stages of exploration are logical and reasonable.

Kimberlites are believed to occur in clusters and the demonstrated presence of two diamondiferous kimberlites on the Ermakovskaya licence is an indication of the high prospectivity of the area.

SRK has reviewed the exploration programme developed by Everfor for the 2006/7 field season and considers this to be justified by the available data and the budgeted expenditure for this work to be both

appropriate given the specific work planned. While further geochemical sampling may be required to better delineate targets in the Varzugskaya and Tulomo-Teriberskaya licences, further drilling with better equipment than that used previously is the appropriate next stage in the exploration of the Pulongskaya and Ermakovskaya licences.

SRK's opinion is that Everfor's diamond licences in the Kola Peninsula have the potential to host kimberlites, and that further work is certainly justified to explore this region further. While there is no guarantee that kimberlites will be discovered during the coming year, the targets identified justify drilling and there is therefore a reasonable chance of this.

INTRODUCTION

Background

This report comprises SRK Consulting (UK) Ltd's (SRK) independent technical review of the assets held by Everfor Diamonds PLC (Everfor) and certain subsidiary companies of Everfor (subsidiaries), and the requirements of its exploration permits, and has been produced in connection with Everfor's proposed admission to the Alternative Investment Market of the London Stock Exchange (AIM). In this report, references to "Everfor" or "the Company" shall include the subsidiaries where the context so permits.

The company's main focus of kimberlite exploration interest lies in the Kola Peninsula, in the northwest region of the Russian Federation, where the company was granted diamond prospecting rights to four licence areas in March 2004. These areas are shown in Figure 1.

Fieldwork completed by Everfor to date has comprised glacial till and stream sediment sampling and sample processing, which has yielded diamond indicator minerals. By the end of 2005, a limited amount of drilling and four airborne geophysical surveys had also been commissioned and completed. The interpretation of data from all of the above work has enabled some 40 high priority targets to be identified which will be the subject of follow up investigation through drilling during 2006.

Basis of opinion

This report is based on:-

- a review of regional geology of the Kola Peninsula, and the diamond potential of the area, as well as results of geochemical sampling inclusive of microprobe analyses, and access to previous and current airborne geophysical data sets;
- meetings with Central Kola Expedition (CKE) geologists based in Monchegorsk during a site visit in April 2005;
- a visit to the sample processing and analysis MSA Laboratory in Johannesburg to review the laboratory procedures used to process the stream sediment and till samples;
- a review of Everfor's planned exploration programme and budgeted expenditure to March 2007;
- access to geologist's field notebooks, and;
- a review of the geochemistry of Kimberlitic Indicator Minerals (KIM) recovered from previous sampling programmes.

Most of the information used to create this report was sourced from discussions with directors and employees of Everfor at its London and Monchegorsk offices.

While SRK has reviewed the exploration permits to assess the extent to which these may influence the technical status and development of the asset and also to understand the technical requirements of these, SRK has not undertaken a legal due diligence study such as would be required to confirm that all statutory consents are in force and current.

Qualifications of Consultant

SRK is part of an international group (the SRK Group) which comprises over 500 professional staff offering expertise in a wide range of engineering disciplines.

The SRK Group's independence is ensured by the fact that it holds no equity in any project and that its ownership rests solely with its staff. The SRK Group has a demonstrated track record in undertaking

independent assessments of exploration and in preparing competent person's reports and independent feasibility evaluations on behalf of exploration and mining companies and financial institutions worldwide. The SRK Group also has specific experience in both diamond exploration and evaluation and transactions of this nature.

This report has been prepared by a team of four consultants based at the SRK Group offices in Cardiff (United Kingdom) and Johannesburg (South Africa). These consultants are specialists in the fields of exploration, diamond geology and resource estimation and classification.

Neither SRK nor any of its employees employed in the preparation of this report has any beneficial interest in the assets of Everfor. SRK will be paid a fee for this work in accordance with normal professional consulting practice.

The individuals responsible for this report, listed below, have extensive experience in the mining industry and are members in good standing of appropriate professional institutions.

- Mike Armitage, CEng, CGeol, MIMMM, PhD;
- Gareth O'Donovan, FIMMM, CEng, MSc;
- Mike Robertson MSc, MSAIMM, MSEG
- Ben Green, MSc.

LICENCE/LOCATION

The Kola Peninsula lies in the far north-western Russian Federation between the Barents Sea and the White Sea and partly within the Arctic Circle. Administratively, it forms part of Murmansk Oblast, covers an area of some 129,500 km² and has a population of 1.3 million. The port of Murmansk and the mining centre of Kirovsk are the chief cities. In the northeast are tundras; the southwest is forested. To the northwest the low-lying granite plateau adjoins Norway's thinly populated county of Finn Mark.

Access to the exploration area is via a commercial air carrier from Moscow to Murmansk. Much of the area is only accessible by helicopter and foot. Environmental regulations restrict the use of tracked vehicles. Working conditions are constrained by a severe climate and a lack of daylight in the polar winter, which restricts the field season to between approximately March and September.

As shown in Figure 2, the prospects occur in two different areas. The Pulongskaya, Varzugskaya and Ermakovskaya licences are all located to the south and southeast of the Kola Peninsula. This area is generally low lying with elevations of between 20m and 220m. To the south east (Pulongskaya) the area is highly forested, whereas to the south of the Peninsula (Ermanskaya and Varzugskaya) the region hosts many shallow lakes and swampy areas.

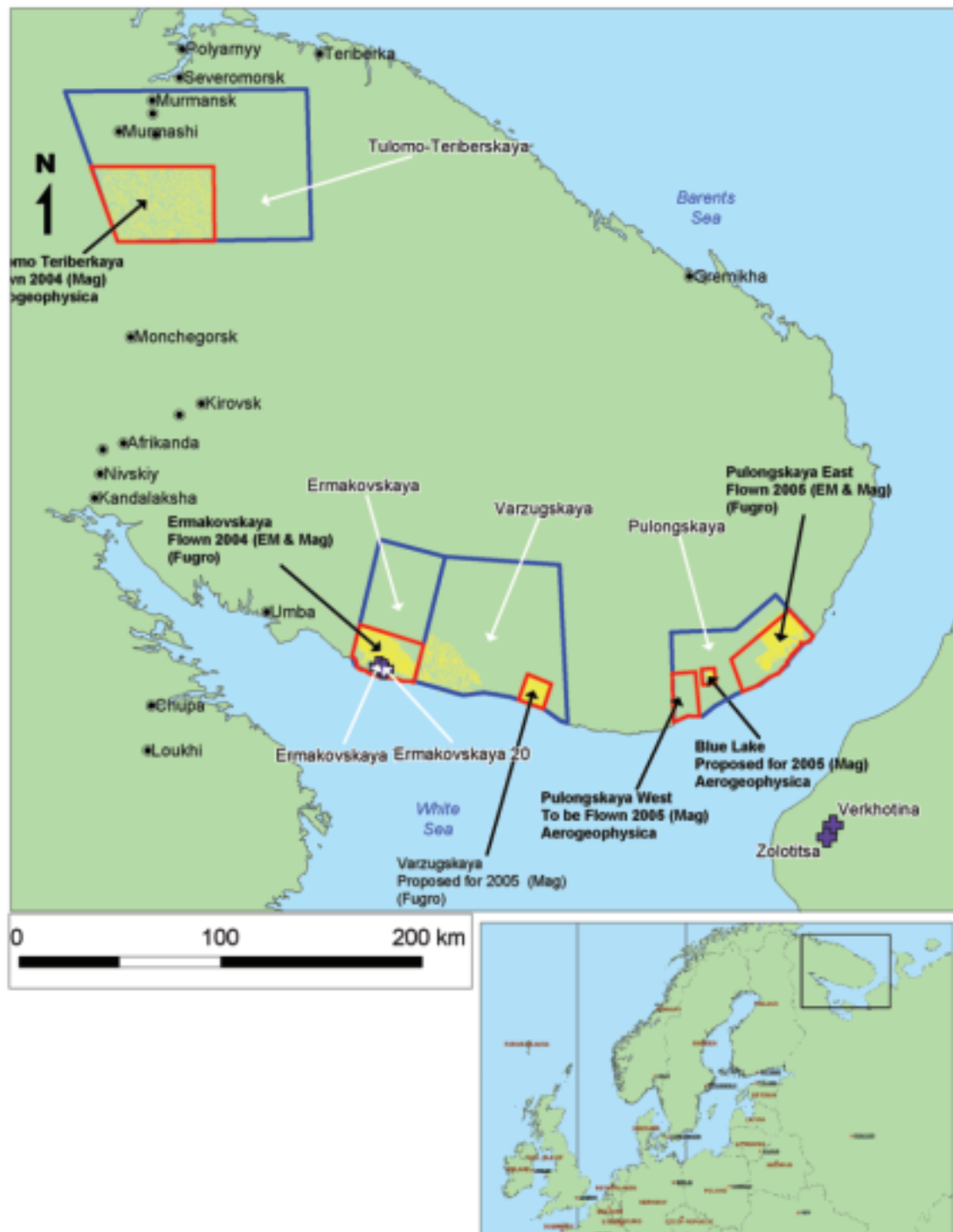
The Tulomo-Teriberskaya licence area is found in the northwest part of the Kola Peninsula, in the Murmansk region. The relief here is higher than in the south but still relatively low lying, with elevations between 280m and 480m.

The licences held by Everfor are valid for a 5 year period for the sole purpose of diamond exploration. Conditions of specified work such as sampling, geophysical surveys and drilling apply to the licence permit. If these conditions are met then an application can be made to extend the exploration permit for a further 5 years. There is no relinquishment of land necessary during the tenure. Following the exploration permit, a 25 year mining licence can be applied for. There is no guarantee that the mining licence will be awarded.

BACKGROUND TO DIAMOND EXPLORATION

Diamonds are an allotrope of carbon that forms at pressures and temperatures found at depths of greater than 150km below the surface of the earth and in association with rocks of eclogite and peridotite mineralogy and textures. Primary diamond exploration is therefore focussed on locating areas where magma formed at this depth has been disrupted by deep seated structural features which have enabled this magma to be transported sufficiently near to the surface for the diamonds within it to be explored and exploited.

Magmas formed at this depth, however, have varying compositions and only a relatively small proportion contain diamonds. The composition type that has been shown to have most potential to host diamonds is known as kimberlite.



MARCH 2006

PROJ. No U2372

EVERFOR DIAMONDS

SRK Consulting
Engineers and Scientists

Location Plan

Fig 1

Deep seated features and the presence of deep seated magma are not enough on their own to confirm the potential of an area to host diamonds. In addition to the fact that not all magma formed at this depth is kimberlitic in composition, not all kimberlites contain diamonds and not all diamond bearing kimberlites contain sufficient diamonds of sufficient size and quality for them to be economic to exploit.

Hardrock diamond exploration therefore follows a reasonably consistent sequential programme. The initial aim is to confirm whether or not rocks exist which have been formed at the correct pressures and temperatures (this is normally achieved through surface sampling and the identification of so called kimberlite indicator minerals or KIMs) and also the presence of deep seated structural features that could have allowed this material to be transported to surface (which is normally achieved through regional mapping and interpretation of geophysical data). Once a tectonically favourable area has been outlined, exploration moves on to locating individual kimberlite intrusives, pipes or dykes themselves and then finally onto assessing whether or not these are diamondiferous and, if diamondiferous, whether or not they contain sufficient diamonds of sufficient size and quality to be exploited commercially.

It is also worth noting that diamondiferous kimberlites tend to form in clusters. Once diamondiferous kimberlites have been reported in an area therefore, this tends to spark an increase in exploration activity which often results in the location of further diamondiferous kimberlites in relatively quick succession. In the case of the Kola Peninsula, the region is well established as an area with good diamond potential, with the Arkhangel'sk kimberlite province, located to the southeast, and more recently with the discovery of the two kimberlites found within the southern coastal boundary of Everfor's Ermakovskaya prospecting licence. Exploration in the southern part of the Peninsula since then has yielded no other diamond sources, although the approach over the past 20 years has been hampered by a lack of Government funds to the CKE. Most areas of the central and northern parts of the Peninsula have never been prospected for diamonds.

The reasons as to why kimberlites tend to occur in pipes and how these are formed is much debated but the generally accepted theory is that they are a result of volcanic eruptions above dyke swarms. These are thought to occur when the gas/vapour pressure exceeds the lithostatic load and this is followed by a rapid upward rush of magma in the form of a diatreme which explosively outcrops at surface before degassing and imploding to form a crater which self excavates, with each successive explosive unloading, to form a breccia pipe. The pipe is then filled with variable combinations of tuffs, re-worked sediments and debris flows of country rock and tuff in the upper part, tuff breccia in the explosion zone, and hypabyssal dyke and sill material below that. In some cases pipe excavation can be as deep as 4km. There is disagreement as to whether meteoric water/melt interaction or alternatively magmatic vapour and gases drive pipe formation in the first place but most likely it is a combination of both.

Exploration by Everfor within its four diamond prospecting licences has been ongoing since mid-2004. Although to date no diamonds or kimberlites have been identified by this exploration, preliminary sampling has recovered KIMs from all four licences, confirming that the host rocks from which these KIMs were derived formed at the appropriate temperatures and pressures for diamond formation.

LICENCE AREAS AND PREVIOUS WORK

Introduction

Although exploration work for diamonds has been undertaken in the southern part of the region for the past 20 years, coordinated mostly by the Russian Government-funded CKE, all of the licence areas granted to Everfor are in the early stages of exploration. The work completed has comprised regional KIM geochemical sampling, a limited amount of drilling, and both ground and airborne magnetic surveys.

While to date no economic diamond bearing kimberlites have been located, diamonds have historically been recovered from the Ermakovskaya 7 and Ermakovskaya 20 kimberlite pipes on the Tersky coast, in the Ermakovskaya licence area, although the grade was considered uneconomic based on the treated bulk sample. It is also worth noting that the Arkhangel'sk kimberlite province lying 150km to the south east of Everfor's easternmost Pulongskaya licence, hosts several known diamond-bearing kimberlites including the Verkhotina and Zolotitsa pipes.

The annual fee required to be paid to maintain the licences is some US\$5/km² which amounts to a total of some US\$63,500.



MARCH 2006

PROJ. No: U2732

EVERFOR DIAMONDS

Not to Scale



Diamond Occurrences of the Karel'ian Craton

Fig 2

Pulongskaya

The Pulongskaya licence lies in the southeast of the Kola Peninsula, and covers an area of 2,300 km². Since 1980, a number of stream sediment sampling programmes have been carried out over the area by the CKE but Everfor has limited confidence in sample results pre-1990 and consequently only 800 km² of the licence area, mostly in the east is considered to have been properly sampled. There are, however, reports of G10 pyrope garnet and occasional diamonds being recovered from stream sediment samples in the area, supporting the conclusion that this licence warrants further exploration.

An airborne magnetic survey was flown in 1986-87 over the entire current licence area, although only gridded digital data is currently available. Interpretations of both aerial photographs and the airborne data resulted in detailed ground magnetic surveys, which generated 30 drilling targets. A subsequent drilling campaign investigated these targets, with holes drilled 5 to 10 metres into bedrock. No kimberlites were discovered, although the overburden was not routinely sampled for indicator minerals, and not all the target anomalies were explained by the rocks encountered.

Ermakovskaya

The Ermakovskaya licence lies to the west of Varzugskaya in the southern part of the Kola Peninsula and covers an area of 2,100 km². As already commented above, two kimberlites (Ermakovskaya 7 which is a pipe and Ermakovskaya 20 which is a dyke) have already been discovered here both identified by magnetic anomalies from airborne geophysical surveys, flown in the late 1980's and later confirmed by follow up drilling. Mini bulk samples (55 t) were taken from the Ermakovskaya 7 pipe and processed for diamond content. The diamond recovery from the pipe was poor, and the grade is reported as being uneconomic, at about 2ct/ 100t. There are limited details on the diamond quality but the KIM's recovered from the samples were sent for chemical analysis and the results plotted onto standard mineralogical plots which confirm that they formed at similar temperature and pressure conditions to those in which diamond crystallises and is stable.

Varzugskaya

The Varzugskaya licence covers an area of 4,500 km² and lies in the southern part of the Kola Peninsula, to the east of the Ermakovskaya licence and approximately 135 kilometres to the west of Pulongskaya. During the mid to late 1980's the area was sampled by stream sediment and till sampling mostly in areas where the Riphean Sandstones occur. An airborne magnetic survey was flown over the area in 1985, and subsequent follow up work identified magnetic anomalies combined with limited KIMs recovered from sampling results. Drilling did not identify any kimberlitic material.

The location of this licence with respect to the Ermakovskaya area, and thus its proximity to the known kimberlites, gives the Varzugskaya significant potential exploration interest.

