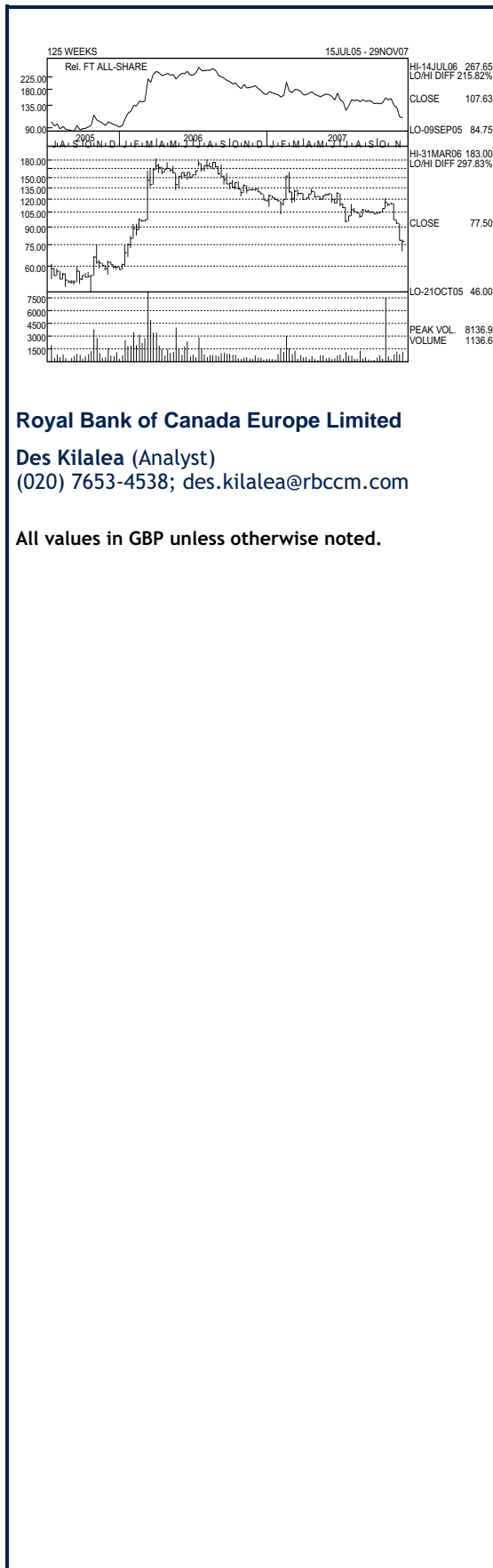


FIRST GLANCE | COMMENT

NOVEMBER 30, 2007



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All values in GBP unless otherwise noted.

African Diamonds (AIM: AFD; 77.50)
A Buying Opportunity

Outperform
Speculative Risk

Price falls in face of selling; fundamentals intact

First Impression

- The pressure of selling from what we believe was one of the founder shareholders and some retail selling from Dublin saw the African Diamonds share price fall from 115p on October 31 to 71.5p on November 27 before recovering to 77.5p. This compares with our target price of £1.40.
- The share price decline masks the fact that the development of a new diamond mine in Botswana on the AK6 kimberlite in joint venture with De Beers remains on target. The application for a mining license and tax regime was submitted by September 30 2007, as required by the Botswana government, and we expect the license to be granted before end-January 2008.
- While the government of Botswana has the right to buy up to 50% of any new diamond mine in the country, we remain convinced that, at most, the State will acquire only 25% leaving African Diamonds with around 25% and De Beers with 50%. The price at which that stake will be sold to the government would be based, we believe, on the \$40m which De Beers was required to spend to lift its interest in the mine from 51% to 70% which implied a valuation of \$210m.
- Our DCF for African Diamonds' share in AK6 (25%) in June 2007 terms was £91.2m, rising to £95.8m in June 2008. While capital spending estimates have increased to \$200-\$220m (including contingencies), we believe a total of well below that is possible. In addition, we think it is possible to come into producing one limited basis ahead of the 2009 full production target we have modelled.
- While we expect a recovery in the share price on technical grounds now that the selling appears to have abated, the granting of the mining license and the final spending details to bring a mine into production should be a catalyst to a rerating in the share.
- Our recommendation remains Outperform, Speculative Risk with the the prospect of a change in our risk qualifier to Average Risk once final financial details on the license and cost of the mine are forthcoming.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 3.

Details

The share price of African Diamonds has been weak in the face of selling by a founder shareholder, we believe, and some retail selling. This selling appears to be at an end and we expect the share to recover to reflect the prospects for a new diamond mine in Botswana.

Company Description

African Diamonds (AIM AFD) is a Botswana focused diamond exploration company with a joint venture agreement with De Beers. This JV is developing a new diamond mine on the AK6 kimberlite in the country which should be in production at the end of 2009 and is examining further prospective ground in Botswana. Other interests include a diamond JV with De Beers in the DRC and a 15% stake in West African Diamonds (AIM WAD) which has developments and prospects in Sierra Leone and Guinea.

Required Disclosures

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Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

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Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

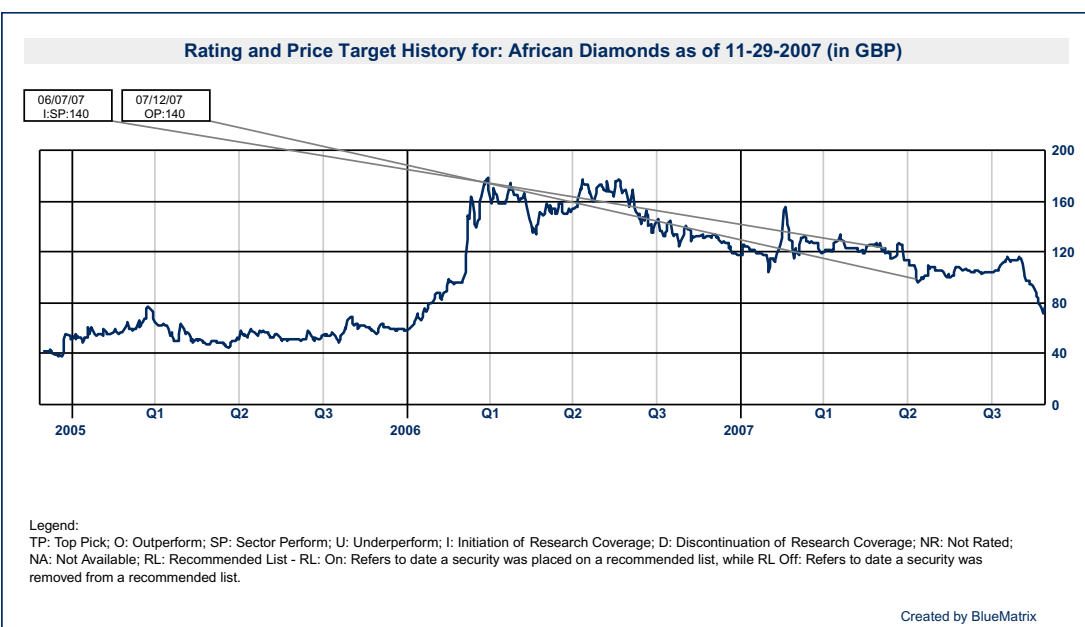
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Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	460	42.72	187	40.65
HOLD[SP]	537	49.86	159	29.61
SELL[U]	80	7.43	18	22.50



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An analyst involved in the preparation of this report has visited certain material operations of African Diamonds.

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