

# AFRICAN DIAMONDS



**Interim Statement**  
**1 July 2005 - 31 December 2005**

**Interim results for the six months to 31 December 2005****Highlights**

- The African Diamonds Board believes the full potential of the AK6 diamond discovery at the Boteti Exploration Project in Botswana with De Beers as a partner has yet to be revealed. The current evaluation programme is expected to deliver further improvements in tonnage, grade and values.
- Significant progress has been made on the AK6 discovery with encouraging and consistently good drilling results, the discovery of rare Type II diamonds and an improving diamond size frequency distribution. The presence of large Type II diamonds offers significant upside potential in the overall value of the AK6 project.
- Given drilling and other results, African Diamonds believes that the initial diamond valuation, modelled in late 2004 at \$138 per carat, is, conservative. A definitive diamond valuation exercise is scheduled to take place in May 2006.
- The AK6 project is being fast tracked by our partner, De Beers. African Diamonds now expect the Conceptual Study Report, a pre feasibility study subject to finance, to be completed by end 2006, some 12 months ahead of the original schedule.
- African Diamonds raised £4.5 million in January 2006 and has adequate working capital to fund its activities in Botswana beyond the Conceptual Study Report expected end 2006.
- African Diamonds anticipate expenditure of some £1.5 million on its West Africa properties to provide plant to support ongoing trial mining in Guinea and to initiate production from diamond tailings and to better explore kimberlite dykes in Sierra Leone.
- Consideration is being given by the Board of African Diamonds to maximizing the value of the Sierra Leone and Guinea exploration activities, now held in a separate subsidiary. One option being considered is to spin off these assets to African Diamonds shareholders.

John Teeling, Chairman said:

"The AK6 diamond discovery near Orapa, Botswana is fast becoming recognized as a world class project. The consistently good drilling results, the discovery of rare Type II diamonds and the improving diamond size frequency distribution, support your Board's view that AK6 could be one of the top diamond mines in the world. Your Board believes that, in light of the expected timing of the Conceptual Study Report by end Q4 2006, and depending on the development option finally adopted, it is now possible that first production from AK6 could commence as early as 2008".

### Dear Shareholder

African Diamonds is an active diamond explorer and developer in Botswana, Sierra Leone and Guinea. The principal focus is on Botswana where there has been considerable progress in the company's Boteti Joint Venture with De Beers. The joint venture contains the world class AK6 project. African Diamonds is also exploring actively for diamonds in Guinea where it has ongoing alluvial trial mining and in Sierra Leone where it intends initiating production from tailings and commencing diamond exploration on a collection of kimberlite dykes.

The AK6 discovery, is currently estimated to contain 59 million tonnes of kimberlite down to 400m below surface with modelled diamond grades of 25 carats per hundred tonnes (cpht). The diamonds recovered to date have a modelled value of US \$138 per carat. The AK6 project is now being fast tracked by our partner, De Beers. The consistently excellent results from the Large Diameter Drill (LDD) programme under Phase 1 of the Resource Definition now points to a significant reduction in the amount of additional drilling required by De Beers and African Diamonds to make a development decision. Both Phase 1 and Phase 2 (including a large bulk sample) are now due for completion by fourth quarter 2006. In the light of the consistency of the current drilling results, the original Phase 3 programme may no longer be required. This would allow the resource definition to be completed some 12 months ahead of the original schedule.

Preliminary conceptual mine and plant designs have been prepared by De Beers and they are moving ahead with plant and process design, and environmental studies. A financial model has been prepared and will be populated once the diamond value, tonnage and grade are finalized. Your Board believes that, in the light of completion of the revised timing for the Conceptual Study Report by Q4 2006, and depending on the development option finally adopted, it is now possible that first production from AK6 could commence as early as 2008.

A material boost to the potential valuation of AK6 was the discovery of Type II diamonds. The presence of large Type II diamonds offers significant upside potential in the overall value of the project. These exceedingly rare stones (2% of all diamonds) contain no chemical impurities and as such are highly prized. They are very hard to recover in sampling and mining as they do not commonly fluoresce so x-ray recovery can not be used. Only 3 or 4 mines in the world have these gems, including the Premier and Koffiefontein mines in South Africa operated by De Beers which has refined Type II diamond recovery methods. Type II diamonds are also found at the Letseng mine in Lesotho. The development of AK6 will therefore have the benefit of access to De Beers specialist recovery methods.