Tulomo-Teriberskaya

This area lies to the south of Murmansk and on both sides of the Murmansk-St Petersburg highway. It has a total area of 3,800 km² and it is essentially unprospected. On theoretical grounds, it ranks highly in ground prospective for diamonds. A recent alluvial discovery of diamonds near Murmansk, about which little is known except that approximately forty +0.3mm diamond fragments were recovered during a water-drilling programme, gives some credence to this theory.

GEOLOGICAL SETTING

Regional geology

The Kola Peninsula lies in the north eastern part of the Baltic Shield and forms part of the Archaean Karelian Craton which covers the Svecofennian and Sveconorwegian provinces, which make up a large part of Scandinavia, and the Karelian, Belomorian and Kola provinces, which are situated in NW Russia. The Kola province is further divided into several structural units, known as blocks or domains, consisting predominantly of gneiss and granite gneiss. The northernmost unit is the Murmansk block, consisting of late Archaean-age (2.83-2.6 Ga) granites. The southernmost unit, the White Sea (Belomorsk) granite-greenstone Block, is dated as late Archaean, 2.85-2.65 Ga. In between these units is the Kolmozero-Voronja mobile belt, consisting of elongated terrains of different rock types and lithologies, ranging from 3.03 to 2.1 Ga. South of the Peninsula, the Belomorsk Blocks adjoin the Archaean Karelian Craton, known to host diamond-bearing intrusive rocks in the Archangel'sk province.

Structural Geology

Various deep seated structures, offering potential intrusion pathways, have been described over the area: north-south lineaments and northwest-southeast trending horst and graben structures, which are noted in the Archangel'sk Diamond fields, appear to be traceable across approximately 60 kilometres of the White Sea Throat into the Kola Peninsula. Geologically the two regions are separated by what has been interpreted to be a sinistral strike-slip fault, with the upthrow being to the western region of Archangel'sk. There does not appear to be any deep-seated vertical continuity to this crustal fault, as the depth of the Mohorovicic Discontinuity is apparently undisturbed by this feature.

Diamond Potential and Diamond Occurrences

The Kola Peninsula is highly prospective for diamond exploration due to its key structural and geological features which are considered greatly significant to both the injection of diamond-bearing rocks as well as the survival of the diamonds in the earth's crust. The specific geological characteristics of the Kola Peninsula and their relevance to the potential of diamond-bearing rocks are:

- A lithospheric thickness of 150-200km
- A low geothermal gradient of less than 40 mW/m²
- The occurrence of diamondiferous kimberlites within Archaean age host rocks
- The presence of deep faults which may provide pathways for kimberlite intrusion

The presence of the known diamond bearing kimberlites at Archangel'sk to the southeast, as well as the kimberlites found in Finland to the southwest of the Kola Peninsula are clear indicators of the exploration potential of the region. The Archangel'sk and Ermakovskaya kimberlites differ in age, with the Archangel'sk kimberlite province at 370Ma, and the Ermakovskaya kimberlite older at 420Ma.

EXPLORATION COMPLETED BY EVERFOR

Introduction

Everfor has used the warmer summer months of the field season (May- September) to take stream sediment and till samples, and then followed this up with a limited amount of drilling in the colder winter months (October – March) when the frozen ground makes accessing the target areas with drilling rigs easier. Specifically, Everfor has undertaken a significant amount of sampling on the prospective areas of each of the licences but has to date only drilled a limited number of anomalies all in the Ermakovskaya and Tulomo-Teriberskaya licences.

Geophysical Exploration

Geophysical work carried out by Everfor to date has consisted of the collation, and interpretation, of raw geophysical data from Pulongskaya. Following this, a series of grids were proposed for EM and Magnetics airborne surveys which were then completed. These are shown in Table 1 below.

Table 1: Geophysical airborne surveys completed over the Everfor Licences

Licence area	Previous Airborne Surveys	Completed Airborne Surveys-Everfor
Pulongskaya	Mag (1980's)	EM & Mag. (250km)
Varzugskaya	Mag (1980's)	–
Ermakovskaya	Mag (1980's)	EM & Mag
Tulomo-Teriberskaya	–	Mag

The selection of targets for follow up geochemical sampling is based on examining geophysical anomalies and assigning a priority ranking system based on the electromagnetic or magnetic signature.

Geochemical Sampling

Sampling began in May 2004 in the Pulongskaya licence. Most of the previous sampling in the area was confined to stream sediment sampling. Everfor has collected some further stream samples but has concentrated rather on collecting samples from glacial till to infill areas between streams with 500m x 1000m sample grids. Table 2 below shows the numbers of samples taken from each area by Everfor to date.

At Ermakovskaya, the bulk of the work prior to Everfor's involvement was focussed on and around the kimberlites to the south of the licence. Everfor's sampling has therefore covered ground to the West, North and East of this part of the licence, again utilising both stream sediment and till sampling techniques. The sample spacing was the same as at Pulongskaya (500 x 1000m lines sample grids).

Due to limited confidence in the sampling of the neighbouring Varzugskaya licence prior to 2004, a reconnaissance approach was adopted. The area has more glacial cover than Pulongskaya and fewer drainages, so sampling focussed on the interfluvial areas. Initially, sampling began in the south-west, the area closest to Ermakovskaya, and moved eastwards and northwards. The samples were taken on a 2km x 1km grid, with stream sediment samples taken as infill samples.

A similar reconnaissance approach to that of Varzugskaya was used for the Tulomo-Teriberskaya licence, with sample spacing of 2km x 2km grids.

Most of the sampling undertaken during the 2004 field season was undertaken over large areas on relatively wide spaced grids while that completed during the 2005 field season was concentrated rather in some thirty smaller areas where the results from the previous season were most promising.

Table 2: Samples taken from the Everfor Licences in 2004-5

Licence area	Stream sediment	Till
Pulongskaya	202	1,406
Varzugskaya	171	1,024
Ermakovskaya	80	1,546
Tulomo-Teriberskaya	13	1,142
Total	466	5,118

Till sampling has been generally carried out in lines orientated perpendicular to the direction of local ice movements, the sample and line spacing being dependent on the available survey scale and the quality of any previous sampling programmes. Basic mapping has been carried out around each sample to identify glacial features, and ice direction.

The depth of sample is generally 0.1m to 1m. Each sample comprises of approximately 20 litres of material in the size fraction of -4.0mm +0.1mm. It is then "treated" by panning in the field to reduce the sample volume. The panning process removes the bulk of the lower density matter such as quartz (SG 2.65), leaving behind a concentrate of heavy mineral grains. KIMs have densities ranging from SG 3.5 - 4.7. The concentrate sample weighs between 0.6 and 2 kilograms, the average sample mass for the Everfor samples submitted to the processing laboratory was typically 1.25 kg. The oversize material (+4mm) is examined by the exploration geologist for the presence of visible indicator minerals and diamonds before discarding.

This work has been supplemented by Multi-element ICP analysis aimed at determining whether or not the samples are elevated in elements that tend to be similarly elevated in kimberlites, including for example nickel, chrome, cobalt, vanadium and magnesium.

Sample Processing

The 3071 stream sediment and till samples collected during the 2004 field season from the four licence areas (average sample weight of 1.25kg) were dispatched during August and September of 2004, to the MSA laboratories in Johannesburg in South Africa. Approximately 600 priority samples collected during the 2005 field season have now also been submitted for which visual results are available. The remaining 1900 samples remain to be dispatched.

MSA was established in 1983 and has been conducting diamond exploration services, including processing of diamond exploration samples, since 1992. MSA uses jigging and heavy liquid separation to concentrate heavy mineral indicators. Screening and jigging is undertaken at a new MSA facility in Mokopane, while heavy liquid separation is outsourced to Set Point Laboratories in Johannesburg. Set Point is an ISO17025 and SANAS (South Africa National Accreditation System) accredited laboratory. Both the MSA and Set Point facilities were visited by SRK as part of this commission and a review of analytical procedures undertaken.

The following sample handling and analytical procedures have been adopted by MSA and Set Point for the Everfor programme:

MSA

- Samples received from Everfor are checked and rebagged if necessary.

Set Point

- Samples received are checked and weighed, and are treated in sequential order.
- Dedicated facilities are used for processing of diamond exploration samples.
- Heavy liquid separation using tetra-bromo-ethane (TBE, SG = 2.96) is carried out to produce a heavy mineral concentrate (HMC):
 - A 5 litre funnel is two thirds filled with TBE,
 - A maximum 500g of sample is poured into each funnel,
 - Samples are stirred; heavies allowed to settle and then tapped off into a beaker. This process is repeated 3 times at 15 minute intervals.
- TBE separation is followed by an acetone wash to remove TBE, an oxalic acid wash at 65°C for 30 minutes to remove coatings on grains, and a rinse in water.
- The resulting heavy mineral separate is then weighed.
- A magnetic fraction is recovered using a hand magnet of specific magnetic flux (1000-2000 gauss).
- The remaining HMC is fed through an Eriez magnetic separator using a specified feeder vibration and a permanent magnet at 9150 gauss to produce a para-magnetic and non-magnetic fraction.
- The various resulting fractions are weighed and dispatched to MSA.

MSA

- Observation of the various fractions is carried out at MSA by visual picking of indicator grains, using a binocular microscope.
- Samples are first screened to the required size fractions (1.18mm 0.6mm and 0.3mm),
- KIMs are picked and are carefully mounted and numbered on grain cards.
- Detailed descriptions of the colour, shape and surface textures of grains are described,
- Electron microprobe analysis is carried out at Mintek, on grains selected by MSA.
- Sample data are recorded on standard forms and captured into a customized Access database.

Finally, a rigorous quality assurance and quality control (QA/QC) protocol is implemented by MSA. Notably:-

- Samples are treated in sequential order.
- The system is “flushed” between jobs.
- Original sample tags follow the samples throughout the process.
- The Set Point laboratory is audited regularly by MSA through unannounced visits.
- One in ten samples are spiked with tracers to monitor TBE recoveries (recoveries greater than 95 per cent).
- 20 per cent of HMC samples are resorted and re-picked.
- Spiked standard samples are introduced to check the entire system.
- A documented sample chain of custody is followed to ensure that samples, sample numbers and batches of samples cannot get mixed up and that samples are secured from tampering and contamination.

SRK is satisfied with both the methodologies employed and that appropriate quality control measures are in place to ensure the integrity of the analytical process.

Geochemical Sampling results

The physical nature and geochemistry of the KIMs identified within the samples collected from all four licence areas is sufficient to enable SRK to confirm that these have most likely been sourced from rocks which formed at temperatures and pressures conducive to diamond formation. Further, most notably in the Pulongskaya and Ermakovskaya licences, clusters of these KIMs have been identified in the vicinity of targets identified by the geophysical exploration also completed by Everfor. Together with the geophysical results, therefore, this work has enabled Everfor to identify targets which would now be best further explored through drilling.

Diamond Drilling

The limited diamond drilling completed by Everfor to date has been hampered by the use of poor drilling equipment. As a result only some seven drillholes were attempted during the 2005 field season none of which penetrated through to the target basement rocks in the high priority areas. SRK understands that the drilling contractor has refurbished its existing rigs and purchased a new rig so the problems experienced in 2005 should not be repeated in 2006.

SRK Comments

The work undertaken to date to explore the Everfor licence areas is appropriate to the geology, has been completed by experienced geologists and support staff and has followed a logical and reasonable programme.

Kimberlites are believed to occur in clusters and the demonstrated presence of two diamondiferous kimberlites on the Ermakovskaya licence is an indication of the high prospectivity of the area.

Analytical work undertaken on geochemical samples collected by Everfor has revealed KIMs with a geochemical composition consistent with the pressure and temperature regime required for the formation of diamondiferous kimberlites.

While further geochemical sampling may be required to better delineate targets in the Varzugskaya and Tulomo-Teriberskaya licences, further drilling, with better equipment than that used previously, is the appropriate next stage in the exploration of the Pulongskaya and Ermakovskaya licences.

PLANNED EXPLORATION

Planned Work

The prospect ranking carried out by Everfor, and now being used to target the next phase of drilling, has based largely on geophysical interpretations and KIM descriptions supplemented by multigrain ICP probe data of the KIMs. Some 40 drilling targets have been identified in this manner and will be drilled during the coming 2006 field season. It is worth noting however that the kimberlites discovered in the Ermakovskaya licence in the late 1980's would not be classed as the highest priority targets given the data then available.

The 2006/7 programme prepared by Everfor comprises the drilling of some 40 anomalies aimed at proving the existence of kimberlites. Most of this drilling will be undertaken in the Pulongskaya and Ermakovskaya licences but a certain amount is also planned for the Tulomo-Teriberskaya licence. The work done in 2007/8 will clearly be dependent upon the results of the work done in 2006/7 but the likelihood is that this will involve more detailed drilling and also bulk sampling or trenching of potential kimberlites.

The budget for the planned work to the end of the drilling phase of March 2007 is just under US\$ 1 Million exclusive of head office/corporate costs. No budget has yet been prepared for 2007/8 as this will be dependent upon the results obtained during 2006/7.

SRK Comments

SRK has reviewed the exploration programme developed by Everfor for the 2006/7 field season and considers this to be justified by the available data and the budgeted expenditure for this work to be appropriate given the specific work planned.

CONCLUDING REMARKS

The Everfor prospects lie within a relatively untapped province that has already been demonstrated to host diamond-bearing kimberlites. Given that diamond-bearing kimberlites tend to occur in clusters, the licences owned by Everfor provide a good opportunity for further discoveries.

The geophysical and geochemical exploration work undertaken on the licence areas to date has been completed in a thorough and appropriate manner and, in combination with the microprobe data, has identified targets, some 40 of which are planned to be investigated by drilling during 2006.

SRK's opinion is that Everfor's diamond licences in the Kola Peninsula have the potential to host kimberlites, and that further work is justified to explore this region further. While there is no guarantee that kimberlites will be discovered during the coming year, the targets identified justify drilling and there is therefore a reasonable chance of this. SRK considers the work planned for the period to March 2007 and the estimated cost of this to be appropriate and justified.

For and on behalf of SRK Consulting (UK) Ltd

A handwritten signature in black ink, appearing to read 'Mike Armitage', written in a cursive style.

Dr Mike Armitage, C.Eng
Managing Director SRK (UK) Ltd

PART IV – FINANCIAL INFORMATION ON THE GROUP

Section A – Accountant’s report on the Group



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CHARTERED ACCOUNTANTS

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31 March 2006

The Directors
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Dear Sirs

Everfor Diamonds plc (the “Company”) and its subsidiaries (together, the “Group”)

Introduction

We report on the financial information set out in Section B of Part IV. This financial information has been prepared for inclusion in the admission document dated 31 March 2006 of Everfor Diamonds plc (the “Admission Document”) on the basis of the accounting policies set out in note 1 to the financial information. This report is required by paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

As described in Section B of Part IV, the directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with applicable UK accounting standards, as applicable for the relevant period.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Admission Document and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with 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 financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the 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 financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Group as at the date stated and of its consolidated losses, cash flows and recognised gains and losses for the period then ended in accordance with the basis of preparation set

out in note 1 to the financial information and has been prepared in accordance with applicable UK accounting standards, as described in note 1 to the financial information.

Declaration

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules, 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

Yours faithfully

BDO Stoy Hayward LLP
Chartered Accountants

SECTION B - FINANCIAL INFORMATION ON THE GROUP

Responsibility

The directors of the Company are responsible for preparing the financial information set out below on the basis of preparation set out in note 1 to the financial information and in accordance with applicable UK accounting standards, as applicable for the relevant period

Consolidated profit and loss account

		Period ended 31 December 2004 £000
	Notes	
Exploration expenses		(645)
Other administrative expenses		(684)
Total administrative expenses and operating loss	3	(1,329)
Net interest receivable and similar income	6	32
Loss on ordinary activities before taxation	2	(1,297)
Tax on loss from ordinary activities	7	–
Loss on ordinary activities after taxation		(1,297)
Minority interest		78
Retained loss for the financial period	16	(1,219)
Loss per share (basic and diluted)	8	(3.47)p

All amounts relate to continuing activities, which were acquired in the period.

