THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or about what action you should take you should immediately seek your own personal advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

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 whole of the ordinary share capital of Gemfields Resources Plc in issue immediately following the Placing to be admitted to AIM. 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 the United Kingdom Listing Authority nor the London Stock Exchange plc 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 28 November 2005.

The Company and the Directors, whose names are set out on page 7 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 3 of this document.

GEMFIELDS RESOURCES PLC

(Incorporated and Registered in England and Wales under the Companies Act 1985 with registered number 05129023)

Placing of 26,666,667 New Ordinary Shares
and 1,111,111 Existing Ordinary Shares
at a price of 45p per share
and
Admission to trading on AIM

NOMINATED ADVISER AND BROKER

CANACCORD CAPITAL (EUROPE) LIMITED

Share Capital immediately following the Placing and Admission

Authorised			*Issued and fully paid*	
Number	*Amount*		*Number*	*Amount*
200,000,000	£2,000,000	Ordinary shares of 1p each	94,637,398	£946,373.98

This document does not constitute an offer to sell, or a solicitation of an offer to buy, any of the Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. In particular, this document is not for public distribution in Canada, or distribution in or into Australia, South Africa, the Republic of Ireland or Japan. The Ordinary Shares have not been and will not be registered under the securities legislation of any province or territory of Canada, Australia, South Africa, the Republic of Ireland or Japan or in any country, territory or jurisdiction where to do so may contravene local securities law or regulations. Accordingly, the Ordinary Shares may not, subject to certain exemptions, be offered or sold directly or indirectly in or into, or to any national, citizen or resident of Canada, Australia, South Africa, the Republic of Ireland or Japan.

The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States, or for the account or benefit of, or to U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")). The Ordinary Shares are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and within the United States in transactions exempt from registration requirements of the Securities Act.

Canaccord Capital (Europe) Limited ("Canaccord"), which is regulated by the Financial Services Authority, is acting solely as nominated adviser and broker to the Company for the purposes of the AIM Rules in connection with the Admission and is acting exclusively for the Company and CA Fiduciary Services Limited in relation to the Placing. Canaccord is not acting for, and will not be responsible to, any person other than the Company and CA Fiduciary Services Limited for providing the protections afforded to the customers of Canaccord or for advising any other person on the contents of this document or on any transaction or arrangement referred to in this document. Canaccord's responsibilities as the nominated adviser are owed solely to the 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 Directors and the Company 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.

Copies of this document will be available free of charge during normal business hours on any weekday (except Saturday, Sunday and public holidays) at the offices of Richards Butler at Beaufort House, 15 St Botolph Street, London EC3A 7EE and at the offices of Canaccord at 1st Floor, Brook House, 27 Upper Brook Street, London, W1K 7QF from the date of this document for the period of one month from Admission.

CONTENTS

DEFINITIONS

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

"Act"	the Companies Act 1985 (as amended)
"Admission"	admission of the Ordinary Shares to trading on AIM and such admission becoming effective in accordance with the AIM Rules
"Admission Document"	this document
"AGM"	the annual general meeting of the Company held on 8 April 2005
"AIM"	a market operated by the London Stock Exchange
"AIM Rules"	the AIM Rules for companies as published from time to time by the London Stock Exchange
"Amalgamation Agreement"	the agreement dated 9 June 2004 between Gemhouse, Gemfields (Canada) Inc. and the Company relating to the amalgamation of Gemhouse and Gemfields (Canada) Inc. and the share for share acquisition of Gemfields Canada Inc. by the Company
"Articles"	the Company's articles of association
"Audit Committee"	a committee of the Board consisting of certain Non-Executive Directors, further details of which are set out in paragraph 14 of Part 1 of this document
"Beryl"	the mineral Beryllium aluminum silicate, the gemstone family of which emeralds and aquamarine form part
"Board" or "Directors"	the directors of the Company whose names are set out on page 7 of this document
"Combined Code"	the Combined Code on Corporate Governance adopted on 1 November 2003 (as subsequently amended from time to time)
"Company" or "Gemfields"	Gemfields Resources Plc
"Chibolele"	Plot No 11A/1 located in the NRERA
"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
"Emerald"	a variety of the mineral beryl, coloured green by trace amounts of chromium (and possibly vanadium and iron)
"Escrow Agreement"	the Escrow Agreement dated 2 November 2005 entered into between the Company and Rajiv Gupta further details of which are set out in paragraph 10(n) of Part 5
"Executive Directors"	Jeremy Clarke, Rajiv Gupta and Richard James
"Exploration Licences"	the mining exploration licenses referred to in paragraph 7.1(d) of Part 1
"Gemfields Canada Inc."	Gemfields Canada Inc, a company amalgamated pursuant to the provisions of the Business Corporations Act (New Brunswick) with registered number 511331
"Gemhouse"	Gemhouse Inc. which amalgamated with Gemfields (Canada) Inc pursuant to the Amalgamation Agreement to form Gemfields Canada Inc.

"Geological Survey"	the British Geological Survey which is the world's longest established national geological survey and the UK's premier centre for earth science information and expertise
"Group"	the Company and its subsidiaries and associated undertakings from time to time (or any of them, as the context requires)
"Kafubu"	Kafubu being the colloquial name for the area covered by prospecting licence No PLLS 126 in the NRERA
"Kafubu emerald area"	the emerald area in the Lufwanyama District of the Copperbelt Province of Zambia which derives its name from the Kafubu stream which is a tributary of the Kafue river, one of the three major rivers in Zambia
"Kamakanga"	Plot No 6/1 and the Kamakanga mine located in the NRERA
"Kariba"	Kariba Minerals Limited, a company incorporated in Zambia with registered number LCO 13422
"Lock-In Agreements"	the lock-in agreements between the Company, Canaccord and certain shareholders and employees as referred to in paragraph 10 of Part 5
"London Stock Exchange"	London Stock Exchange plc
"Mbuva"	Plot No 11A/2 located in the NRERA
"Miputu"	Miputu being the colloquial name for the area covered by prospecting licence No PLLS 14 in the NRERA
"Mitondo East"	Mitondo East being the colloquial name for the area covered by prospecting licence No PLLS 125 in the NRERA
"Mitondo North"	Mitondo North being the colloquial name for the area covered by prospecting licence No PLLS 29 in the NRERA
"Mitondo South"	Mitondo South being the colloquial name for the area covered by prospecting licence No PLLS 124 in the NRERA
"Mkushi"	Mkushi being the colloquial name for the area covered by prospecting licence No PLLS 262 for pink tourmaline
"New Ordinary Shares"	the 26,666,667 new Ordinary Shares which are to be issued pursuant to the Placing
"Nkabashila East"	Nkabashila East being the colloquial name for the area covered by prospecting licence No PLLS 137 in the NRERA
"Nkabashila West"	Nkabashila West being the colloquial name for the area covered by prospecting licence No PLLS 136 in the NRERA
"Nomination Committee"	a committee of the Board consisting of certain Non-Executive Directors, further details of which are set out in paragraph 14 of Part 1 of this document
"Non-Executive Directors"	Graham Mascall, Sanjay Khandelwal, Peter Kitchen, Clive Newall and Valentine Chitalu
"NRERA"	The Ndola Rural Emerald Restricted Area of the Kafubu emerald area in Zambia
"NR South"	NR South being the colloquial name for the area covered by prospecting licence No PLLS 34 in the NRERA
"Official List"	the Official List of the UK Listing Authority

"Ordinary Shares"	ordinary shares of 1p each in the capital of the Company
"Placing"	the conditional placing arranged by Canaccord of the Placing Shares at the Placing Price pursuant to the Placing Agreement
"Placing Agreement"	the conditional agreement dated 23 November 2005 between the Company, the Directors, Rajiv Gupta, CA Fiduciary Services Limited and Canaccord relating to the Placing, as described in paragraph 10(p) of Part 5 of this document
"Placing Price"	45p per Placing Share
"Placing Shares"	the New Ordinary Shares and the Sale Shares
"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)
"Recognised Investment Exchange"	an investment exchange as defined in the Financial Services and Markets Act 2000 including the London Stock Exchange and AIM
"Remuneration Committee"	a committee of the Board consisting of certain Non-Executive Directors, further details of which are set out in paragraph 14 of Part 1 of this document
"Sale Shares"	the 1,111,111 Ordinary Shares being offered for sale pursuant to the Placing
"Shareholder"	a holder of Ordinary Shares
"Share Option Schemes"	the Stock Option Plan and the Unapproved Scheme
"Stock Option Plan"	Gemhouse Inc Stock Option Plan
"Taxes Act"	the Income and Corporation Taxes Act 1988
"UK"	the United Kingdom of Great Britain and Northern Ireland
"Unapproved Scheme"	the Gemfields Resources Plc Share Option Scheme 2005
"US" or "United States"	The United States of America (including the district of Columbia) its territories and possessions
"US$" or "$" and ¢	respectively United States dollars and cents, the lawful currency of the US
"Warrants"	the warrants issued by the Company (all of which have either been exercised or lapsed), further details of which are set out in paragraph 10 of Part 5 of this document
"£" and "p"	respectively pounds and pence sterling, the lawful currency of the UK

KEY INFORMATION

The following is a brief summary only and should be read together with the more detailed information and the financial data and statements appearing elsewhere in the document.

The Company and its business

Gemfields Resources Plc is the holding company of the Group which is an independent gemstone mine operator and gemstone prospecting company with a primary focus in Zambia. The Group has been actively involved in exploring opportunities in the gemstone mining sector in Zambia since 2000 and has assembled several significant interests in emerald properties covering approximately 70 per cent. of the Ndola Rural Emerald Restricted Area ('NRERA') of Zambia comprising three emerald mines as well as holding a number of prospecting licences in the region. The Group also owns a 50 per cent. interest in a Zambian amethyst mine, namely Kariba Minerals. The Company is currently pursuing the expansion and development of these key assets.

Strategy

The Group's strategy is to focus on developing its existing mining interests in the NRERA of Zambia and to acquire and progress further gemstone interests in Zambia. The Group believes that an opportunity exists to acquire additional interests and to significantly improve profitability through consolidation of the operation of its mines and the application of modern open-pit mining techniques already in use in the wider mining industry. In addition, the Directors believe that it is possible to further enhance profitability via downstream integration into gemstone cutting, polishing and distribution utilising the existing relationships of the Executive Directors of the Company.

Zambia

Zambia is an important source of gemstones for the world's jewellery market. Zambia represented approximately 20 per cent. of world rough emerald production (in value) in 1990.

Key strengths

The Ndola Rural emerald fields are believed to potentially represent the single largest source of easily mined high quality emeralds in the world. The Group has significant interests in the region. In addition, the Executive Vice Chairman of the Company, Rajiv Gupta, has his roots in Jaipur, India, one of the world's largest emerald cutting, polishing and trading centres in the world by volume.

Management

The Company has an experienced management team with a proven track record in the mining sector and with particular experience of colour gemstone mining, cutting, polishing and marketing.

The Placing

The Directors believe that the Group has reached a size and stage of development where it will benefit from admission to AIM. The Directors believe that Admission will be an important step for the Group for a number of reasons; it is expected that the Placing and Admission will help raise the profile and status of the Group; the Placing will raise approximately £12 million before expenses for the Company and will fund the current working capital needs of the Group; the Admission will enable the Group to achieve a broader shareholder base by attracting investors from the UK and Europe; and the Admission will provide the Company with access to international capital markets.

Risk factors

Investors should note the risks associated with an investment in the Company as set out in Part 3 of this document.

DIRECTORS, SECRETARY AND ADVISERS

Directors

Graham Edward Mascall *Non-Executive Chairman*
Rajiv Ramlal Gupta *Executive Vice Chairman*
Jeremy Edward Clarke *Chief Executive Officer*
Richard Paul James *Chief Financial Officer*
Sanjay Kumar Khandelwal *Non-Executive Director*
Peter John Kitchen *Non-Executive Director*
Geoffrey Clive Newall *Non-Executive Director*
Valentine Chitalu *Non-Executive Director*

all of Tenth Floor, Beaufort House, 15 St. Botolph Street, London EC3A 7EE

Registered Office

Tenth Floor
Beaufort House
15 St Botolph Street
London EC3A 7EE
Tel No: 020 7016 9416

Company Secretary

Richard Paul James

Solicitors to the Company *(English law)*

Richards Butler
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15 St Botolph Street
London EC3A 7EE

Solicitors to the Company *(Canadian law)*

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Box 25, Commerce Court West
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Canada M5L 1A9

Solicitors to the Company *(Zambian law)*

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Zambia

Nominated Adviser and Broker

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27 Upper Brook Street
London W1K 7QF

Solicitors to the Placing

Charles Russell LLP
8-10 New Fetter Lane
London EC4A 1RS

Auditors and Reporting Accountants

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London W1U 3LL

Registrars

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Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

Mining Expert

A.C.A. Howe International Ltd
254 High Street, Berkhamsted
Hertfordshire HP4 1AQ

Principal Bankers

Barclays Bank Plc
27 Soho Square
London W1D 3QR

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Admission effective and dealings commence in the Ordinary Shares on AIM	28 November 2005
CREST accounts to be credited for the Placing Shares in uncertificated form	28 November 2005
Date of despatch of definitive share certificates for the Placing Shares in certificated form	by 12 December 2005

PLACING STATISTICS (assuming the Placing is fully subscribed)

Placing Price	45p
Number of New Ordinary Shares being issued by the Company pursuant to the Placing	26,666,667
Number of existing Ordinary Shares to be sold pursuant to the Placing	1,111,111
Number of Ordinary Shares in issue following Admission and the Placing	94,637,398
Percentage of enlarged issued share capital represented by the New Ordinary Shares	28.2%
Gross proceeds of the Placing of the New Ordinary Shares for the Company	£12 million
Amount being raised for the Company, after estimated expenses	£10.4 million
Market Capitalisation following the Placing at the Placing Price	£42.6 million

PART 1

Information on the Group

1. Introduction

Gemfields is the holding company of the Group which is an independent gemstone mine operator and gemstone prospecting company with a primary focus in Zambia. The Group has been actively involved in exploring opportunities in the gemstone mining sector in Zambia since 2000. Its strategy is to develop its existing mining interests and to acquire and progress further gemstone interests in Zambia. The Group is currently focused on the mining of and prospecting for emeralds and amethysts. The Group proposes to raise £12 million (before expenses) by way of the Placing and to have its Ordinary Shares admitted to trading on AIM.

2. Overview and history of the Group

The principal founder of the Group is Rajiv Gupta who formed Gemhouse Inc., a company incorporated in New Brunswick, Canada in February 2000.

In May 2004 the Company was incorporated as a UK holding company and in June 2004 Gemhouse Inc. was amalgamated with another Canadian corporation, Gemfields (Canada) Inc. The original amalgamated Canadian businesses were then acquired by the Company in June 2004 in preparation for the proposed application for admission to AIM.

2.1 *Business and Strategy*

The current business and strategy of the Group originated in 2000 when the Group identified a significant opportunity in the gemstone industry and has since pursued a primary objective of identifying, acquiring and developing colour gemstone mines. Prior to this, Gemhouse's strategy was also to market gems directly over the Internet to jewellery manufacturers worldwide although this strategy has not progressed. The Group has actively sought to acquire interests in Zambian gemstone mines and mining and prospecting licences, particularly within the emerald mining sector due to the high quality and value of Zambian emeralds. The Group currently owns three Zambian emerald mines namely Kamakanga, Mbuva and Chibolele and also owns a series of prospecting licences covering a substantial part of the prospective emerald areas in the Zambian NRERA. The Group also owns a 50 per cent. interest in a Zambian amethyst mine, namely Kariba Minerals.

The Directors believe that the Group can bring its emerald mines back into production in the third quarter of 2006 and significantly improve their profitability through the consolidation of the operation of these mines and the application of modern open-pit mining techniques already in use in the wider mining industry. The Company intends to construct a modern emerald recovery plant and to install improved security systems for all its operations. The Directors intend to seek tenders for mining, plant and security. As a result, the Directors believe that the Group presently faces little competitive pressure, which offers it a clear opportunity for emerald market domination in Zambia.

In addition, the Directors believe that opportunities exist to acquire additional emerald mines and to develop the Group's existing licences to further enhance profitability through economies of scale.

One further component of the Group's strategy is to seek to enhance profitability through downstream integration into gemstone cutting, polishing and distribution utilising the existing connections of Rajiv Gupta.

The Directors intend that the Group's proposed emerald and amethyst mining operations will be supported by a wholly owned gemstone cutting and polishing business which will process a proportion of the emeralds produced by the mines operated by the Group. The balance will be sold as rough emeralds to dealers.

The Directors believe that the mining and subsequent cutting and polishing operations will yield some large and high value emeralds and that such stones could be used to form rare collections. The value of any such collections of large emeralds can multiply in value when set in high-value pieces of jewellery.

2.2 *Management of the Group*

The Company has recently appointed Jeremy Clarke as Chief Executive Officer to execute the operational and developmental aspects of the Group's strategy. Mr. Clarke has extensive experience in the gemstone mining industry having been at De Beers for 20 years where he was appointed as the Consulting Metallurgist. It is proposed that Mr. Clarke will be responsible for bringing the mines to full operational capacity under the control of the Group.

In addition, the Company has appointed Rajiv Gupta as Executive Vice Chairman of the Company. Mr. Gupta will continue in his crucial role of helping the Group to acquire prospective emerald properties in Zambia. He will also have key responsibility for planning the business strategies of the Group and in implementing the marketing, cutting and polishing aspects of the Group's strategy. Mr. Gupta originates from Jaipur, a prominent gemstone cutting and polishing centre in India, one of the largest for emeralds in the world in terms of volume. As a member of the Gupta family, who have been mining, processing and trading gemstones for over 35 years, he has extensive international exposure and experience in the global gemstones industry.

The Group intends to combine Rajiv Gupta's strengths in the gemstone industry with a new professional approach and with the Board's extensive experience of Zambia's local environment and its emerald mining area.

In addition to the experience of the Directors, Alok Sood, a geologist with over 21 years of professional experience, brings in expertise and understanding of the gemstones geology and mining operations in Zambia. He has worked in emerald belts extensively, and in other gemstones including amethyst and yellow tourmaline. He has been instrumental in developing an extensive database on the emerald geology and the basic understanding of emerald geology in the Ndola region which has been redefined on the basis of the pioneering work undertaken by him over the last 9 years. The company will take full advantage of his skills in these areas.

3. History of Emeralds

Emeralds are considered by many to be amongst the most expensive gems in the world.

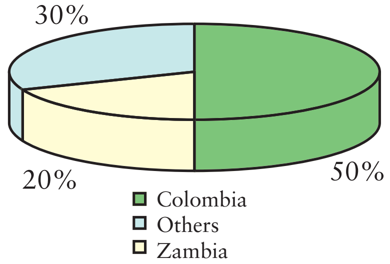
For thousands of years the world's principal source of emeralds was Egypt. In 1558 the Spaniards discovered the Muzo mine in Colombia producing emeralds of considerable size and beauty. These high quality emeralds were shipped back to Europe and the Middle East. While Colombia has been long renowned as the source of the highest quality emeralds, two of the three Colombian mines, Muzo and Cosquez, are reported to be running out of developed resources. The most significant discovery of emeralds of the past century was in Africa and the major producer of African emeralds today is Zambia.

4. The Gemstone Market

The emerald gemstone mining sector is considered by the Company to be characterised by small artisanal production and to be relatively under capitalised and poorly managed compared with other extractive industries. It is also considered by the Board to be highly fragmented. The Board further considers the country of origin of an emerald to be a key factor in determining its value. The market for rough emeralds was estimated to be worth approximately US$1,000 million per annum in 1990. The rough emerald trade is dominated by supply from Colombia, Zambia and Brazil.

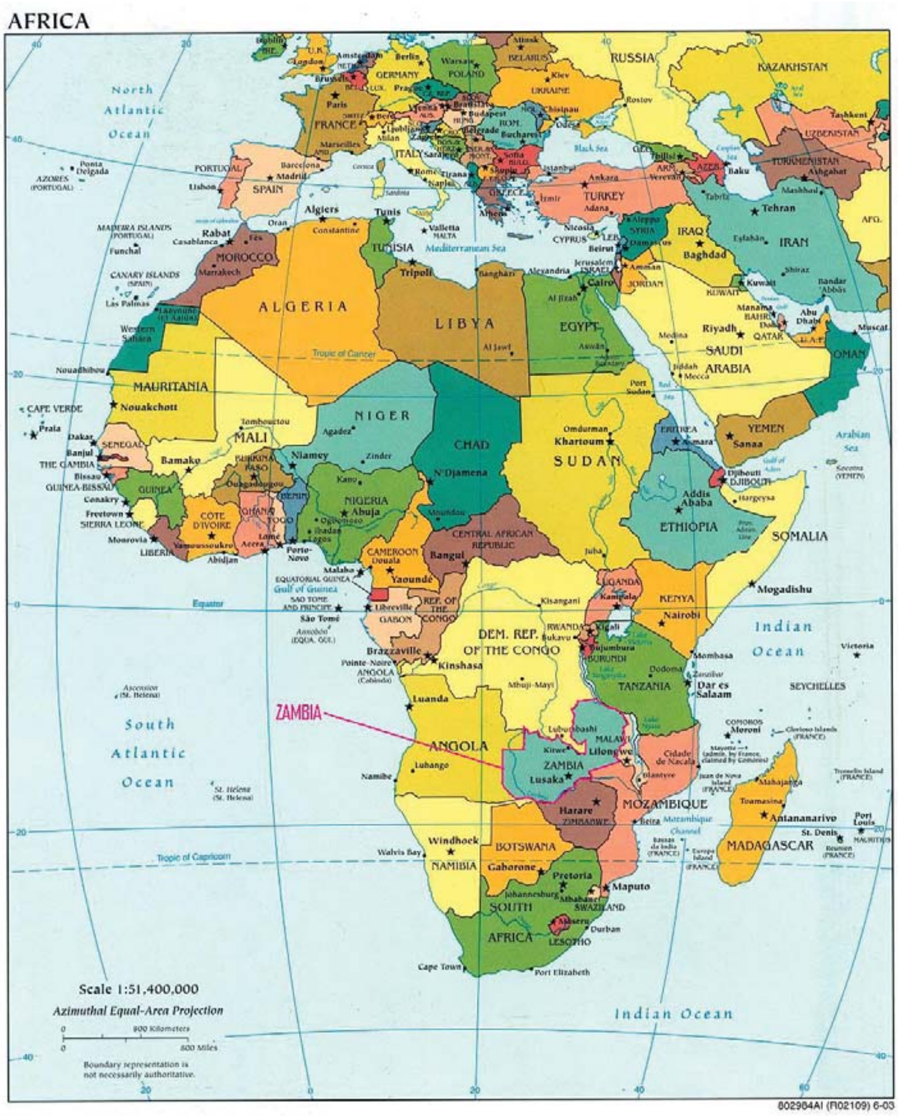
- In 1990, World rough emerald production was estimated to be over US$1,000 million.
- Approximately 50 per cent. of it from Colombia.
- Approximately 30 per cent. from Brazil, Russia, Zimbabwe, Pakistan and others.
- Zambia contributes the balance of approximately 20 per cent.

1990 World Rough Emerald Production
(in value)



5. Zambia

The Republic of Zambia is located in Southern Africa and has had three different consecutive democratically elected governments. It is a member of the Southern African Development Community (SADC) and its relatively stable political environment coupled with recent World Bank stabilisation programmes have significantly improved the economic outlook of the country. The country's legal system is derived from English common law. The currency of Zambia is the Kwacha and is freely convertible.