Diamonds from the AK6 discovery were initially modelled in 2004 at a value of \$138 per carat. Prices have risen since then and, more importantly, given the nature of the diamonds in AK6 and their size distribution, your Board now believes the resource estimate is conservative and the per carat valuation is now higher. Importantly, the sample results in Table 1 below have grades averaging above 28 carats per hundred tonnes.

A formal valuation of AK6 diamonds will occur in May when international diamond experts from the Diamond Trading Company (DTC) will value the 12,000 plus stones recovered from LDD drilling. This process is known as a "diamond layout" and is key to determining a representative value for AK6 diamonds.

## Other Botswana Exploration Activities

In the Orapa area the following exploration activities are underway:

- A further 5 holes are being drilled on kimberlite AK8 where a 2.5 hectare lobe contains 9 to 16cpt
- Kimberlite BK13 is being bulk sampled
- Kimberlites AK17 and AK13 are being core drilled

- 13 targets identified by airborne geophysics, are being followed up with ground magnetic surveys
- Over 100 additional targets remain to be investigated
- Eight known kimberlites remain to be bulk sampled

The 100% African Diamonds owned Mmashoro licence has two targets requiring further work.

### West African Diamond Subsidiary Established

African Diamonds has established a wholly-owned subsidiary, West African Diamonds, to hold its Sierra Leone and Guinea operations. The Board's objective in separating Sierra Leone and Guinea from its Botswana interests is to exploit the exploration value inherent in African Diamonds West African portfolio. The licences held in West Africa, particularly in Sierra Leone, have significant development potential, and when combined with the properties in Guinea, provide a portfolio that could form the basis of a successful diamond exploration and production company.

The Board is in discussions with its financial adviser and broker, Westwind Partners, on options on how best to optimize value for shareholders by either distributing these shares in West African Diamonds to African Diamonds shareholders tax effectively or other options such as joint venturing the projects or acquiring stakes in other joint ventures or listed companies.

### Exploration Activities In West Africa

African Diamonds holds three prospecting licences and one mining licence in the Koidu area of Sierra Leone adjacent to the Energem mine and the new Petra Diamonds/Mano River dyke mining project, as well as three licences in Guinea.

In Sierra Leone, African Diamonds holds a mining licence over a 7 million tonne undersize tailings dump which came from the operation of Plant 11, one of the largest alluvial mining operations ever, which produced for 23 years. It is the intention of African Diamonds to put a plant on site to recover the gold content and to ship the concentrate for diamond recovery to our existing diamond plant at Pipe 3 in Koidu. The installed capital cost of the new plant is estimated at about £1 million.

A quotation has also been obtained for a small diamond recovery plant to better explore the dykes, of which Pipe 3, appears to be a part. This trial mining will involve shafts and drives along some of the dykes already mapped by African Diamonds. Estimated purchase and installation costs are £500,000. The current plant located at Pipe 3 will also be refurbished. In addition to the advanced stage projects, there is excellent potential in the remaining dykes on African Diamonds licences. On ground adjacent to African Diamonds licences, where Petra Diamonds is commencing dyke mining, the expected grades are between 60 and 100 carats per hundred tonnes. Operations in Guinea, where African Diamonds has 3 concessions, is continuing at a modest level of activity. The small scale alluvial recovery operation is showing promising results in terms of diamond grade and recoveries.

## Financial

Unaudited financial information for the six month period ending 31 December 2005 is attached. Group operating costs, at £0.129 million, were consistent with the previous reporting period and confirms African Diamonds as a low cost diamond venture. Net assets, as at 31 December 2005, were £3.299 million and cash outflows during the period of £0.458 million benefited from lower capex expenditure. African Diamonds has a free carry in Botswana on all expenditure under the Boteti joint venture agreement.


In January 2006, African Diamonds raised £4.5 million by way of a private placement at 63p a share. The balance sheet, as at 31 December 2005, does not incorporate these funds. Your Board believes African Diamonds current cash balance is more than adequate to fund ongoing working capital and other commitments in its operations as well as to finance new exploration projects in Botswana.

## Future Prospects

The African Diamonds Board believes the full potential of the AK6 project has yet to be revealed. The current evaluation is expected to deliver further improvements in tonnage, grade and values. The presence of large Type II diamonds offers significant upside potential in the overall value of the project.

African Diamonds focus is firmly on Botswana on the AK6 discovery but the Company also wants to expand its operations beyond AK6. The Board is confident that additional production opportunities will arise for African Diamonds to develop diamond discoveries smaller than AK6 as part of the Boteti Exploration Project. African Diamonds would also like to grow further its already significant exploration acreage in Botswana.