Consolidated statement of total recognised losses

	Period ended 31 December 2004 £000
Loss for the financial period	(1,219)
Foreign exchange differences	(9)
Total recognised losses for the period	<u>(1,228)</u>

Consolidated balance sheet

	As at 31 December 2004 £000	
Fixed assets		Notes
Intangible fixed assets	3,182	9
Tangible fixed assets	6	10
	<u>3,188</u>	
Current assets		
Debtors	89	12
Cash at bank and in hand	1,808	
	<u>1,897</u>	
Creditors: amounts falling due within one year	(102)	13
Net current assets	<u>1,795</u>	
Total assets less current liabilities	<u>4,983</u>	
Capital and reserves		
Called up share capital	581	15
Share premium account	3,122	16
Merger reserve	1,950	16
Profit and loss account - deficit	(1,228)	16
Total equity shareholders' funds	<u>4,425</u>	17
Minority interests (equity)	558	
	<u>4,983</u>	

Consolidated cash flow statement

		Period ended 31 December 2004 £000
	Notes	
Net cash outflow from operating activities	22	(1,276)
Returns on investments and servicing of finance		
Interest received		32
Capital expenditure and financial investment		
Purchase of tangible fixed assets		(7)
Acquisitions and disposals		
Purchase of subsidiary undertakings	18	(305)
Cash outflow before management of liquid resources and financing		(1,556)
Management of liquid resources		
Movement on deposits		(60)
Financing		
Issue of ordinary share capital		3,403
Increase in cash for the period	23	1,787

Notes to the financial information

1 Accounting policies

Basis of preparation

The financial information has been prepared in accordance with currently applicable accounting standards in the United Kingdom, which have been applied consistently, and under the historical cost convention.

The Company was incorporated as Everfor Diamonds plc on 26 January 2004.

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information:

Basis of consolidation

Everfor Diamonds plc, together with its subsidiaries as listed in note 11, is a diamond exploration group that is focussed on opportunities in the territories in the former Soviet Union.

The consolidated financial information incorporates the results of Everfor Diamonds plc and all of its subsidiaries as at 31 December 2004 using the acquisition method of accounting as required. Under the acquisition method, the results of the subsidiary undertaking are included from the date of acquisition.

Goodwill

Goodwill arising on acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired.

Fixed asset investments

Investments held as fixed assets are stated at cost less provision for any impairment to their carrying value.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each assets over its expected useful economic life, as follows:

Office and computer equipment	–	3 to 5 years on a straight line basis
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Mining rights and deferred exploration

Initial exploration and other expenditure incurred in relation to the project areas to which the licences and rights relate are charged to the profit and loss account in the period in which they are incurred. When a project reaches a stage whereby a positive assessment of its economic viability can be reasonably determined, then to the extent that they are recoverable, all further exploration and development costs are carried forward as an asset in the balance sheet.

Costs on productive areas are amortised over the life of the area of interest to which such costs relate on a unit of production output basis.

Environmental provisions

Appropriate and adequate provision is made for rehabilitation costs over the estimated period of exploration activity. As at 31 December 2004, no environmental damage had occurred and hence no provisions exist.

Operating leases

Amounts payable under operating leases are charged against income on a straight-line basis over the lease term.

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken to the profit and

loss account as they arise. Results of overseas subsidiaries and their balance sheets are translated at the period end rate. Exchange differences which arise from the translation of the opening net assets of foreign subsidiaries are taken to reserves.

Deferred taxation

FRS 19 'Deferred tax' requires deferred taxation to be recognised in full in respect of transactions or events that have taken place by the balance sheet date and which could give rise to an obligation to pay more or less taxation in the future. Deferred tax assets are only recognised to the extent they are deemed recoverable. The Group has chosen not to discount deferred tax balances, as permitted by FRS 19.

Financial instruments

In relation to the disclosures made in note 14:

short term debtors and creditors are not treated as financial assets or financial liabilities except for the currency disclosures; and

the Group does not hold or issue derivative financial instruments for trading purposes.

Share based employee remuneration

When shares and share options are awarded to employees, a charge is made to the profit and loss account based on the difference between the market value of the Company's shares at the date of grant and the option exercise price in accordance with UITF Abstract 17 (Revised 2004) 'Employee Share Schemes'.

Liquid resources

For the purposes of the cash flow statement, liquid resources are defined as short term deposits.

2 Segmental analysis

Period ended 31 December 2004

	Loss before tax £000	Net assets £000
<i>Analysis by geographical mark by origin:</i>		
United Kingdom and Channel Islands	(906)	2,000
Russia	(391)	2,983
	<u>(1,297)</u>	<u>4,983</u>

All losses and net assets relate to the Group's principal activity of diamond exploration.

3 Operating loss

This is arrived at after charging:

	Period ended 31 December 2004 £000
Depreciation of tangible fixed assets	1
Auditors' remuneration – audit (Company £19,250)	31

Fees paid to auditors in respect of other services were £5,500 which related to assurance services relating to the Group's admission to Ofex.

4 Employees

The average number of persons (including executive directors) employed by the Group during the period was:

	Period ended 31 December 2004 Number
Technical	4
Administration	11
	<hr/>
	15
	<hr/>

Staff costs for all employees, including executive directors, consist of:

	Period ended 31 December 2004 £000
Directors' fees and emoluments	293
Wages and salaries - staff costs	74
Social security costs	20
	<hr/>
	387
	<hr/>

5 Directors

	Period ended 31 December 2004 £000
Directors' emoluments	293
	<hr/>

The highest paid director received emoluments totalling £128,625.

No retirement benefits are accruing to directors under pension schemes.

	Basic salary/fees £000
Period ended 31 December 2004	
Sergey Kurzin	129
Donald Duncan ¹	61
Geoffrey Bush	3
Stephen Dattels	100
	<hr/>
	293
	<hr/>

Note 1 - includes £19,625 of fees paid to Duncan Geological Consulting, of which £5,000 was settled by the issue of 500,000 ordinary shares in the Company.

The share options of the directors under the Everfor Diamonds plc unapproved share option plan at 31 December 2004 are set out below:

		Granted	Options at		First date of	Final date of
	Date of grant	Number	31 December	Exercise price	exercise	exercise
			2004			
Sergey Kurzin	21 May 2004	1,000,000	1,000,000	15p	31 Dec 2004	31 Dec 2014
Donald Duncan	21 May 2004	1,000,000	1,000,000	15p	31 Dec 2004	31 Dec 2014
Geoffrey Bush	21 May 2004	400,000	400,000	15p	31 Dec 2004	31 Dec 2014
Stephen Dattels	21 May 2004	1,000,000	1,000,000	15p	31 Dec 2004	31 Dec 2014
		<u>3,400,000</u>	<u>3,400,000</u>			

No options were exercised during the period. No options lapsed during the period. The market price of the shares at 31 December 2004 was 17.25p. The market price of the shares in the period from the date the Company was registered on Ofex (15 October 2004) to 31 December 2004 ranged from 16.5p to 17.25p.

The right granted to subscribe for ordinary shares is exercisable up to 10 years from the date of grant with the right being exercisable in respect of one third of the ordinary shares to which it relates in each of the years 2004, 2005 and 2006.

Ordinary shares resulting from the exercise of any such rights will rank pari passu in all respects with the ordinary shares in issue at the time of such exercise

6 Net interest receivable and similar income

	Period ended 31 December 2004 £000
Bank interest receivable	<u>32</u>

7 Taxation

The Group has incurred tax losses for the period and a corporation tax charge is not anticipated. The potential benefit of these taxation losses, calculated at the rates of tax prevailing in the countries in which the losses were incurred, amount to approximately £269,000. This amount has not been recognised in the financial information as the recovery of this benefit is dependent on the future profitability of certain subsidiaries, the timing of which cannot be reasonably foreseen.

The directors believe that there have been no breaches of foreign tax regulations and that all necessary provisions have been made in these accounts.

No current or deferred tax charge has arisen in the current period.

The tax assessed for the period is different than the standard rate of corporation tax in the UK. The differences are explained below:

	Period ended 31 December 2004 £000
Loss on ordinary activities before taxation	(1,297)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30%	(389)
Effects of:	
Expenses not deductible for tax purposes	95
Effect of overseas tax rates	25
Losses carried forward	269
Current tax charge	–

8 Loss per share

The basic loss per share of 3.47 pence is calculated, in accordance with FRS14 (Earnings per Share), on a loss on ordinary activities of £1,219,000 and on 35,091,719 ordinary shares, being the weighted average number of ordinary shares in issue during the period ended 31 December 2004.

9 Intangible fixed assets

	Exploration and mining rights £000
Cost	
Acquired with subsidiaries (see note 18)	3,194
Exchange adjustments	(12)
Net book value as at 31 December 2004	3,182

10 Tangible fixed assets

	Office and computer equipment £000
Cost	
Additions and as at 31 December 2004	7
Depreciation	
Charge for the period and at 31 December 2004	1
Net book value	
At 31 December 2004	6

11 Fixed asset investments

The Group had the following subsidiary undertakings at the end of the period which have all have been included in the consolidated financial information:

Name	Country of incorporation	% Interest	Activity
Reynalda Holdings Limited	British Virgin Islands	100	Holding company
Edlin Finance Limited*	British Virgin Islands	100	Holding company
LLC Central Kola Mining & Geological Company**	Russia	80	Mining exploration
LLC Olenegorskaya Mining & Geological Company**	Russia	80	Mining exploration
LLC Mining & Geological Company Keiv**	Russia	80	Mining exploration

*Investment held by Reynalda Holdings Limited

**Investment held by Edlin Finance Limited

For all undertakings listed above, the country of operation is the same as its country of incorporation.

12 Debtors

	As at 31 December 2004 £000
Amounts falling due within one year:	
Other debtors	89

13 Creditors

Amounts falling due within one year

	As at 31 December 2004 £000
Trade creditors	57
Other creditors	1
Tax and social security creditor	22
Accruals and deferred income	22
	102

14 Financial instruments

The Group's financial instruments comprise cash and liquid resources and various items, such as accounts receivable and accounts payable, that arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

Interest rate risk profile and maturity analysis of financial assets

The following tables provide an analysis of the Group's interest rate risk in relation to its floating and fixed rate interest financial assets as at 31 December 2004 all of which fall due within one year. At 31 December 2004 there were no financial liabilities.

Floating rate financial assets

	As at 31 December 2004 £000
Currency	
Sterling	957
US Dollars	791
	<hr/>
	1,748
	<hr/>

In respect of floating rate assets, the interest rate is based on the bank base rate or LIBOR.

Fixed rate financial assets

	As at 31 December 2004 £000
Currency	
Sterling	60
	<hr/>
	<hr/>

The interest rate for the period was 2.90 per cent.

Borrowing facilities

The Group had no undrawn committed borrowing facilities available at 31 December 2004.

Currency exposures

In so far as is possible, the Group manages its foreign currency exposures by minimising cross currencies and retaining cash balances in strong, stable currencies. The monetary assets and liabilities of the Group as at the period end that are not denominated in the functional currency of the operating unit concerned are shown below:

	Net foreign currency monetary assets/(liabilities) held		
	US Dollar £000	Canadian Dollar £000	Australian Dollar £000
Functional currency of group operations			
UK Sterling	1,198	(4)	(16)
Russian Roubles	(419)	—	—
	<hr/>	<hr/>	<hr/>
	779	(4)	(16)
	<hr/>	<hr/>	<hr/>

Fair values of financial instruments

There are no material differences between the book value and the fair value of the Group's financial assets or liabilities.

15 Share capital

	Share capital No.	Share capital £000	Share premium £000	Merger reserve £000	Total £000
Authorised:					
Ordinary shares of 1p each	200,000,000	2,000			2,000
Issued and fully paid:					
Issued at par on incorporation	2,500,000	25	–	–	25
Issued at par on 22 March 2004	100,000	1	–	–	1
Issued at par on 25 March 2004	3,200,000	32	–	–	32
Issued at 15 pence per share 14 June 2004	19,613,334	196	2,746	–	2,942
Issued at 7.5 pence on 15 June 2004 (see note 18)	30,000,000	300	–	1,950	2,250
Issued at 15 pence per share 18 October 2004	2,685,957	27	376	–	403
	58,099,291	581	3,122	1,950	5,653

All shares were issued for cash consideration for the purpose of providing finance for the Group's exploration activities, except for the shares issued on 15 June 2004 as part consideration for the acquisition of Reynalda Holdings Limited. The directors estimate that the fair value of these shares at the date the consideration was agreed was 7.5p per share (see note 18).

Share warrants

On 14 October 2004 the Company executed a share warrant instrument issuing 250,000 warrants (the "Warrant") to Loeb Aron & Company Limited (the "Warrant Holder"), the principal terms of which are as follows:

- the price at which the Warrant shall be exercisable shall be 18p per share payable in full upon exercise;
- the Warrant granted is exercisable in whole or in part for a period of three years from 15 October 2004. Ordinary shares resulting from the exercise of any such rights will rank pari passu in all respects with the ordinary shares in issue at the time of such exercise;
- in the event of any capitalisation of reserves or profits or subdivision or consolidation of the ordinary shares then the number of ordinary shares the subject of the Warrant and the subscription price payable may be adjusted in such manner as the auditors confirm to be fair and reasonable;
- the Warrant may be assigned by the Warrant Holder in whole or in part; and
- no application has been or is intended to be made to the London Stock Exchange or any other recognised investment exchange, for any of the Warrant to be listed or otherwise traded.

Share options

The following options are outstanding for ordinary shares:

	Options granted	Options lapsed	Operations at 31 December 2004	Exercise price	Date Of grant	First date exercise	Final date exercise
Directors	3,400,000	–	3,400,000	15p	21.05.04	31.12.04	21.05.14
Staff	950,000	–	950,000	15p	21.05.04	31.12.04	21.05.14
Consultants	1,850,000	(50,000)	1,800,000	15p	21.05.04	31.12.04	21.05.14
Consultants	500,000	–	500,000	16.75p	19.10.04	31.12.04	19.10.14
Consultants	300,000	–	300,000	16.75p	17.11.04	31.12.04	17.11.14

The Everfor Diamonds plc Unapproved Share Option Plan was adopted on 21 May 2004 and is not approved by the HM Revenue and Customs under Schedule 9 of the Income and Corporation Taxes Act 1988. The Scheme is governed by Rules and is administered by the Directors of the Company, or a duly authorised committee thereof.

16 Reserves

	Share premium account £000	Merger reserve £000	Profit and loss account £000	Total £000
Loss for the period	–	–	(1,219)	(1,219)
Foreign exchange movements	–	–	(9)	(9)
Issue of ordinary shares	3,122	1,950	–	5,072
As at 31 December 2004	<u>3,122</u>	<u>1,950</u>	<u>(1,228)</u>	<u>3,844</u>

17 Reconciliation of movements in shareholders' funds

	Period ended 31 December 2004 £000
Loss for the period	(1,219)
Foreign exchange movements	(9)
Issue of ordinary shares	5,653
At the end of the period	<u><u>4,425</u></u>

18 Acquisition

	£000
<i>Consideration</i>	
Cash	306
Shares (30,000,000 shares at 7.5p per share)	2,250
	<u>2,556</u>
<i>Net assets acquired</i>	
Mining exploration rights	3,194
Cash	1
	<u>3,195</u>
Minority interest	(639)
	<u><u>2,556</u></u>

Cash flows	£000
Cash consideration as above	(306)
Cash from assets acquired	1
Net cash outflow	<u>(305)</u>

Acquisition of Russian projects

On 16 June 2004, the Company acquired all of the issued share capital of Reynalda Holdings Limited (“Reynalda”) for a consideration of US\$500,000 and the issue of 30,000,000 ordinary shares. Reynalda has a 100% investment in Edlin Finance Limited, which in turn holds an 80% investment in three Russian companies: Mining and Geological Company Keiv, Olenegorskaya Mining and Geological Company and Central Kola Mining and Geological Company, which between them own four exploration licences.

In calculating the goodwill arising on acquisition, the fair value of the net assets of Reynalda and its subsidiaries has been assessed and adjustments from book value have been made where necessary:

	Book value £000	Fair value adjustments £000	Fair value to the Group £000
Intangible fixed assets	–	3,194	3,194
Cash	1	–	1
	<u>1</u>	<u>3,194</u>	<u>3,195</u>

The fair value adjustments to intangible fixed assets were determined by the directors, having regard to reports by independent experts.

Goodwill	£000
Consideration	2,556
Net assets acquired	<u>(2,556)</u>
Goodwill arising on acquisition	<u>–</u>

Profit and loss account

The acquired Group companies did not trade during the prior period, and as such no profit and loss account has been prepared.

19 Financial commitments

At 31 December 2004, the Company had a commitment to pay US\$212,795 to Fugro Airborne Surveys (“Fugro”). Fugro performed a helicopter-borne resolve EM and horizontal magnetic gradiometer survey on two of the Group’s licence areas, completing their work in April 2005.

20 Material contracts

Pursuant to a share purchase agreement dated 16 June 2004, Edlin Finance Limited (“Edlin”), a group company, agreed to acquire an additional 10% of any of the Group’s three Russian subsidiaries: Mining and Geological Company Keiv, Olenegorskaya Mining and Geological Company and Central Kola Mining and Geological Company (collectively, the “Licence Holding Companies”), reaching a positive Feasibility Report. Under the terms of the agreement, Edlin must pay within 90 days of approval by the Board of Directors of any Licence Holding Company of a positive Feasibility Report, an amount equal to the product of (i) the number of carats of Rough Diamonds at the relevant Project as stated in the Feasibility Report and (ii) Two United States Dollars.