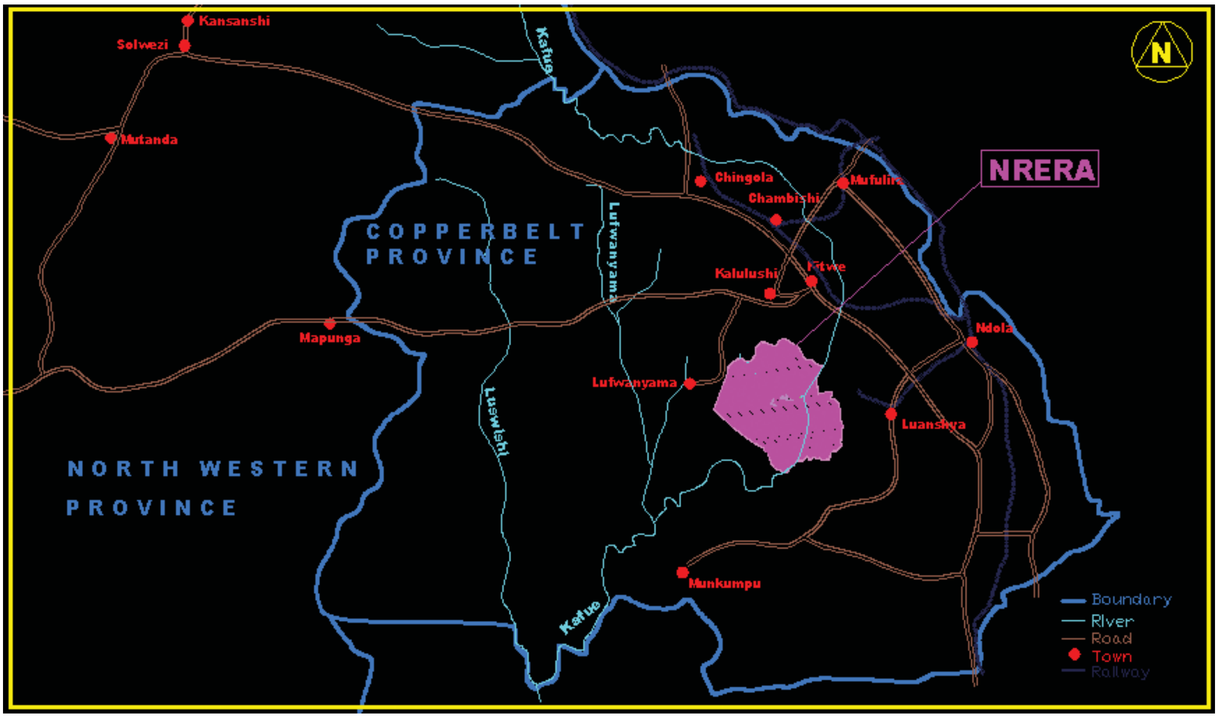
The information set out in the diagram relating to 1990 World Rough Emerald Production above has been accurately reproduced from information published by National Geographic magazine and so far as the Directors are aware and are able to ascertain does not omit any facts which would render this information inaccurate or misleading.

5.1 *Mining in Zambia*

In 1995, Zambia enacted investor friendly mineral and mining legislation and dozens of international mining companies have since established mining and/or exploration activities in the country. Zambia has a significantly improved economic outlook. The copper and cobalt mining industries in Zambia have been revitalised through privatisation and the recent rise in copper prices. In addition, over US$750 million has been earmarked by mining companies for investment in the Zambian copper mining industry in the foreseeable future. For many years, Zambia has been an important source of gemstones for the world's jewellery market.

5.2 *Gemstone Mining in Zambia*

The quality of the Zambian emerald (facet grade, fine colour) is almost on a par with the Colombian emerald. In Zambia, deep green and valuable emeralds are currently sourced only from the NRERA. The NRERA is a part of the famed copper belt where many mines are located. Emerald mines therefore benefit from the existing infrastructure.



A number of financial incentives have been created specifically to encourage investment in the Zambian mining industry.

Zambian mining legislation contains incentives which include an exemption, on application by mining rights holders, from paying duty and VAT on importation and purchase of eligible machinery, equipment and supplies, a 100 per cent. deduction of pre-production exploration costs within the first year of production and a five-year carry forward period for losses.

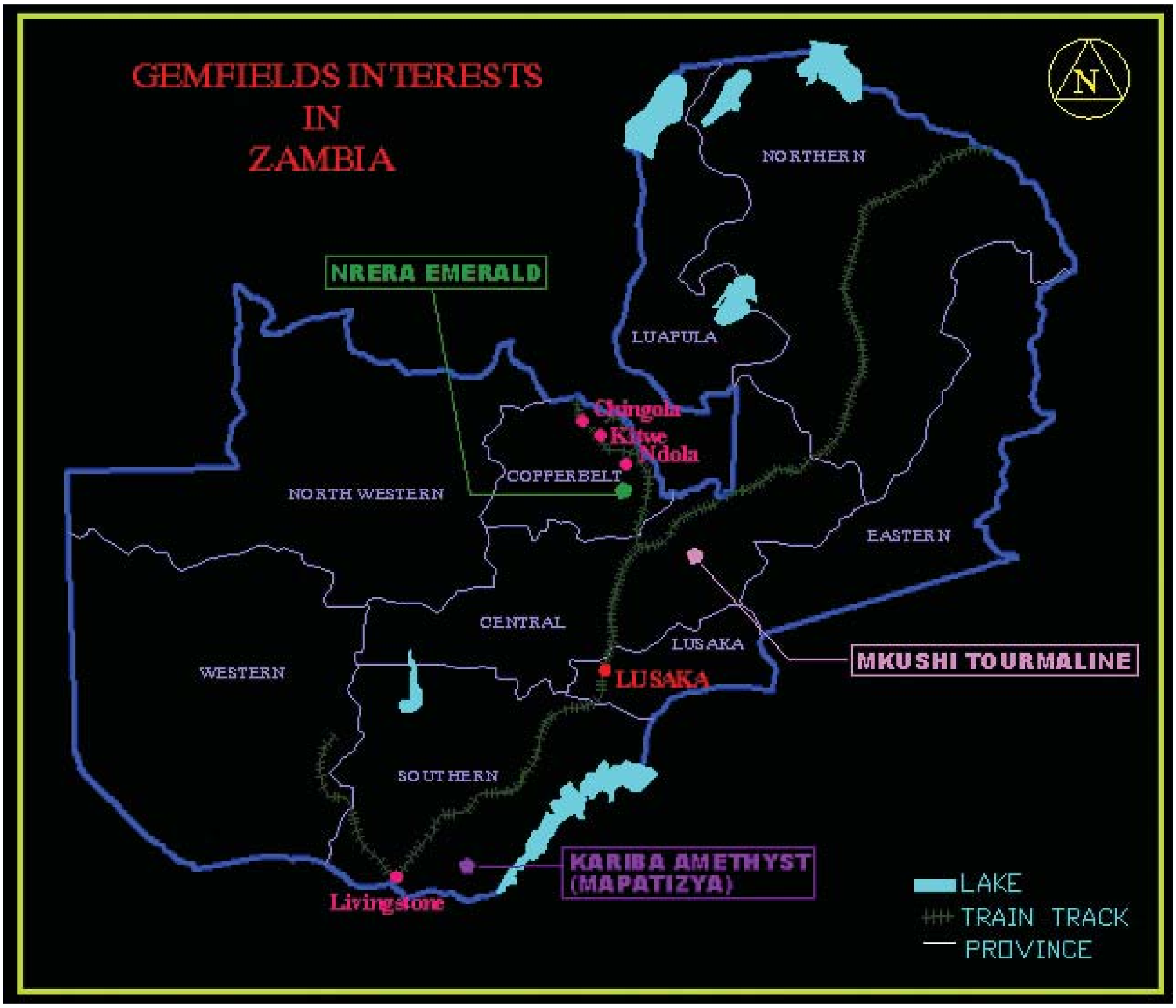
The fields at NRERA are believed to potentially represent the single largest source of easily mined, high quality emeralds in the world and have been known to produce approximately US$100 million worth of emeralds annually.

The Group holds an interest in three major areas in Zambia with pegmatitic/intrusive activity in which gemstones are known to occur. These are as follows:

(a) Emeralds in the Miku-Kafubu area (Mbuva, Kamakanga and Chibolele);

(b) Pink tourmaline and other gemstone bearing pegmatites in the Mkushi area (Mkushi licence); and

(c) Amethyst mineralisation in the Mapatizya area (Kariba).



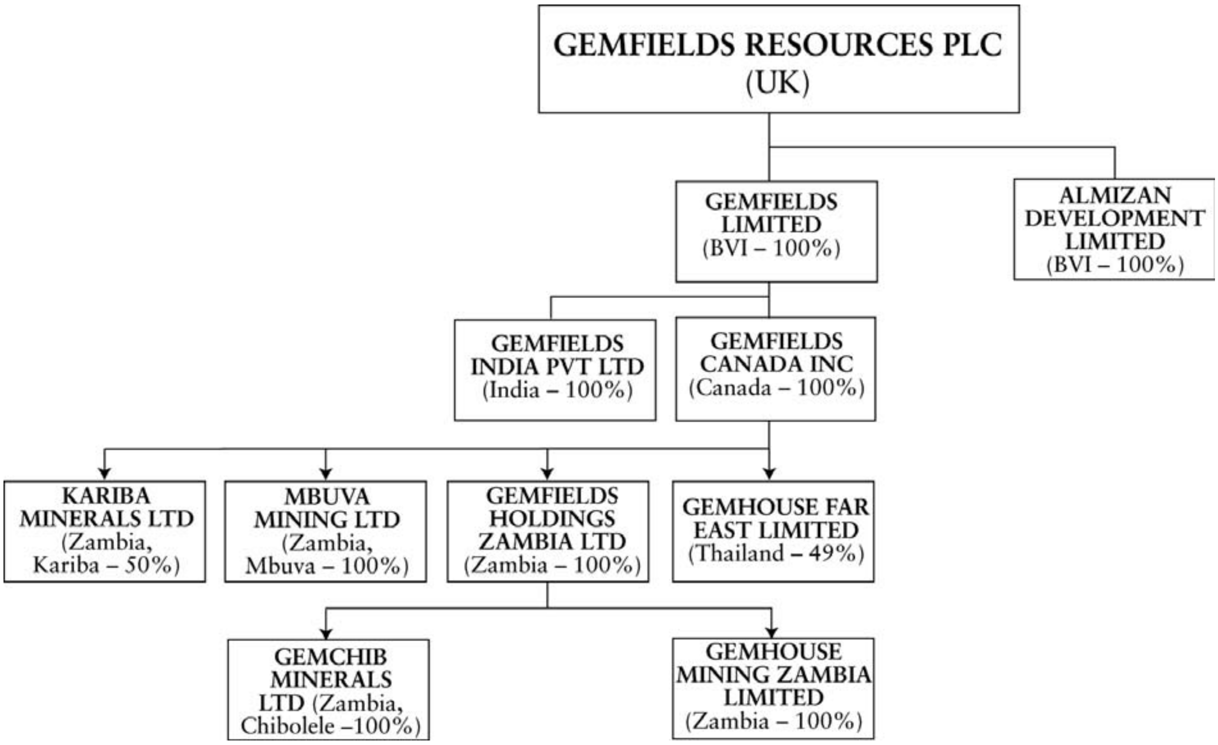
In recent years, Zambia has become an important producer of emeralds mainly through the activity of medium and small scale operators. The emerald fields of Zambia are located in the north-central region of the country, largely in the basins of the Kafubu and Mitondo rivers southwest of Kitwe. Beryl was originally discovered at Miku in 1928 and the existence of emeralds was confirmed in 1931. It was not until 1967, that limited mining for emeralds and Beryl began in the region. Subsequent mapping by geological surveys led to a takeover of the industry by the Zambian state owned Mining and Development Corporation Ltd ('Mindeco') in 1971. Several new locations were discovered and exploited by local miners which led to additional prospecting and disorganised surface mining both by Mindeco and private operators. In 1977, the Mining Development and Exploration Corporation Ltd ('Mindex'), the exploration arm of Mindeco, commenced the systematic exploration of the area utilising modern techniques. However, during the same period the activities of the small-scale miners expanded to uncontrollable proportions which led to the Zambian Government closing the whole area to prospecting and mining in 1978.

After 1980 the NRERA, which extends to hundreds of square kilometres, was established over the major mining areas in an attempt to control the industry. This area is currently policed by the Zambian Government and is surrounded by paramilitary checkpoints with restricted access for licensees and their employees. NRERA is a potentially world class emerald field in a politically stable environment which has been a prolific source of emeralds since the late 1970's currently yielding 100 per cent. of Zambia's emeralds. The Fwaya – Fwaya Pirala Belt of the NRERA yields over 80 per cent. of this emerald production. Total Zambian emerald production contributes to about 20 per cent. of world production. Currently, open pit mining is the preferred method of mining emeralds in the region.

The Zambian gemstone industry remains an industry generally run by small companies, syndicates, cooperatives and individuals. The Zambian Government, however, has a holding in Kagem Mining Limited (which holds the largest single emerald mining licenced area in NRERA).

6. Group Structure

The following diagram shows the structure of the companies of the Group:



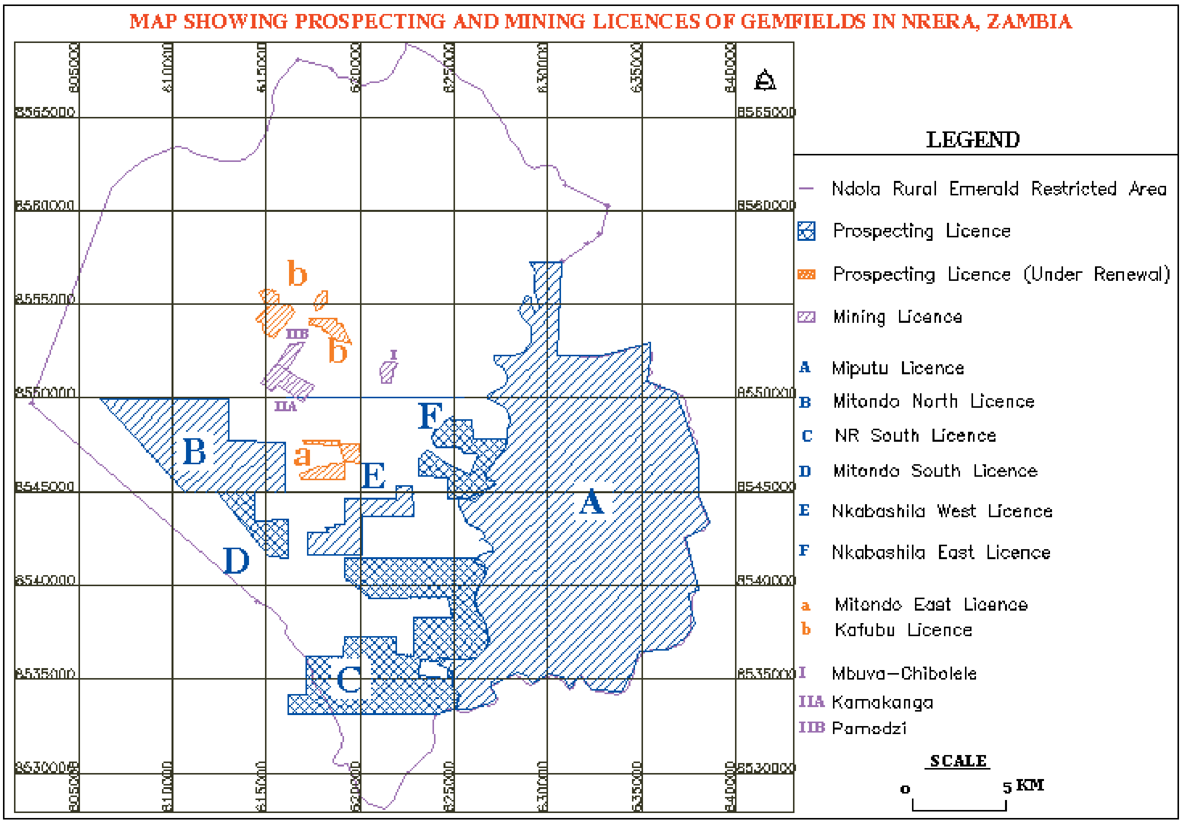
7. Overview of the Group's Existing Interests

7.1 *Emeralds*

The Group has acquired various interests in the following emerald properties in the NRERA of Zambia comprising 100 per cent. ownership of the Mbuva, Kamakanga and Chibolele emerald properties. The Group intends to put the Mbuva and Chibolele mines into production in the third quarter of 2006.

Project	*Target Gemstone*	*Status*	*Location*
Chibolele	Emeralds	100% owned	NRERA
Mbuva	Emeralds	100% owned	NRERA
Kamakanga	Emeralds	100% owned (subject to deferred payment)	NRERA

All of the above acquisitions were funded from the Group's own cash resources and not third party debt.



(a) *Mbuva and Chibolele*

The Mbuva mine is understood to have produced emeralds in the late 1990's but no official records of production and sales are available. The mine was owned by various individuals who sold it to the Group. Chibolele had a mechanical mining operation as recently as in 2002. Again no official records are available. It was owned by a cooperative society which sold the mine to the Group.

The contiguous Chibolele and Mbuva Plots lie within 2 km WSW of the current mining zone of the Fwaya-Fwaya Pirala Belt, on the opposite side of the Kafubu River to the Kagem deposit, in a belt of favourable talc-magnetite schists intruded by pegmatites, which continues westwards and also hosts the emerald deposits of Pirala and Kamakanga further to the west. The Chibolele and Mbuva Plots contain about 950m of strike length of TMS cut by suitable pegmatites for the occurrence of emeralds and three small pits are reported to have produced emeralds.

At Mbuva a share purchase agreement was signed in May 2004 in relation to Mbuva Mining Limited which owns Gemstone Licence No GL145 on Plot No 11A/2, under which Gemhouse (now Gemfields Canda Inc) acquired a 51 per cent. stake in Mbuva Mining Limited (for US$0.20 million) and an option (at a cost of US$150,000) to purchase the remaining 49 per cent. for the further payment of US$1.10 million was exercised on 30 May 2005.

At Chibolele a similar deal was struck in July 2004 in relation to Gemchib Minerals Limited which owns Gemstone Licence No GL288 on Plot 11A/1, under the terms of which Gemfields Holdings Zambia Limited paid US$0.25 million to acquire 70 per cent. of Gemchib Minerals Limited and an option to purchase the remaining 30 per cent. for US$1.25 million by January 2005. This has been paid and Gemfields thus has a 100 per cent. stake in the Chibolele mine.

The Company intends to make applications for the renewal of Gemstone Licence Nos GL145 and GL288 prior to their respective renewal dates, being 15 September 2007 and 16 November 2008.

(b) *Kamakanga*

Kamakanga is one of the earliest mines to have come into operation and production in the Zambian emerald area. The mine began production in the early 1970s. It was never managed professionally and had limited capital injected into operations until the late 1990s when second-hand medium sized earth-moving equipment were used to mine the emeralds. The mine produced emeralds worth in excess of US$15m between 1992 and 2003 without a washing facility (until 1998) or professional security in place.

Kamakanga is located 5-6km west-southwest along the regional strike from the Mbuva / Chibolele and Kagem properties, and 2km west of the active Grizzly mines. Previous mapping of the Kamakanga licence has indicated a relatively uniform TMS band mined over a strike length of 640m within a possible strike length within the licence of 2,300m.

On 4 July 2005 Gemfields Holdings Zambia Limited signed an agreement with Kuber Mineral and Metal Mining Company Limited and Haree Enterprises Limited for the acquisition by Gemfields Holdings Zambia Limited of Gemstone Licence Nos GL002 and GL078 on Plot No 6/1 along with certain infrastructure, plant, property and offices. The total consideration was US$2,451,000, of which US$1,351,000 has been deferred until a date on or before the expiry of 180 days from the date the agreement was signed.

The Company intends to make applications for the renewal of Gemstone Licence Nos GL002 and GL078 prior to their respective renewal dates, being 1 November 2006 and 24 April 2007.

(c) *Other Acquisitions*

On 21 September 2005, Gemfields Holdings Zambia Limited ('GHZL') entered into a conditional option agreement with Arinus Limited, a company incorporated in Zambia, pursuant to which GHZL has been granted an exclusive option, exercisable within a period of 120 days, to acquire a part of Plot No. 10B in the Kafubu area of the NRERA covered by Gemstone Licence No GL81. The area to be acquired adjoins the Mbuva and Chibolele plots. GHZL has paid an initial option fee of US$160,000. A further US$540,000 will be payable on exercise of the option. Completion of the agreement is conditional upon the Ministry of Mines granting a separate licence for the area of the plot to be acquired by GHZL as set out in the agreement. GHZL has been granted exclusive permission, from the date of the agreement for the duration of the option period, to carry out geological exploration of the property. GHZL must indemnify Arinus for any liability caused by its exploration activity.

The Group is actively seeking to acquire additional mining sites and licences in the NRERA. The Board is currently in confidential negotiations with a number of parties over various sites in NRERA in the short to medium term.

(d) *Exploration Licences*

Furthermore, the Company has interests in the following exploration licences in the NRERA:

Licence	*Principal Mineralisation*	*Status*	*Holder*
Miputu	Mica, Beryl, Emerald Talc and Tourmaline	Expires 23.04.2006	Gemfields Holdings Zambia Limited
Mitondo North	Beryl and Tourmaline	Expires 22.02.2007	Gemfields Holdings Zambia Limited
NR South	Talc, Asbestos, Magnetite, Beryl, Tourmaline and Garnet	Expires 22.02.2007	Gemfields Holdings Zambia Limited
Mitondo South	Emerald and Beryl	Expires 18.02.2007	Gemfields Holdings Zambia Limited
Mitondo East	Emerald, Beryl and Tourmaline	Under renewal	Gemhouse Mining Zambia Limited
Nkabashila West	Quartz, Mica, Beryl, Talc and Asbestos	Expires 20.04.2006	Gemfields Holdings Zambia Limited
Nkabashila East	Emerald, Beryl and Tourmaline	Expires 22.02.2007	Gemfields Holdings Zambia Limited
Mkushi	Tourmaline	Expires 22.07.2007	Gemfields Holdings Zambia Limited
Kafubu	Quarts, Mica, Beryl, Talc and Asbestos	Under renewal	Gemfields Holdings Zambia Limited subject to fulfillment of a conditional agreement

The Group is continuing to explore the fields covered by these licences with a view to possible mining and development in the future.

7.2 *Kariba Amethysts*

The Group has a 50/50 joint venture with the Government of Zambia in an operating amethyst mine located in southern Zambia near Lake Kariba under Gemstone Licence No GL086 which is due for renewal prior to 7 May 2007. In the financial year ended 31 March 2005 the mine recorded a turnover of US$1.9 million.

8. Summary Financial Information

The attention of investors is drawn to the financial information relating to the Group which is set out in Part 4 of this document.

The table below summarises the audited financial position of the Group as at 30 June 2005. This information has been extracted from Part 4 of this document. In order to make a proper assessment of the financial position of the Group, a prospective investor should not rely solely on the summary information set out below but should read the whole of this document.

	As at 30 June 2005 US$
Fixed assets	
Intangible assets	8,844,177
Tangible assets	256,858
Investments in joint ventures	
– share of gross assets	650,024
– share of gross liabilities	(361,018)
	289,006
	9,390,041
Current assets	
Debtors	965,921
Cash at bank and in hand	4,019,802
	4,985,723
Creditors: amounts falling due within one year	3,059,025
Net current assets	1,926,698
Total assets less current liabilities	11,316,739
Capital and reserves	
Called up share capital	1,062,255
Share premium account	9,571,926
Other reserve	4,755,796
Profit and loss account	(4,073,238)
Shareholders' funds – equity	11,316,739

9. Expert's Report

The attention of investors is drawn to the report carried out by A.C.A. Howe International Ltd which is set out in Part 2 of this document.

10. Current Trading, Recent Trends and Prospects

The Group recorded an audited loss of ($4,023,821) for the year ended 30 June 2005. This was largely due to administration expenses of ($3,916,365). The operations in Zambia are still at a development stage so there is no revenue to report from them as yet with the exception of the Kariba joint venture which contributed a profit share attributable to the Group of $2,132 for the year ended 30 June 2005.

This information has been extracted from Part 4 of this document. In order to make a proper assessment of the current trading of the Group, a prospective investor should read the whole of this document.

There are no recent trends in relation to the Group's emerald mines as they are not currently in production. Amethyst production at the Kariba mine was relatively consistent during the last financial year.

The Group's strategy for the near to medium term future is to become a significant gemstone mining and marketing operation and to ensure the continued growth of the Group by increasing its resources and turnover by implementing one or more of the following:

- increasing the production output from existing mining operations.
- building a mining operation on the Mbuva and Chibolele properties which the Directors plan to bring into production in the third quarter of 2006.
- continuing exploration work on the prospecting licences in the NRERA.
- acquiring further emerald properties in the NRERA.
- enhancing the value chain through the integration of the mining, processing and distribution activities of the Group.

11. Reasons for and Details of the Placing

The Company is now seeking to raise approximately £12 million (approximately £10.4 million net of expenses) pursuant to the Placing. Canaccord has agreed pursuant to the Placing Agreement and conditional, *inter alia*, upon Admission to use its reasonable endeavours to place the Placing Shares at the Placing Price with investors. The Placing has not been underwritten.

The Placing relates to a total of 27,777,778 Placing Shares of which 1,111,111 existing Ordinary Shares are being sold by CA Fiduciary Services Limited as trustee of The Tavistock Trust in which Rajiv Gupta is interested and 26,666,667 New Ordinary Shares are being issued by the Company at 45p per New Ordinary Share. The Directors intend to use the net proceeds from the issue of the New Ordinary Shares receivable by the Company, being approximately £10.4 million, as follows:

• Exercise Kamakanga and Arinus options:	\$1.9 million
• Mine development at Mbuva-Chibolele:	\$9.5 million
• Exploration:	\$1.0 million
• Consolidation opportunities:	\$2.0 million
• Working capital:	\$3.8 million

There are no amounts to be provided in respect of the matters aforesaid otherwise than out of the proceeds of the Placing.