On West Africa, within six months, we anticipate that the Board will have reached a decision and implemented how best to optimize the value of our West African exploration portfolio. African Diamonds anticipates modest production from ongoing alluvial test mining in Guinea and dyke mining in Sierra Leone.



John Teeling  
Chairman

31 March 2006

This table has been approved by Alex Van Zyl, Technical Director.

Lobe	Hole ID	Drilling		Diamond Recovery Status	Macro-diamond Results		Carats	Carats per hundred tonnes
		Status	Depth (m)		*Sample Mass (tonnes)	# Stones		
North	AK06/LDD010	Abandoned	18	Completed	4	0	0.000	
North	AK06/LDD010A	Completed	180	Completed	120	377	37.435	30.87
North	AK06/LDD011	Completed	197	Completed	132	414	38.285	29.00
Centre	AK06/LDD007	Completed	222	Completed	155	513	34.010	21.94
Centre	AK06/LDD008	Completed	180	Completed	131	500	34.020	25.95
Centre	AK06/LDD012	Completed	198	Completed	132	636	35.085	26.60
Centre	AK06/LDD013	Completed	180	Completed	116	534	33.775	29.12
Centre	AK06/LDD014	Completed	180	Completed	116	488	47.805	41.20
South	AK06/LDD006	Completed	358	Completed	298	595	36.467	12.24
South	AK06/LDD009	Completed	354	Completed	284	789	61.340	21.60
South	AK06/LDD015	Completed	408	Completed	321	1740	121.615	37.90(i)(ii)
South	AK06/LDD016	Completed	408	Completed	316	2258	122.10	36.80(ii)
South	AK06/LDD017	Completed	408	In Progress				
South	AK06/LDD018	Completed	408	In Progress				
		<b>Total</b>	3,699		<b>2,124</b>	<b>8,844</b>	<b>604.937</b>	<b>28.48</b>

(i) The presence of Type II diamonds in hole 15 indicates that earlier holes need to be re-analysed as Type II diamonds are not recovered by X-ray. Visual analysis suggests the presence of Type II in some of these holes. As a result the grade could increase as could the value per carat.

(ii) Large stones recovered in these holes.

**Six Months ended**

	<b>31 Dec, 2005</b>	<b>31 Dec, 2004</b>
	<b>£'000</b>	<b>£'000</b>
<b>Group Profit and Loss</b>		
Turnover	0	0
Operating Costs	(129)	(130)
Operating Loss	(129)	(130)
Interest Receivable	9	13
Loss before Taxation	(120)	(117)
Taxation	0	0
Loss for the period	(120)	(117)
Loss per share	(0.18p)	(0.19p)

	<b>31 Dec 2005</b>	<b>31 Dec 2004</b>
	<b>£'000</b>	<b>£'000</b>
<b>Group Balance Sheet</b>		
Fixed Assets	3,198	2,291
Current Assets	207	1,104
Current Liabilities	(106)	(57)
Current Assets less Current Liabilities	101	1,047
Creditors (amounts falling due after one year)	0	0
Total Assets less Liabilities	3,299	3,338
Share Capital and Reserves	3,299	3,338

**Six Months ended**

	<b>31 Dec 2005</b>	<b>31 Dec 2004</b>
	<b>£'000</b>	<b>£'000</b>
<b>Group Cash Flow</b>		
Net Cash Outflow from Operating Activities	(97)	(208)
Returns on Investments and Servicing of Finance	9	13
Capital Expenditure	(370)	(418)
Financing – Issue of Ordinary Share Capital	0	0
Decrease in Cash	(458)	(613)

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## Background on the Boteti Exploration Project in Botswana

The Boteti Joint Venture in the Orapa area of Botswana with De Beers contains the world class AK6 discovery that is confirmed as 9.5 hectares in size, currently containing an estimated 59 million tonnes of kimberlite ore and indicative diamond grades of 25 carats per hundred tonnes (cpht). The diamonds recovered to date have a 2004 modelled value of US \$138 per carat.

The licences acquired by African Diamonds in Botswana contained 21 known kimberlites. These licences formerly held by De Beers were obtained by African Diamonds as part of its strategy to apply new exploration technology in Botswana, one of the world's most prolific diamond provinces, in order to evaluate known kimberlite pipes and explore for new kimberlites, the principal source of hardrock diamonds. Orapa is particularly prospective as it is the location of three large diamond mines: Orapa, Dampshaa and Lethlekane and within 120 kms of the Jwaneng mine, the world's richest diamond mine per tonne of kimberlite mined.