Further, Edlin agreed to acquire an additional 4% of any of the Licence Holding Companies within 180 days of the Commencement of Commercial Production at any Project for consideration equal to the product of any of the Licence Holding Companies (i) the number of carats of rough diamonds at the relevant Project, as stated in such Feasibility Report, and (ii) Three United States Dollars.

As at 31 December 2004, no amounts have been provided or recognised in respect of the above contracts.

21 Related party transaction

Financial Reporting Standard 8, 'Related Party Transactions,' requires the disclosure of the details of material transactions between the reporting entity and related parties. The Company has taken advantage of exemptions under Financial Reporting Standard 8 not to disclose transactions between more than 90% owned group companies. Details of other related party transactions are:

- (a) *Duncan Geological Consulting* – During the period, Duncan Geological Consulting charged the Company £19,625 in respect of services provided by Donald Duncan. Of the fees charged, £14,625 was settled by a cash payment and £5,000 was settled by the issue of 500,000 ordinary shares in the Company;
- (b) *Dr Sergey V Kurzin* – During the period Dr Sergey Kurzin and his wife Jennifer Mary Kurzin received a total of 5,000,000 ordinary shares in the Company in consideration of their share in Reynalda Holdings Limited;
- (c) *Stout Investments Limited* ("Stout") – As at 31 December 2004 Stephen Dattels had a beneficial interest in Stout. Stout received a total of 5,000,000 ordinary shares in the Company in consideration of its share in Reynalda Holdings Limited;
- (d) *Caledon Resources plc* ("Caledon") – During the period Caledon, a company of which Stephen Dattels was a director, charged the Company a net amount of £22,351 for shared office facilities and services. £5,922 was outstanding at the period end; and
- (e) *Oriel Resources plc* ("Oriel") – During the period Oriel, a company in which Sergey Kurzin and Geoffrey Bush are both directors and Stephen Dattels was a director, charged the Company a net amount of £6,252 for shared expenses. The full amount was outstanding at the period end.

22 Reconciliation of operating loss to net cash flow from operating activities

	Period ended 31 December 2004 £000
Operating loss	(1,329)
Depreciation	1
Increase in debtors	(89)
Increase in creditors	102
Foreign exchange differences	39
Net cash outflow from operating activities	(1,276)

23 Reconciliation of net cash flow to movement in net funds

	Period ended 31 December 2004 £000
Increase in net cash in the period	1,787
Liquid resources – cash deposit	60
Movement in net funds arising from cash flows	1,847
Foreign exchange movement	(39)
Net funds at end of the period (note 24)	1,808

24 Analysis of net funds

	Cash flow	Foreign	As at 31
	£000	exchange	December
	£000	£000	£000
Cash and short term deposits	1,787	(39)	1,748
Increase in liquid resources	60	–	60
Total	1,847	(39)	1,808

PART V – INTERIM RESULTS FOR THE PERIOD ENDED 30 JUNE 2005

The financial information set out in this Part V comprises the unaudited interim accounts of the Group for the six month period ended 30 June 2005 for which the Directors are solely responsible. These results were released on OFEX on 3 October 2005.

**Everfor Diamonds plc (“Everfor” or the “Company”)
Interim Results for the six months ended 30 June 2005**

Highlights

Pulongskaya licence area (“Pulongskaya”)

- Aerial electromagnetic and magnetic survey completed in April 2005;
- Confirmation and close delineation, from mineral chemistry and geophysical surveying, of areas of interest identified from previous work;
- “Blue Lake”, a previously untested target, has both an indicator mineral anomaly and a geophysical anomaly.

Varzugskaya licence area (“Varzugskaya”) and Ermakovskaya licence area (“Ermakovskaya”)

- Results from an aerial electromagnetic and magnetic survey in Ermakovskaya give 35 geophysical targets for investigation;
- Indicator mineral results from sampling point to source rocks in different localities from those already known;
- Sorting of the Ermakovskaya samples almost complete.

Tulomo-Teriberskaya licence area (“Tulomo-Teriberskaya”)

- 46 geophysical targets for follow-up generated from the aerial magnetic survey;
- Several samples containing multiple indicator mineral species – pyrope garnet, ilmenite, chrome diopside and chrome spinel – found in close geographical association;
- A circular lake in the north of the area has a nearby sample containing one garnet and three chrome diopsides, all exhibiting minimal transport distances from source.

CHAIRMAN'S STATEMENT

I believe that in our first full year of operations we have demonstrated the technical and managerial commitment required to succeed in diamond exploration. We aimed to fast-track exploration in those areas of our licences where previous exploration had shown there to be ground of significant interest and our results indicate that we are achieving this objective. In addition, less concentrated exploration is beginning to highlight other areas of potential interest

Following a successful 2004 season the Company has implemented an equally determined programme for 2005 which is currently underway and the results of which will be made known over the next few months.

In February 2005, Stephen Dattels resigned as Managing Director from the company to pursue other interests. He was replaced by the Donald Duncan, previously the Company's Chief Operating Officer.

In July 2005 Barry Hawthorne was appointed to the Board as a non-executive director. Mr Hawthorne has over 40 of years experience in the diamond industry gained during his career with the former Anglo American/De Beers group of companies.

Your Board is reviewing its options with a view to moving the Company's shares to a more senior market. This may require some element of a fund raising to further progress the exploitation of the potential in your Company's properties in the Kola peninsula

Dr Sergey V Kurzin
Executive Chairman

REVIEW OF OPERATIONS

By June 2005, the Company had received 1,900 indicator mineral results from a total of 3,100 samples collected in 2004. Of these results, 227 samples were positive with kimberlite indicator minerals, either as visually identified single grains, multiple grains or multiple varieties of grain.

Surface texture analyses of 796 grains were reported with a number of grains being flagged as of high interest. Surface texture studies indicate the degree of abrasion of grains and provide a guide to the distance which they have been transported from their source.

Limited numbers of mineral chemistry results were available, principally from samples within Ermakovskaya, although some results were available for Varzugskaya and Tulomo-Teriberskaya. Geophysical results from Ermakovskaya indicated the possibility of pipe-like bodies in the north-west of the licence and the presence of low-interest indicator minerals dictated that these be investigated.

Drilling was attempted in both the Ermakovskaya and Tulomo-Teriberskaya on targets which were both valid and accessible.

Sampling teams were mobilised to the field in late May and early June, to begin work in the 2005 field season.

Pulongskaya

An electromagnetic and magnetic survey was carried out over an approximate 800km² area in the north-east core of the licence area in April this year. This included a small survey over “Blue Lake” – a lake which, on a satellite image of the area appeared as a bright blue colour in contrast to the other bodies of water which showed as black. A water sample, analysed in 2004, indicated that the chemistry of the lake was very different from other samples in the vicinity.

The final interpretation of the survey was not completed during the reporting period, although a preliminary study of Blue Lake indicated that there was a strong electromagnetic target underlying the lake. This, in conjunction with a number of positive indicator mineral samples surrounding the lake, generates a strong target for drilling in the future.

Although few indicator mineral results were available, some of those received confirmed at least three areas of interest defined from previous work in the area.

Varzugskaya and Ermakovskaya

These co-joined licence areas were sampled at different intensities, principally because Ermakovskaya contains two known kimberlites and was also subject to an airborne electromagnetic and magnetic survey.

Although most of the available indicator mineral results are from Ermakovskaya, both licences exhibit up to 15% of positive samples with one or more varieties of indicator mineral, often in multiple numbers. Previous sampling around the known kimberlites recovered few indicator minerals, but did reveal, through tracing *phlogopite* (a distinctive mica found in kimberlites) that the transport of sediments by ice was limited to a few hundred metres. Most of the indicator minerals in these licence areas are both up-ice or sufficiently distant from the known kimberlites to point to as-yet unknown sources.

Limited mineral chemistry indicates some “G9” garnets, ilmenites and spinels of moderate to low interest and chrome diopsides from two distinct populations, one of which is of interest.

The kimberlite Ermakovskaya 7 shows as a distinct magnetic feature on the recent survey in which 35 geophysical targets have been selected for further work. A number of these targets are very similar in nature to this kimberlite and occur approximately 15 kilometres northwest of its location. Investigation of previous work revealed that these targets had been drilled and the subsequent confirmation of the rocks encountered confirms these targets to be olivine-melilitites. This rock type is broadly related to kimberlites and is also found in the well known Archangel region, occurring within 50 kilometres of highly diamondiferous kimberlites.

Drilling was undertaken on an electromagnetic anomaly approximately 1km north of Ermakovskaya 7, but the drill could only penetrate the overburden and not the substrate; further drilling will be attempted with a more powerful machine in early 2006.

Tulomo-Teriberskaya

This licence had never been explored for diamonds in the past but presented an opportunity to prospect ground with a strong theoretical potential for hosting kimberlites. The results of a 2,000km² airborne magnetic survey generated 46 magnetic targets for follow-up work.

Low numbers of garnets were recovered during the reporting period, invariably accompanied by at least one and up to three other indicator mineral varieties. Neither the mineral chemistry nor the surface textures of the garnets reported were of high interest in a conventional interpretation (a number of garnets are eclogitic, rather than peridotitic), except for one G9 garnet, co-existing with three chrome diopsides in the north of the licence. The surface textures of all of these grains indicated a nearby source and a circular blue lake was noted some 500 metres up-ice.

Drilling took place on the margins of the unfrozen lake with three holes intersecting granite and one to the south intersecting a pyroxenite. Additional samples were taken around the lake when operations began this June, in an attempt to upgrade the lake as a drilling target for the 2005 programme.

Summary

Several targets of interest have been located from the combined early results of work undertaken to date and will be investigated further in the coming season. Early mineral chemistry results indicate grains of low to moderate interest, with occasional high-interest samples. The presence of a significant proportion of garnets with an eclogitic signature requires further investigation as this may impact upon the sampling methodologies used. This has been a successful season of fieldwork with not only our objective of obtaining results within one year of beginning operations having been achieved but also that targets for further work have been and will continue to be generated.

The greater north western area of Russia in which we operate is attracting a number of exploration companies, both Russian and foreign-owned, which reinforces our view that this area has significant diamond potential. Having taken an early decision on the prospectivity of the area, your company is in the position of having sizeable ground holdings in which to operate for some time to come. We will continue to add value to our assets by generating results of interest which we believe will lead to the discovery of diamond-bearing source rocks.

Group Results

The group incurred a net loss of £564,000 for the six months ended 30 June 2005 giving a loss per share of 0.97 pence. The Group had total cash balances of £1.2 million on the reporting date.

D J Duncan
Managing Director

Group profit and loss account

	6 months ended 30/06/05 £'000	Period ended 31/12/04 £'000
Exploration expenses	(218)	(645)
Other administrative expenses	(392)	(684)
Total administration expenses and operating loss	(610)	(1,329)
Net interest receivable and similar income	25	32
Loss on ordinary activities before taxation	(585)	(1,297)
Tax on loss on ordinary activities	–	–
Loss on ordinary activities after taxation	(585)	(1,297)
Minority interest	21	78
Retained loss for the financial period	(564)	(1,219)
Loss per share - basic and diluted	(0.97p)	(3.47p)

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The financial information set out above is based on the consolidated profit and loss account of Everfor Diamonds plc and its subsidiary companies (together referred to as the “Group”). The profit and loss account of the Group for the six months ended 30 June 2005, which is unaudited, was approved by the Board on 28 September 2005. In accordance with s240(s) of the Companies Act 1985, such unaudited results do not constitute statutory accounts of the Company or Group. The profit and loss account has been prepared in accordance with the accounting policies set out in the Report and Accounts of Everfor Diamonds plc for the period ended 31 December 2004. The statutory accounts for the period ended 31 December 2004 have been filed with the registrar of Companies

The consolidated profit and loss account incorporates the results of Everfor Diamonds plc and its subsidiary undertakings as at 30 June 2005 using the acquisition method of accounting. The corresponding amounts are for the period from incorporation (26 January 2004) to 31 December 2004.

2. Dividend

The directors do not recommend the payment of a dividend for the period.

3. Loss per share

Basic loss per share of 0.97 pence is calculated, in accordance with FRS 22 (Earnings per share), on a loss on ordinary activities after tax of £564,000 and on 58,099,290 ordinary shares, being the weighted average number of ordinary shares in issue during the period. The calculation of diluted loss per share is the same as basic loss per share as the impact of any potential ordinary shares is antidilutive.

PART VI

ADDITIONAL INFORMATION

1 Responsibility

The Company and the Directors, whose names are set out on page 6 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

SRK accepts responsibility for the information contained in Part III of this document. To the best of the knowledge of SRK (which has taken all reasonable care to ensure that such is the case) the information contained in Part III of this document is in accordance with the facts and makes no omission likely to affect the import of such information.

2 Company

- (a) The Company was incorporated in England and Wales as a public limited company under the name Everfor Diamonds Plc on 26 January 2004 under the Act with registered number 5025273. The Company has no commercial name other than its registered name. The principal legislation under which the Company operates is the Act and the regulations made thereunder. The liability of the members of the Company is limited.
- (b) The registered office of the Company and the principal place of business in the United Kingdom is currently 18 Upper Brook Street, London W1K 7PU. The telephone number at such address is +44 (0)20 7514 0595.
- (c) The Company was incorporated with and presently has an authorised share capital of £2,000,000 divided into 200,000,000 Ordinary Shares of which two subscriber shares were issued, fully paid, to the subscribers to the Memorandum of Association on incorporation. On 29 March 2004 the Company obtained its certificate to do business and exercise borrowing powers pursuant to Section 117 of the Act.
- (d) The Company's accounting reference date is 31 December.

3 Subsidiaries

- (a) The Company is the ultimate holding Company of the Group and has the following principal subsidiaries:

Name	Country of Incorporation	Registered Office	Directly or Indirectly owned	Per cent. Owned
Reynalda Holdings Limited	British Virgin Islands	Akara Building, 24 De Castro Street, Wickhams Cay I, Road Town, Tortola, British Virgin Islands	Direct	100%
Edlin Finance Limited	British Virgin Islands	Akara Building, 24 De Castro Street, Wickhams Cay I, Road Town, Tortola, British Virgin Islands	Indirect (held through Reynalda Holdings Limited)	100%
Mining & Geological Company Keiv	Russian Federation	23a Komsomolskaya Street, City of Monchegorsk, Murmansk Region, Russian Federation	Indirect (held through Edlin Finance Limited)	80% ⁽¹⁾
Olenegorskaya Mining & Geological Company	Russian Federation	23a Komsomolskaya Street, City of Monchegorsk, Murmansk Region, Russian Federation	Indirect (held through Edlin Finance Limited)	80% ⁽¹⁾
Central Kola Mining & Geological Company	Russian Federation	23a Komsomolskaya Street, City of Monchegorsk, Murmansk Region, Russian Federation	Indirect (held through Edlin Finance Limited)	80% ⁽¹⁾

Notes: 1 The Group has the right to increase its participatory interest in the charter capital of the Russian Subsidiaries to 90%, and then to 94%, subject to the terms and conditions of the Acquisition Agreements. See paragraph 10(i) of this Part VI.

- (b) The Russian Subsidiaries, between them, own 41.35 per cent. of the issued share capital of CKE. In addition, CKE owns 6 per cent. of the participatory interest in the charter capital of each of the Russian Subsidiaries.
- (c) Save as disclosed in paragraphs 3(a) and 3(b) above, there are no undertakings in which the Company holds a proportion of the share capital likely to have a significant effect on the assessment of its own assets and liabilities, financial position or profits and losses.