No firm commitments have as at the date of this document been entered into by the Company in relation to the above funds.

The Directors believe that the Placing and Admission will be an important step for the Group for the following principal reasons:

- it is expected that the Placing and Admission will help to raise the profile of the Group in Europe;
- the Admission will enable the Company to achieve a broader shareholder base by attracting investors from the UK and Europe; and
- the Admission will provide the Company with access to international capital markets.

The placing of the Sale Shares will allow Rajiv Gupta, the principal founder of the Group, to realise part of his current investment in the Company. Following the sale, Rajiv Gupta will be interested in approximately 9.4 per cent. of the issued ordinary share capital on Admission. Rajiv Gupta has undertaken that he will not dispose of any interest in Ordinary Shares held by him on Admission for a period of 12 months, save in limited circumstances.

Part of the proceeds of the sale of the Sale Shares will be paid to and held by the Company pursuant to the Escrow Agreement further details of which are set out in paragraph 10(n) of Part 5 of this document pending settlement of the amount of non-resident withholding tax liability of Rajiv Gupta.

The New Ordinary Shares were created under the Act and can be issued in certificated or uncertificated form. The ISIN number for the Ordinary Shares is GB00B0HX1083. The New Ordinary Shares will be in registered form and will be credited as fully paid and will, when issued, rank *pari passu* in all respects with the existing Ordinary Shares.

In the case of placees requesting Placing Shares in uncertificated form, it is expected that the appropriate CREST stock accounts of the placees will be credited with the Placing Shares comprising their Placing participation with effect from 28 November 2005. In the case of placees requesting Placing Shares in certificated form, it is expected that certificates in respect of the Placing Shares in their Placing participation will be despatched by post within 14 days of the date of Admission. Dealings in the Ordinary Shares are expected to commence on AIM on 28 November 2005.

Further details of the Placing Agreement are set out in paragraph 10(p) of Part 5 of this document.

Following Admission, the Directors and connected parties will hold 8,959,606 Ordinary Shares, representing approximately 9.5 per cent. of the enlarged issued share capital of the Company.

Although the Company is incorporated in England and Wales and the Ordinary Shares will be admitted to trading on AIM, the Company is not considered to be resident in the UK for the purposes of the City Code on Take-overs and Mergers which for the time being does not apply to the Company. Accordingly, the Company will not be subject to takeover regulation in the UK until such time as this position changes. Investors should therefore be aware that the protections afforded to shareholders by the City Code which are designed to regulate the way in which take-overs are conducted will not be available. It is therefore possible that an offeror may gain control of the Company in circumstances where the non-selling shareholders do not receive, or are not given the opportunity to receive, the benefit of any control premium paid to the selling shareholder(s).

12. Directors

The current Board of Directors comprises:

Graham Edward Mascall, Non-Executive Chairman, aged 59

Graham Mascall graduated in 1969 as a mining engineer from the Camborne School of Mines and gained a Master of Engineering, Mineral Economics from McGill University, Montreal in 1972. He has developed his career in the mining finance sector and from 1997 to 2001 held various senior level positions with Billiton plc. He has also held the following positions of responsibility: Director of Morgan Grenfell International; Vice President (Corporate Development) of Outokumpu Metals & Resources; Assistant Director of Kleinwort Benson Securities; and Assistant Director (Mining Finance) at Barclays Bank. Graham Mascall has been a Director of the Company since 29 November 2004.

Rajiv Ramlal Gupta, Executive Vice Chairman, aged 42

Rajiv Gupta has a bachelors degree in commerce from Bombay University. He has over 20 years international experience of colour gemstone cutting, polishing and marketing gained through his family's extensive interests in the colour gemstone industry. Rajiv Gupta has been a Director of the Company since 11 June 2004.

Jeremy Edward Clarke, Chief Executive Officer, aged 51

Jeremy Clarke graduated in 1977 as a metallurgist from Salford University. He spent 20 years within the Anglo American and De Beers group of companies and secured the position of Consulting Metallurgist for De Beers. He then took up the post of President of MineGem Inc., a publicly listed diamond mining company in Toronto. In 1999 Jeremy Clarke started his own successful mining consultancy business, Metcon. In 2003 he was appointed as a director of Kwezi Mining (Pty) Ltd, a South African mining and mining supply company. Jeremy Clarke has extensive experience of mining in Africa and has been a Director of the Company since 1 September 2005.

Richard Paul James, Chief Financial Officer, aged 33

Richard James graduated from Auckland University in 1993 with a Bachelor of Commerce degree. He subsequently joined Price Waterhouse and qualified as a Chartered Accountant in 1997. He has worked in London in various positions. Immediately prior to joining the Company he was the Chief Financial Officer of a Toronto Stock Exchange listed gold mining company with mines in Central Asia. Richard James has been a Director of the Company since 8 March 2005.

Sanjay Kumar Khandelwal, Non-Executive Director, aged 39

Sanjay Khandelwal has 16 years experience in the diamond and colour gemstone industry. He has extensive knowledge of the gemstone trade through his ownership of a Hatton Garden jewellery business. Sanjay Khandelwal has been a Director of the Company since 10 June 2004.

Peter John Kitchen, Non-Executive Director, aged 59

Peter Kitchen graduated in 1968 as a mining engineer from the Camborne School of Mines. He has extensive experience of the mining sector in Zambia. From 1997 to 1998 he was the Chief Executive of Kagem Ltd and from 1988 to 1993 was the General Manager of Kariba Amethyst Marketing Ltd. Peter Kitchen has been a Director of the Company since 10 June 2004.

Geoffrey Clive Newall, Non-Executive Director, aged 55

Clive Newall graduated from the Royal School of Mines in 1971 and has an MBA from the Scottish Business School. He is a founder and President of First Quantum Minerals Ltd. Earlier in his career he held senior management positions with Amax Exploration Inc and the Robertson Group. More recently he has been a director of a number of junior mining companies including Anvil Mining Ltd and Kensington Resources Ltd. Clive Newall has been a Director of the Company since 19 April 2005.

Valentine Chitalu, Non-Executive Director, aged 41

Valentine Chitalu is an entrepreneur with a private equity, economics and accounting background. He graduated with an M.Phil in Development Economics from Kings College, University of Cambridge in 1987. Valentine Chitalu is a member of the Chartered Association of Certified Accountants (ACCA) in the United Kingdom. He was until December 2003, a Regional Director at CDC/Actis. Prior to joining CDC/Actis, Valentine Chitalu was in charge of the privatisation programme in Zambia and previously worked for KPMG in the United Kingdom. Valentine Chitalu has been a Director of the Company since 1 September 2005.

13. Share Option Schemes

The Directors believe that the technical ability and expertise of the Group's personnel provide the Group with a competitive edge. The Directors also believe that the demand for skilled professionals with relevant industry knowledge will increase. The ability of the Group to recruit and retain high quality staff is therefore of paramount importance. In addition to the Group's employees, the Group relies on the assistance of consultants and other service providers in some of the countries in which it operates. It is important to the future of the Group that it has access to the best possible employees and consultants and that it is able to offer remuneration to such persons which ultimately reflects any increase in the value of the Company.

Accordingly, Gemhouse adopted the Stock Option Plan in January 2002 and the Company adopted the Unapproved Scheme on 8 April 2005. The options granted under the Stock Option Plan were taken over by Gemfields Canada Inc. under the terms of the Amalgamation Agreement. Under the terms of the Stock Option Plan and as a consequence of the acquisition of Gemfields Canada Inc. by the Company, the Company offered the holders of options under the Stock Option Plan the opportunity to obtain new or replacement options over Ordinary Shares on a one for one basis. All the Stock Option Plan option holders have confirmed acceptance of the conversion offer and now hold options over Ordinary Shares (governed by the rules of the Unapproved Scheme save in respect of the exercise price and vesting dates which remain unchanged) rather than common shares in Gemfields Canada Inc. Any ex-employees or consultants who retain options or who are to be granted options in the future will be granted options pursuant to a separate agreement adopting all the rules of the Unapproved Scheme save for the eligibility criteria. No further options can be granted under the Stock Option Plan and that plan has been closed.

Under the Share Option Schemes the Directors are entitled to grant in aggregate options over the higher of 10 per cent. of the Company's issued share capital from time to time and 12,000,000 Ordinary Shares. There are currently outstanding options under the Share Option Schemes in respect of 9,301,667 Ordinary Shares which comprise approximately 13.7 per cent. of the Company's existing issued share capital. Following completion of the Placing this will comprise approximately 9.8 per cent. of the Company's issued share capital. Details of the Share Option Schemes are set out in paragraph 8 of Part 5 of this document.

14. Corporate governance

The Company is required to disclose, on an annual basis, its approach to corporate governance. The Directors support the highest standards of corporate governance and intend to observe the requirements of the Combined Code to the extent that they consider them appropriate in the light of the Company's size, stage of development and resources. The Company has appointed five non-executive Directors with relevant sector experience to complement the executive Directors and to provide an independent view to the Board.

The Company will hold timely board meetings periodically as issues arise which require board attention. The Directors will be responsible for formulating, reviewing and approving the Group's strategy, budget major items of capital expenditure, acquisitions of additional interests and senior personnel appointments.

On 2 September 2005 the Company set up Remuneration, Nomination and Audit Committees with formally delegated authority and duties and responsibilities with effect from Admission.

The Audit Committee, comprises Clive Newall as Chairman, Graham Mascall and Peter Kitchen, meets twice a year and is responsible for making recommendations to the Board on the appointment of auditors and the audit fee and for ensuring the financial performance of the Group is properly monitored and reported on and will receive reports from management and the auditors relating to the interim report, the annual report and accounts and the internal control procedures of the Company.

The Remuneration Committee, which comprises Sanjay Khandelwal as Chairman, Graham Mascall and Clive Newall, is responsible for the review and recommendation of the scale and structure of remuneration for the Executive Directors and senior management, including bonus arrangements or the award of share options with due regard to the interest of shareholders and the performance of the Group.

The Nomination Committee, which comprises Peter Kitchen as Chairman, Graham Mascall and Clive Newall, is responsible for regularly reviewing the Board structure, size and composition and makes 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 responsible steps to ensure compliance by Directors and applicable employees. The Company has adopted a share dealing code in accordance with the AIM Rules.

15. Dividend Policy

It is the intention of the Board 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 consider it is appropriate to do so.

16. Lock-In Arrangements

In accordance with the AIM Rules, the Directors and their connected persons, applicable employees (as defined in the AIM Rules) and certain other shareholders, have undertaken not to dispose of any of their interests in Ordinary Shares for a period of 12 months following Admission, subject to certain exceptions, representing a total of 9,241,037 issued Ordinary Shares (being 9.8 per cent. of the issued share capital after Admission). Certain other shareholders have also agreed not to dispose of any of their interests in Ordinary Shares for a period of 3 months following Admission, subject to certain exceptions. Further details of the lock-in arrangements with the Company and Canaccord are set out in paragraphs 10(m), 10(p) and 10(s) of Part 5 of this document.

17. CREST

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Directors have applied for the Ordinary Shares to be admitted to CREST following Admission. Accordingly, settlement of transactions in the Ordinary Shares and Placing Shares following Admission may take place within the CREST System if the relevant shareholders so wish.

CREST is a voluntary system and holders of Ordinary Shares and New Ordinary Shares who wish to receive and retain share certificates will be able to do so.

18. Taxation

The attention of investors is drawn to paragraph 13 of Part 5 of this document.

19. Risk Factors

Prior to investing in the Placing Shares, prospective investors should consider, together with the other information contained in this document, the risks and other factors attaching to an investment in the Company, including in particular, the factors set out in "Risk Factors" in Part 3 of this document.

20. Further Information

Your attention is drawn to the further information contained in Parts 2 to 5 of this document.

PART 2

Expert's Report

**GEOLOGICAL AND TECHNICAL REVIEW
OF THE
EMERALD AND AMETHYST MINING AND
EXPLORATION INTERESTS
OF GEMFIELDS RESOURCES PLC IN
ZAMBIA**

**for
GEMFIELDS RESOURCES PLC
and
CANACCORD CAPITAL (EUROPE) LTD**

**by
ACA HOWE INTERNATIONAL LTD**

November 2005

**Berkhamsted
Herts, UK**

LIST OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF PHOTOGRAPHS

PHOTO 1. AERIAL PHOTO OF LARGER KAMAKANGA PIT AND SMALLER JAI AMBE PIT BEYOND WASTE DUMP IN LEFT FOREGROUND, WASHING PLANT TO THE RIGHT OF JAI AMBE PIT AND WORKSHOP IN RIGHT CENTRE

PHOTO 2. KAMAKANGA MINING PLANT, PART OF THE ASSETS ACQUIRED BY GEMFIELDS

PHOTO 3. KAMAKANGA WORKSHOP

PHOTO 4. CHIBOLELE RESOURCE DRILLING IN PROGRESS

1. INTRODUCTION AND TERMS OF REFERENCE

At the request of Gemfields Resources PLC (Gemfields) and Canaccord Capital (Europe) Ltd (Canaccord), ACA Howe International Limited (Howe) has prepared this report on Gemfields' emerald and amethyst mining and exploration properties in Zambia.

Emerald is a transparent, bright green, gemstone variety of beryl, a beryllium aluminium silicate mineral coloured by chromium (and possibly vanadium and iron) in the crystal lattice. Emerald mining commenced in north-central Zambia in 1967 and in 1980 the Government established the large Ndola Rural Emerald Restricted Area (NRERA) over the major mining areas in an attempt to control the industry (Figure 1). NRERA is now a world-class emerald field in a politically stable environment. The Fwaya Fwaya – Pirala Belt (FFPB) in the Ndola Rural emerald area has been a prolific source of emeralds since the late 1970s yielding over 80% of Zambian emerald production which contributes about 20% to world production. Gemfields owns 4 Gemstone Licences and the Gemfields group owns 7 large scale prospecting licences in the area.

Zambia is known to produce the second most valuable emeralds in the world, after Colombia. Zambian emeralds are known for their deep green colour and they are available in large sizes. Therefore, their value increases exponentially with larger size. Good quality cuttable rough Zambian emerald fetches between US$ 375 and US$ 750/gram (1 gram = 5 carats). Certain exceptional quality emeralds sell for as much as US$ 2000/gram. Recently, in an official sale from a local mine, a Zambian rough emerald weighing 61 grams was sold for US$ 1860/gram. Annual production is impossible to quantify precisely, but in 1997, based on inspection of all major operations, MPH Consulting estimated rough emerald production did not exceed 1,000 kilograms/year. From this total, about 10% were cuttable. Based on figures released by the Emerald and Semi-precious Stones Mining Association of Zambia, the total industry revenue was estimated as US$ 37.5 million to US$ 75.0 million. The better quality raw stones attain values in excess of US$ 1,000/carat if cut locally and US$ 10,000/carat at major centres. In the cut and polished form, high quality Zambian emeralds sell for between US$ 10,000 and US$ 25,000/carat. Ward, writing in 2001, presents a photograph of five emerald rings made in Brazil and priced from US$ 14,000 to US$ 75,000, with emeralds of 2 to 16 carats: four Colombian emeralds and, apparently the largest of the five, a Zambian emerald. He notes that high quality emeralds often wholesale for more than US$ 25,000 per carat and that recent comparisons of wholesale prices for a variety of stones over twenty years show emeralds up 1500%, diamonds up 1456% and sapphires up 1186%. (Gemfields, 12th August 2005, MPH Consulting Ltd, 1997; Ward, 2001).

Amethyst is a transparent, purple, gemstone variety of quartz, coloured by iron in the crystal lattice. Amethyst mining commenced in the Kariba area in the mid 1950s (Figure 2). Kariba Minerals Limited (KML), headquartered at Lusaka, now owned 50% by Gemfields and 50% by the Government of Zambia, was originally formed as Northern Minerals Limited in 1956. KML is one of the largest individual high-grade amethyst producers in the world, situated in the Mapatizya amethyst field of Kalomo district, which is believed to be the biggest deposit of high-grade amethyst in the world.

Howe's geologist, John Langlands, has visited the Ndola Rural emerald field a number of times starting in 1998, visiting all the major and several minor mines in the area. Figure 3 locates some of these mines and shows the approximate trend of the host TMS rock type in the main area of interest.

The main purpose of the present report is to provide an independent technical review of the Gemfields emerald and amethyst projects for Gemfields and Canaccord for a proposed listing on AIM, a market operated by the London Stock Exchange Plc. This report is based on previous reports and a recent visit to Zambia by Mr Langlands from 17th to 22nd January 2005 including Gemfields' Mbuva-Chibolele and Kamakanga emerald properties. Howe has not visited the Kariba amethyst project and has relied largely on information provided by Gemfields, supplemented by limited independent research. This report uses information largely provided up to March 2005 and, in the case of the estimation of grade and ore dollar value at Kamakanga, up to 9th August 2005. The Chibolele financial model is dated 18th August 2005.

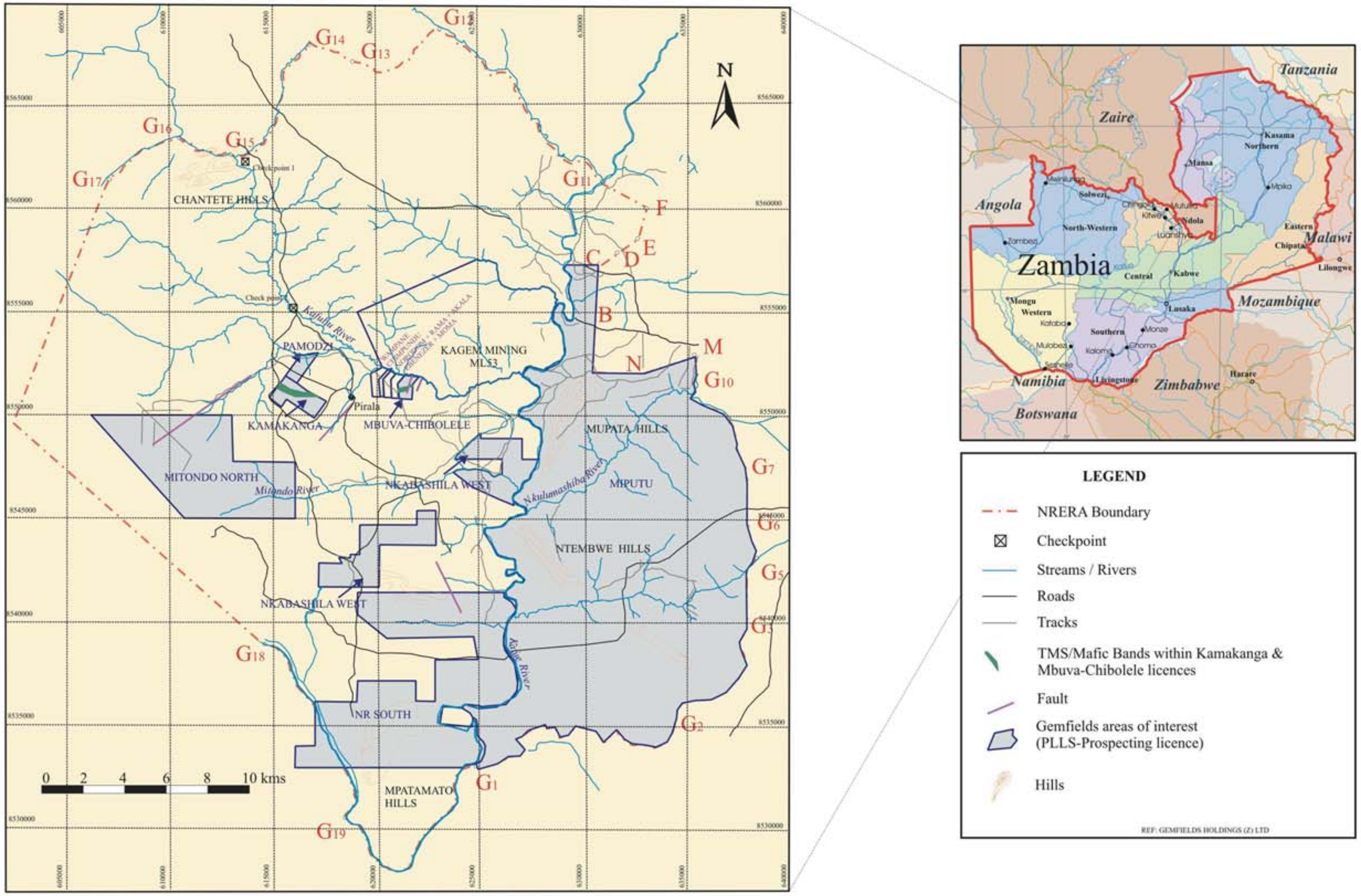


FIGURE 1: LOCATION OF MBUVA-CHIBOLELE AND KAMAKANGA LICENCES AND GEMFIELDS PROSPECTING LICENCES, ZAMBIA.