In early 2004, a joint venture was agreed with De Beers, whereby it would merge 8 kimberlites with African Diamonds 21 kimberlites and 4,000 sq km of licences into what is now known as the Boteti Exploration Project, owned 49% by African Diamonds and 51% by De Beers, with De Beers as operator. African Diamonds has a free carry on all expenditure until a bankable feasibility study ("BFS") is completed on any one kimberlite project. At that stage, the De Beers percentage goes to 70% of that project and African Diamonds has to put up their 30% of future costs on that project.

In the past two years, De Beers has spent many millions exploring the joint venture ground, using state of the art airborne and ground geophysics, geochemical analyses, extensive core drilling and LDD drilling. The Elephant rig doing the LDD drilling is one of only three in the world, all currently working for De Beers. These new technologies can better "see" through the sand, basalt and salt cover of the Kalahari in Botswana. Results are proving the theory. The known kimberlites are proving to be better than first estimated in the 1960s. Then AK6 was estimated at 3.3 hectares, while it has now been determined to be approximately 9.5 hectares. AK8 is currently determined to be 5.8 hectares while AK12 might be as large as 20 hectares.

Costs are currently being estimated for the AK6 project. As a large open pit operation direct mine operating costs are not expected be more than \$10 a tonne. The location of AK6, close to towns, roads and power, is expected to keep other operating and capital costs down.

Final operating and capital cost at AK6 will not only be a function of size but also dependent on the amount of outsourcing used.

The extent of government participation in a mine development such as AK6 is not known at this time but a 10% royalty normally applies to mining projects and corporate taxation in Botswana is 25%.

**Copies of this announcement will be sent to shareholders and will be available for inspection at the Company's registered office at 20-22 Bedford Row, London WC1R 4JS.**

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**African Diamonds is listed on AIM in London (AFD)**

**Further information:**

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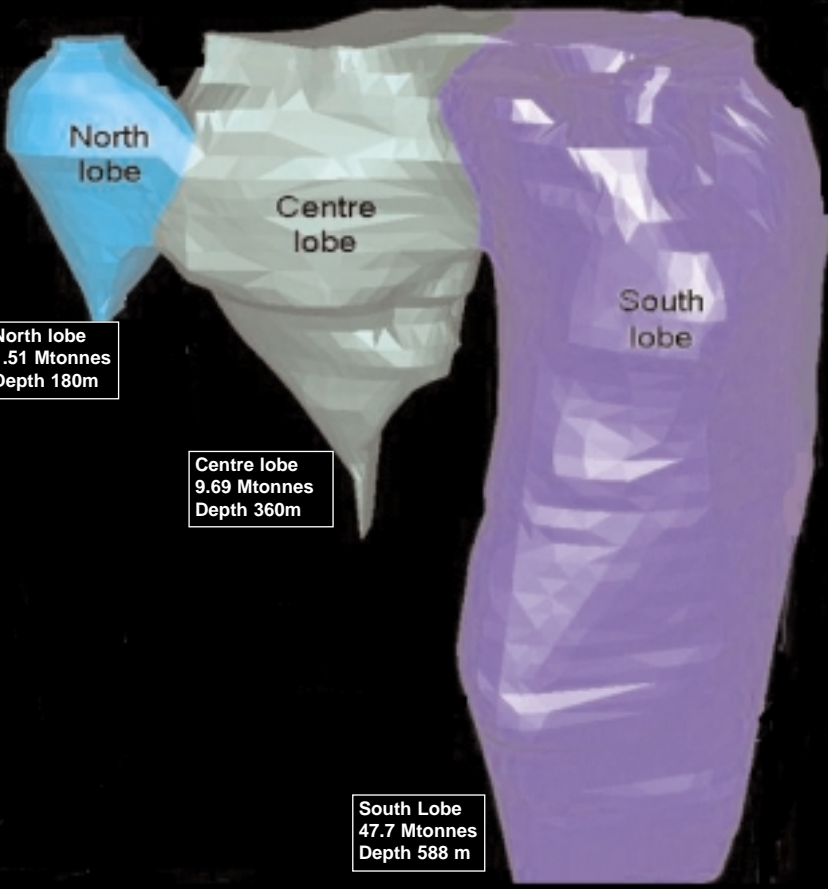
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