4 Share Capital

- (a) The Company's authorised share capital is £2,000,000, divided into 200,000,000 ordinary shares of 1p each of which a total of 98,854,291 Ordinary Shares have been issued fully paid or credited as fully paid. Since incorporation the following shares have been issued:

Date	Number of Shares	Subscription	
		Price	Description
26 January 2004	2,500,000	1p	Subscriber shares
22/25 March 2004	3,300,000	1p	Cash placing
14 June 2004	19,613,334	15p	Cash placing
15 June 2004	30,000,000	7.5p	Consideration for acquisition of Reynalda
18 October 2004	2,685,957	15p	Cash placing
16 March 2006	12,500,000	4p	Cash placing
31 March 2006	28,255,000	4p	Cash placing

- (b) By a Special Resolution passed on 23 July 2004 the shareholders of the Company resolved as follows:

- (i) The Directors were generally and unconditionally authorised pursuant to section 80 of the Act to allot relevant securities (within the meaning of Section 80 of the Act) up to an aggregate nominal value of £1,445,866.66 such authority to expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the 2006 Annual General Meeting of the Company provided that such authority shall allow the Company to make an offer or enter into an agreement which would or might require securities to be allotted after the expiry of such authority and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by this resolution had not expired.
- (ii) The Directors were empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the general authority conferred on them by the resolution referred to in paragraph 4(b)(i) above as if Section 89(1) of the Act did not apply to any such allotment, such power to expire at the conclusion of the 2006 Annual General Meeting of the Company. The power is limited to the allotment of equity securities up to a maximum aggregate nominal amount of £1,445,866.66 (being the whole of the authorised but unissued share capital at the date of the notice convening the meeting). Such authority shall unless and to the extent previously revoked, varied or renewed by the Company in general meeting expire at the conclusion of the 2006 Annual General Meeting of the Company provided that the Company may, before the expiry of this power, make an offer or agreement which would or might require equity securities to be allotted after the expiry of this power and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power had not expired.
- (iii) New Articles of Association were adopted.
- (c) Except to the extent disapplied pursuant to Section 95 of the Act, as set out in paragraph 4(b)(ii) above, the provisions of Section 89(1) of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in Section 94(2) of the Act) which are, or are to be, paid up in cash) will apply to the authorised but unissued Ordinary Shares of the Company.
- (d) As at the date of this document the authorised and issued share capital of the Company will be as follows:

Authorised		Issued and fully paid on Admission	
Number	Amount	Number	Amount
200,000,000	£2,000,000	98,854,291	£988,542.91

- (e) (i) The Company has granted options to subscribe for a total of 7,000,000 Ordinary Shares pursuant to the Share Option Plan, details of which are summarised in paragraph 8 below. A total of 1,350,000 of these options have lapsed unexercised, leaving 5,650,000 options outstanding.

- (ii) On 14 October 2004 the Company issued warrants to subscribe for up to 250,000 Ordinary Shares at 18p per Ordinary Share to Loeb Aron & Company Limited, the Company's OFEX adviser at that date, exercisable at any time prior to 15 October 2007.
- (iii) Pursuant to an investment agreement dated 14 March 2006 made between the Company and RAB Special Solutions (Master) Fund Limited ("RAB"), RAB was entitled to be issued such number of Ordinary Shares as is equal to 2 per cent. of the total number of Ordinary Shares of the Company in issue at the relevant date if Admission did not occur prior to 30 April 2006.
- (f) Save as disclosed in paragraph 4(e) above:
 - (i) no share or loan capital of the Company has been issued or is proposed to be issued;
 - (ii) there are no outstanding convertible securities, exchangeable securities or securities with warrants issued by the Company;
 - (iii) there are no shares in the Company not representing capital;
 - (iv) there are no Ordinary Shares in the Company held by or on behalf of the Company itself or by Subsidiaries of the Company; and
 - (v) there are no acquisition rights and/or obligations over unauthorised but unissued share capital of the Company or an undertaking to increase the share capital of the Company.
- (g) Save in respect of the options and the warrants referred to in paragraph (e) above, no share capital of the Company is under option and there is no conditional or unconditional agreement to put any such capital under option.
- (h) Save for the 30,000,000 Ordinary Shares issued as consideration pursuant to the Reynalda Share Purchase Agreement (as set out in paragraph 10(i)(a) of this Part VI), no more than 10 per cent. of the issued share capital of the Company as at the date of this document has been paid for with assets other than cash since 26 January 2004, the date of incorporation of the Company.
- (i) No securities of the Company are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.
- (j) The Ordinary Shares have not been admitted to dealings on any recognised investment exchange or other trading facility nor has any application for such admission been made, and it is not intended to make any other arrangement for dealings in the Ordinary Shares on any such exchange.
- (k) The Ordinary Shares may be held in certificated or uncertificated form. Computershare Investor Services plc is in charge of keeping the records in respect of Ordinary Shares held in uncertificated form.
- (l) The International Security Identification Number of the Ordinary Shares is GB00B01GW445.

5 Directors' Interests

- (a) Set out below are the details of the directorships other than that of the Company and its Subsidiaries (referred to in paragraph 3 of this Part VI) held over the past 5 years by each of the Directors:

Dr Sergey V Kurzin

Current Directorships

Brook Audley Resources Limited
 Geoinvest Joint Stock Company
 Kola Mining Geological Company
 Korkodonskaya Mining Geological Company
 Oriel Resources plc
 SJK Management Limited
 Taboga Mining Geological Company
 Urupskaya Mining Geological Company

Previous Directorships

Dragon Management International Services
 Limited
 Dukat Geological Company
 Omsukchausk Mining Geological Company
 Sloane Developments Limited

Donald J Duncan*Current Directorships*

DiamonEx Limited (Australia)
DiamonEx (Botswana) Limited

Previous Directorships

Corobrik (Pty) Limited

David J Swan*Current Directorships*

Oriel Resources plc
Urupskaya Mining Geological Company

Previous Directorships

None

Geoffrey T Bush*Current Directorships*

Oriel Resources plc
Grand Metropolitan Training Limited
Tomorrow's People (Services) Limited
Tomorrow's People Limited
Tomorrow's People Trust Limited
Troubleshooters Limited
Tomorrow's People Enterprise Limited

Previous Directorships

Business in the Community
The Corporate Responsibility Group Limited
Project Fullemploy
The Minority Foundation

J. Barry Hawthorne*Current Directorships*

None

Previous Directorships

None

(b) Save as disclosed above, no Director has:

- (i) been a partner in any partnerships at any time in the past 5 years;
- (ii) any unspent convictions relating to indictable offences;
- (iii) had a bankruptcy order made against him or entered into any individual voluntary arrangements with any of his creditors;
- (iv) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or administration or entered into a company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors of any company where such Director was a director at the time of or within the 12 months preceding such events;
- (v) been a partner of a firm which has been placed in compulsory liquidation or administration or which has entered into a partnership voluntary arrangement where such Director was a partner of that firm at the time of, or within twelve months preceding, such events;
- (vi) had any asset belonging to such Director placed in receivership or been a partner of a partnership whose assets have been placed in receivership whilst such Director was a partner at the time of, or within twelve months preceding, such receivership; or
- (vii) been publicly criticised by any statutory or regulatory authority (including any recognised professional body) or ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

- (c) As at the date of this document the interests (all of which are beneficial unless otherwise stated) of the Directors and persons connected with the Directors (within the meaning of Section 346 of the Act) which have been notified to the Company pursuant to Section 324 or Section 328 of the Act as they will appear in the register of directors' interests maintained pursuant to Section 325 of the Act in the issued share capital of the Company and the existence of which is known to, or could with reasonable due diligence be ascertained by, any Director as at the date of this document are as follows:

Name of Director	Number of Ordinary Shares	Per Cent. of Issued Share Capital
Dr Sergey V. Kurzin ⁽¹⁾	5,500,000	5.6%
Geoffrey T. Bush ⁽²⁾	2,250,000	2.3%
Donald J. Duncan ⁽³⁾	500,000	0.5%

Note (1): 2,250,000 of these Ordinary Shares are held in the name of his spouse Jennifer Kurzin. Pursuant to the terms and conditions of the Reynalda Share Purchase Agreement, as disclosed in paragraphs 10(i)(a) of this Part VI, Dr Kurzin and his spouse received a total of 5,000,000 Ordinary Shares as consideration for the shares held by them in Reynalda.

Note (2): 200,000 of these Ordinary Shares are held in the name of his wife Felippa Bush.

Note (3): These Ordinary Shares are held in the name of Duncan Geological Consulting, a partnership. Mr Duncan and his spouse are the only partners.

- (d) As at the date of this document, the following Directors have been granted the following options under the Share Option Plan:

Name of Director	Number of Options	First Exercise Date	Final Exercise Date	Exercise Price Per Share
Dr Sergey V. Kurzin	1,000,000	31 December 2004	21 May 2014	15p
Donald J. Duncan	1,000,000	31 December 2004	21 May 2014	15p
Geoffrey T. Bush	400,000	31 December 2004	21 May 2014	15p
David J. Swan	100,000	31 December 2004	21 May 2014	15p

Further details of the Share Option Plan are provided in paragraph 8 below.

- (e) Save as disclosed in paragraphs 5(c) and 5(d) above, none of the Directors nor any member of their respective immediate families nor any person connected with the Directors (within the meaning of Section 346 of the Act) has any interest, whether beneficial or otherwise in the share capital of the Company.
- (f) None of the Directors or any person connected with them (within the meaning of Section 346 of the Act) 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.
- (g) Save as disclosed in this document:
- no Director has or had any interest in any transaction relating to the Group which is or was of an unusual nature, contains or contained unusual terms or is or was effected during the current or immediately preceding financial year, or which was effected during any earlier financial year and remains in any respect outstanding or underperformed; and
 - no loans or guarantees have been granted or provided to or for the benefit of the Directors by any member of the Group.
- (h) Save as disclosed in paragraph 5(c) above, as at 30 March 2006 (the latest practicable date prior to the date of this document), the Directors are aware of the following holdings which are required to be notified, pursuant to Section 198 of the Act, which represent an interest (within the meaning of Section 199 of the Act) directly or indirectly, jointly or severally, in 3 per cent. or more of the issued share capital of the Company or of any person who, directly or indirectly jointly or severally, exercises or could exercise control over the Company:

Name of shareholder	Number of shares held	Percentage of issued share capital held
Credit Suisse Client Nominees (UK) ⁽¹⁾	28,333,333	28.66%
Forest Nominees Limited ⁽²⁾	11,383,167	11.52%
Stout Investments Limited	5,500,000	5.56%
Pinnacle Trustees Limited ⁽³⁾	4,700,000	4.75%
NRI Inc.	4,500,000	4.55%
HSBC Global Custody Nominee (UK) Limited	4,083,494	4.13%
Willbro Nominees Limited	3,923,332	3.97%
The Bank of New York (Nominees) Limited	3,771,525	3.82%
Endeavour Mining Capital Corporation	3,750,000	3.79%

Notes:

- (1) These Ordinary Shares are held as nominee for RAB Special Situations (Master) Fund Limited.
- (2) So far as the Company and its Directors are aware these Ordinary Shares are held as nominee for undisclosed institutional and private clients and for various trust companies. So far as the Company and its Directors are aware none of these parties hold individually an interest of 10 per cent. or more in the issued share capital of the Company.
- (3) So far as the Company and its Directors are aware these Ordinary Shares are held under various trusts and other similar arrangements.
- (i) The Company's major shareholders (as disclosed in paragraphs 5(c) and 5(h) of this Part VI) do not have voting rights in respect of the share capital of the Company (issued or to be issued) which differ from any other shareholder.
- (j) The Company is not directly or indirectly owned or controlled by any person.
- (k) Save for the RAB anti-dilution right, details of which are described in paragraph 4(e)(iii) of this Part VI, there are no arrangements known to the Company and the Directors the operation of which may at a subsequent date result in a change of control of the Company.

6 Directors' Service Agreements, Remuneration Benefits in Kind and Employees

- (a) The following are particulars of the Directors' service agreements with the Company:
 - (i) Dr Sergey Kurzin has been appointed as the Executive Chairman, and has entered into a service agreement with the Company dated 31 March 2006. His employment with the Company commenced on 26 January 2004. The appointment will continue for an indefinite period, terminable by either party on six months' written notice. Dr Kurzin works part-time for the Company for a minimum of one day each week. Dr Kurzin previously received a salary of £54,000 per annum but as of 1 April 2006 he will receive a reduced salary of £48,000 per annum payable monthly in arrears. He also receives a minimum of 5 days holiday per annum (depending on the number of days he actually works each year) and sick pay entitlement which is calculated pro rata. There are no other additional contractual benefits. The executive service agreement includes provision for pay in lieu of notice. It also includes a confidentiality provision and the right to place Dr Kurzin on garden leave. During his engagement by the Company, Dr Kurzin will not be entitled (without the prior written consent of the Board) to participate in other projects not owned by the Company which are in competition with the business of the Company, or may cause a conflict of interest. Dr Kurzin is also subject to the following post-termination restrictions: six months in respect of non-solicitation of anyone employed or engaged by the Group and non-competition in the Russian Federation within 10 km of any boundary where the Group has an existing mining licence, or has applied for such a licence and such application is being processed; and 12 months in respect of non-interference with licences granted or applied for by the Group.

Dr Kurzin is also employed by Edlin, as General Manager in the Russian Federation. Dr Kurzin has entered into a service agreement with Edlin dated 31 March 2006. The appointment will continue for an indefinite period, terminable by either party on three months written notice. Dr Kurzin works on a part-time basis for such hours as are necessary for the proper performance of his duties. Dr Kurzin previously received a salary of £36,000 per annum

but, as of 1 April 2006, he will receive a reduced salary of £12,000 per annum payable monthly in arrears. He receives holiday and sick pay entitlement which is calculated pro rata to that of a full-time employee. There are no additional contractual benefits. The service agreement includes provision for pay in lieu of notice. It also includes a confidentiality provision and post-termination restrictions.

- (ii) Donald Duncan has been appointed as Managing Director and entered into an executive service agreement with the Company dated 20 June 2005. His employment with the Company commenced on 1 April 2004. The appointment will continue for an indefinite period, terminable by either party on three months' written notice. Mr Duncan works for an average of 3½ days each week equivalent to 174 days per annum, on days to be agreed with the Company. There may be extended periods of up to one calendar month when he does not work at all. He previously received a salary of £100,000 per annum but as of 1 April 2006, he will receive a reduced salary of £75,000 per annum payable monthly in arrears. He receives 16.5 days paid holiday per annum and sick pay entitlement. There are no other additional contractual benefits. The executive service agreement includes provision for pay in lieu of notice. It also includes a confidentiality provision and the right to place Mr Duncan on garden leave. During his engagement by the Company, Mr Duncan will not be entitled (without the prior written consent of the Board) to participate in other projects not owned by the Company which are in competition with the business of the Company, or may cause a conflict of interest. Mr Duncan is also subject to the following post-termination restrictions: six months in respect of non-solicitation of anyone employed or engaged by the Group and non-competition in the Russian Federation within 10 km of any boundary where the Group has an existing mining licence, or has applied for such a licence and such application is being processed; and 12 months in respect of non-interference with licences granted or applied for by the Group.
- (iii) David Swan has been appointed as the Finance Director and entered into an executive service agreement with the Company dated 31 March 2006. His employment with the Company commenced on 1 June 2005. The appointment will continue for an indefinite period, terminable by either party on three months' written notice. Mr Swan will work for one day each week during such hours as are necessary and agreed with the Company. He receives a salary of £24,000 per annum payable monthly in arrears. He receives 5 days holiday per annum and sick pay entitlement. There are no other additional contractual benefits. The executive service agreement includes provision for pay in lieu of notice. It also includes a confidentiality provision and the right to place Mr Swan on garden leave. During his engagement by the Company, Mr Swan will not be entitled (without the prior written consent of the Board) to participate in other projects not owned by the Company which are in competition with the business of the Company or may cause a conflict of interest. Mr Swan is also subject to the following post-termination restrictions: six months in respect of non-solicitation of anyone employed or engaged by the Group and non-competition in the Russian Federation within 10 km of any boundary where the Group has an existing mining licence, or has applied for such a licence and such application is being processed; and 12 months in respect of non-interference with licences granted or applied for by the Group.
- (iv) Geoffrey Bush entered into a letter of appointment dated 31 March 2005 which can be terminated on two months' written notice at any time by either party. There are also provisions for automatic terminations in circumstances where he is not reappointed as a director at an Annual General Meeting of the Company or is removed by resolution or guilty of serious misconduct, bankruptcy, incapacity due to illness or prohibited by law. Mr Bush is entitled to remuneration of £15,000 per annum for his services as a non-executive Director of the Company. Mr Bush is entitled to be reimbursed for all travel and other reasonable expenses which he incurs in his duties. Mr Bush's duties involve an annual commitment to the Company in the region of 20 days. Mr Bush is a member of the Remuneration Committee and Chairman of the Audit and Nomination Committees. There are provisions preventing Mr Bush from being engaged in or interested in any business which competes with the business of the Company. There is also a requirement to comply with the relevant share dealing restrictions and rules.
- (v) J. Barry Hawthorne entered into a letter of appointment dated 1 June 2005 which can be terminated on three months' written notice at any time by either party. Mr Hawthorne was appointed as a non-executive Director at the Company's Annual General Meeting held on 26 July 2005. There are also provisions for automatic terminations in circumstances where he

is not reappointed at an Annual General Meeting of the Company or is removed by resolution or guilty of serious misconduct, bankruptcy, incapacity due to illness or prohibited by law. Mr Hawthorne is entitled to a remuneration of £15,000 per annum payable monthly in arrears and he will not participate in a group bonus or other benefits of any kind of the group. Mr Hawthorne is entitled to be reimbursed for all travel and other reasonable expenses which he incurs in his duties. Mr Hawthorne's duties involve an annual commitment to the Company in the region of 20 days. Mr Hawthorne is a member of the Audit and Nomination Committees and Chairman of the Remuneration Committee. There are provisions preventing Mr Hawthorne from being engaged in or interested in any business which competes with the business of the Company. There is also a requirement to comply with the relevant share dealing restrictions and rules.