A C A Howe International Limited

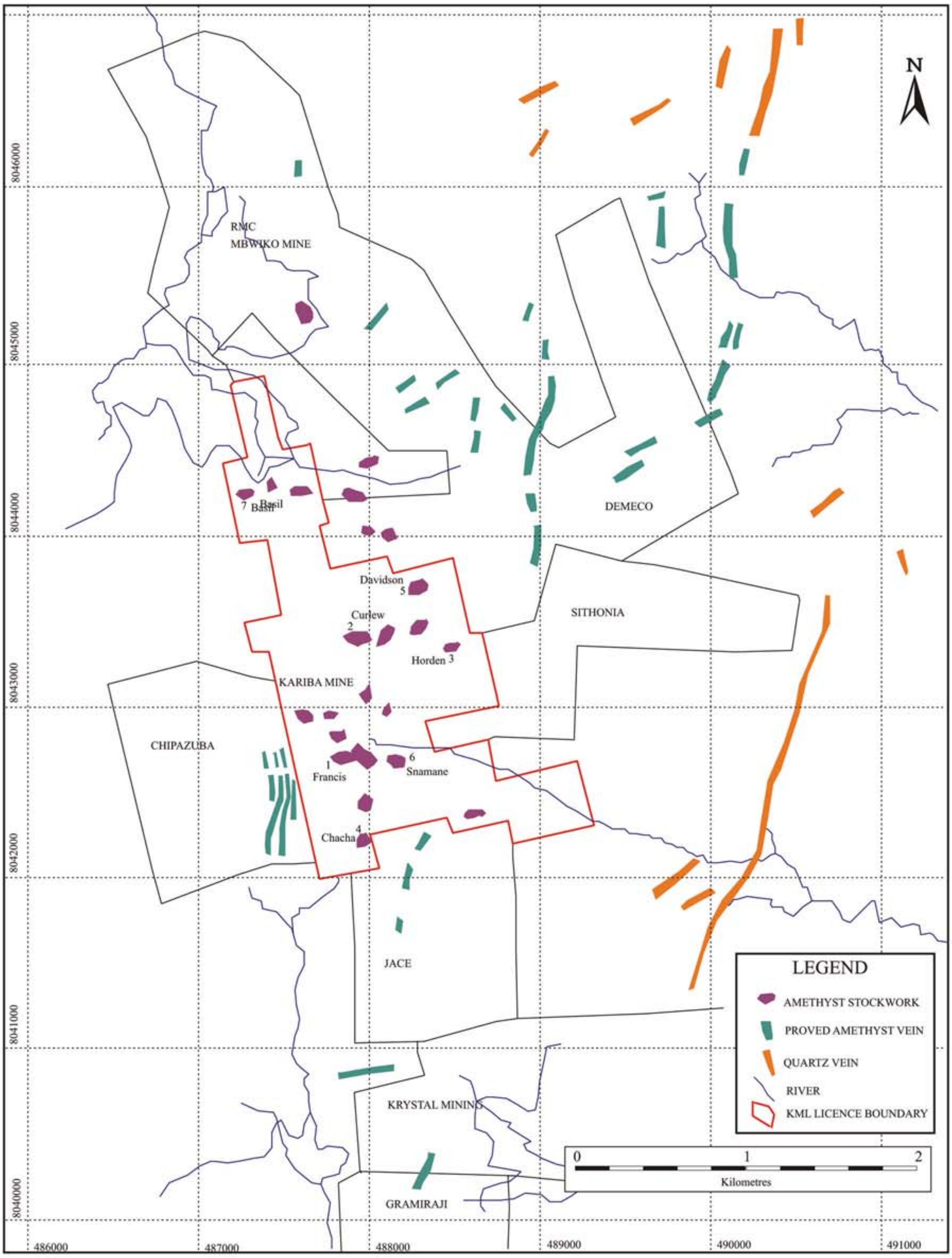


FIGURE 2. LOCATION, STOCKWORKS AND VEINS OF THE KARIBA AMETHYST LICENCE AREA, MAPATIZYA, KALOMO, ZAMBIA

A C A Howe International Limited

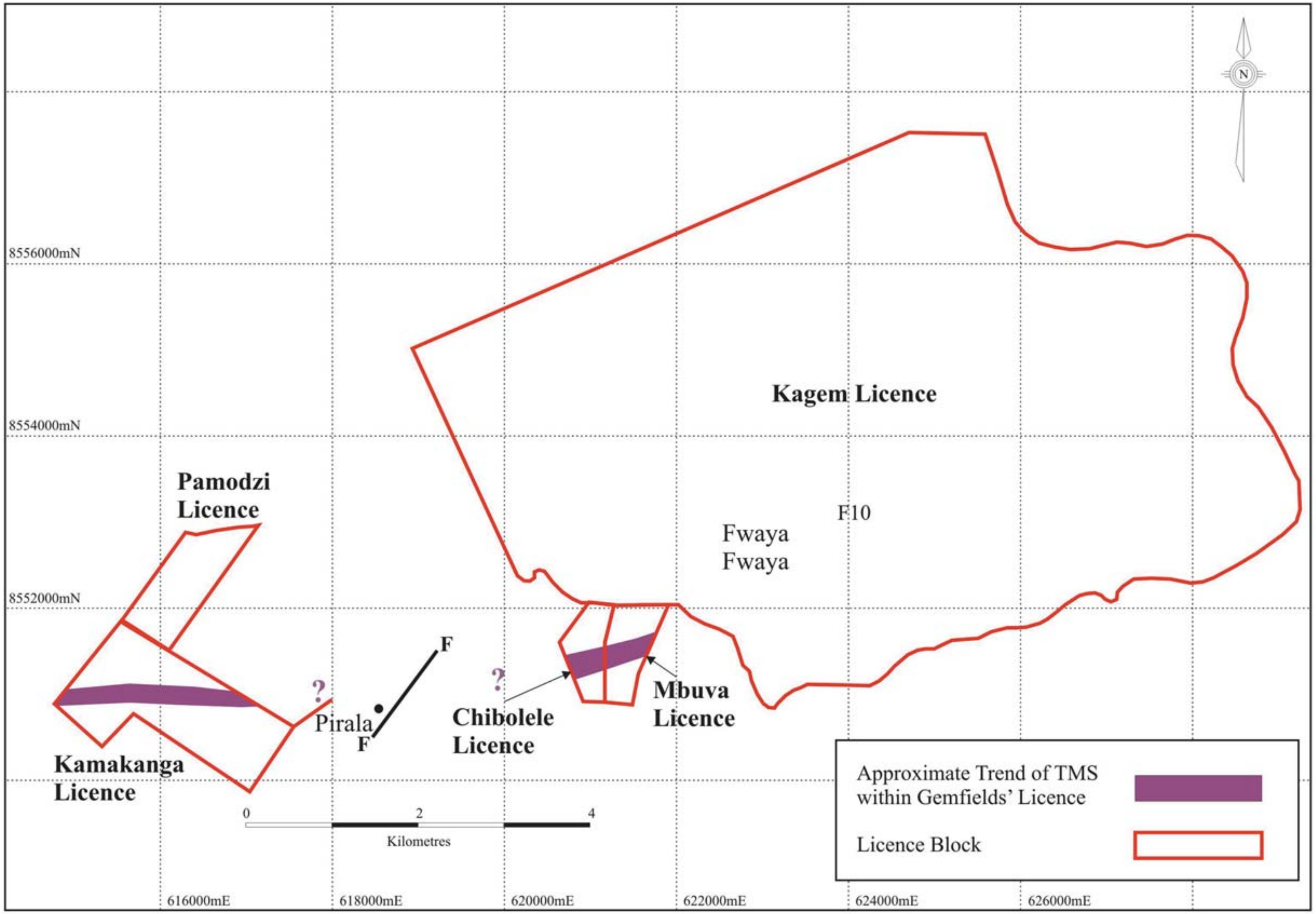


FIGURE 3: LOCATION OF FWAYA FWAYA - PIRALA BELT

A C A Howe International Limited

Howe has compiled this report from a combination of first hand observations, previous Howe reports and information from third party sources listed below in section 14 "References and Sources", which we have assumed to be correct but which we have not independently verified although we are not aware of any information in those third party documents that is incorrect. To the best of our knowledge, having taken all reasonable care to ensure that such is the case, the information contained in this report is in accordance with the facts and makes no omission likely to affect the import of such information.

The report is organised into a general section on emeralds followed by descriptions of Gemfields' individual emerald projects and the amethyst project and concludes with Gemfields' proposals and budgets and Howe's comments.

2. EMERALD RIGHTS

In consultation with Gemfields management, Howe has verified the rights of Gemfields covering Mbuva-Chibolele, Kamakanga and the contiguous property of Pamodzi. The visiting Howe geologist has had sight of certain signed documents as indicated below.

2.1. MBUVA-CHIBOLELE

Mbuva

Signed Share Purchase Agreement dated 30th May 2004, between Gemhouse Inc, Mbuva Mining Ltd and the existing shareholders of Mbuva, covering Gemstone Licence No. GL145 on Plot No. 11A/2, under which Gemhouse held 51% and an option to purchase the remaining 49% at a price which had been agreed. Gemfields has now exercised the Option and now owns 100% of the company.

Chibolele

Signed Agreement dated 23rd July 2004, between Chibolele Mining Cooperative Society (CMCS), Gemfields Holdings Zambia Ltd and Gemchib Minerals Ltd, covering Gemstone Licence No. GL288 on Plot No. 11A/1, under which Gemfields holds 70% of a joint venture with CMCS and an option to purchase the remaining 30% at a price which has already been agreed. In a recent development, Gemfields has exercised its option on the remaining 30% holding on 20th January, 2005, effectively giving it a 100% stake in the Chibolele mine.

2.2. KAMAKANGA

Kamakanga and Pamodzi

A signed Agreement dated 5th October 2004 covering Kamakanga and Pamodzi was seen by Howe. A revised agreement is now understood to be in place dated 4th July 2005, between Kuber Mineral and Metal Mining Company Ltd, Haree Enterprises Ltd and Gemfields Holdings Zambia Ltd, under which Gemfields, following the payment of the first installment of US$ 1.1 million, with a commitment to pay the balance US$ 1.35 million within a period of 180 days of the signing date to purchase the Mines (covering Gemstone Licences Nos. GL002 and GL78 on Plot No. 6/1), and Assets of Kuber and the Property of Haree. Mines and Assets means mines rights, mine infrastructure and plant. Property means the office building and office equipment in Kitwe.

2.3. OTHER EMERALD AREAS

It is understood that the Gemfields group already holds 7 prospecting licences which extend in total to about 700 km^2 and is negotiating additional opportunities in the Ndola Rural emerald field.

3. TOPOGRAPHY, VEGETATION AND CLIMATE

The emerald fields lie in an area of low relief with quartzite ridges to a maximum of about 300 metres above the general level of the land which lies at altitudes between 1,100 and 1,200 metres. The natural vegetation is essentially woodland savannah with tropical cultivation in places outside Ndola Rural Emerald Restricted Area. The climate is tropical with 3 seasons: May-August warm and dry, September-October hot and dry, November-April warm and wet, with annual rainfall of about 1,200 millimetres.

4. HISTORY OF EMERALD PRODUCTION IN ZAMBIA

The Ndola Rural emerald field of Zambia is located in the north-central part of the country, in Copperbelt Province, largely in the basins of the Kafubu and Mitondo rivers southwest of Kitwe. Beryl was originally discovered at Miku in 1928, but despite a number of investigations in the 1940s and 1950s, it was 1967 before limited mining for emerald-beryl commenced there (Hickman, 1969-72). Subsequent mapping by the Geological Survey led to a takeover by the State-owned company Mindeco in 1971. Several new locations were discovered and exploited by local artisanal miners which led to additional prospecting and somewhat disorganised surface mining both by Mindeco and private operators. In 1977, Mindex, the exploration arm of Mindeco, commenced systematic exploration of the area utilising modern techniques, but during the same period the activities of the small-scale miners expanded to uncontrollable proportions so at the end of 1978 the Government closed the whole area to prospecting and mining.

In 1980, the Government established the Reserved Minerals Corporation (RMC) to conduct and coordinate exploration and mining either for the state or in cooperation with private companies. The Ndola Rural Emerald Restricted Area (NRERA), extending to several hundreds of square kilometres, was established over the major mining zones. The area is said to have produced emeralds worth over US$ 100 million per annum in the late-1980's. This area is currently controlled by the State and is surrounded by paramilitary checkpoints with restricted access for licensees and their employees (Figure 1). At this time, deposits located north of the Kafubu River were consolidated in a parastatal company called Kagem Mining Limited (Kagem).

Due to the somewhat uncontrolled history of mining, records of early production are non-existent and, due to theft, smuggling and illicit operations, it is considered that only 30% of stones by weight are officially declared and recorded (MPH Consulting Limited, 1997). As the illegal operations concentrate on the highest quality emeralds, the percentage value declared is even lower.

Official records indicate the following annual production:-

Year	1989	1990	1991	1992	1993	1994	1995
Emeralds (kg)	1,039	334	619	265	666	438	639

The MPH Consultants study suggested that, based on inspection of all major operations, the total annual production of emerald rough did not exceed 1,000 kilograms. Quoting MPH Consultants, page 4: "*From this total, somewhere around 10%, or 0.5 Mct. are cuttable and fetch in the order of $US 75- 150/ct, based on figures released by ESMAZ, the Emerald & Semi-precious Stones Mining Association of Zambia, for a total industry revenue of $US 37.5M-75M. The better quality raw stones attain values in excess of $US 1,000/carat if cut locally, and $US 10,000 at major centres.*"

5. EMERALD EXPLORATION ACTIVITIES AND METHODS

5.1. GENERAL

A review of exploration methods has been prepared by Howe (ACA Howe International Ltd, June 2004).

On the Gemfields properties, systematic exploration core drilling has been carried out on Mbuva-Chibolele and Kamakanga in 2004-5. Less well-controlled core drilling is known to have been used in the past to guide open pit mining on Chibolele and Kamakanga.

5.2. SATELLITE IMAGERY

Relevant satellite data for target selection and ranking is available. It may be possible to map mineralisation signatures and major features such as laterite cover, quartzite markers, ultramafic belts, granitic rocks, hydrothermal alteration associated with pegmatite swarms, major faults and zones of workings.

A study of satellite imagery covering the whole of the emerald field has been carried out recently by ACA Howe International Ltd on behalf of Gemfields (ACA Howe International Ltd, May 2005).

6. REGIONAL EMERALD GEOLOGY AND MINERALISATION

The regional geological setting is described from a combination of information listed in the references and first hand observations and interpretations by Howe. The location is shown in Figure 1.

It should be noted that the published 1/100,000 geological map (Hickman, 1973/92) largely predates the development of the emerald field, which generated considerable new information. It also predates the available aeromagnetic map of 1977. The depicted geology in the area of the emerald field was compiled from 1 to 2 kilometres spaced ground traverses and air photo interpretation over an area including the project area and from copper exploration drillholes, pits and ADH lines. In some places this map is not dependable and is superseded by later, contradictory maps which also may not be entirely accurate (e.g. Sliwa and Nguluwe, 1984).

The Zambian emerald mineralisation of Ndola Rural occurs predominantly within the Proterozoic Muva Supergroup, which lies between the granite-gneiss Basement Complex and metasediments of the Upper Proterozoic Katanga Supergroup. The basement rocks consist of adamellite and biotite-adamellite granite-gneisses, with minor sodic-plagioclase phases, exposed to the northwest and southeast of the emerald field. Quartz-muscovite and kyanite schists and quartz-rich pegmatites occur within the Basement Complex.

The Muva Supergroup consists of quartzites and quartzose schists which grade upwards into quartz-mica schists intercalated with talc-chlorite-tremolite-magnetite schists (TMS) derived from ultramafic flows or sills or tuff units. Close to the contacts with the TMS, the quartz-mica schists themselves carry talc and chlorite, and biotite is strongly developed. At some places the contact between the two rock units is very well defined.

The TMS contains talc, chlorite, tremolite-actinolite and chromiferous magnetite which locally reaches 15%. Locally, the TMS units grade into or envelope amphibolite schists.

Pegmatites frequently occur within the Muva Supergroup rocks, possibly more commonly in the axial regions of antiformal structures. There is an early phase with quartz, microcline and mica. A later phase of quartz-tourmaline-kaolinised feldspar pegmatites with associated wall rock tourmalinisation is more common. Emerald mineralisation occurs where the latter type intrude TMS. The pegmatites are genetically related to post-tectonic Kibaran granite emplacement and are deformed by later tectonic events.

Rocks of the overlying Katangan Supergroup outcrop east and west of the area and comprise argillites, dolomites, quartzites and graphitic shales intruded by gabbroic bodies.

The Pre-Katangan rocks of the emerald field were affected by the middle Proterozoic Kibaran and lower Palaeozoic Pan-African Lufilian orogenies. The Kibaran episode produced extensive shearing, folding and faulting along a predominantly northeast-southwest trend, which culminated in granite intrusion. Associated pegmatitic veins were intruded along shears developed in axial planes of folds and in shears and glide planes within the various schist units in the Muva Supergroup. The Lufilian episode imposed a dextral rotation on the Kibaran structures which, in the Kafubu area, resulted in a series of large-scale synforms and antiforms that trend east-west, with smaller recumbent folds along the same trend. Subsequent movement associated with the Lufilian produced superimposed folds, faults and shears with northwestern trends.

Emerald mineralisation occurs where talc-chlorite-tremolite-magnetite schists (TMS) are intruded by conformable footwall and hangingwall pegmatites and discordant pegmatites. The emeralds occur in pockets and disseminations within the biotitic alteration zones derived from TMS adjacent to the pegmatites and in places within the pegmatites.

TMS occurs in distinct belts and additional outliers as indicated by the published 1/100,000 map (Hickman, 1973/92) and other maps. The TMS/mafic belts within the Gemfields mining licences, as indicated on available maps, are located in Figure 1. One of these is the Fwaya Fwaya – Pirala Belt which contains the most important mines and Gemfields' Mbuva-Chibolele property (Figure 3).

7. DEFINITIONS OF RESOURCES AND POTENTIAL

Definitions of Zambian emerald resources and exploration potential in the Ndola Rural emerald field, developed by Howe for computer modelled, geologically interpreted resources, were presented in a previous report (ACA Howe International Ltd, October 2003).

The definitions of the resource categories and exploration potential are modified as follows and now avoid the use of the words “indicated” and “inferred” in the nomenclature of the resource categories:-

- Production-Drilled Resources, Category “A”
- Drilled Resources, Category “B”
- Extrapolated Resources
- Exploration Potential

Production-Drilled Resources, Category “A”, are defined as those volumes of TMS+pegmatite demonstrated by geological mapping of outcrops within and between productive open pits and by geological logging of core and other drill samples. Category “A” resources lie largely between drill samples and geologically similar, mined TMS+pegmatite which has produced emerald and beryl and for which mined volumes and emerald and beryl production figures and sales values are available. The maximum spacing between outcrop and drill sample points in the plane of the TMS+pegmatite is defined as 100 metres, unless a different distance is geologically reasonable. The volumes may be adjusted by a payability factor estimated by a geologist familiar with the area in order to account for the probable occurrence of suitable pegmatites and associated emerald mineralisation. The grade and value of Category “A” resources are assigned from the grade and value of the adjoining TMS+pegmatite which has been mined and from which emeralds have been recovered and sold.

Drilled Resources, Category “B”, are defined as those volumes of TMS+pegmatite similar to TMS+pegmatite successfully mined elsewhere in the emerald field, including volumes along strike from known productive deposits, which are demonstrated by geological mapping, trenching or drilling of outcrops and sub-outcrops and by geological logging of core and other drill samples. The maximum spacing between outcrop and drill sample points in the plane of the TMS+pegmatite is defined as 100 metres, unless a different distance is geologically reasonable. The volumes may be adjusted by a payability factor estimated by a geologist familiar with the area in order to account for the probable occurrence of suitable pegmatites and associated emerald mineralisation. Category “B” resources can not be assigned a grade or value except by analogy with Production-Drilled Resources or previous production from a similar geological environment elsewhere in the emerald field. Category “B” Resources should not be used for the purposes of financial evaluation, except in a preliminary study of mining feasibility.

Extrapolated Resources are defined as those volumes of TMS+pegmatite similar to TMS+pegmatite successfully worked elsewhere, which are extrapolated along strike and down dip from Production-Drilled and Drilled Resources. Extrapolated Resources may contain data points and drill samples spaced more than 100 metres apart. The maximum strike or dip extrapolation around a production site or a drill sample is 50 metres, unless an alternative method of extrapolation is geologically reasonable. The volumes may be adjusted by a payability factor estimated by a geologist familiar with the area in order to account for the probable occurrence of suitable pegmatites and associated emerald mineralisation. Extrapolated Resources can not be assigned a grade or value except by analogy with Production-Drilled Resources or previous production elsewhere in the emerald field. Extrapolated Resources should not be used for the purposes of financial evaluation, except in a preliminary study of mining feasibility.

Exploration Potential is defined as those volumes of TMS+pegmatite interpreted from geological mapping of outcrops and other geological , geochemical and geophysical evidence to be similar to TMS+pegmatite which has produced saleable emerald and beryl elsewhere in the same geological environment, but which has not been adequately drilled or sampled for assignment to Extrapolated Resources. The volumes may be adjusted by a payability factor estimated by a geologist familiar with the area in order to account for the probable occurrence of suitable pegmatites and associated emerald mineralisation. Exploration Potential can not be assigned a grade or value except by analogy with Production-Drill indicated resources or previous production. Exploration Potential should not be used for the purposes of financial evaluation.

8. BACKGROUND FROM THE EXISTING EMERALD OPERATIONS

Emerald occurs where chromium bearing talc-magnetite schists (TMS) of the Muva Supergroup are intruded by beryl-bearing quartz-tourmaline pegmatites. The largest emerald producer is currently the Kagem mining operation. In the past, the second largest emerald producer was the Kamakanga open pit mine within a 2.5 square kilometre mining licence now controlled by Gemfields, although the mine is presently inactive. The privately owned Grizzly Mining is currently the other major producer in the area located just east of Pirala (Figures 1 and 3). These three producers are located with other smaller producers in a belt of emerald workings known as the Fwaya Fwaya – Pirala Belt (FFPB) which contains the Gemfields Mbuva-Chibolele property.

There are at least five named emerald pits or zones in Gemfields' Kamakanga licence area: Jai Ambe, Old Kamakanga, Edinburgh, Chamuva and Geneva, which were worked at times from 1975 to 2004 over a strike length of more than 500 metres and are known to have produced emeralds of high quality, which have been sold internationally throughout this period.

Private sales of Kamakanga production are recorded in invoices dated 1992 to 2003 without descriptions of quality or source within the mine. Sales were made mostly to Indian buyers but also to UK, USA, Italy, Israel, Hong Kong, Germany, Thailand, Switzerland, UEA Dubai, Zambia and South Africa. Available production volumes, tonnages and sales values from 1992 to 2003 are presented below in section 10.

It is generally acknowledged that theft occurs at Kagem, Kamakanga and other emerald mines in the area, which is very difficult to quantify. However, it is clear that theft of even 0.10 grams of emerald rough per tonne of TMS, worth say US$ 100 per gram reduces the recoverable value by US$ 10 per tonne of TMS. Clearly, if higher value stones are stolen, as may well be the case, the losses are proportionately higher and the economic impact is even greater. Therefore, grades and values derived from production and sales records are likely to be understated due to theft and other factors which reduce the recovery and value of actual in situ grades.

9. MBUVA-CHIBOLELE EMERALD PROJECT

9.1. INTRODUCTION

The Mbuva-Chibolele properties are located on the Fwaya Fwaya – Pirala Belt (FFPB), on the southern banks of the Kafubu River (Figures 1, 3 and 4). These properties lie about 400 to 1450 metres west-southwest along strike from the nearest pit of the Fwaya Fwaya emerald mining zone on the Kagem licence area.

The currently active Arinus emerald pit, also south of the Kafubu River, lies between Kagem's licence and Mbuva Pit A. The active Ebenezer and Grizzly mines lie immediately to the west of the properties. The other mines on this belt that have produced in the past are Chimpundu, and Norodom mines, west of Ebenezer.

The Mbuva-Chibolele project area contains about one kilometre of strike length of TMS cut by favourable pegmatites and three small pits, Mbuva Pit A, Chibolele Pit A and Chibolele Pit B, are reported to have produced emeralds. A fourth small pit was excavated by a previous operator in pegmatite cutting a mica schist lens above TMS some 250 metres to the northeast of the Chibolele pit.

9.2. LOCAL GEOLOGY AND MINERALISATION

Mbuva-Chibolele is part of the FFPB. The local geology and mineralisation is described from a combination of information listed in the References and Sources section and our first hand observations and interpretations.

The late and post-Kibaran granites were accompanied by intensive, boron and beryllium-rich pegmatitic activity. The pegmatitic fluids moved through pre-existing tectonic structures such as faults, thrust planes, shear zones and associated splays and fractures. Ultramafic rocks and their alteration products are mechanically inhomogeneous and, therefore, are often associated with tectonic structures. Pegmatitic fluids altered the tectonically disturbed ultramafic schists to biotite-phlogopite schist along curvi-planar zones adjacent to the pegmatitic bodies and in associated fractures and dislocations. During the waning phases of pegmatitic activity, tourmaline crystallised in quartz veins and as tourmalinite in some porous formations such as quartzite and quartz-mica schist and also in the biotite-phlogopite schists. During the last phase of pegmatitic activity quartz and beryl crystallised. Chromium, and probably also vanadium and iron, derived from the chromiferous magnetite in the TMS was incorporated in the crystallising beryl, producing emerald.

It is the reaction between the beryl bearing pegmatites and the Cr^{3+} rich portions of TMS, which produces the emerald mineralisation.

The biotitic alteration haloes which contain the highest percentage of emeralds vary in thickness and mineralisation may, in rare cases, extend several metres into apparently unaltered TMS wall rock, although emerald development is considerably weaker here than in the biotite alteration zones. Some of the TMS, where affected by pegmatites, contains disseminated biotite and tourmaline porphyroblasts, but we do not know of any occurrences of emeralds in such rocks although emeralds should be expected. Emeralds also occasionally occur within the pegmatite veins themselves. Minor late-stage, centimetre-scale, pegmatite veins, parallel to schistosity, may be found in the biotite-phlogopite rocks, close to larger pegmatites within zones of emerald mineralisation.

Most of the area is covered to a depth of a few to more than ten metres with laterite which in places is formed of residual quartz and pegmatite fragments.

9.3. OPERATIONS AT MBUVA-CHIBOLELE

Gemfields has carried out the following field operations during 2004 and 2005:-

- Ground magnetic survey completed in 2004.
- Core drilling, 51 cored holes (MBH 1 to 32, 33A, 33B and 34 to 50) between July 2004 and December 2004.
- Dewatering of the Chibolele pit, completed in November 2004.
- Preliminary washing of Chibolele pit floor mined reaction zone on 27th October 2004.
- Trial mining and bulk sampling.

Ground magnetic survey

Magnetic data has been surveyed along lines shown in Figure 4 by Gemfields and used empirically to guide initial drilling. A magnetic structure crossing the southern half of the survey area can be modelled but the data is affected by magnetic anomalies in the near-surface laterites. It is possible that more useful data could be obtained with greater ground separation such as may be obtained using a long magnetometer pole or airborne surveys. More accurate modelling would be possible if magnetic susceptibility measurements were carried out on outcrop and core samples.

Core drilling

A total of 4602 metres of mainly NQ and less than 100 metres of BQ wireline core drilling was completed in 51 cored holes (MBH 1 to 32, 33A, 33B and 34 to 50) between July 2004 and December 2004. The drilling was carried out over 1000m of strike length from section lines L-4 to L-44, trending north-northwest, spaced at 50m strike interval in the west and at 100m strike interval in the east on lines L-4 to L-20.