- (b) Save as referred to in paragraph 6(a) above, there are no service agreements or letters of appointment in existence between any of the Directors and the Company which cannot be determined by the Company without payment of compensation (other than statutory compensation) within one year.
- (c) In respect of the last completed financial year of the Company, no member of the administrative, management or supervisory bodies' service contracts with the Company or any of the Subsidiaries provide for benefits upon termination of employment.
- (d) The aggregate remuneration including salaries, fees, pension contributions, bonus payments and benefits in kind of the Directors (including the non-executive Directors) during the year ended 31 December 2005 amounted to £202,000. It is estimated that the aggregate amount of the remuneration to be paid and benefits in kind to be granted to the Directors for the current financial year under the arrangements in force at the date of this document will be £189,000.
- (e) As at the date of this document the Company has five directors, one full time employee and one temporary employee. The average number of employees employed in the Group for the financial year to 31 December 2005 was 15 of which 12 were employed on a temporary basis. The average number of employees employed in the Group for the financial year to 31 December 2004 was 15 of which 12 were employed on a temporary basis.

7 Memorandum and Articles of Association

- (a) The principal objects of the Company, as set out in paragraph 3 of its Memorandum of Association, are *inter alia*, to carry on business as a general commercial company and to carry on any other business which may in the opinion of the Directors be advantageously carried on by the Company.
- (b) The Articles of Association ("**the Articles**") contain, *inter alia*, provisions to the following effect:

Share capital

The Company in general meeting may from time to time by ordinary resolution, *inter alia*:

- (i) increase its share capital by such sum to be divided into shares of such amount as the resolution prescribes;
- (ii) consolidate and divide all or any of its share capital into shares of larger nominal amount than its existing shares;
- (iii) subject to the provisions of the Act, cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and
- (iv) subdivide its shares or any of them into shares of smaller amount, and the resolution may determine that, as between the shares resulting from such sub-division, one or more of the shares may, as compared with the others, have any such preferred, deferred or other special rights or be subject to any such restrictions as the Company has power to attach to unissued or new shares.

Voting Rights

Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands every member present in person shall have one vote and on a poll every member shall have one vote for each share of which he is the holder.

Where in England or elsewhere a receiver or other person (by whatever name called) has been appointed by any court claiming jurisdiction in that behalf to exercise powers with respect to the property or affairs of any member on the grounds (however formulated) of mental disorder, the Board may in its absolute discretion, on or subject to production of such evidence of the appointment as the Board may require, permit such receiver or other person to vote in person or by proxy on behalf of such member at any general meeting of shareholders.

If two or more persons are jointly entitled to a share, then in voting on any question the vote of the senior who tenders the vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other registered holders of the share, and for this purpose seniority shall be determined by the order in which the names stand in the register of members.

No member shall, unless the Board otherwise determines, be entitled to vote at a general meeting of shareholders either personally or by proxy or to exercise any privilege as a member unless all calls or other sums presently payable by him in respect of shares in the Company have been paid.

No member shall, unless the Board otherwise determines, be entitled to vote at a general meeting of shareholders, either personally or by proxy, if he or any person appearing to be interested in those shares has been duly served with a notice under section 212 of the Act and he or any such person in the absolute discretion of the Board is in default in supplying to the Company the information thereby requested within 42 days after service of such notice or such longer period as may be specified in such notice for compliance therewith and has not remedied such default within a further period of 14 days after service of a further notice requiring him to do so. A person is treated as appearing to be interested in any shares if the member holding such shares has given to the Company, pursuant to the said section 212, information which fails to establish the identities of those interested in the shares and if (after taking into account the said information and any other information given pursuant to the said section 212 or otherwise) the Company knows or has reasonable cause to believe that the person in question is or may be interested in the shares.

On a poll votes may be given either personally or by proxy (a proxy not being entitled to vote except on a poll) and a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

Dividends

Subject to the provisions of the Act, the Company may in general meeting declare dividends on the Ordinary Shares, but no dividends shall exceed the amount recommended by the Board. The Board may, before recommending any dividend, set aside out of profits of the Company such sums as it thinks fit as a reserve to, *inter alia*, meet any claim on, or liabilities of, the Company or for paying off any loan capital or for any other purpose.

The Board may from time to time pay to the holders of the Ordinary Shares such interim dividends as appear to the Board to be justified by the profits of the Company. If at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares which confer on the holders thereof deferred or nonpreferential rights with regard to dividend, but no interim dividend shall be paid on the same if at the time of payment any preferential dividend is in arrears. Provided that the Board acts bona fide, it shall not incur any responsibility to the holders of shares conferring any preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or nonpreferential rights.

In addition to the above, the Board may also pay to the holders of the Ordinary Shares a dividend at half yearly or other suitable intervals, which may be payable at a fixed rate, if the Board is of the opinion that the profits of the Company justify the payment.

Subject to the rights of persons, if any, entitled to shares with special rights as to dividend, all dividends shall be declared and paid according to the amount paid up on the shares on which the dividend is to be paid. All dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or any portions of the period in respect of which the dividend is paid. If any share is issued on terms providing that it shall rank for dividend as from a particular date, that share shall rank for dividend accordingly.

Any dividend unclaimed for a period of 12 years after having been declared shall be forfeited and shall revert to the Company. No dividend shall bear interest against the Company.

Redemption and purchase of own shares

Subject to statute, the Company may purchase its own shares (including any redeemable shares) provided that if, prior to such purchase there are convertible shares of the Company, no such purchase shall be made. Where statute requires the contract for the purchase to be approved by a special resolution of the shareholders, then no contract relating to any such purchase shall be entered into unless either the Company has received the consent in writing of the holders of not less than threequarters in nominal value of any class of convertible shares, other than those which are convertible into shares which as respects dividend and capital carry a right to participate only up to a specified amount in a distribution, or else the purchase has been sanctioned by an extraordinary resolution passed at a separate general meeting of the holders of such convertible shares.

Return of Capital

If the Company is wound up (whether voluntarily, under supervision or compulsorily) the liquidator may, with the authority of an extraordinary resolution, divide among the holders of the shares, in kind, the whole or any part of the assets of the Company. For these purposes the liquidator may set such value as he deems fair upon such property and may determine how such division shall be carried out as between members or classes of members.

Variation of Rights

The rights attached to any class of shares may be varied or abrogated either with the written consent of the holders of not less than threefourths of the issued shares of the class, or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of shares of the class. To every such separate meeting, the provisions of the Articles relating to general meetings, *mutatis mutandi*, apply, but the necessary quorum shall not be less than two persons holding or representing by proxy onethird of the nominal amount paid up on the issued shares of the class.

Transferability

Ordinary Shares may be transferred by instrument in writing in any usual form or in any form approved by the Board and the instrument of transfer shall be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by the transferee. Subject to the Articles, any shares of the Company may be held in uncertificated form and title may be transferred by means of a relevant system within the meaning of the Uncertificated Securities Regulations 1995.

The Board may, in its absolute discretion and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve and refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien, provided that, where any such shares are admitted to trading on AIM, such discretion may not be exercised in such a way as to prevent dealings in the shares from taking place on an open and proper basis. If the Board refuses to register a transfer, it shall, within 2 months after the date on which the transfer was lodged, send to the transferee notice of the refusal.

The registration of transfers of shares or of any class of shares may be suspended at such times and for such periods as the Board may from time to time determine provided that such registration shall not be suspended for more than thirty days in any year.

Pre-emption rights

The Articles do not contain any provisions which set out a procedure for the exercise of pre-emption rights, in addition to that provided for by the Act.

Borrowing

The Board must restrict the borrowings of the Company so as to secure that the aggregate principal amount outstanding of all borrowings of the Group (exclusive of borrowings owed by one member of the Group to another member) does not, without previous sanction by ordinary resolution, exceed the greater of £100,000,000 or three times the aggregate of the amount paid up on the issued share capital and the amount standing to the credit of the reserves (including any share premium account, capital redemption reserve and credit balance on profit and loss account).

Directors

A Director must not vote on (or be counted in the quorum in relation to) any resolution of the Board concerning any contract, arrangement or other proposal in which he (or any person connected to him) has an interest, other than an interest in shares or debentures or other securities of, or otherwise in or through, the Company.

The prohibition will not apply to the following:

- (i) the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security, guarantee or indemnity 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) where the Company or any of its subsidiaries is offering securities in which offer the Director is, or may be, entitled to participate as a holder of securities or in the underwriting of which he is to participate;
- (iv) relating to any other company in which he and any persons connected to him do not own one per cent. or more of any class of its equity share capital or of its voting rights;
- (v) relating to any scheme for the benefit of employees which does not award him any privilege or benefit not awarded to the employees to whom the scheme relates; and
- (v) concerning insurance which the Company proposes to purchase or maintain for the benefit of any Directors or for persons who include Directors.

The Directors shall be paid out of the funds of the Company by way of remuneration for their services such sums as they may determine, except that the ordinary aggregate remuneration of all of the non-executive directors of the Company shall not exceed £150,000 per annum or such larger sum as the Company may from time to time by ordinary resolution determine (excluding any amounts payable under any other provision of the Articles). Each Director shall be paid all travelling, hotel and other expenses properly incurred by him in connection with the business of the Company including attending meetings of the Board or general meetings of the Company.

A Director shall not vote on or be counted in the quorum on any resolution of the Board concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested but, where proposals are under consideration concerning the appointment (including fixing or varying the terms of his appointment or its termination) of two or more Directors to offices or places of profit with the Company or any company in which the Company is interested, a separate resolution may be considered in relation to each Director and in such case each of the Directors concerned (if not otherwise debarred from voting) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

The Board may procure the establishment and maintenance of or participate in, or contribute to, any non-contributory or contributory pension or superannuation fund, scheme or arrangement or life assurance scheme or arrangement for the benefit of, and pay, provide for or procure the grant of donations, gratuities, pensions, allowances, bonuses, benefits or emoluments to, any persons (including Directors) who are or shall have been at any time in the employment of the Company or of any company which is or was a subsidiary or subsidiary undertaking of or associated with the Company or of the predecessors in business of the Company or of any such subsidiary or subsidiary undertaking or associated company or the spouses, widows, widowers, families, dependants or connections of any such persons.

Unless otherwise determined by the Company by ordinary resolution, the number of Directors shall be not less than two and not more than eight.

Subject to the Articles, at each annual general meeting one-third of the Directors shall retire from office by rotation, having been determined (both as to number and identity) by the composition of the Board at the date of the notice convening the annual general meeting. If the number of Directors is not a multiple of three, then the number to retire shall be that which is nearest to but not less than one-third. Those to retire on each occasion shall be those who have been longest in

office since their last appointment or reappointment. As between two or more Directors who have been in office an equal length of time, the Director to retire shall in default of agreement between them be determined by lot. No Director shall be required to retire or be relieved from retiring by reason of any change in the number or identity of the Directors after the date of the notice but before the close of the meeting.

The Company at the meeting at which a Director retires by rotation may fill the vacated office and, if it does not do so, the retiring Director shall, if willing to act, be deemed to have been reappointed unless it is expressly resolved not to fill the vacancy or a resolution for the reappointment of the Director is put to the meeting and lost. If he is not reappointed or deemed to be reappointed, he shall retain office until the end of the meeting.

The office of a Director shall be vacated in any of the following events:

- (i) if (not being an executive Director whose contract precludes resignation) he resigns his office by notice in writing left at the registered office of the Company;
- (ii) if he becomes bankrupt or has a receiving order made against him or compounds with his creditors;
- (iii) if he becomes of unsound mind or a patient for any purpose of any statute relating to mental health and the Board resolves that his office is vacated;
- (iv) if, without the permission of the Board, both he and his alternate director are absent from Board meetings for six consecutive months and the Board resolves that his office is vacated;
- (v) if he ceases to be a director by virtue of any provision of the Act, is removed from office pursuant to the Articles, or becomes prohibited or disqualified by law from being a Director; or
- (vi) if he is requested in writing by all the other Directors to resign his office.

No person other than a Director retiring at that general meeting shall be appointed as a Director at any general meeting unless recommended by the board or unless, not less than seven nor more than 42 days before the day appointed for the meeting, notice in writing signed by a member (other than the person to be proposed) duly qualified to vote at the meeting has been lodged at the registered office of the Company stating the intention to propose that person for appointment and a notice signed by that person of his willingness to be appointed.

Subject to the provisions of the Articles, the Company may by ordinary resolution appoint any person to be a Director either to fill a vacancy or as an addition to the existing Board.

The Board may appoint any person to be a Director either to fill a vacancy or as an addition to the existing Board. Any Director so appointed shall hold office only until the next annual general meeting and shall then be eligible for re-election.

Subject to the provisions of the Articles, the Board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it thinks fit. The quorum necessary for the transaction of the business may be determined by the Board and, until otherwise so determined, shall be two Directors. A meeting of the Board at which a quorum is present shall be competent to exercise all powers and discretions exercisable by the Board. Questions arising at any Board meeting shall be determined by a majority of votes and, in the case of an equality of votes, the chairman of the Board shall have a second or casting vote.

Subject to the provisions of the Act, the Memorandum of Association of the Company and the Articles and to any directions given by special resolution of the Company, the business of the Company shall be managed by the Board, which may exercise all the powers of the Company whether relating to the management of the business or otherwise.

The Board may entrust to and confer upon any Director holding any executive office (including chairman, vice-chairman or managing director) such of its powers upon such terms and conditions and subject to such restrictions as it thinks fit, and may revoke, withdraw or vary all or any of such powers.

The Board may exercise all the powers of the Company to borrow money, and to mortgage or charge the whole or any part of its undertaking, property and assets (present and future) and

uncalled capital and, subject to statute to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

The Board may delegate any of its powers to any committee consisting of such number of Directors as it thinks fit and may revoke a delegation and discharge a committee in whole or in part. A committee shall in the exercise of the powers delegated to it conform to any regulations that are imposed by the Board and, subject to any such regulations, the meetings and proceedings of a committee consisting of two or more Directors shall be governed by the provisions of the Articles regulating the meetings and proceedings of the Board.

The Board may by power of attorney appoint any person to be the agent of the Company and may delegate to any such person any of its powers, authorities and discretions (with power to sub-delegate), in each case for such purposes and for such time, on such terms and subject to such conditions as it thinks fit.

General Meetings

A general meeting shall be held in each year at such time (within a period of not more than 15 months after the holding of the last preceding general meeting) and place as may be determined by the Board. The Board may convene an extraordinary general meeting whenever it thinks fit. On the requisition of members in accordance with statute, the Board shall convene an extraordinary general meeting. Whenever the Board convenes an extraordinary general meeting on the requisition of members, it shall convene it for a date not more than 6 weeks after the date when the requisition is deposited at the registered office of the Company (unless the requisitionists consent in writing to a later date being fixed). If there are not within the United Kingdom sufficient Directors capable of acting to form a quorum, any Director or any two members of the Company may convene an extraordinary general meeting in the same manner as nearly as possible as that in which meetings may be convened by the Board.

In the case of the annual general meeting or of a meeting convened to pass a special resolution at least 21 clear days' notice and in other cases at least 14 days' notice must be given. Save as otherwise provided in the Articles, all holders of Ordinary Shares shall be entitled to receive a notice.

The notice shall specify the place, the day and the hour of meeting (and in the case of an annual general meeting shall specify the meeting as such) and state with reasonable prominence that a member entitled to attend and vote is entitled to appoint a proxy, who need not also be a member, to attend and vote instead of him. In the case of special business, the notice must specify the general nature of the business (and, in the case of a meeting convened for passing a special or extraordinary resolution, the intention to propose the resolution as a special or extraordinary resolution as the case may be). The notice shall be given to the auditors of the Company and the Directors and to such members as are, under the Articles, entitled to receive notices from the Company. With the consent in writing of all, or such less number as is required by statute, of the members entitled to attend and vote, a meeting may be convened by a shorter notice and in such manner as those members think fit.

Untraced Shareholders

The Company may sell (in such manner and for such price as the Directors think fit) the shares of a member or the shares to which a person is entitled by transmission if, during a period of 12 years, at least three dividends have been paid in relation to such shares during those 12 years and no dividend has been claimed and within a further period of three months from the date of advertisements giving notice of its intention to sell such shares placed after the expiry of the period of 12 years, the Company has not received any communication in respect of such shares from the member or the person entitled to the shares by transmission.