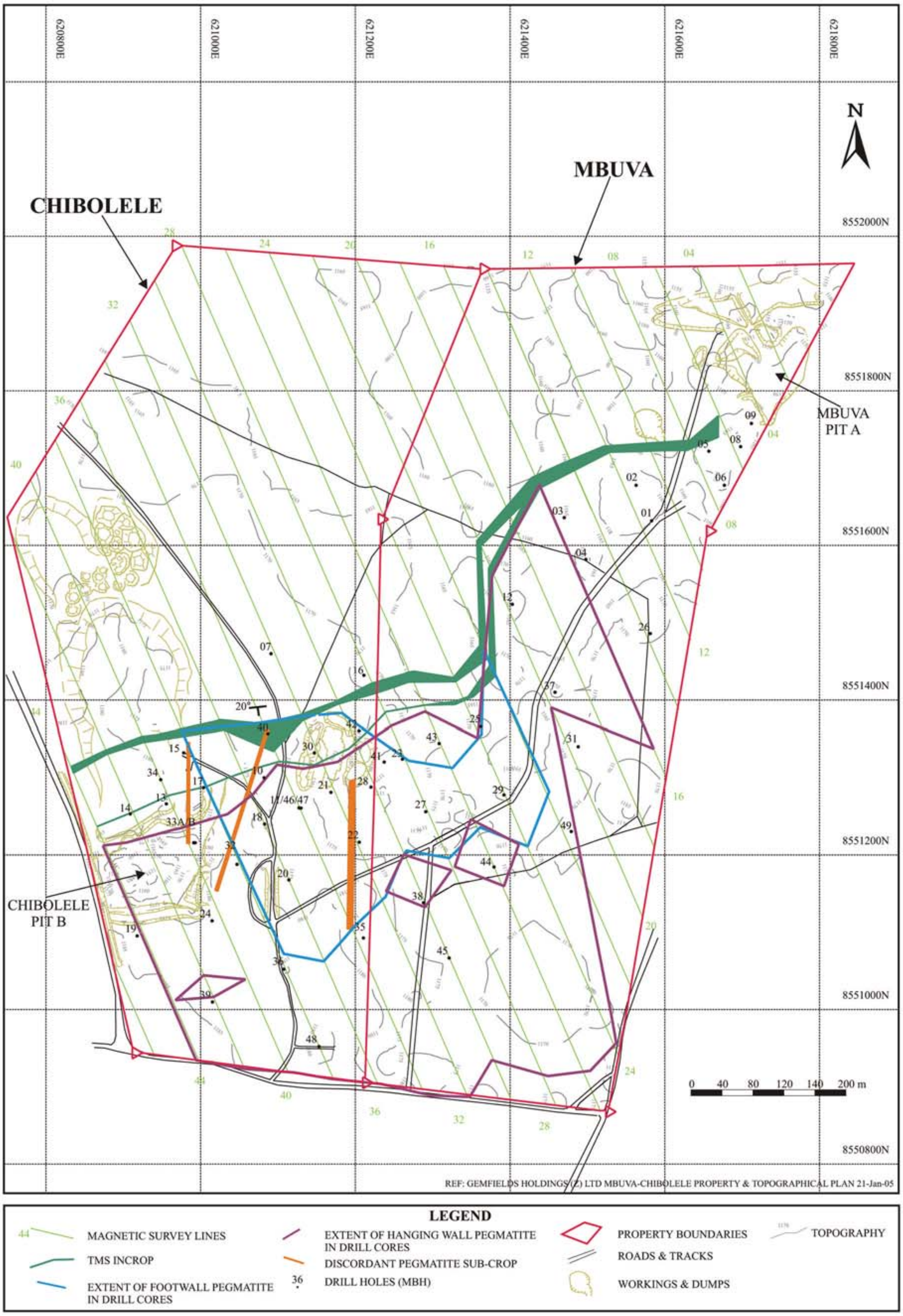


FIGURE 4: MBUVA-CHIBOLELE INDEX MAP INCLUDING LICENCES, DRILLHOLES, TMS SUB-OUTCROPS, EXTENT OF DRILLED HANGINGWALL AND FOOTWALL AND DISCORDANT PEGMITITES

A C A Howe International Limited

Logging of holes from Mbuva-Chibolele was checked by Howe and found to be generally acceptable and was being rigorously checked and corrected where necessary by experienced senior staff geologists of Gemfields. Core recovery is generally acceptable at better than 95% with some large, but not unexpected losses in friable rocks.

An analysis of the summary logs of the first 29 holes totalling 2001 metres, indicates the following summary by mafic-rock, ultramafic rock, quartz veins and pegmatite rock types, all of which may be associated with emerald mineralisation.

Mafic-Umafic + Q veins + Pegs total, m, %	712.01	100
TMS, m, %	348.13	49
Biotite-phlogopite schist, m, %	33.70	5
Amphibolite, m, %	207.23	29
Pegmatite, m, %	111.19	16
Quartz veins, m, %	11.76	2

However, this table counts pegmatites and quartz veins which are also cutting mica schist and is, therefore, capable of refinement by selection of those pegmatites and quartz veins which are in contact with TMS and the intimately associated amphibolite.

Of particular significance, by early November 2004, hole MBH 22 had intersected more than 50 metres of discordant pegmatite, probably drilled sub-parallel to its dip from 39 metres down-hole. At a depth of about 95 metres the hole passed into TMS with good biotitic reaction rock with quartz-tourmaline mineralisation, indicative of emerald in the vicinity. Very poor core recovery of biotite reaction rock was noted from 96 to 97.5 metres depth. Near the bottom of the hole which was still running, at about 97.8 metres, the Howe geologist logged a cluster of green beryl crystals up to 4 mm in diameter in a pocket 4 cm by 1cm thick exposed on both sides of the BQ core about 3.5 cm in diameter, at the boundary of tourmaline-biotite schist and pink feldspar-quartz pegmatite. This is a good sign of probable emerald occurrence in this area which was actually confirmed by the subsequent mining at shallower depth of a sample of emerald and beryl totalling to about 26 kilograms.

As of early November 2004, the longest intercept of TMS had been drilled in hole MBH 29: 85.7m between 34m and 119.7m, with a 0.3m footwall pegmatite.

In early November 2004, the sub-outcrop of the TMS had been mapped by extrapolating up-dip the drill intercepts on the preliminary Gemfields cross-sections. This mapped 700 metres of strike length with two TMS layers joining westwards at about Line 33 or -800E and continuing westwards as one layer for a further 225 metres, for a total strike length between drill sections of 925 metres. In the eastern part of the Mbuva-Chibolele area the top TMS-amphibolite layer has not yet been drilled due to its proximity to the boundary with Arinus to the east.

Later holes MBH 38, 44 and 45 have made discovery intersections of an additional, previously unknown TMS layer at depth which may project up-dip into accessible parts of the projected, enlarged Chibolele pit.

Dewatering

The dewatering of the Chibolele pit was almost completed on the date of the Howe visit on 26th October 2004. It was estimated that pumping would be completed and pit cleaning and rehabilitation could commence within 3 days.

In the east central part of the partially dewatered pit the Howe geologist inspected an area 8m by 5m of black biotite schist with abundant tourmaline and decimetre scale quartz dipping southwards at about 10 degrees. Apparently, this area had been manually excavated by the previous operator to a depth of 1 to 1.5 metres and the spoil was heaped to the west. In the spoil heap, the Howe geologist found one decimetre scale fragment of centimetre-scale tourmaline-biotite rock with minor, 1 to 3mm clusters of gemmy green beryl.

Other indications of pegmatites were noted which were still inaccessible pending completion of dewatering and cleaning of the pit.

Preliminary washing of samples

Preliminary examination of mined hangingwall pegmatite reaction zone material from the east-central part of the partially dewatered pit floor on 27th October 2004 by limited and random washing over a very small area for a quick check at the Kamakanga camp washing floor. No beryl or emerald were found by washing but gemmy green beryl was found by Howe in a piece of tourmaline-biotite rock from this area.

Trial mining and bulk sampling

In late 2004 Gemfields hired all the mining infrastructure and plant from Kamakanga for a monthly charge and, following a comprehensive maintenance program, deployed the mining fleet at the Chibolele pit to expand the pit eastwards and to mine the hangingwall conformable pegmatite reaction zone at the top of a thick TMS unit described immediately above.

By mid January 2005, quantities of emerald and beryl had been recovered from the Chibolele pit. The Howe geologist visited the newly mined area and examined the recovered rough gemstone, confirming the potential for production. On 14 February, 2005, Gemfields mined their first concentration of emeralds in the Chibolele pit. The emeralds weighed over 600 grams or over 3000 carats. This parcel of rough was sealed and sent to London for processing and valuation. After cutting and polishing, the emeralds were valued at US$ 24,251.28 by Huddlestone Gemmological Consultants Ltd., London. The find conclusively proves a geological environment favourable for emerald mineralisation.

9.4. RESOURCES

A note on the estimation of resources in Mbuva-Chibolele has been prepared by Gemfields (January, 2005).

A total of 4602m of exploratory drilling was completed in 51 cored holes (MBH 1 TO 32, 33A, 33B and 34 to 50) between July 2004 and December 2004. The drilling was carried out over 1000m of strike length between section lines L-4 and L-44, trending NNW spaced at 50m strike interval in the west at 100m strike interval in the east between lines L-4 to L-20.

The volumes of the solids were calculated using EXPLORPAC software. The volume based ore and ore to waste estimates for the whole Mbuva-Chibolele property where drilled are presented in Table 1.

TABLE 1. MBUVA-CHIBOLELE RESOURCES ABOVE 1020M LEVEL, 950M STRIKE, L-6 TO L-44

	Million cubic metres
TMS+pegmatite ore	8.25
Overburden (MS/ Soil etc)	31.48
MS in TMS+pegmatite	3.30
AMP in TMS+ pegmatite	6.75
Total waste	41.53
Waste : Ore	5.0:1

At a reasonable assumed density of 2.85 tonnes/m^3, this represents 23.51 million tonnes of TMS+pegmatite ore.

A similar estimation was carried out by Gemfields for the strike length of 500m from section lines L-24 to L-44. This was bounded by the rockhead surface, the 1020m level, the 150m subsurface level and the licence boundaries to the south. This volume includes the existing Chibolele pit and a large proportion of the Drilled Resource, which is considered to represent a preliminary open pittable resource (Table 2). It should be noted that in this case the TMS to AMP ratio in drill hole intersections between section lines L-24 and L-44 is 58:42.

Gemfields reported to Howe in April 2005 that a conceptual 150m deep open pit between section lines L-24 and L-44 had been designed using SURPAC software with an ore to waste ratio of 1: 4.6 and that starter pits for the first five years had also been designed to produce the desired ore and ore : waste ratio.

TABLE 2. MBUVA-CHIBOLELE RESOURCES ABOVE 1020M LEVEL, 500M STRIKE, L-24 TO L-44

	Million cubic metres
TMS+pegmatite ore	6.50
Overburden (MS/ Soil etc)	19.59
MS in TMS+pegmatite	2.96
AMP in TMS+ pegmatite	4.71
Total waste	27.26
Waste : Ore	4.2:1

At a reasonable assumed density of 2.85 tonnes/m^3, this represents 18.53 million tonnes of TMS+pegmatite ore.

The visiting Howe geologist checked the resource modelling and estimation methods carried out using EXPLORPAC software with the Gemfields resource estimation specialist, geologist Parikshya. A manual check was also performed and checked by Howe using the drill sections and a spreadsheet calculation, which produced similar results. A third method based on the measurement of strike length (500m), dip length (350m) and average thickness (40m) of TMS also produced similar results.

It should be noted that these numbers relate to levels above the 1020m level, below which the TMS+pegmatite ore extends. It should also be noted that a new discovery of an additional, lower TMS layer was made in later holes MBH 38, 44 and 45. MBH 45 was stopped short of the base of this new TMS layer. The importance of this discovery is that the up-dip portions above the 1020m level constitute additional open pit resource potential but further drilling is required to evaluate this layer.

The resources are presently classified as Drilled Resources, Category "B", pending recovery and valuation of a sufficient quantity of saleable high quality emerald rough from a sufficient quantity of TMS+pegmatite ore, so that Category "A" may be assigned. So far, resources are estimated only within the limits drilled. Extrapolated Resources beyond drill intercepts have not yet been estimated since the Drilled Resources are so large.

9.5. VALUE OF RESOURCES BY ANALOGY WITH KAMAKANGA

The Mbuva-Chibolele property lies only a few kilometres east of the Kamakanga emerald mine and a few kilometres west of the Kagem emerald mine, in the same emerald belt.

At Kamakanga, the total gemstone sales of US$ 15.875 million divided by the estimate of total ore mined for the 1992 to 2003 production period of 574,560 tonnes, gives an average Kamakanga TMS ore value of US$ 27.63/tonne and an emerald grade of about 3 g/tonne, as described below in section 10. It is quite clear that improved washing and recovery facilities, security and mine management procedures could realize significant additional revenue. Gemfields believes that a 50% improvement is achievable, resulting in a realistic value estimate of US$ 41/tonne of ore. Howe agrees that such an improvement may be achievable. Analogous grade and value data are not presently available for the Kagem operation.

Since the Mbuva-Chibolele property lies between Kamakanga and Kagem in the same emerald belt, in a similar geological environment, Howe believes that the emerald grade and value of the Mbuva-Chibolele deposits will prove to be similar. The Kamakanga grade is estimated at about 3 g/tonne of TMS worth US$ 28 to 41/tonne.

9.6. CHIBOLELE PRE-FEASIBILITY FINANCIAL MODEL

Gemfields have produced a 10 year, pre-feasibility financial model for the Chibolele open pit emerald mining project to produce and sell rough, uncut gemstones. This is in the form of a Microsoft Excel spreadsheet (Gemfields, 18th August 2005). Howe's mining engineer has reviewed the assumptions, 12 methodology and calculations in consultation with Gemfields senior personnel (ACA Howe International Ltd, 19th August 2005). The 10 year model depletes the total Drilled Resources, Category "B", which are open at depth and up-dip within the property, by 18.5 million tonnes or 79%.

The resources are presently classified as Drilled Resources, Category "B", suitable for preliminary study of mining feasibility, pending recovery and valuation of a sufficient quantity of saleable high quality emerald rough from a sufficient quantity of TMS+pegmatite ore, so that Category "A" may be assigned.

The Howe review is favourable and indicates that the calculations within the model are substantially correct, the quality of the modelling is good and the model represents a fair indication of the costs and earnings of the project. The results of the financial modelling are summarised in Table 3 below.

TABLE 3. SUMMARY OF CHIBOLELE PRE-FEASIBILITY FINANCIAL MODEL

Revenue	US$ 28/t ore	US$ 41/t ore
NPV 10%	US$ 70.24 million	US$ 160.02 million
NPV 15%	US$ 56.75 million	US$ 130.68 million
NPV 20%	US$ 46.61 million	US$ 108.64 million
IRR post tax	116%	205%

The 10 year Chibolele open pit emerald project has a robustly positive net present value of US$70 million at 10% discount and an internal rate of return of 116%, assuming US$ 28/tonne ore which is derived by extrapolation of invoiced sales and survey data at Kamakanga. Assuming US$41/tonne ore, which in Howe's opinion may be achievable by improved washing and recovery facilities and reduction of the high levels of theft which is acknowledged to occur throughout the industry, the project has a net present value of US$ 160 million at 10% discount and an internal rate of return of 205%.

9.7. EXPLORATION POTENTIAL

The open-pit resource described above is open below the 1020m level within the property. The newly discovered lower TMS layer is open in strike and dip above and below the 1020m level. The Exploration Potential has not yet been numerically estimated.

9.8. DISCUSSION AND CONCLUSIONS ON MBUVA-CHIBOLELE

Drilling results and computer modelling by Gemfields indicate that resources of TMS+ pegmatite far exceed initial estimates. Conformable pegmatites in the footwall and hangingwall of the TMS and discordant pegmatites cutting TMS have been confirmed by the drilling programme.

Later holes MBH 38, 44 and 45 have made discovery intersections of an additional, previously unknown TMS layer at depth which may project up-dip into accessible parts of the projected, enlarged Chibolele pit.

Pegmatitic TMS reaction rock with green beryl was seen by the visiting Howe geologist in two locations: one in the east-central area of the dewatered Chibolele pit and the other in the core of hole MBH 22 at 97.8m. (Visible emerald was also seen in the Chibolele dumps by the visiting Howe geologist in October 2003.)

Geological indications favourable for the occurrence of emerald mineralisation similar to that on the Kamakanga and Kagem licences have been recognised, which have enabled sites for trial mining and bulk sampling in eastward extensions of the Chibolele open pit to be identified. Recovery of significant quantities of emerald have already been made and it is likely that a significant, new emerald mining operation can be developed within a preliminary open pittable resource of 6.5 million cubic metres (or 18.5 million tonnes) of geologically favourable TMS+pegmatite with a volume based waste : ore ratio of 4.2:1.

On 14th February, 2005, Gemfields mined their first concentration of emeralds in the Chibolele pit. The emeralds weighed over 600 grams or 3000 carats. This parcel of rough was sealed and sent to London for processing and valuation.

Since the Mbuva-Chibolele property lies between Kamakanga and Kagem in the same emerald belt, in a similar geological environment, Howe believes that the emerald ore grade and value of the Mbuva- Chibolele deposits will prove to be similar to Kamakanga at about 3 g/tonne and US$ 28 to 41/tonne.

The 10 year Chibolele open pit emerald project has a robustly positive net present value of US$70 million at 10% discount and an internal rate of return of 116%, assuming US$28/tonne ore which is derived by extrapolation of invoiced sales and survey data at Kamakanga. Assuming US$ 41/tonne ore, which in Howe's opinion may be achievable by improved recovery technology and reduction of the high levels of theft which is acknowledged to occur throughout the industry, the project has a net present value of US$ 160 million at 10% discount and an internal rate of return of 205%.

10. KAMAKANGA EMERALD PROJECT

10.1. INTRODUCTION

The Kamakanga property is located 5 to 6 kilometres west-southwest along the regional strike from the Mbuva-Chibolele and Kagem properties. The Pamodzi, Mwelushi and Bumwa properties are contiguous to the northeast, in the direction of the local dip of the controlling talcose mafic schists (Kamakanga TMS) of the Kamakanga and Jai Ambe emerald pits. The property lies 2 kilometres west of the old Pirala cooperative property now controlled by the active Grizzly Mines. Figure 5 is an index map of the Kamakanga mine area.

10.2. HISTORY AND PREVIOUS PRODUCTION

There are at least five named emerald pits or zones in the Kamakanga licence: Jai Ambe, Old Kamakanga or Kamakanga Main Pit, Edinburgh, Chamuva and Geneva, which were worked at times from 1975 to 2004. Verbal gemstone production information is available from OIC Mr Rajni. He explained the sequence of year-wise mining starting from early 1990s and added that in 1993 a 3750 gram parcel of top quality, large emerald crystal produced from the Jai Ambe pit in 1.5 days during the October to November production period, was sold. Soon after the sale, the owner purchased the southeast part of the present Kamakanga licence area for US$ 2.8 million. The visiting Howe geologist has seen impressively large crystal specimen material in the Kamakanga strong room, said to be the poor quality residues of production from Jai Ambe.

The Kamakanga mine is presently inactive. From April 1996 to March 1997, Mumba (1997) records production from Kamakanga of 8491 kilograms of unsorted material picked during mining from which 2965 kilograms of cleaned and graded emerald and beryl rough were produced. Sales made in this 1996- 97 period totalled US$ 3.3 million. Mumba (2001) reports that in the five year period 1994 to 1999, emerald and beryl sales by the company totalled US$ 8.7 million, 84% from emerald. From April 2000 to March 2001, Mumba (2001) records no mine production from Kamakanga since all production was from the Kafubu property, now part of Grizzly Mining.

10.3. PROPERTY GEOLOGY AND MINERALISATION

Based on a 1/1000 scale undated, pre-1996, geological map by P. Mumba, and the 1/2000 topographic and index map dated 1996, obtained from the Kamakanga company office in Kitwe, the mined Kamakanga project area contains a mapped strike length of 340 metres of talcose mafic schist, between Jai Ambe pit backfill in the northwest and, to the southeast, a major northeast trending, apparently normal fault, with downthrow to the northwest. The effect of this fault appears to offset the talcose mafic schist about 200 metres to the northeast, where it appears to have been excavated in the Geneva pit area in the upthrown fault block. Henceforth, for convenience, this is referred to as the Geneva fault. Unfortunately, the 1/1000 scale geological map predates the Geneva pit and the geology is, therefore, not yet clearly defined. To the northwest, the Jai Ambe zone has been backfilled and beyond this there are two exploration trenches shown cutting the strike line on the 1/1000 scale map.

From the 1/1000 scale map, the total excavated strike length between the backfilled area of the Jai Ambe pit in the northwest and the southeast end of the Geneva pit, is 630 metres. Kamakanga TMS is mapped over a strike length of 340 metres but the northwest end is obscured by back-fill in the Jai Ambe pit.

The talcose mafic schist is believed to vary from 2 to 3 metres thick in the southeast in the Geneva pit area, to 20 metres thick in the northwest in the Jai Ambe pit area. However, the mapped horizontal width and an average dip of 35 degrees indicate a reasonably consistent true thickness of 20 metres.

This unit is enclosed by hangingwall and footwall quartz mica schists dipping generally to the northeast. The mapped talcose mafic schists dip northeast at 29 to 40 degrees. The visiting Howe geologist has provisionally identified this unit, as exposed in the floor of the deepest excavation at the southeast end of the Kamakanga zone (Geneva pit), as a medium grained, fuchsite-tourmaline-quartz schist with minor magnetite.

All the rocks are cut by favourable concordant and discordant pegmatites of quartz-tourmaline composition. One west-northwest trending, discordant, 1 to 2 metre thick, quartz-phlogopite-muscovitefeldspar pegmatite is mapped over 550 metres through the Old Kamakanga to Geneva pit areas. The pegmatites are mapped as though they are post-Geneva-fault in age in that they are mapped as not being displaced by the fault. The deepest and presumably, therefore, most productive part of the Jai Ambe zone appears to be at an antiformal flexure in the Kamakanga talcose mafic schist, which may have produced dilatant structures suitable for the deposition of pegmatitic minerals including beryl, in a chrome bearing host rock suitable for the formation of large emerald crystals.

To the southwest of the Kamakanga excavation area, the Kamakanga licence appears to be very poorly mapped. A 1/5000 scale map provided by the Kamakanga company, appears to show 100 m square grid points, possibly locating actual or planned drillholes. It is known that Kamakanga used core drilling to locate promising areas for mining but proper records were not kept. This map which is not a proper geological map, does sketch substantial layers of quartz and quartzite sub-parallel to the Kamakanga talcose mafic schist in the southwest portion of the licence area. If the host talcose mafic schist is continuous on the property, the implied strike length is 2.3 kilometres.

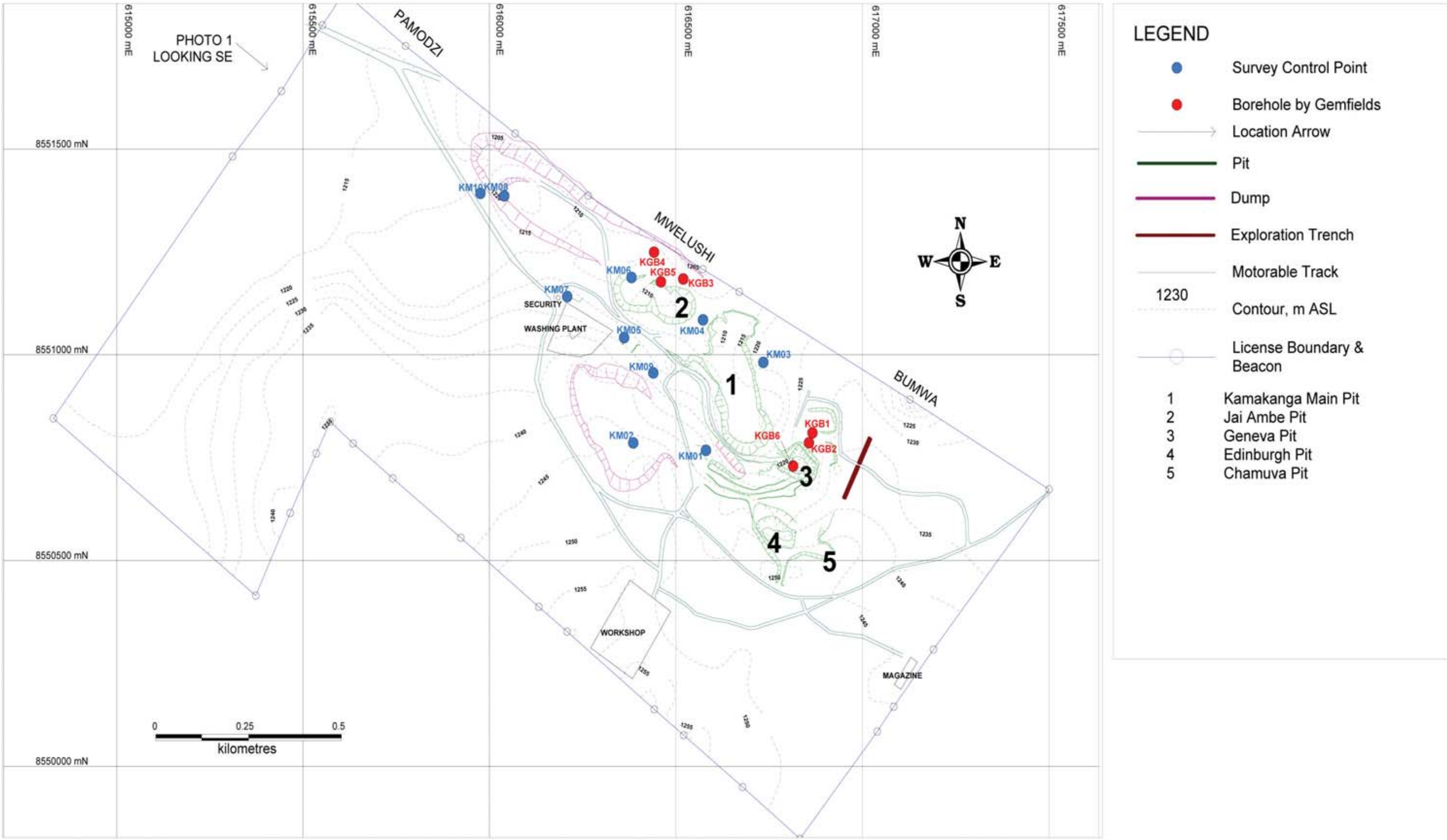


FIGURE 5. KAMAGANGA MINE PLAN

A C A Howe International Limited

10.4. OPERATIONS AT KAMAKANGA

The Kamakanga mining operation is presently inactive. Since the signing of the Kamakanga agreement dated 5th October 2004, Gemfields has carried out the following field operations:

- Ground magnetic survey completed in November 2004.
- Core drilling, holes KGB 1 to 6 completed.
- Dewatering of the Old Kamakanga pit and the western part of the Jai Ambe pit in progress.
- Trenching and pitting in two areas: 1) Near Line 7 about 100metres southeast along strike from Geneva pit area and 2) Near Line 35 northwest of the backfilled zone of the Jai Ambe pit which is contiguous with and northwest of Old Kamakanga pit.
- Preliminary washing of pit and trench samples from Line 7 200SW area on 28th October 2004.
- Chiselling in trench of green beryl bearing quartz-tourmaline pegmatites from Line 7 260-282SW area on 30th October 2004.