8 Share Option Plan

The Company operates one share option scheme, the Share Option Plan, under which directors, employees or anyone providing services to the Group can be offered options to acquire Ordinary Shares. The Share Option Plan is administered by the Board. The Directors believe that the ability and expertise of the Group's personnel provides the Group with a competitive advantage. In order to attract and retain suitable personnel the Directors have adopted the Share Option Plan under which they are entitled to grant options over up to 15 per cent. of the Company's issued share capital from time to time. Options over a total of 7,000,000 Ordinary Shares have been granted to date, of which 1,350,000 have lapsed.

No share options have as yet been exercised, leaving a total of 5,650,000 outstanding as at the date of this document (approximately 5.7 per cent. of the issued share capital following Admission).

The terms of the Share Option Plan are summarised below:

Eligibility

Subject to the absolute discretion of the Board, an option may be granted to any of the following persons:

- (i) a bona fide employee (including any Director) of any member of the Group (an “**Employee**”);
- (ii) a person who has provided or is providing services to the Company or any member of the Group, or
- (iii) a person nominated by an Employee or by any person in (ii) above.

An option shall not be granted to an Employee who within a period of two years is bound to retire in accordance with the terms of his contract of employment.

Grant of Options

An option may be granted by the Company, with the prior approval of the Board, at any time between 21 May 2004 and 21 May 2014.

No option shall be granted under the Share Option Plan which would cause the aggregate number of shares which have been or may be issued on the exercise of any options granted under the Share Option Plan or any other employees’ share scheme over a ten year period to exceed 15 per cent. of the Company’s issued ordinary share capital from time to time.

Non-transferability of Options

Subject to the terms of the Share Option Plan, an option may only be exercised by the optionholder and shall immediately cease to be exercisable if, *inter alia*:

- (i) it is purported to be transferred, assigned, mortgaged, charged or otherwise disposed of by the optionholder;
- (ii) the optionholder is adjudicated bankrupt or a bankruptcy order is made against him; or
- (iii) the optionholder is otherwise deprived of the legal or beneficial ownership of the option.

Exercise Price

The exercise price shall be determined by the Board, subject to the terms of the Share Option Plan, and shall not be less than the higher of:

- (i) the market value of an Ordinary Share on the date of grant or such other price as the Board may in its discretion determine; and
- (ii) the nominal value of an Ordinary Share (unless the option is expressed to relate only to existing shares).

Conditions of Exercise

Subject to the terms of the Share Option Plan, the exercise of an option may be made conditional upon the satisfaction of certain performance criteria as the Board may determine from time to time.

Exercise of Options

Subject to the absolute discretion of the Board, on each of the first, second and third anniversaries of the date of grant, one third of the shares comprised within an option shall become exercisable and shall remain exercisable until the tenth anniversary of the grant date or such earlier date as the Company shall determine and notify to the optionholder on the date of grant.

On the death of an optionholder, any option which has become exercisable may be exercised by his legal personal representatives within a period of 18 months from the date of death and any option which has not become exercisable may be exercised, within the same period, in respect of such proportion of the Ordinary Shares in respect of which it subsists as the Board shall determine.

If a contract of employment or any other relevant agreement between an optionholder and any member of the Group or associated company in relation to which an option was granted to an optionholder

terminates by reason of, inter alia, the optionholder's injury, ill health, disability, redundancy, retirement or where the employer of the optionholder ceases to be an associated company or a member of the Group, the option may be exercised (to the extent provided for in the Share Option Plan and subject to any conditions of exercise) within a period of six months from the date of termination. Subject to the absolute discretion of the Board, if such an agreement terminates for any other reason the option may be exercised (to the extent provided for in the Share Option Plan) within a period of three months from the date of termination or within such period as the Board shall in each case determine.

Subject to the terms of the Share Option Plan, an option may be exercised early in the event of a demerger, reconstruction, winding up or takeover of the Company, notwithstanding that any performance-related condition subject to which such option is then exercisable is not then satisfied.

All options shall immediately lapse and cease to be exercisable upon the commencement of a winding up of the Company.

All Ordinary Shares allotted under the Share Option Plan will rank in all respects with the Ordinary Shares for the time being in issue, save as regards any rights attaching to such shares by reference to a record date prior to the date of such allotment.

The Company shall at all times keep available sufficient authorised but unissued Ordinary Shares to satisfy in full all options for the time being remaining capable of being exercised under the Share Option Plan.

Variation of Share Capital

Subject to the terms of the Share Option Plan, in the event of any variation in the share capital of the Company, the Company may make such adjustment as it considers appropriate to the amount of shares subject to any option and/or the exercise price payable for each share under any such option.

Alteration of the Share Option Plan

The Board may at any time alter or add to the provisions of the Share Option Plan in any respect, save that no amendments may detrimentally affect an optionholder as regards an option granted prior to the amendment being made and, where provided for in the Share Option Plan, prior approval of the Company be obtained in general meeting.

Governing Law

The terms of the Share Option Plan shall be construed in accordance with English law and by accepting an option, an optionholder irrevocably submits to the jurisdiction of the English courts in relation to the Share Option Plan.

9 Related Party Transactions

- (i) Pursuant to an oral agreement made between Duncan Geological Consulting and the Company, Donald Duncan, a Director of the Company, agreed to provide consultancy services to the Company for a fee of £450 per day. Between 26 January 2004 and 31 March 2004, Duncan Geological Consulting charged the Company £19,625 in respect of services provided by Mr Duncan. Of the fees charged £14,625 was settled by a cash payment and £5,000 was settled by the issue of 500,000 Ordinary Shares. This agreement has expired and no further obligations are due pursuant to it by either party.
- (ii) Pursuant to a letter agreement made between Vladimir Dubyagin and the Company dated 1 June 2004, Mr Dubyagin agreed to provide consultancy services to the Company for an annual fee of £36,000 (plus VAT). Mr Dubyagin has been a director of the Russian Subsidiaries since 27 May 2005. This agreement is ongoing and can be terminated by either party giving at least three months' written notice.
- (iii) Pursuant to an oral agreement made between Dr Sergey Kurzin, a Director of the Company, and the Company, Dr Kurzin agreed to provide consultancy services to the Company for a one-off fee of £73,125 in respect of the negotiation and acquisition of the Licences. This agreement has expired and no further obligations are due pursuant to it by either party.
- (iv) Pursuant to an oral agreement made between Stephen Dattels and the Company, Mr Dattels agreed to provide consultancy services to the Company for a one-off fee of £73,125 in respect of the negotiation and acquisition of the Licences. At the time these services were rendered, Mr Dattels

was a director of the Company. This agreement has expired and no further obligations are due pursuant to it.

- (v) Pursuant to agreements made between CKE and each of the Russian Subsidiaries dated 10 March 2004, CKE agreed to provide geological research and exploration services to the Russian Subsidiaries in respect of the Licences. Between 9 June 2004 and 19 December 2005, CKE charged the Russian Subsidiaries US\$1,341,968. Vladimir Dubyagin is currently the Director General of CKE and has been a director of the Russian Subsidiaries since 27 May 2005.
- (vi) Pursuant to the Reynalda Share Purchase Agreement, Sergey Kurzin and his wife, Jennifer Mary Kurzin, received a total of 5,000,000 Ordinary Shares in consideration for their shares in Reynalda.
- (vii) Pursuant to the Reynalda Share Purchase Agreement, Stout Investments Limited (a company registered in the British Virgin Islands) received a total of 5,000,000 Ordinary Shares in consideration for its shares in Reynalda. At the time of the Reynalda Share Purchase Agreement, Stephen Dattels was a director of the Company and held a beneficial interest in Stout Investments Limited.
- (viii) Pursuant to an oral agreement made between Caledon Resources plc (“**Caledon**”) and the Company, Caledon agreed to share office facilities and services with the Company at 18 Upper Brook Street, London W1K 7PU. Between 31 May 2004 and 31 January 2006, Caledon charged the Company £65,777. During this time, Stephen Dattels was a director of Caledon until his resignation on 15 February 2005. He was also a director of the Company until 15 February 2005.
- (ix) Pursuant to an oral agreement made between Oriel Resources plc (“**Oriel**”) and the Company, Oriel has agreed to share office facilities and services with the Company at One Red Place, London W1K 6PL from 27 March 2006 for approximately £2,550 per month. Dr Sergey Kurzin, David Swan and Geoffrey Bush are all currently directors of Oriel.

10 Material Contracts

The following contracts, being either (i) contracts which relate to the Group’s Licences and Projects and are, or may be, material; and/or (ii) contracts not entered into in the ordinary course of business which have been entered into by a member of the Group in the two years prior to the date of this document or prior thereto where a member of the Group has any outstanding obligations thereunder and are, or may be, material.

(i) Acquisition Agreements

- (a) Pursuant to a share purchase agreement dated 16 June 2004, it was initially agreed between the Company and Mohul Nominees Limited (“**Mohul**”), amongst others, (collectively, the “**Reynalda Vendors**”), that the Company would acquire the entire issued share capital of Reynalda from the Reynalda Vendors for the total consideration of (i) US\$500,000, and (ii) the issue of 30,000,000 Ordinary Shares (credited as fully paid) (the “**Reynalda Share Purchase Agreement**”). The Reynalda Vendors directed that 6,000,000 Ordinary Shares be issued to Elcan Nominees Limited, the vendor of Edlin (“**Elcan**”), as settlement for part of the consideration payable by Reynalda to Elcan pursuant to a share purchase agreement dated 16 June 2004 for the acquisition of the entire issued share capital of Edlin (the “**Edlin Share Purchase Agreement**”). Pursuant to a supplemental agreement made between Mohul, Reynalda and Edlin dated 3 February 2005 (the “**Supplemental Agreement**”), Mohul agreed that the payment of US\$500,000 by the Company to Mohul would be applied towards discharging Reynalda’s obligations to Edlin pursuant to the Edlin Share Purchase Agreement. The Reynalda Share Purchase Agreement was completed on 16 June 2004. It does not contain a governing law clause.
- (b) Pursuant to the Edlin Share Purchase Agreement, it was initially agreed between Reynalda and Elcan that Reynalda would acquire the entire issued share capital of Edlin from Elcan for the total consideration of (i) US\$500,000 payable to Elcan within 30 days of completion of such acquisition, (ii) delivery by the Reynalda Vendors to Elcan of 6,000,000 Ordinary Shares (credited as fully paid) and (iii) certain deferred consideration. The deferred consideration, initially, was to consist of two payments. The first deferred payment was to be for the sum of US\$2 per carat of rough diamonds to be estimated pursuant to a feasibility study undertaken on any such Project (the “**First Deferred Payment**”). This First Deferred Payment was to be made within 90 days of completion of a positive feasibility study undertaken on any of the

Projects. The second deferred payment was to be for the sum of US\$3 per carat of rough diamonds to be estimated in a feasibility study undertaken on any such Project (the “**Second Deferred Payment**”). This Second Deferred Payment was to be made within 180 days of the commencement of commercial production with respect to any such Project. The acquisition of Edlin was completed on 16 June 2004. Pursuant to the terms of the Supplemental Agreement, Elcan confirmed to the parties thereto that US\$300,000 out of the US\$500,000 received by Elcan pursuant to the Edlin Share Purchase Agreement would be applied towards discharging the consideration payable by Edlin to the vendors’ of the Russian Subsidiaries (as set out below) pursuant to a series of share purchase agreements dated 16 June 2004 for the acquisition of 80 per cent. of the issued share capital of the Russian Subsidiaries (the “**Russian Share Purchase Agreements**”). In addition it was further agreed by Elcan that the First Deferred Payment and the Second Deferred Payment payable under the Edlin Share Purchase Agreement would be partly applied towards discharging the consideration payable under the Russian Share Purchase Agreements (as set out in paragraph 10(i)(c) below) upon the exercise of the Option. To date as no feasibility report has been produced no obligation has arisen to pay either the First Deferred Payment or the Second Deferred Payment. The Edlin Share Purchase Agreement does not contain a governing law clause.

- (c) Pursuant to the Russian Share Purchase Agreements, Edlin agreed to acquire from Mr Radchenko, Mr Gainullin and Mr Natalenko, three Russian Federation citizens owning 80 per cent. of the participatory interest in the charter capital of the Russian Subsidiaries, for the total consideration of US\$300,000 payable within 30 days of completion of such acquisition. In addition Edlin has agreed to acquire an additional 10 per cent. of the participatory interest in the charter capital in the Russian Subsidiaries in consideration for the payment of an amount equal to US\$0.50 per carat of rough diamonds to be estimated in a feasibility study with respect of any of the Projects payable within 90 days of approval of such report, and an additional 4 per cent. in consideration of the payment of an amount equal to US\$0.50 per carat of rough diamonds estimated in such feasibility report, payable within 180 days of the commencement of commercial production with respect to such Project. To date as no positive feasibility study has been produced no obligation has arisen to pay either the First Deferred Payment or the Second Deferred Payment. In addition Edlin shall not be under any obligation to purchase the additional 14 per cent. of the participatory interest in the charter capital of the Russian Subsidiaries in the event that any of the representations or warranties in the Russian Share Purchase Agreement made to Edlin change or in the event of a force majeure having an effect for over 3 months.

(ii) CKE Share Purchase Agreements

Pursuant to the following CKE Share Purchase Agreements, the Russian Subsidiaries, between them, acquired 41.35 per cent. of the issued share capital of CKE:

- (a) Pursuant to a series of share purchase agreements dated 20 July 2004 made between Kola and certain Russian individuals, Kola acquired 103 shares of CKE, equal to 1.65 per cent. of the issued share capital of CKE, for a purchase price of 300 Roubles per share.
- (b) Pursuant to a share purchase agreement dated 17 December 2004 made between Olenegorskaya and Yuksporskaya Mining Company, a Russian limited liability company, Olenegorskaya acquired 1,240 shares of CKE, equal to 19.90 per cent. of the issued share capital of CKE, for a purchase price of 30 Roubles per share.
- (c) Pursuant to a share purchase agreement dated 17 December 2004 made between Keiv and Terskaya Mining Company, a Russian closed joint stock company, Keiv acquired 1,233 shares of CKE, equal to 19.80 per cent. of the issued share capital of CKE, for a purchase price of 28 Roubles per share.

(iii) Licence Agreements

- (a) Pursuant to a licence agreement made between Olenegorskaya and the Ministry of Natural Resources in March 2004, Olenegorskaya was granted the Ermakoyskaya Licence effective from 10 March 2004 subject to certain terms and conditions as set out in paragraph 7 of Part I of this document.
- (b) Pursuant to a licence agreement made between Keiv and the Ministry of Natural Resources effective from March 2004, Keiv was granted the Pulongskaya Licence on 10 March 2004 subject to certain terms and conditions as set out in paragraph 7 of Part I of this document.
- (c) Pursuant to a licence agreement made between Keiv and the Ministry of Natural Resources effective from March 2004, Keiv was granted the Tulomo-Teriberskaya Licence on 10 March 2004 subject to certain terms and conditions as set out in paragraph 7 of Part I of this document.
- (d) Pursuant to a licence agreement made between Kola and the Ministry of Natural Resources in March 2004, Kola was granted the Varzugskaya Licence effective from 10 March 2004 subject to certain terms and conditions as set out in paragraph 7 of Part I of this document.

(iv) Nominated Adviser and Broker Agreement

Pursuant to an agreement dated 31 March 2006 made between Canaccord, the Company and the Directors, Canaccord was appointed to act as the Company's Nominated Adviser and Broker for a period of one year from the date of Admission and thereafter unless terminated by at least three months' prior written notice by Canaccord or the Company (the "**Nominated Adviser Agreement**"). Under the terms of the Nominated Adviser Agreement, the Company has agreed to pay Canaccord for its services an annual fee of £50,000 (plus VAT) payable half yearly in advance with effect from Admission. The Company and the Directors provide certain undertakings and the Company and the executive Directors provide indemnities to Canaccord under the Nominated Adviser Agreement.

(v) Flotation Agreement

Pursuant to an agreement dated 31 March 2006 made between (1) Canaccord, (2) the Directors and (3) the Company, the Company has agreed to pay Canaccord a fee of £75,000 (plus VAT) for the provision of corporate advisory services in connection with Admission (the "**Flotation Agreement**"). The Flotation Agreement contains various warranties from the Company and the Directors and indemnities from the Company and executive Directors in favour of Canaccord. The Directors have also undertaken, save in certain limited circumstances, not to dispose of any of their Ordinary Shares for a period of not less than 12 months from Admission. In addition the Directors have further undertaken that for a further period of 12 months from the first anniversary of Admission they will only sell or otherwise dispose of their Ordinary Shares (having first consulted with the Company's nominated adviser and broker) on an orderly market basis.