Ground magnetic survey

A ground magnetic survey of the eastern extensions in progress on 29th October was completed in November 2004.

Core drilling

A total of more than 500 metres of NQ wireline core drilling had been completed in 6 holes numbered KGB 1 to 6. Drilling has been discontinued pending the results of the ground magnetic survey. The logs had not been finalised and summarised at the time of the Howe visit in 2004.

Logging of holes at Kamakanga was checked by Howe and found to be generally acceptable and being rigorously checked and corrected where necessary by experienced senior staff geologists of Gemfields. Core recovery is generally acceptable at better than 95% with some large, but not unexpected losses in friable rocks.

Holes KGB 1 and 2, collared on the northeast side of the southeast end of the excavation area and drilled southwest at an angle 60 degrees, were drilled to test the downdip extension of the mined zone between the Old Kamakanga and Geneva emerald production zones. Preliminary logging and a draft cross-section at 1/500 scale indicate that the holes intersected a TMS bearing zone about 10 metres thick dipping northeast at about 15 degrees, cut by a discordant pegmatite which is exposed in the pit, above a conformable layer of amphibolite about 8 metres thick. Hole KGB 6 was drilled a few tens of metres to the southwest, within the open pit.

KGB 3, 4 and 5, collared on the northeast side of the northwest end of the excavation area and drilled southwest at an angles of 70 degrees, 70 degrees and 50 degrees respectively, were drilled to test the downdip extension of the Jai Ambe emerald production zone which is a west-northwest extension of the Old Kamakanga pit. Logging was incomplete but preliminary indications and a draft cross-section at 1/1000 scale, show that favourable host rocks including TMS and pegmatites were intersected. KGB 4 failed to intersect the targeted talcose mafic schist perhaps due to the 70 degree angle of the hole and a possible steepening of the local dip to 45 to 70 degrees as indicated in the nearby exploration trench.

Dewatering

A copious flow of water was noted on 28th October 2004 in the northwest flowing ditch beyond the northeast boundary of the licence area. It was reported this was from dewatering of the Old Kamakanga pit which was not visited due to the high water level.

Trenching and pitting

A new prospecting trench and pits to the east of the productive Kamakanga open pit, on Line 7 exposed lateritised and weathered micaceous schists below a regolith of quartz-tourmaline and laminated tourmalinised metasediments and tourmalinites. This is probably sub-outcrop with flat dips, a few tens of metres stratigraphically above the Kamakanga talcose mafic schist horizon exposed in the Geneva area of the Kamakanga open pit. Emerald and beryl has been found recently in this area as described below under preliminary washing and chiselling.

To the west, a new trench on Line 35, north of the backfilled zone of the Jai Ambe pit exposed lateritised and weathered micaceous schists and a zone of 2 to 3 metres of yellow weathering, and rotten, possible talcose mafic schist, dipping steeply to the north above a footwall quartz-tourmaline pegmatite. This situation was identified as favourable for the occurrence of emerald. A hangingwall pegmatite is also present but is not associated with possible talcose mafic schist.

Preliminary washing of samples

Preliminary examination by washing at the Kamakanga camp washing floor, of red-brown soil and regolith material from a pit near Line 7, 225 SW, produced seven minus 3mm fragments of fractured emerald and 1 of aquamarine. Material from other nearby pits produced no beryl or emerald.

Chiselling

Coarse grained, euhedral, non-gem, green beryl has been discovered associated with steep quartz-tourmaline pegmatites cutting tourmalinised laminated schists and pale green, micaceous schists from the Line 7 260-282SW area, about 100m east-southeast of Geneva pit, apparently dipping at 5 to 10 degrees to SW, opposite to the general Kamakanga dip. This area appears to be a few tens of metres stratigraphically above the mafic schist exposed in the floor of the Geneva pit. A weight of more than 11.3 kilograms of quartz-tourmaline rock with some green beryl and some large, dirty brown, euhedral beryl crystal up to 8 cm diameter and up to 700g in the largest piece, has been retained in the Kamakanga strong room. One rock fragment of coarse, pale green mica-quartz rock with the cast of a euhedral beryl crystal 1.5 cm by 3.0 cm was also retained.

10.5. RESOURCES

Gemfields has not yet attempted resource estimation work on Kamakanga. This will be undertaken only after a detailed exploration programme is completed.

Proved and probable "reserve" figures for Kamakanga totalling 232,400 m^3 are stated by Mumba (2001) without sufficient basis of location or sampling for verification. These "reserves" appear to be located in the southeastern part of the Kamakanga licence area. Quoting Mumba; *"A mining strike length of 200m that can be followed down-dip for 50m is available for mining."* These figures imply a thickness of 23 metres which is similar to the interpreted thickness of the host talcose mafic schist mapped at 1/1000 scale.

10.6. ESTIMATE OF KAMAKANGA ORE, WASTE, ORE GRADE AND VALUE

Ore and waste

Gemfields have provided three reports and associated spreadsheets describing the basis of the estimation of Kamakanga ore, waste, ore dollar value and grade (Gemfields Holdings (Zambia) Ltd., 15th July 2005; 22nd July 2005; 9th August 2005). These reports and the associated spreadsheet calculations are summarised below.

In the absence of dependable mine production data, the ore and waste mining volumes and tonnages for the Kamakanga Main Pit and the Jai Ambe Pit have been surveyed by Gemfields. The volume and tonnes of mine production for the period between October 1992 and December 2003, for which verifiable gem rough sales data for emerald and beryl are available, has been estimated by Gemfields. Hence, a value per tonne of ore mined has been estimated.

The mining volumes were based on a geological map of the mine prepared in 1996 by P. Mumba for Kuber Mineral and Metal Mining Company Limited (Kuber), drill information from the Gemfields exploration programme and Gemfields survey of the existing topography of the pits using differential GPS. These data were used to create the pit shape using SURPAC software. The digital terrain model (DTM) of the pit was modified in line with the following assumptions which Howe consider to be reasonable.

The Kamakanga Main Pit and the Jai Ambe Pits were worked many years ago and the Jai Ambe pit was back-filled and is presently flooded. In order to recast the operational pit geometry the following assumptions were made.

- The pit bottom has been assumed to be 8m below the present water level in the main Kamakanga pit. This is based on the observations made after dewatering the pit in December, 2004.
- In case of the Jai Ambe pit, the pit bottom has been assumed to be 18m below the present water level in the pit (5m of water and 13m of back-fill). This is consistent with the Kuber senior management view that the ultimate depth of the Jai Ambe Pit was greater than the Kamakanga pit. It also appears realistic considering the pit outline.
- The average specific gravity estimated for the mined out ore + waste is 2.25 and 2.80 for the ore based on experience elsewhere.
- Surface soil and laterite 7m thick has been excluded for estimation purposes.
- The surface width of the host talcose mafic schist (Kamakanga TMS) has been considered to be 30m in the main pit, as indicated on the geological map. In the case of the Jai Ambe Pit, the surface width of Kamakanga TMS has been estimated as 20m based on the observations made in the Gemfields drill holes.
- The total strike lengths of Kamakanga TMS mined in the Kamakanga Main Pit and the Jai Ambe Pit are 300m and 165m respectively, based on the Gemfields survey of the pits.

Pit volumes were calculated using an average dip of 35 degrees and multiplying cross-sectional areas of Kamakanga TMS as ore and other rock as waste, at 50m strike intervals, using SURPAC software. Table 4 below summarises the results of the Gemfields spreadsheet calculation of ore and waste volumes and tonnages.

TABLE 4. KAMAKANGA ESTIMATED ORE AND WASTE TONNAGES

		Waste + Ore	Ore	Waste	Waste/Ore Ratio
Main Pit	Volume, m^3	967,225	243,000	724,225	3.0
	Tonnes	2,176,256	680,400	1,495,856	2.2
Jai Ambe Pit	Volume, m^3	264,160	59,400	204,760	3.4
	Tonnes	594,360	166,320	428,040	2.6

Howe considers the methodology and the assumptions used for the above estimates of total mined volumes and tonnages of ore and waste to be reasonable.

Ore grade and value Kuber, the previous owner of the two Gemstone Licences covering Kamakanga, have provided Gemfields with the original sales invoices for rough gemstone consignments from the Kamakanga and Jai Ambe pits from October 1992 to December 2003. These include client and address, weight and value of different categories of emerald and beryl sold, insurance and freight charges. Copies numbered 1 to 273 have been provided to Howe. Sales were made mostly to Indian buyers but also to UK, USA, Italy, Israel, Hong Kong, Germany, Thailand, Switzerland, UEA Dubai, Zambia and South Africa.

Sales of rough emerald and beryl have been made by three different companies:

Kuber Mineral and Metal Mining Co. Ltd
Nkuralu Gem Prospecting Co. Ltd (R division)
Pamodzi Gemstones Mining Limited

It has been confirmed by Kuber that these companies are part of Kamakanga Group of Companies and this is reflected on the official invoice stationery. It has also been confirmed that the emeralds represented by the invoices were produced from the Kamakanga and Jai Ambe pits, as those are the only Gemstone Licences owned by the company.

The total sales from the Kamakanga and Jai Ambe pits from October 1992 to December 2003 amount to US$ 15,875,149 as detailed in Table 5.

TABLE 5. KAMAKANGA SALES INVOICES SUMMARY 1992 TO 2003

Period mth/yr to mth/yr	Sold by company	Value (US$)
10/92 to 03/94	Nkuralu	1,803,647
04/94 to 03/95	Kuber	898,245
04/94 to 03/95	Nkuralu	1,825,084
04/95 to 03/96	Kuber	3,112,090
04/96 to 03/97	Kuber	3,309,179
04/97 to 03/98	Kuber	1,025,130
04/97 to 03/98	Pamodzi	1,769,683
04/98 to 03/99	Kuber	779,725
04/98 to 03/99	Pamodzi	245,998
04/99 to 03/00	Kuber	440,831
04/00 to 03/02	Kuber	313,185
04/00 to 03/01	Pamodzi	45,000
04/02 to 03/03	Kuber	238,109
04/03 to 12/03	Kuber	69,243
	TOTAL	15,875,149

The above estimates of ore and waste volumes and tonnages for the two pits are based on logical assumptions and new field surveys. These figures are for the entire mine life up to the present time. However, the sales invoices apply only to the period from October 1992 to December 2003. This calls for a reasonable and logical estimation of the ore mined in this period considering that Kamakanga pit has actually been operational from the early 1970s.

Based on mining reports, the view of Kuber senior management and common knowledge, all the mining in Jai Ambe Pit was conducted in the 1990s. Accordingly, the entire amount of ore mined in this pit has been included by Gemfields for estimation of ore value (166,320 tonnes). Most of the earth-moving equipment was acquired by Kuber in the mid- to late-1990s. For the Kamakanga Main Pit, Gemfields believes that about 60% of the total ore mined (408,240 tonnes out of the total of 680,400 tonnes) may have actually occurred within the 1992 to 2003 period under consideration. This is reasonably consistent with the history obtained by Howe as described above in section 10.2.

The total sales invoices of US$ 15.875 million divided by the estimate of total ore mined for the 1992 to 2003 period of 574,560 tonnes, gives an average Kamakanga TMS ore value of US$ 27.63/tonne for Kamakanga and Jai Ambe pits combined.

With regard to the rough gemstone grade in g/tonne, Gemfields have analysed the sales invoices for the period under consideration. All sales of up to US$ 0.50/g or US$ 500/kg have been considered as beryl. Emerald sales were about 18% by weight but over 93% by value. Beryl sales were about 82% by weight and only about 7% by value. Emerald sold during the period was 1,747,652 g which gives a grade of 3.04 g/tonne of ore which is similar to the grade of other deposits in the emerald field known to Howe.

It is generally held that sales from private mines may understate the true value in situ. Also, it is acknowledged by Howe that theft of the better stones may have a profound negative impact on mining economics. There were no sophisticated security measures in place at Kamakanga. Furthermore, the washing plant was not built until about 1998 by which time over 90% of the sales had taken place. Hand-mining can not recover all the contained gemstone. Therefore some gemstone must have been rejected as waste or low-grade stockpile material. The washing plant which could be regarded as a more secure means of recovery than pure hand-mining, was used only for some trial runs. The sales value of the higher grade emeralds was up to US$ 400/g. If say 5% of gemstone production worth say US$ 200/g were stolen, the loss would be 0.15 g/tonne or US$ 30/tonne of ore. It is quite clear that improved security and mine management procedures could realize significant additional revenue. Gemfields believes that a 50% improvement is achievable, resulting in a realistic value estimate of US$ 41/tonne of ore. Howe agrees that such an improvement may be achievable.

10.7. EXPLORATION POTENTIAL

Interpretation of the geological map and field inspection by Howe indicates a mined and trenched strike length of 630 metres of favourable talcose mafic schist, possibly open along strike in both directions and down dip to the northeast. The possible strike length within the boundary of the licence area is about 2300 metres. Therefore, 1670 metres of strike length are apparently not adequately mapped: 600 metres to the east-southeast of Geneva pit and 1070 metres to the west-northwest of the Jai Ambe pit.

10.8. DISCUSSION AND CONCLUSIONS ON KAMAKANGA

Gemfields has initiated and carried forward exploration work, including magnetic surveys, geological mapping, trenching and limited first phase drilling.

Verbally reported thicknesses of the Kamakanga talcose mafic schist horizon of 2 to 20m were given by the mine manager but mapped widths of 35 metres and a mapped average dip of 35 degrees indicates a true thickness of 20 metres.

Four south-eastward directed angle holes: two below the Geneva pit area, KGB 1 and 2, and two below the Jai Ambe pit area, KGB 3 and 5, have yielded favourable geological indications for the occurrence of emerald mineralisation, but further work is required in these areas to indicate resources. Hole KGB 4 failed to intersect the targeted talcose mafic schist perhaps due to steepening of the local dip.

The trenching, pitting, washing and chiselling operations in the Line 7 area about 100 metres east-southeast of Geneva pit area and stratigraphically above the Kamakanga talcose mafic schist, indicate that emerald may occur outside the most favourable zone. Similarly, reported emerald production from the Edinburgh pit also southeast of the Geneva fault, appears to come from quartz-tourmaline pegmatites and tourmalinised footwall rocks, stratigraphically below the most favourable zone.

The deepest and presumably, therefore, most productive part of the Jai Ambe zone appears to be at an antiformal flexure in the Kamakanga talcose mafic schist, which may have produced dilatant structures suitable for the deposition of pegmatitic minerals including beryl, in a chrome bearing host rock suitable for the formation of large emerald crystals.

To the southwest of the Kamakanga excavation area, the Kamakanga licence appears to be very poorly mapped although substantial bodies of quartz and quartzite are sketch mapped, sub-parallel to the Kamakanga talcose mafic schist in the southwest portion of the licence area.

The present outcrop of the favourable Kamakanga talcose mafic schist horizon is sub-parallel to and dips towards the northeast boundary of the licence which is a minimum of 135 metres distant in the Jai Ambe zone. Despite the fact that the mined deposits are open down-dip, in order to save on haulage costs, the previous operators have dumped waste all along the northeast, hangingwall side of the continuous Kamakanga-Jai Ambe structure, up to the licence boundary on the northeast side. The richest part of the Jai Ambe pit has even been backfilled with waste. This waste would need to be removed as part of an in situ rock waste stripping programme to develop the substantial open pit potential down-dip. An agreement exists over the Pamodzi plot which is part of Kamakanga in the down-dip direction.

Gemstone sales data and an estimate of total ore mined for the 1992 to 2003 production period, gives an average Kamakanga TMS ore value of US$ 27.63/tonne and an emerald grade of about 3 g/tonne. Improved recovery, security and mine management procedures could realize significant additional revenue. Gemfields believes that a 50% improvement is achievable, resulting in a realistic value estimate of US$ 41/tonne of ore. Howe agrees that such an improvement may be achievable.

Although the results of exploration by the Kamakanga company are not yet available (and were probably not properly documented), it appears likely that 70% of the Kamakanga licence near-surface strike length has not been adequately explored by suitable methods: a third of this to the east-southeast of the mined zone and two thirds of this to the west-northwest of the mined zone. Therefore, significant potential exists along strike for the discovery of new emerald deposits exploitable by low stripping ratio open pits similar to those which have already been mined.

11. OTHER EMERALD PROSPECTS

Gemfields is focussing initially on the Fwaya Fwaya – Pirala Belt which contains the Mbuva-Chibolele licence areas and extends westwards to Kamakanga. Gemfields controls or is negotiating additional opportunities on this and other emerald belts in the Ndola Rural emerald field.

The Gemfields group currently owns 7 emerald prospecting licences. Numerous other properties are available for negotiation. On one of the prospecting licences owned by Gemfields, ground magnetic surveys and geological mapping were in progress on the Miputu and Kafulafuta belts. There is an ongoing programme of reverse circulation drilling and pitting in the area which has confirmed TMS at three locations indicated by magnetic anomalies. At least 1 kilometre strike length of TMS has been physically tested by drilling. One band of TMS exposed intermittently on the surface, has been traced for about 7 kilometres. Further exploration is in progress.

12. KARIBA AMETHYST PROJECT

12.1. INTRODUCTION

The following account is based largely on the report by Gemfields (June, 2004) and information obtained from the website of the Zambia Privatisation Agency (ZPA), **http://www.zpa.org.zm/kariba.htm** and other sources.

In 2000 via the website, the ZPA invited offers to purchase an interest in the Kariba amethyst mining operation as follows:-

"The Zambia Privatisation Agency is inviting ofers to purchase an 87% shareholding held by GRZ and Lonhro Africa Limited in Kariba Minerals Limited (KML). The shares are of two classes: 37% GRZ Class A shares and 50% Lonhro Class B shares. The two classes of shares have equal voting rights.

The KML Mapatizya mine is the oldest and the largest amethyst producer in Zambia. It is one of the largest individual producers in the world and perhaps the biggest deposit of high and low grade amethyst in the world. This ofer presents an opportunity for investors to gain a significant majority interest in a prime amethyst producer.

The Company

Kariba Minerals Limited was originally set up as a Lonrho owned company called Northern Minerals Limited in 1956. It is currently owned by GRZ and Lonrho with each holding a 50% shareholding. The company's mining licence is located in the Mbwiko area of the Kalomo Mapatizya amethyst mine field, which is approximately 125 km south west of Kalomo. Kalomo is located about 340 km from Lusaka. KML's head ofice and fine knocking plant are located in Lusaka.

The Market

The Zambian amethyst market is dominated by foreign based buyers and the bulk of the gemstones are sold to customers in the South and South East Asia. Buyers in Hong Kong and India account for more than 96% of sales by volume. KML is the only significant producer in Zambia and therefore the company faces virtually no competition locally.

Mine Operations, Resources & Production

The resources potential is estimated at 2,500,000t ore containing approximately 72,000t run-of-mine amethyst – 2,625,000 Kg high and low grade saleable amethyst plus "unlimited" amounts of very low grade. Mining is done by open cast using dozers for overburden removal, and pick and shovel for selective amethyst mining.

Workforce

KML currently employs 219 people of which 3 are in senior management, 4 are in middle management and the rest are skilled and semi skilled general workers. The workforce is experienced and well qualified.

Key Strengths of KML

- *It is the main large scale amethyst producing and exporting company in Zambia*
- *Large reserves of high grade amethyst*
- *Well trained and professional workforce*
- *Export market especially in the South and South East Asia including Hong Kong and India*
- *Growing market demand for amethyst in South Africa, Taiwan, Germany, Switzerland, Russia, Austria, Japan, and Thailand"*

12.2. KARIBA AMETHYST RIGHTS

Gemfields was the successful bidder and owns 50% of the shares of Kariba Minerals Limited (KML). The other 50% is owned by the Government of the Republic of Zambia (GRZ). KML has a Gemstone Mining Licence, which was issued on 7 May 1997 for a period of 10 years. The licence covers an area of about 2.5 square kilometres (Figure 2).

12.3. HISTORY AND BACKGROUND

Kariba Minerals Limited, headquartered at Lusaka, was originally formed as Northern Minerals Limited in 1956. Prospecting and mining activities commenced shortly thereafter in the southern sector of the licence area. KML is one of the largest individual high-grade amethyst producers in the world, situated in the Mapatizya amethyst field of the Kalomo district, which is believed to be the biggest deposit of high-grade amethyst in the world.

There was interruption and reduction in the mining activity in the late 1970s and early 1980s due to disturbances in the neighbouring country, Zimbabwe. In 1984 the Government of the Republic of Zambia (GRZ), in a JV with Lonrho (Africa) Limited (Lonrho), bought out the shareholders of Northern Minerals Limited and renamed the company Kariba Minerals Limited. The Government and Lonrho were equal shareholders of KML. At the same time, Lonrho and GRZ formed a company called Kariba Amethyst and Marketing Limited (KAML) as equal shareholders, which had a separate management structure from KML. KAML was later liquidated and KML now markets its own product.

Gemfields has acquired Lonrho's 50% holding in KML.

12.4. LOCATION AND ACCESS

The Mapatizya amethyst field lies within the Kalomo district of the Southern Province (Figures 1 (inset map) and 2). Kalomo is located about 400 kilometres south of Lusaka, connected by a reasonably good highway passing through the towns of Kafue, Mazabuka, Monze and Choma. The Kariba mining area is located about 100 kilometres off the Lusaka-Livingstone highway, left about 45 kilometres south of Choma town on the Livingstone road.

Lusaka and Livingstone are connected by direct scheduled flights. Livingstone is about 140 kilometres south of the Mapatizya turn off. Most of the mines are located about 100 to 105 kilometres from the turn-off.

Telecommunication is by radio. There are no ordinary telephone connections in the area. The cellular telephone services work in Livingstone. The nearest landline telephone is at Kabanga Mission which is about 25 kilometres from the mine on the road to Kalomo town.

12.5. REGIONAL GEOLOGY AND MINERALISATION

The Mapatizya area is underlain by alternating bands of 1800 million year old Basement Complex comprising granular and migmatitic gneisses, schists and marbles, intruded by igneous rocks of various ages, with northeasterly strike, between granitic intrusion to the northwest and the Karroo volcanics and sediments to the south and southeast. The geological succession is shown in Table 6 below.

TABLE 6. GEOLOGICAL SUCCESSION AT KARIBA

Super Group	Age	Rock Formations
–	Post Karroo	Dolerites
–	Late-or Post-Karroo	Amethyst veins and stockworks
Karroo		Sandstones, conglomerates, grits, mudstones
Basement complex	1975-1750 Ma	Gneisses- granulitic and migmatitic, schists, amphibolites and marbles

There were two phases of deformation. First phase deformation produced the main foliation in the schists and gneisses and gently inclined to recumbent, tight to isoclinal folds with northerly trending axes. First phase cataclastic metamorphism produced granulitic gneisses. The second phase produced a regional antiform – synform structure with steeply inclined, tight folds with northeasterly axial traces and variable low angle plunges and boudinage lineations in the granulitic gneisses. Second phase metamorphism reached amphibolite facies.