(vi) RAB Investment Agreement

Pursuant to an agreement dated 14 March 2006 made between RAB Special Solutions (Master) Fund Limited ("RAB") and the Company, RAB subscribed for 12,500,000 Ordinary Shares at an issue price of 4 pence per share (the "**Investment Agreement**"). The Investment Agreement contains various warranties from the Company in favour of RAB. In addition, pursuant to the Investment Agreement, RAB is entitled to such number of Ordinary Shares as is equal to 2 per cent. of the total number of Ordinary Shares of the Company in issue at the relevant date if Admission does not occur by 30 April 2006. These shares were allotted on 16 March 2006.

(vii) Existing Shareholder Subscription Agreements

In March 2006 the Company entered into subscription agreements with certain existing shareholders and a number of institutional investors in connection with a private placement of 12,500,000 Ordinary Shares in aggregate at an issue price of 4p per Ordinary Share. These shares were allotted on 31 March 2006.

(viii) Cenkos Agreements

The Company entered into two engagement letters with Cenkos Securities Limited ("**Cenkos**") on 31 May 2005 in relation to the Company's proposed admission to AIM and proposed related placing

in 2005, neither of which ultimately took place. Pursuant to one engagement letter, Cenkos was appointed as the Company's nominated adviser and broker conditional on the Company's admission to AIM (the "**Cenkos Nomad Letter**"). No fees other than expenses were paid under the Cenkos Nomad Letter as the admission did not occur. Pursuant to the other engagement letter, Cenkos was appointed as broker to the Company on an exclusive basis in connection with the Company's intention to undertake a placing of Ordinary Shares and its proposed admission to AIM (the "**Cenkos Broker Letter**"). Under the terms of the Cenkos Broker Letter, Cenkos was to provide certain corporate finance services to the Company in consideration for a success fee of 6 per cent. of funds raised in connection with the engagement, a retainer fee of £20,000 per month (to be off-set against a corporate finance fee of £100,000 payable upon admission to AIM), and a warrant to subscribe for 1 per cent. of the ordinary share capital of the Company on completion of the transaction contemplated by the Cenkos Broker Letter at the price at which shares were issued thereunder. The Cenkos Broker Letter further provided that in the event of termination by the Company, the above compensation would be payable in the event a similar transaction was completed by the Company prior to 31 May 2006, provided Cenkos had fulfilled their role and responsibilities as set out in the Cenkos Broker Letter. In the event, Cenkos provided services for approximately two months following the date of the execution of the Cenkos Broker Letter, at which point services ceased. The Company has paid £40,000 in retainer fees under the Cenkos Broker Letter in respect of such services. The Company is of the view that, although no formal written termination agreement has been entered into between the parties, both the Cenkos Nomad Letter and Cenkos Broker Letter have been terminated by mutual consent and accordingly, since such agreements were not terminated by the Company, Cenkos has no further rights, and the Company has no further liabilities, under either the Cenkos Nomad Letter or the Cenkos Broker Letter, other than pursuant to the customary corporate finance indemnities contained in each.

(ix) **Lock-in Agreement**

Pursuant to an agreement dated 31 March 2006 made between (1) Canaccord, (2) the Company and (3) Kira Pecherska, Kira Pecherska has undertaken, save in certain limited circumstances, not to dispose of any of her Ordinary Shares for a period of not less than 12 months from Admission. In addition, Kira Pecherska has further undertaken that for a further period of 12 months from the first anniversary of Admission she will only sell or otherwise dispose of her Ordinary Shares (having first consulted with the Company's nominated adviser and broker) on an orderly market basis.

11 Group's Litigation

No member of the Group is or has been involved in any governmental, legal or arbitration proceedings which may have or has had during the 12 months preceding the date of this document a significant effect on the Group's financial position or profitability nor, so far as the Company is aware, are any such proceedings pending or threatened against any member of the Group.

12 Taxation

The following statements are intended only as a general guide to the current tax position under UK taxation law and HM Revenue & Customs practice. An investor who is in any doubt as to his or her tax position or is subject to tax in any jurisdiction other than the UK should consult his or her professional adviser without delay.

(a) *United Kingdom Taxation*

The statements set out below are general in nature and are intended only as a general guide to certain aspects of current UK law and HM Revenue & Customs practice and apply only to certain categories of persons. The summary does not purport to be a complete analysis of all the potential tax consequences of acquiring, holding and disposing of Ordinary Shares and only relates to the position of shareholders who are the beneficial owners of their Ordinary Shares and who hold their Ordinary Shares as investments; in particular it does not address the position of certain classes of shareholders, such as dealers in securities.

Prospective purchasers of Ordinary Shares who are in any doubt about their tax position, and in particular those who are subject to taxation in any jurisdiction other than the UK, are strongly recommended to consult their own tax advisers concerning the tax consequences of the acquisition, ownership and disposal of Ordinary Shares.

This summary is based upon UK law and HM Revenue & Customs practice as of the date of this document. UK law and HM Revenue & Customs practice may be subject to change, possibly with retroactive effect.

(b) Dividends

No tax is withheld on dividends paid by the Company.

In respect of dividends on Ordinary Shares, individual shareholders who are resident in the UK for tax purposes are entitled to a tax credit at the rate of one ninth of the cash dividend or ten per cent, of the aggregate of the cash dividend and the associated tax credit. Dividend income will be treated as the top slice of an individual's income. Shareholders receiving dividends will be liable to income tax (if at all) on the aggregate of the dividend and the associated tax credit at, in the case of starting and basic rate taxpayers, the rate of 10 per cent. or, in the case of higher rate taxpayers, the rate of 32.5 per cent.. The tax credit is offset against the total income tax liability. Taxpayers who, after taking into account dividend income, are liable to UK income tax at only the starting or basic rate will have no further liability to income tax. Higher rate taxpayers will, after taking into account the tax credit, have an additional tax liability of 25 per cent. of the cash dividend.

No repayment of the tax credit in respect of dividends can be claimed by a UK resident Shareholder.

Subject to certain exceptions for some insurance companies, UK tax resident corporate shareholders are not (unless carrying on a trade of dealing in shares) liable to UK corporation tax or income tax in respect of dividends.

Non-UK resident shareholders and shareholders subject to tax in a jurisdiction other than the UK should consult an appropriate professional adviser concerning their liabilities to tax on dividends received and the effect of the above changes for them.

(c) Taxation of Chargeable Gains

A disposal of all or any part of a holding of Ordinary Shares may, depending on the shareholder's individual circumstances, give rise to a liability to pay UK taxation on chargeable gains. Individuals, personal representatives and trustees resident or ordinarily resident for tax purposes in the UK may be entitled to business asset taper relief which has the effect of reducing the chargeable gain. Corporate shareholders are not entitled to taper relief but may receive indexation allowance, which reduces the gain, broadly, by the value of inflation.

(d) UK Inheritance Tax

The Ordinary Shares will be assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by, or on the death of, an individual holder of such assets may (subject to certain exemptions and reliefs, in particular Business Property Relief) give rise to a liability to UK inheritance tax. This is regardless of whether or not the individual holder is domiciled or deemed to be domiciled in the UK and whether or not the holder is resident and/or ordinarily resident in the UK for tax purposes. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply where the donor reserves or retains some interest or benefit in the property being transferred. Special rules also apply to close companies and to trustees of settlements who hold Ordinary Shares bringing them within the charge to UK inheritance tax.

(e) Stamp duty and stamp duty reserve tax ("SDRT")

Issue

No stamp duty, or SDRT, will be payable on the allotment or issue of Ordinary Shares, provided that they are not issued to a nominee or agent whose business includes the provision of clearance services or the issuance of depository receipts.

Transfer

Transfers of Ordinary Shares outside the CREST system will generally be liable to stamp duty on the instrument of transfer at a rate of (currently) 0.5 per cent. of the amount or value of the consideration given for the shares (rounded up to the nearest £5). Stamp duty is normally the liability of the transferee of the shares. An agreement to transfer Ordinary Shares will generally be subject to SDRT at a rate of (currently) 0.5 per cent. of the agreed consideration. If, however, the agreement is subsequently perfected by an instrument of transfer which is duly stamped before the expiry of six years from the date of the

agreement (or, if later, the date upon which it becomes unconditional) any SDRT will be cancelled or, to the extent already paid, will, upon a claim being made, be repaid, SDRT is normally paid by the person to whom the shares will be transferred under the agreement.

Entry into CREST

No stamp duty or SDRT should arise on the transfer of the Ordinary Shares to CREST for conversion into uncertificated form, unless the transfer is for consideration.

Transfers within CREST

Ordinary Shares may be transferred in a paperless form within CREST. Any such transfer will normally be subject to SDRT at a rate of (currently) 0.5 per cent. of the amount or value of the consideration paid for the Ordinary Shares. CREST is obliged to collect SDRT from the transferee in relation to transactions settled through the CREST system.

13 Working Capital

In the opinion of the Directors, having made due and careful enquiry, the working capital available to the Company and its subsidiaries will be sufficient for the Company's present requirements, that is for at least twelve months from the date of Admission.

14 Fees and Other Benefits

- (a) No payments aggregating over £10,000 to any government or regulatory authority or similar body have been made by or on behalf of the Company with regard to the acquisition or maintenance of its assets other than the annual licence fees as set out in Figure B in paragraph 1 of Part I which are payable to the Federal Service for the Supervision of Natural Resource Usage, a sub-division of the Ministry of Natural Resources.
- (b) Other than professional advisers disclosed in this document, and trade suppliers and those persons detailed below, no person has received, directly or indirectly, from the Company within 12 months immediately preceding the date of this document or has entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission:
 - (i) fees totalling £10,000 or more;
 - (ii) securities in the Company with a value of £10,000 or more calculated by reference to the expected opening price; or
 - (iii) any other benefit with a value of £10,000 or more at the date of this document.

Name of Party	Services Provided	Fees/Benefit Received
Lorotech Pty Limited	Geophysical services	£46,987.10
Loeb Aron & Co Limited	Corporate advisory services	£10,000.00
Furgo Airborne Surveys	Geophysical surveying services	£212,795.10
Vladimir Petrovich Dubyagin	Consultancy services	£39,000.00
Stephen Dattels	Office facilities and services	£30,600.00 per annum
Caledon Resources plc	Office facilities and services	£33,767.76
MSA Geoservices Pty Limited	Geological sample analysis services	£44,330.39
Cenkos Securities Limited	Corporate advisory services	£75,250.00
Stringer Saul LLP	Legal services	£47,541.49

15 General

- (a) There has been no significant change in the trading or financial position of the Group since 30 June 2005 being the date to which the most recent interim financial information has been published. Save as disclosed in this document, no exceptional factors have influenced the Company's activities.
- (b) The financial information contained in this document does not constitute statutory accounts within the meaning of Section 240 of the Act. Statutory Accounts of the Company for the period from incorporation to 31 December 2004 have been delivered to the Registrar of Companies and the auditors have given a report under Section 235 of the Act or such accounts which was not qualified and did not contain any statement under Section 237(2) or (3) of the Act. The auditors of the Company, BDO Stoy Hayward LLP (London), audited these accounts.

- (c) Save for the Licences, there are no patents or licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Group's business or profitability.
- (d) Save as disclosed in this document, there are no events known to the Company that have had or are, in the opinion of the Directors, reasonably likely to have a material effect on the Company's prospects during the current financial year.
- (e) Save as disclosed in this document, the Group has not made any significant investments since 30 June 2005 up to the date of this document, nor are there any investments by the Group in progress or anticipated which are significant.
- (f) Save as disclosed in this document, no commission is payable by the Company to any person in consideration of his agreeing to provide subscriptions for any securities of the Company.
- (g) Save as disclosed in this document, there are no environmental issues that may affect the Group's utilisation of its tangible fixed assets.
- (h) There have been no public takeover bids by third parties in respect of the Company's equity during the last financial year or the current financial year.
- (i) No financial information contained in this document is intended by the Company to represent or constitute a forecast of profits by the Company nor to constitute publication of accounts by it.
- (j) SRK has given and not withdrawn its written consent to the issue of this document with its name included in it and with inclusion therein of its report and references thereto in the form and context in which they appear.
- (k) BDO Stoy Hayward LLP has given and not withdrawn its written consent to the inclusion in this document of its report in Section A of Part IV and any references thereto in the form and context in which they appear.
- (l) Canaccord has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.

16 Availability of this Document

Copies of this document will be available for collection only, free of charge, from the offices of Canaccord Adams Limited at 1st Floor, Brook House, 27 Upper Brook Street, London W1K 7QF during normal business hours on any weekday (Saturdays and public holidays excepted) for a period of not less than one month from the date of Admission.

Dated 31 March 2006

APPENDIX

GLOSSARY OF TECHNICAL TERMS

The following expressions in this document have the following meanings unless the context otherwise requires or unless otherwise provided.

aesthenosphere	semi-molten deformable mantle rocks lying above the Earth's outer core.
alluvial	carried by and deposited by water.
Archaean	the earliest period of the Earth's history, from 4600 million years to 2500 million years before the present day.
Baltic Shield	an area in Northern Europe containing the oldest rocks of the continent.
brecciated	pertaining to rock broken (shattered) by igneous or metamorphic processes.
bulk sample	a sample of up to several thousand tonnes, excavated by mechanical means
carat	the standard unit of diamond weight, 1 carat = 0.2 gm.
chrome diopside	a kimberlite indicator mineral – a clinopyroxene chain silicate.
craton	a part of the Earth's crust which has been geologically stable for a long period (usually denoted in thousands of million years).
crustal	referring to the outer rock skin of the Earth.
diatreme	the middle, “carrot-shaped” portion of a fully-developed kimberlite or other pipe-like igneous intrusive rock.
diamondiferous	diamond-bearing.
dyke	a vertically oriented sheet of igneous rock, varying in width from a few centimetres to tens or hundred of metres.
feasibility study	an advanced study undertaken to determine the economic viability of a mineral deposit to a reasonable degree of accuracy.
G10	a type of peridotitic garnet often associated with diamondiferous kimberlites.
Ga	billion years (one thousand million) before present.
garnet	a silicate mineral with many varieties. Specific compositions can be related to pressures and depths of formation. Pyrope garnets are Cr-rich and are a kimberlite indicator mineral.
ilmenite	sometimes picroilmenite – a kimberlite indicator mineral containing iron and titanium.
indicator minerals	minerals found in kimberlites which are indicative, in surface sediments, of the presence of this rock type. The most common are: pyrope garnet, chrome diopside, picroilmenite and chrome spinel (chromite).
intrusive	an igneous rock which has a relatively viscous magma and which may solidify within the Earth (as opposed to extrusive rocks whose magmas tend to “flow” on the surface of the Earth).
JORC Code	the Australasian Code for Reporting of Mineral Resources and Ore Reserves. The JORC code retains a mineral deposit in the resource category until economic, technical, legal and environmental criteria have been assessed and satisfied, allowing the estimated extractable tonnage and grade to be classified as an ore reserve.

Karelian Craton	an area of NW Europe containing rocks with ages of 2.5 by or greater, which has not been subject to major geological events since that time.
kimberlite	a complex, brecciated, potassic, ultramafic intrusive rock of mantle origin. Kimberlites typically occur as carrot-shaped “pipes” and are the major source of primary diamonds.
Kola Peninsula	a peninsula in the far north of the Russian Federation, which forms part of the Murmansk Oblast and borders the Barent Sea to the north and the White Sea to the east and south.
lineaments	linear features of geological or geomorphological origin.
Ma	million years before present.
microprobe	more properly an electron, proton or ion microprobe – a machine for determining the chemical makeup of mineral grains.
mineral resource	<p>Under the JORC Code, a Mineral Resource is a concentration or occurrence of material of intrinsic economic interest in or on the Earth’s crust in such form and quantity that there are reasonable prospects for eventual economic extraction. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.</p> <p>Inferred 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 limited or of uncertain quality and reliability.</p> <p>Indicated Resource: That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.</p> <p>Measured Resource: That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.</p>
mobile belt	a zone between two or more stable geological blocks where rock deformation and movement takes place.
mW/m ²	milliwatts per square metre – a measurement of the flow of heat within the Earth.
ore reserve	Probable Reserve: The economically mineable part of an Indicated, and in some circumstances Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental

factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

Proved Reserve: The economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments have been carried out which demonstrate at the time of reporting that extraction could reasonably be justified.

paragenesis	the physical and chemical regime in which minerals or rocks are formed.
pyrope garnet	a variety of the mineral garnet which crystallises at high pressures and temperatures.
Root Zone	the lowest of the three main zones within a fully-developed kimberlite, likened to the root of a tooth.
size fraction	pertaining to sediment samples, the range of size of the sediment being collected e.g. $-1+0.5\text{mm}$.
spinel	a kimberlite indicator mineral – an oxide, not a silicate.
stream sample	a sample taken within the confines of a stream bed, where it is suspected that indicator minerals will have been preferentially concentrated.
Sveconorwegian	a geological province, formed between 1700–900 Ma.
Svecofennian	a geological province, formed between 1900–1750 Ma.