Irregularly shaped, partially banded marbles occur within granulitic gneisses. These are reported to be a result of "carbonate magmatic intrusives". All stages of carbonatisation of host gneisses are present from carbonated gneisses to structureless massive marble with gneissose xenoliths.

Amethyst veins are also found in lower-Karroo sandstone near the Zambezi valley margin. The mineralisation is cut by large dolerite dykes indicating a post- or late-Karroo age for the mineralisation.

The Kariba deposits are believed to be located in the centre of the field of mineralisation, mainly because of the occurrence of high quality crystal in large stockworks. The amethyst is generally darker in the north: the so-called "black amethyst". To the south the amethyst is much paler and often contains much milky quartz.

The intensity and grade of mineralisation versus depth are much debated and further research is required to establish the relationship.

12.6. PROPERTY GEOLOGY AND MINERALISATION

12.6.1. GEOLOGY

The local Basement rock types are described in detail in the report by Gemfields (2004) comprising granulitic and migmatitic gneisses, foliated quartzitic and quartz-mica schists, generally concordant amphibolites up to a few metres thick and usually within the gneisses and calc-silicate marbles within the granulitic gneisses. Amethyst veins and stockworks cut the Basement rocks over an area of about 155 square kilometres. Post-Karroo dolerite dykes cut both Basement and Karroo formations and the mineralised veins.

Two phases of folding have been recognised in gneisses and schists. The first phase folded the gneisses and amphibolites giving rise to axial plane foliation and mineral lineation. Boudinage in gneisses also occurs parallel to this lineation. The second phase of folding deformed the primary foliation and lineation. More micaceous rocks also show a foliation, parallel to the axial plane of the second phase folds, which is absent in the gneisses.

12.6.2. AMETHYST MINERALISATION

The Basement rocks are cut by amethyst veins in tension fractures with associated colourless or white quartz and calcite as stockworks and fracture fillings. The fractures appear to have been open during mineralisation as indicated by the crystal texture and size distribution which increases towards the centre of the veins. Amethyst colouration was previously attributed to Mn content but is now believed to be due to dispersed trivalent Fe inclusions. Unworked amethyst veins exposed on surface are colourless or light greenish possibly due to discolouration caused by long exposure to weather, sunlight and heat. Larger blocks can contain purple amethyst inside. The quality of amethyst improves at depths greater than 3 to 5 metres.

With regard to lithological controls, the best mineralisation occurs in the granulitic gneisses followed by the mineralisation in the calc-silicate marbles, probably due to the susceptibility of these rocks to tensile fracturing. The characteristics of the two types of mineralisation are indicated in Table 7 below.

TABLE 7. CHARACTERISTICS OF KARIBA AMETHYST MINERALISATION

	Type	
	Large crystal	**Small crystal**
Host Rock	Gneiss	Calc-silicate marble
Mineralisation form	Stockwork	Vein
Crystal size	Up to 15 cm	$\simeq$ 5cm
Crystal size %	90 to 95% $\simeq$ 15cm	90% less than 5cm
Mineralised vein width	Up to 115 cm	Up to 20 cm
Quality	High	Low

A major part of the KML licence is underlain by gneisses. Hence, the bulk of the mineralisation in the area is of the large crystal type, unlike some of the surrounding mines where calc-silicate marble is the major host rock.

12.6.3. THE AMETHYST DEPOSITS

There are more than 38 amethyst stockworks and related amethyst occurrences.

Francis is the largest body, with a surface area of about 70,000m^2 or more, which seems to connect with the smaller Snamane stockwork. Francis is the main mining site at present and contains the washing plant. Curlew Main extends to about 16,000m^2 and was extensively mined in the past. The ChaCha workings extend to at least 15,000m^2. Horden contains three bodies of similar size. Horden Northeast is about 10,000m^2. The Davidson stockwork exposed over 3,000m^2 is reported as richly mineralised.

Gemfields has drawn the following conclusions regarding the amethyst mineralisation and its depth extension:-

- Continuous amethyst vein outcrops on the steep northeastern slope demonstrate that good quality mineralisation extends, without recognizable changes, from +1150m altitude at the crest of the hill to +950 m at the foot and probably extends in depth. It is probable that all surrounding amethyst deposits also extend to +950 m or deeper.
- The amethyst-filled fractures of the stockworks have highly variable azimuths and dips, apparently unrelated to local tectonic trends.
- The KML licence area, with its numerous stockworks and rarer vein deposits, may represent a "feeder" zone extending in depth.

Actual evidence of the persistence in depth of the amethyst deposits is lacking. There are few exploratory shafts more than 5 metres deep below the floors of the open pits. Systematic geological work to study this aspect has not been undertaken for many years. Most of the mines in the area are less than 20 metres deep.

12.7. OPERATIONS AT KARIBA

There are over twenty pits within the licence area, which have been worked at times since the 1950s, with limited or no exploration. Individual deposits each with a small cluster of workings are numbered and named as follows:-

1 Francis
2 Curlew
3 Horden
4 ChaCha
5 Davidson
6 Snamane
7 Basil

The larger pits are productive but there is little planned mine development. Currently, the pits are surrounded by waste due to a lack of forward planning by the previous operators.

Mining plant comprised a Caterpillar D-8 dozer, a front-end loader and tractor-trailer units. The material handling was about 200 to 300 tonnes per day. This plant was totally inadequate to operate the mines properly.

The mining methodology was very primitive. The dozer exposed the amethyst veins and removed the capping or the waste rock to a point thought reasonable for the immediate purposes. The exposed vein was then hand-mined and screened at the pit to separate the high and low grades. The High grade was loaded on tractor-trailers by the front-end-loader and taken to the sorting room. The Low grade was picked up by front-end-loader and fed to the washing plant. The dozed material was re-handled after some time when the pit requires additional space. The operation was very slow and inefficient and very basic changes have the potential to increase production many-fold, within a few months time. The rate of material handling was less than 300 tonnes per day. Out of this the ore mined was only about 80 tonnes per day. Introduction of excavator-dump truck combination could greatly increase the efficiency of mining and reduce the operating costs significantly.

After Gemfields purchased a 50% share of the mine, new mining plant in form of a CAT 330 excavator and a 25-tonne ADT were acquired and put into service, resulting in improved mining productivity. A technical review is in progress to identify additional operational requirements including a new washing plant. It is estimated that an additional investment of the order of US$2 million will be sufficient to expand the operation.

After the initial sorting at the mines the final sorting and grading is done in Lusaka.

Table 8 below presents a summary of waste and ore production and ore value for the 19 month period from April 2000 to October 2001.

TABLE 8. KARIBA ORE PRODUCTION AND ORE VALUES 2000 TO 2001

Financial Year	**Waste (tonnes)**	**Ore (tonnes)**	**Waste: Ore**	**Ore value (US$/tonne)**
2001-2002 (Apr-Oct 2001)	35,000	16,900	2.07	45.48
2000-2001 (Apr 2000-Mar 2001)	81,000	34,400	2.35	34.58
19 month totals and averages	116,000	51,300	2.26	38.17
Annualised averages	73,300 tpa	32,400 tpa	2.26	38.17

There are detailed monthly amethyst production data in kilograms for the period 1997 to 2002 available in a spreadsheet: **mine-prod-97-01.xls** with weights recorded in the following example production and sample categories:-

Production

- HGSC-High grade small crystal,
- HG-High grade,
- LGSC-Low grade small crystal,
- LG-Low grade,
- VLG- Very low grade,

Samples

- SAWN M-Sawn material,
- SC-R-Small crystal reject,
- VSCHG-Very small crystal high grade,
- CCHIPS-Cobbing chips,
- VSCC-Very small crystal cobbing,
- VVSC-Very very small crystal,
- VSC-Very small crystal,

SC-Small crystal,
VSC1, Very small crystal – one,
SC1-Small crystal – one,
KMR-Kariba mineral reject (Tumbling),
MRSCHG-Mine run small crystal high grade,
MRLG-Mine run low grade,
VSCR-Very small crystal reject

A complete reorganisation programme is planned by Gemfields to increase production by at least a factor of two or three, following a 1 year exploration, rationalisation and pit development programme, including drilling, part of which has already been achieved by the introduction of new mining plant.

12.8. AMETHYST RESOURCES AND POTENTIAL OF KARIBA

Historical estimates

Very limited exploration has been carried out by pitting and trenching and reliable reports on the resources and potential are scarce. Attempts have been made in the past to estimate the resource potential of the deposits but the area of the various stockworks is not well explored. Broad estimates have been attempted by some workers, mostly hired by Lonrho, as summarised below:

In 1970-78, Northern Minerals carried out systematic mapping and trenching in all the important mineralisation areas.

During 1994-95, D.N. Geological and Mining Consultancy of Lusaka, advising KML, mapped the area at 1:1,000 scale and excavated 165 trenches on a 25m grid. The Francis, ChaCha and Horden deposits were extended by this work. The larger bodies: Francis + Snamane, ChaCha and Curlew have an estimated area of 100,000 square metres. There are four medium-sized bodies together amounting to 30,000 square metres and twenty six small bodies. At Basil, in the north of the area, 3 or 4 bodies may be uneconomic due to suspected lower quality.

Estimates of the resources made at the beginning of the Kariba Minerals mining period vary widely. For example, J.G. Urie, a geologist of Lonrho-Zimbabwe estimated 50,000 t of contained amethyst. J. Alabert, a geologist of the Ministry of Mines of Zambia, estimated 1,260,000 t of ore and in 1994/95, Mr. D. Ng'andu of D.N. Geological and Mining Consultancy, estimated 4,100, 000 t of ore. The latest estimate of 1996 gives a total resource of 2,500,000 tonnes of ore.

Gemfields Estimate of Resources and Grade

Gemfields has carried out an approximate resource estimate based on the available data and broad mapping of the mineralised areas in January 2002 as indicated in Table 9 below.

TABLE 9. RESOURCES OF KARIBA AMETHYST MINE

No.	Name of pit	Area of Stockwork	Vertical depth	Rock density	Payability	Potential resources	Excavation done so far (avg. 7m)	Potential resources available @65%	Inferred resource area	Inferred resource potential
		m^2	m	t/m^3	%	t	t	t	m^2	t
1	Francis	70,000	25	2.2	25	962,500	336,875	625,625	95,000	969,375
2	Curlew	46,000	25	2.2	25	632,500	221,375	411,125	60,000	603,625
3	Horden	20,000	25	2.2	25	275,000	96,250	178,750	40,000	453,750
4	ChaCha	20,000	25	2.2	25	275,000	96,250	178,750	30,000	316,250
5	Davidson	18,000	25	2.2	25	247,500	86,625	160,875	25,000	257,125
6	Snamane	3,500	25	2.2	25	48,125	16,844	31,281	10,000	120,656
7	Basil	3,000	25	2.2	25	41,250	14,438	26,813	10,000	123,063
							Total	1,613,219		2,843,844

The estimation of the grade and its quality in terms of proportions of High grade and Low grade and rejects, is quite debatable at this stage due to the lack of systematic data collection and analysis in the past.

The ratio of High grade to Low grade varies widely within the same stockwork and from one stockwork to another. The stockworks are not mined as homogeneous units. Different parts go to High grade and Low grade stockpiles or waste even though the whole stockwork is mineralised. Records of past production show widely varying data. In a preliminary assessment by Gemfields, the following observations have been made:

- The ratio of High grade: Low grade ore = 1:14
- In High grade ore areas, amethyst veins and pockets are mined by hand and the surrounding rock is later moved mechanically. Recovery of amethyst from High grade, hand-mined ore is 150 kg/t.
- Low grade ore is mined mechanically, washed and screened to plus and minus 10 mm fractions and the plus 10 mm amethyst is recovered by hand picking from conveyor belts. Recovery of hand-picked amethyst from Low grade ore is 20 kg/t.
- Average of run of mine amethyst grade is 28.7 kg/t.

12.9. CONCLUSIONS ON KARIBA

The Kariba Gemstone Mining Licence, which covers about 2.5 square kilometres, is valid until 2007 and is being transferred to Gemfields which has a 50% interest in the operating company with the government of Zambia.

Kariba is possibly the largest amethyst producer in the world, situated in one of the largest amethyst deposits in the world in veins and stockworks of post-Karroo age (Upper Carboniferous to Lower Jurassic) cutting 1800 million year old carbonated Basement gneisses.

The larger pits are currently productive using primitive methods and there is little planned mine development. The pits are surrounded by waste due to a lack of forward planning by the previous operators.

Production in 2000-2001 was 32,000 tpa ore with a Waste:Ore ratio of 2.26:1, worth an average of US38.17 /tonne. Initial cleaning and sorting at the mines is followed by final sorting and grading in Lusaka for sale.

A complete reorganisation programme is planned by Gemfields to increase production by at least a factor of two or three, following a 1 year exploration, rationalisation and pit development programme, including drilling, part of which has already been achieved.

Gemfields has carried out an approximate resource estimate based on the available data and broad mapping of the mineralised areas in January 2002 which indicated a total of 1.61 million tonnes of potential resources and 2.84 million tonnes of inferred resources. The ratio of High grade : Low grade ore calculated from production data was 1:14. Recovery of amethyst from High grade, hand-mined ore was 150 kg/t. Washing plant recovery of hand-picked amethyst from Low grade ore was 20 kg/t. Average of run of mine amethyst grade was 28.7 kg/t.

Further exploration work and technical review is underway to modernise the mining and processing operations to increase production and improve efficiency.

13. GEMFIELDS PROPOSALS AND BUDGETS AND HOWE'S COMMENTS

Gemfields' proposals and budget over the next 24 months are described below under total and for each gemstone project, followed by Howe's comments.

13.1. TOTAL

The total budget reported by Gemfields in November 2005 for the use of proceeds of the Placing received by the Company is approximately £10.4 million, including:

- Acquisitions (Kamakanga US$1.4 million) and general working capital (London US$3.8 million): US$5.2 million
- Mbuva-Chibolele: US$9.5 million
- Regional exploration: US$1.0 million

13.2. MBUVA-CHIBOLELE

Gemfields has proposed a budget of US$9.5 million for Mbuva-Chibolele over the first two years to be funded completely by equity. This will include about US$3.0 million mainly for the processing plant, infrastructure development, some support mining machinery and infrastructure costing about US$2.3 million, about US$1.2 million for pre-stripping and the balance for working capital, etc. of about US$3.0 million. The capital expenditure is significantly reduced by waste stripping under a mining contract, constituting 67% or more of total mining volumes. The remainder of the mining, largely the TMS ore, is planned to be achieved in-house, split between the mining plant being acquired under the Kamakanga agreement and hired machines. The mining camp, offices, water treatment plant, other facilities and the fully equipped workshop with spares inventory being acquired under the Kamakanga agreement will be refurbished to some extent, and these costs have been included in the capital expenditure in the Chibolele/Mbuva pre-feasibility financial model.

13.3. OTHER EMERALD AREAS

Gemfields has proposed a budget of US$1.0 million for other emerald areas for detailed exploration on the emerald exploration licences and the identification of new targets for mining. This will include geological mapping, geochemical sampling and analysis, geophysical surveys and interpretation, auger drilling to map favourable geology followed by core drilling.

13.4. HOWE COMMENTS

Regarding Mbuva-Chibolele, a Howe mining engineer has carried out a due diligence review of the Gemfields Chibolele/Mbuva pre-feasibility financial model under the headings of mine production schedule, capital costs, operating costs, contingency factors and earnings, with favourable conclusions (ACA Howe International Ltd, 19th August 2005).

Detailed verification of all Gemfields' financial assumptions, estimates and business quotations is beyond the scope of this report. Nevertheless, it is Howe's opinion that the above proposals and budgets are reasonable and commensurate with the scale and status of each project.

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PART 3

Risk Factors

In addition to the other relevant information set out in this document, the following specific risk factors should be considered carefully in evaluating whether to make an investment in the Company. The investment offered in this document might not be suitable for all of its recipients. If you are in any doubt about the action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

Investing in the Company involves a high degree of risk. The price of Ordinary Shares could decline due to any of these risks and investors could lose all or part of their investment. An investment in the Company is only suitable for investors who are capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss which might result from such investment.

The Directors have identified the risks below, and, if they were to materialise the Group's business, financial conditions and results of operations could be materially and adversely affected.

The exploration and development of natural resources are speculative activities that involve a high degree of financial risk. Any one or more of the risks set out in this Part 3 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 set out below are not presented in any order of priority.

Nature of the Gems, Exploration and Mining

The exploration and development of gemstone 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 gemstone structure 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 even preliminary due diligence will show adverse results, leading to the abandonment of projects. It is impossible to ensure that preliminary feasibility studies or full feasibility studies on the Group's projects or the current or proposed exploration programmes on any of the properties in which the Group has exploration rights will result in a profitable commercial mining operation.

The Group's operations are subject to all of the hazards and risks normally incidental to the exploration, development and production of gemstones, 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 Group's activities may be subject to prolonged disruptions due to weather conditions depending on the location of operations in which the Group has interests. Hazards, such as unusual or unexpected formations, rock bursts, pressures, cave-ins, flooding or other conditions may be encountered in the drilling and removal of material.

Whether a gemstone 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 and quality), proximity to infrastructure, financing costs and governmental regulations (including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of gemstones and environmental protection). The effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Group not receiving an adequate return on invested capital.

Exploration, Mining and Processing Licences

The Group's exploration, mining and processing 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 is no guarantee that, upon completion of any exploration, a mining licence will be granted with respect to exploration territory. There can also be no assurance that any exploration licence or mining licence will be renewed or if so, on what terms.

These licences place a range of past, current and future obligations on the Group. 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.

Development Projects

Development projects have no operating history upon which to base estimates of future cash operating costs. For development projects, estimates of indicated resources are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies. This information is used to calculate estimates of cash operating costs based upon anticipated tonnage and grades of gemstones to be mined and processed, the configuration of the gem deposit, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. As a result, it is possible that actual cash operating costs and economic returns may differ from those currently estimated.

Expansion Targets and Operational Delays

The Group plans to develop its properties. However, there can be no assurance that it will be able to complete the planned development on time or to budget, or that the current personnel, systems, procedures and controls will be adequate to support the Group's operations. Any failure of management to identify problems at an early stage could have an adverse impact on the Group's financial performance.

Resources, Reserves and Production

The figures for resources and reserves presented in this document are estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realised. Market fluctuations in the price of gemstones may render gem reserves and resources uneconomical. Moreover, short-term operating factors relating to gem reserves and resources, such as the need for orderly development of a gem body or the processing of new or different gem grades, may cause a mining operation to be unprofitable in any particular accounting period.

Reliance on Strategic Relationships

In conducting its business, the Group will rely on continuing existing strategic relationships and forming new ones with other entities in the gemstone industry, such as joint venture parties and mining partners, and also certain regulatory and governmental departments. While the Directors have no reason to believe otherwise, there can be no assurance that its existing relationships will continue to be maintained or that new ones will be successfully formed and the Group could be materially adversely affected by changes to such relationships or difficulties in forming new ones.

Additional Financing

The Group is required to fund approved exploration expenditure on properties the subject of the Group's exploration licences, failing which the Group's exploration rights in the relevant property may be either reduced or forfeited. The Group may acquire exploration rights in other exploration properties in Zambia 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 Group are through the issue of additional equity capital, project finance or borrowing. There is no assurance that the Group will be successful in raising sufficient funds to commence mining operations or to meet its obligations with respect to the exploration properties in which it has or may acquire exploration rights. If additional funds are obtained from the issue of equity capital this may have a dilution effect on the shareholdings of existing investors.

Key Personnel

The Group relies on a limited number of key employees. However, there is no assurance that the Group 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.

Political Risk

The Group is conducting its exploration and development activities primarily in Zambia. The Directors are hopeful that the governments of Zambia and other countries in the region will support the development of natural resources by foreign operators, but there have been cases of mining licences being revoked in the past. There can be no assurance that future political and economic conditions in Zambia and other countries in the region will not result in their governments adopting different policies in relation to foreign development and ownership of gemstone 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, nationalisation, expropriation and other areas, each of which may affect both the Group'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 to date.

Legal Systems

Zambia and India may have a less developed legal system than jurisdictions with more established economies which may result in risks such as (i) effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation or in an ownership dispute, being more difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in such matters. There can be no assurance that joint ventures, licences, licence applications or other legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness of and enforcement of such arrangements in Zambia and India cannot be assured.

Regulatory Approvals

The operations of the Group 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 Group holds or will obtain all necessary approvals, licences and permits under applicable laws and, regulations in respect of its main projects and believes it is presently complying in all material respects with the terms of such approvals, licences and permits. 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 Group 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, to commence construction or operation of mining facilities, to export and sell gemstones or to maintain continued operations that economically justify the costs involved.

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 Group's earning and competitive position in the future and, potentially, its financial position.

Environmental Factors

The gemstone deposits and the Group's operations generally are subject to environmental regulation in all the jurisdictions in which the Group 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 Group 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 permit 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. In addition to environmental regulation, various discretionary government approvals will be required in order to place a gemstone project into production.

Competition

The gemstone exploration and mining business is competitive in all of its phases. The Group may be in competition with numerous other companies and individuals, including competitors with greater financial, technical and other resources than the Group, in the search for and acquisition of exploration and development rights on attractive gemstone properties. The Group'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 and development rights, but also on its ability to select and acquire exploration and development rights on suitable properties for exploration and development. There is no assurance that the Group will continue to be able to compete successfully with its competitors in acquiring exploration and development rights on such properties.

Currency Risk

Currency fluctuations may affect the cash flow that the Group hopes to realise from its operations as gemstones are sold and traded on the world markets in United States dollars. The Group is exposed to foreign exchange risk since much of its revenue and its exploration and development costs are expected to be received/paid in or by reference to United States dollars or British pounds sterling whilst most of its administrative and operational costs will be in local currencies. Exchange rates have varied considerably at times. The Group does not engage in active hedging to minimise exchange rate risk. Various countries have from time to time imposed restrictions on the convertibility of local currency and there is no guarantee that such restrictions will not be imposed in future.

Limitations on Foreign Control of Mining Companies

There are no restrictions on the foreign ownership of mining companies in any of the jurisdictions in which the Group is currently operating. However, there can be no assurance that legal requirements as to the foreign ownership and control of mining companies in these jurisdictions will not change.

Uninsured Risks

The Group, as a participant in exploration and mining programmes, may obtain insurance against certain risks in such amounts as it considers adequate. However, the nature of these risks are such that liabilities could exceed policy limits or that certain risks could be excluded from coverage. There are also risks against which the Group cannot insure or against which it may elect not to insure. The potential costs that could be associated with any liabilities not covered by insurance which may be, but is not, taken out or which is in excess of insurance coverage actually taken out may cause substantial delays and require significant capital outlays adversely affecting the Group's earning and competitive position in the future and, potentially, its financial position.

Areas of Investment Risk

The share prices of publicly quoted companies can be volatile. The price of shares is dependent upon a number of factors some of which are general or 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 an application has been made for the Company's 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 therefore not recover their original investment.

The market price of the Company's shares may not reflect the underlying value of the Company's net assets. The price at which investors may dispose of their securities 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 on the ability of the Company to raise further funds by the issue of shares in the Company.

Geology and reserves

To maintain gemstone production into the future beyond the life of the current reserves or to increase production materially above projected levels, the Group will be required to delineate further reserves. Any gemstone exploration programme entails risks relating to the location of economic gem bodies, the development of appropriate processes, the receipt of necessary governmental permits and the construction of mining and processing facilities at any site chosen for mining. No assurance can be given that any exploration programme will result in any new commercial mining operation or in the discovery of new resources.

A decline in the market price of gemstones may render gem reserves containing relatively lower grades of gemstones uneconomic.

PART 4

Accountant's Report on the Group and financial information on the Group

Section A – Accountant's report on the Group

BDO Stoy Hayward
Chartered Accountants

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London W1U 3LL

The Directors
Gemfields Resources Plc
17 Hanover Square
London
W1S 1HU

The Directors
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23 November 2005

Dear Sirs

Gemfields Resources Plc (the "Company")

We report on the financial information set out in Section B of Part 4. This financial information has been prepared for inclusion in Section B of Part 4 of the admission document dated 23 November 2005 of the Company (the "Admission Document") on the basis of the accounting policies set out in Note 1 to the financial information. This report is required by Schedule Two of the AIM Rules and is given for the purpose of complying with the AIM Rules and for no other purpose.

Responsibilities

As described in Section B of Part 4 of the Admission Document, the directors of the Company are responsible for the 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.

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 the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the 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 dates stated and of its losses for the periods then ended in accordance with the basis of preparation set out in Note 1 to the financial information and in accordance with applicable UK accounting standards as described in Section B of Part 4.

Declaration

For the purposes 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 Group 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.

Consolidated profit and loss account

	Notes	*Period ended 30 June 2004 US$*	*Year ended 30 June 2005 US$*
Turnover			
Group and share of joint venture		—	993,760
Less: share of joint venture turnover		—	(993,760)
		—	—
Administration expenses		(50,000)	(3,916,365)
Group operating loss		(50,000)	(3,916,365)
Share of operating profit in joint ventures		—	2,132
Loss on ordinary activities before interest, other income and taxation		(50,000)	(3,914,233)
Interest receivable and similar income		—	9,120
Interest payable and similar charges		—	(153,000)
Loss on ordinary activities before taxation	2	(50,000)	(4,058,113)
Taxation on loss on ordinary activities	6	—	—
Loss on ordinary activities after taxation		(50,000)	(4,058,113)
Minority interest		—	34,292
Loss for the period/year		(50,000)	(4,023,821)
Retained loss at beginning of period/year		—	(50,000)
Retained loss at end of period/year		(50,000)	(4,073,821)
Loss per share	7		
Basic and diluted		$0.03	$0.09

Consolidated statement of total recognised gains and losses

Statement of total recognised gains and losses

	Period ended 30 June 2004 US$	*Year ended 30 June 2005 US$*
Loss for the financial period/year:		
– Group	(50,000)	(4,025,953)
– Joint ventures	—	2,132
Total gains and losses for the period/year before currency adjustments translation differences on consolidation in respect of exchange translation differences	(50,000)	(4,023,821)
Foreign exchange movement	—	583
Total recognised gains and losses for the financial period/year	(50,000)	(4,023,238)

Consolidated balance sheet

	Notes	As at 30 June 2004 US$	As at 30 June 2005 US$
Fixed assets			
Intangible assets	8	4,605,988	8,844,177
Tangible assets	9	132,724	256,858
Investments in joint ventures	10		
– share of gross assets		442,782	650,024
– share of gross liabilities		(166,109)	(361,018)
		276,673	289,006
		5,015,385	9,390,041
Current assets			
Debtors	11	5,789,050	965,921
Cash at bank and in hand		695,988	4,019,802
		6,485,038	4,985,723
Creditors: amounts falling due within one year	11	(2,511,989)	(3,059,025)
Net current assets		3,973,049	1,926,698
Total assets less current liabilities		8,988,434	11,316,739
Provisions for liabilities and charges	13	(14,189)	—
Net assets	2	8,974,245	11,316,739
Capital and reserves			
Called up share capital	14	781,561	1,062,255
Share premium account	15	3,323,510	9,571,926
Other reserve	15	4,755,796	4,755,796
Profit and loss account	15	(50,000)	(4,073,238)
Shareholders' funds – equity	16	8,810,867	11,316,739
Minority interests – equity		163,378	—
		8,974,245	11,316,739

Consolidated cash flow statement

	Notes	*Period ended 30 June 2004 US$*	*Year ended 30 June 2005 US$*
Cash flow from operating activities	23	—	(2,230,978)
Capital expenditure			
Payments to acquire tangible fixed assets		—	(319,444)
Proceeds from disposals of fixed assets		—	86,400
Exploration and development expenditure		—	(1,688,189)
Further investment in joint venture		—	(10,201)
		—	(1,931,434)
Acquisitions and disposals			
Cash paid for acquisitions		—	(2,550,000)
Cash acquired with subsidiaries		695,988	—
Cash received from disposals		—	7,116
Net cash inflow/(outflow) from acquisitions and disposals		695,988	(2,542,884)
Cash inflow/(outflow) before use of liquid resources and financing		695,988	(6,705,296)
Financing			
Issue of shares in current year		—	6,529,110
Issue of shares in prior year		—	3,500,000
Net cash inflow from financing		—	10,029,110
Increase in cash	24	695,988	3,323,814

Notes to the consolidated financial information

1. Accounting policies

The financial information has been prepared under the historical cost convention as modified by the revaluation of land and buildings and in accordance with applicable accounting standards and the Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" (the "SORP"). 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

The consolidated financial information incorporates the results of the Company and all of its subsidiary undertakings as at 30 June 2004 and 30 June 2005 using the acquisition method of accounting. Under the acquisition method, the results of subsidiary undertakings are included from the date of acquisition.

Goodwill

Goodwill arising on an 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. It is capitalised and amortised through the profit and loss account over the Directors' estimate of its useful economic life which ranges from 15 to 20 years. Impairment tests on the carrying value of goodwill are undertaken:

- at the end of the first full financial year following acquisition;
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Deferred development and exploration costs

In accordance with the full cost method as set out in the SORP, all costs associated with mining development and investment are capitalised on a project-by-project basis pending determination of the feasibility of the project. Costs incurred include appropriate technical and administrative expenses but not general overheads. If a mining development project is successful, the related expenditures will be amortised over the estimated life of the commercial ore reserves on a unit of production basis. Where a licence is relinquished, a project is abandoned, or is considered to be of no further commercial value to the Company, the related costs will be written off.

The recoverability of deferred mining costs and mining interests is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of reserves and future profitable production or proceeds from the disposition of recoverable reserves.

Mineral rights

Mineral rights are recorded at cost less amortisation and provision for diminution in value. Amortisation will be the over the estimated life of the commercial ore reserves on a unit of production basis.

Licences for the exploration of natural resources will be amortised over the life of the licence and the estimated life of the commercial ore reserves on a unit of production basis.

Joint ventures

An entity is treated as a joint venture where the Group holds a long-term interest and shares control under a contractual arrangement.

Interests in joint ventures are accounted for using the gross equity method of accounting. The consolidated profit and loss account indicates the Group's share of the joint venture's turnover and includes the Group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings based on audited financial statements. In the consolidated balance sheet, the Group's share of the identifiable gross assets (including any unamortised premium paid on acquisition) and its share of the gross liabilities attributable to its joint venture are shown separately.

The premium on acquisition is dealt with under the goodwill policy.

Turnover

Turnover represents sales to outside customers at invoiced amounts less value added tax.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets, except freehold land, evenly over their expected useful lives. It is calculated at the following rates:

Freehold buildings	–	1-5% per annum
Plant, machinery and motor vehicles	–	20% per annum
Fixtures, fittings and equipment	–	20% per annum

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that:

- deferred tax is not recognised on timing differences arising on revalued properties unless the Group has entered into a binding sale agreement and is not proposing to take advantage of rollover relief; and
- the recognition of deferred tax assets is limited to the extent that the Group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances arising from underlying timing differences in respect of tax allowances on industrial buildings are reversed if and when all conditions for retaining those allowances have been met.

Deferred tax balances are not discounted.

Foreign currency

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets are translated into US$ at the rates of exchange ruling on the balance sheet date. Any group company operations denominated in currencies other than US$ are considered to be overseas operations. Exchange differences which arise from translation of the opening net assets and results of foreign subsidiary undertakings and from translating the profit and loss account at an average rate are taken to reserves.

All other differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, which, to the extent that they are used to finance or provide a hedge against foreign equity investments, are taken directly to reserves to the extent of the exchange difference arising on the net investment in these enterprises. Tax charges or credits that are directly and solely attributable to such exchange differences are also taken to reserves.

Finance costs

Finance costs are charged to the profit and loss account over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs, which are initially recognised as a reduction in the proceeds of the associated capital instrument.

Provision for abandonment costs

Provision for abandonment costs is recognised at the commencement of mining. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of production. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed assets.

Impairment of fixed assets and goodwill

The need for any fixed asset impairment write down is assessed on an annual basis by comparing the carrying value of the asset against the higher of its realisable value and value in use.

Financial instruments

In relation to the disclosures made in note 17:

- 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 speculative or trading purposes.

Warrant reserve

The difference between the fair value of warrants issued and the exercise price is credited to the warrant reserve. When the underlying warrants are exercised the premium is transferred to the share premium account.

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 UTIF Abstract 17 (revised 2003) 'Employee Share Schemes'. The credit entry for this charge is taken to the profit and loss reserve and reported in the reconciliation of movements in shareholders' funds.

Liquid resources

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

Leased Assets

Where assets are financed by leasing agreements that do not give rights approximating to ownership, these are created as operating leases. The annual rentals are charged to the profit and loss account on a straight line basis over the term of lease.

2. Segmental analysis

	Turnover US$	Pre tax loss US$	Net assets US$
2004			
Analysis by class of business:			
Exploitation of mineral rights	—	(50,000)	8,974,245
Analysis by geographical market by origin and destination:			
Africa (group)	—	—	3,985,996
Africa (joint venture)	—	—	276,673
United Kingdom	—	(50,000)	3,373,091
Canada and India	—	—	1,338,485
	—	(50,000)	8,974,245
Group	—	(50,000)	8,697,572
Joint venture	—	—	276,673
	—	(50,000)	8,974,245
2005			
Analysis by class of business:			
Exploitation of mineral rights	993,760	(4,058,113)	11,316,739
Analysis by geographical market by origin and destination:			
Africa (group)	—	(804,049)	(2,058,171)
Africa (joint venture)	993,760	2,132	289,006
United Kingdom	—	(2,422,801)	12,867,177
Canada, India and British Virgin Islands	—	(833,395)	218,727
	993,760	(4,058,113)	11,316,739
Group	—	(4,060,245)	11,027,733
Joint venture	993,760	2,132	289,006
	993,760	(4,058,113)	11,316,739

3. Loss on ordinary activities

This is arrived at after charging:

	Period ended 30 June 2004 US$	*Year ended 30 June 2005 US$*
Auditors' remuneration – audit services	35,000	77,763
Directors' remuneration	—	360,377
Depreciation	—	97,445
Operating lease costs	—	16,826
Profit on disposal of subsidiary investments	—	(774)

4. Directors

The Directors at 30 June 2005 and their interests in the ordinary share capital of the Company and options to purchase such shares under the share option scheme at 30 June 2004 or date of appointment (if later) and 30 June 2005 were:

	Options and similar interests		*Ordinary shares of 1p each*	*Ordinary shares of 1p each*
	*30 June 2004**	*30 June 2005*	*30 June 2004*	*30 June 2005*
Rajiv Ramlal Gupta	10,001,000	1,600,000	15,075,000	10,000,001
Peter Kitchen	225,000	350,000	—	—
Sanjay Khandelwal	150,000	250,000	181,431	327,147
Graham Mascall (appointed 29 November 2004)	700,000	700,000	—	—
Richard James (appointed 15 March 2005)	500,000	500,000	—	—
Clive Newall (appointed 19 April 2005)	500,000	500,000	—	—

* or date of appointment (if later)

Martin Dunham, who was a director of the Company at 30 June 2004, resigned as director on 13 January 2005. He held 166,667 options at 30 June 2005.

5. Staff costs

	Period ended 30 June 2004 Number	*Year ended 30 June 2005 Number*
Average number of employees	—	70
	US$	*US$*
Gross salaries	—	515,989
Social security costs	—	5,447
	—	521,436
Directors' remuneration	—	360,377

6. Taxation on loss from ordinary activities

	Period ended 30 June 2004 US$	*Year ended 30 June 2005 US$*
Current tax		
UK corporation tax on loss for the period/year	—	—
Taxation on loss on ordinary activities	—	—

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

	Period ended 30 June 2004 US$	*Year ended 30 June 2005 US$*
Loss on ordinary activities before tax	(50,000)	(4,058,113)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30%	(15,000)	(1,217,434)
Effects of:		
Tax losses carried forward	15,000	1,217,434
Current tax charge for the period	—	—

Factors that may affect future tax charges

2004

At 30 June 2004, the Group had tax losses of US$50,000 carried forward which will be utilised against future profits.

2005

At 30 June 2005, the Group UK tax losses of US$4,073,821 carried forward which will be utilised against future profits. The Group also has Canadian tax losses of approximately C$3 million (2004: C$3 million). However these losses are currently being challenged by the Canadian tax authorities. Once the losses have been agreed they may be offset against Canadian tax liabilities but no benefit has been reflected at this stage.

7. Loss per share

Loss per ordinary share has been calculated using the weighted average number of shares in issue during the relevant period. The weighted average number of equity shares in issue is 46,405,104 (2004: 1,656,328) and the loss, being loss after tax level and minority interests is US$4,023,821 (2004: US$50,000). There is no potential dilution of loss per share in the period ended 30 June 2004 or the year ended 30 June 2005.

8. Intangible assets

	Unevaluated mining properties US$
Cost	
2004	
Additions in period on acquisition of subsidiary	4,605,988
At 30 June 2004	4,605,988
2005	
Additions in period on acquisition of subsidiary	2,550,000
Exploration expenditure	1,688,189
At 30 June 2005	8,844,177
Amortisation	
Provided for the period and year and at end of period and year	—
Net book value	
At 30 June 2004	4,605,988
At 30 June 2005	8,844,177

9. Tangible assets

	Freehold land and buildings US$	*Plant, machinery and vehicles US$*	*Fixtures, fittings and equipment US$*	*Total US$*
Cost				
2004				
Additions in period on acquisition of subsidiary	86,400	19,419	26,905	132,724
At 30 June 2004	86,400	19,419	26,905	132,724
2005				
Additions in year	—	280,307	39,137	319,444
Disposals in year	(86,400)	—	(23,786)	(110,186)
At 30 June 2005	—	299,726	42,256	341,982
Depreciation	—	48,056	37,068	85,124
2004				
Provided during the period	—	—	—	—
At 30 June 2004	—	—	—	—
2005				
Provided during the year	—	48,056	49,389	97,445
Disposals	—	—	(12,321)	(12,321)
At 30 June 2005	—	48,056	37,068	85,124
Net book value				
At 30 June 2004	86,400	19,419	26,905	132,724
At 30 June 2005	—	251,670	5,188	256,858

10. Fixed asset investments

	Joint Venture US$
Cost	
2004	
On acquisition of subsidiary	276,673
At 30 June 2004	276,673
2005	
Additions in year	10,201
At 30 June 2005	286,874
Share of retained profits	
Period ended 30 June 2004	—
At 30 June 2004	—
Year ended 30 June 2005	2,132
At 30 June 2005	2,132
Provisions	
At 30 June 2004 and 30 June 2005	—
Net book value	
At 30 June 2004	276,673
At 30 June 2005	289,006

There was no premium on acquisition relating to the joint venture.

Subsidiary and associated undertakings

The following were subsidiary and associated undertakings at 30 June 2004:

Name	*Country of incorporation or registration*	*Proportion of voting rights and ordinary share capital held*	*Nature of business*
Gemfields Canada Inc	Canada	100%	Intermediate holding company
Gupta Gemhouse Private Limited*	India	51%	Gemstone cutting and polishing
Gemhouse Far East Limited*	Thailand	49%	Dormant
Gemhouse Inc New York*	USA	100%	Dormant
Gemfields Holdings Zambia Limited*	Zambia	100%	Gemstone exploration and mining
Mbuva Mining Company Limited*	Zambia	51%	Gemstone exploration and mining
Gemhouse Mining Zambia Limited*	Zambia	100%	Gemstone exploration and mining

* Interest held indirectly through interest in Gemfields Canada Inc.

On 5 January 2005, the Group disposed of its 51 per cent. share in Gupta Gemhouse Private Limited for cash consideration of US$7,116. This resulted in a profit on disposal of US$774.

On 17 August 2004, Gemhouse Inc. New York was dissolved. Gemhouse Inc. New York did not hold any assets or liabilities at the date of dissolution.

The following were subsidiary and associated undertakings at 30 June 2005:

Name	*Country of incorporation or registration*	*Proportion of voting rights and ordinary share capital held*	*Nature of business*
Gemfields Limited	British Virgin Islands	100%	Intermediate holding company
Gemfields Canada Inc**	Canada	100%	Intermediate holding company
Gemhouse Far East Limited*	Thailand	49%	Dormant
Gemfields Holdings Zambia Limited*	Zambia	100%	Gemstone exploration and mining
Mbuva Mining Company Limited*	Zambia	100%	Gemstone exploration and mining
Gemhouse Mining Zambia Limited*	Zambia	100%	Gemstone exploration and mining
Gemchib Minerals Limited*	Zambia	100%	Gemstone exploration and mining
Gemfields India Private Limited**	India	100%	Gemstone cutting and polishing

* Interest held indirectly through interest in Gemfields Canada Inc.

** Interest held indirectly through interest in Gemfields Limited

For all undertakings listed above, the country of operation is the same as its country of incorporation or registration. The financial information of all of the subsidiary and associated undertakings has been included in the consolidated financial information.

Joint ventures

The following was a joint venture at 30 June 2004 and 30 June 2005:

Name	*Country of incorporation or registration*	*Proportion of voting rights and ordinary share capital held*	*Nature of business*
Kariba Minerals Limited	Zambia	50%	Gemstone exploration and mining

The Group's share of the joint venture was:

	As at 30 June 2004 US$	*As at 30 June 2005 US$*
Fixed assets	110,983	375,044
Current assets	331,799	274,980
Creditors amounts falling due within one year	166,109	361,018
Share of net assets	276,673	289,006

11. Debtors

	As at 30 June 2004 US$	*As at 30 June 2005 US$*
Trade debtors	7,001	138
Called up share capital not paid	3,500,000	—
Amounts due from shareholders	1,180,000	—
Prepayments and accrued income	1,102,049	965,783
	5,789,050	965,921

All amounts shown under debtors fall due for payment within one year.

12. Creditors

Amounts falling due within one year

	As at 30 June 2004 US$	*As at 30 June 2005 US$*
Trade creditors	163,505	309,091
Taxation and social security	8,762	—
Corporation tax	800,000	953,000
Employee loans	29,878	—
Withholding tax payable	1,180,000	1,180,000
Accruals	329,844	616,934
	2,511,989	3,059,025

13. Provisions for liabilities and charges

	Deferred taxation US$
2004	
On acquisition of subsidiary	14,189
At 30 June 2004	14,189
2005	
Elimination of liability on disposal of subsidiary	(14,489)
At 30 June 2005	—

The provision for deferred tax at 30 June 2004 comprised sundry short-term timing differences.

14. Share capital

	Authorised			
	2004	*2005*	*2004*	*2005*
	Number	*Number*	*US$*	*US$*
Ordinary shares of 1p each	200,000,000	200,000,000	3,614,000	3,600,000

	Allotted, called up and full paid			
	2004	*2005*	*2004*	*2005*
	US$	*US$*	*US$*	*US$*
Ordinary shares of 1p each	43,251,841	58,970,731	781,561	1,062,255

2004

On 14 May 2004, 2 ordinary shares of 1p each were issued at par. On 29 June 2004, 36,251,839 ordinary shares of 1p each were issued at a value of US$0.15 each in exchange for shares in Gemfields Canada Inc. On 30 June 2004, 7,000,000 ordinary shares of 1p each were issued for a cash consideration of US$0.50 each. Issue costs of US$76,909 have been charged against the share premium account and other reserves.

As at 30 June 2004, there were 8,524,870 warrants outstanding allowing the holders to acquire an additional half ordinary share in the Company at an exercise price of US$0.35 per share. These warrants were due to expire on the earlier of 29 March 2005 and the date the Company would expect to complete an initial public offering of its shares.

2005

On 28 November 2004, 350,000 ordinary shares with a par value of 1p each were issued for £0.28 per share.

On 22 April 2005, 6,500,000 ordinary shares with a par value of 1p each were issued for US$0.50 per share as part of a private placement.

On 22 April 2005, 8,868,890 ordinary shares with a par value of 1p were issued for US$0.35 per share. This related to the exercise of warrants which were issued on 29 June 2004.

There were no warrants outstanding at 30 June 2005.

At 30 June 2005, the following share options had been granted and were outstanding in respect of the ordinary shares:

Exercise of Options	*Outstanding at 1 July 2004*	*Granted during the year*	*Cancelled during the year*	*Outstanding at 30 June 2005*	*Final exercise date*
15¢	2,640,000	—	—	2,640,000	January 2014
15¢	175,000	—	—	175,000	March 2014
15-50¢	1,275,000	—	733,333	541,667	May 2014
50¢	—	3,045,000	—	3,045,000	October 2014
150¢	50,000	—	—	50,000	January 2014
*	—	1,400,000	—	1,400,000	May 2015

* The exercise price of these options shall be equal to the placing price upon the Company's intended admission to AIM, a market operated by London Stock Exchange plc.

15. Reserves

	Share premium account US$	Other reserves US$	Profit and loss account US$	Total US$
On issue of ordinary shares	3,373,510	4,782,705	—	8,156,215
Share issue costs	(50,000)	(26,909)	—	(76,909)
Loss for the period	—	—	(50,000)	(50,000)
At 30 June 2004	3,323,510	4,755,796	(50,000)	8,029,306
Issue of shares	6,248,416	—	—	6,248,416
Loss for year	—	—	(4,023,821)	(4,023,821)
Foreign exchange movement	—	—	583	583
At 30 June 2005	9,571,926	4,755,796	(4,073,238)	10,254,484

16. Reconciliation of movements in shareholders' funds

	Period ended 30 June 2004 US$	Year ended 30 June 2005 US$
Loss for the period/year	(50,000)	(4,023,821)
Foreign exchange movement	—	583
Issue of shares	8,860,867	6,529,110
	8,810,867	2,505,872
Opening shareholders' funds	—	8,810,867
Closing shareholders' funds	8,810,867	11,316,739

17. Financial instruments

The Group's financial instruments, other than its investments, comprise cash and items arising directly from its operations such as trade debtors and trade creditors.

The Group seeks to obtain a favourable interest rate on its cash balances through the use of bank treasury deposits. All assets and liabilities are at the floating interest rate.

At 30 June 2005 the Group had cash balances of US$4,019,802 (30 June 2004: US$695,988). There is no material difference between the book value and fair value of the Group's cash balances.

The Group had nine overseas subsidiaries, five of which operate in Zambia and whose expenses are mainly denominated in Zambian Kwacha. The other overseas subsidiaries' transactions are mainly denominated in US$. Foreign exchange risk is inherent in the Group's activities and is accepted as such.

The majority of parent company expenses are denominated in sterling.

18. Acquisition of Gemfields Canada Inc.

2004

On 29 June 2004 the Group acquired 100 per cent. of the share capital in Gemfields Canada Inc. for US$5,437,776 financed by the issue of ordinary shares (see note 14).

In calculating the goodwill arising on acquisition, the fair value of the net assets of Gemfields Canada Inc. has been assessed and adjustments from book value have been made where necessary. These adjustments are summarised in the following table:

	Book value US$	*Fair value adjustments US$*	*Fair value to the Group US$*
Tangible fixed assets	151,234	(18,510)	132,724
Intangible assets	12,750	4,593,238	4,605,988
Investments	276,673	—	276,673
	440,657	4,574,728	5,015,385
Debtors	1,109,050	—	1,109,050
Cash	695,988	—	695,988
Total assets	2,245,695	4,574,728	6,820,423
Creditors	(707,647)	(675,000)	(1,382,647)
Net assets acquired	1,538,048	3,899,728	5,437,776
Purchase consideration			5,437,776
Satisfied by:			
Issue of shares			5,437,776
Cost of acquisition			5,437,776

The fair value adjustment to tangible fixed assets was determined by the Directors having regard to the subsequent disposal of land and buildings.

The fair value adjustments to the intangible fixed assets acquired were determined by the Directors, having regard to reports by independent reserve engineers.

The results of Gemfields Canada Inc. prior to its acquisition were as follows:

	1 April 2003 to 28 June 2004 US$	*1 April 2002 to 31 March 2003 US$*
Turnover	97,431	585,580
Operating loss	(1,839,546)	(1,397,993)
Net interest	(26,085)	(63,483)
Loss on ordinary activities before taxation	(1,865,631)	(1,461,476)
Taxation on loss from ordinary activities	(152,182)	126,994
Loss for the period	(2,017,813)	(1,334,482)
Minority interest	450,003	400,188
Loss attributable to shareholders	(1,567,810)	(934,364)
Statement of total recognised gains and losses:		
Loss for the period	(1,567,810)	(934,364)

	US$
Cash flow:	
The net inflow of cash arising from acquisitions was as follows:	
Cash acquired on acquisition of Gemfields Canada Inc.	695,988

19. Acquisition of Mbuva Mining Company Ltd ("Mbuva")

2005

On 30 May 2005 the Group acquired an additional 49 per cent. of the share capital in Mbuva for US$1,100,000 taking the Group's total shareholding to 100 per cent. of issued share capital.

In calculating the goodwill arising on acquisition, the fair value of the net assets of Mbuva has been assessed and adjustments from book value have been made where necessary. These adjustments are summarised in the following table:

	Book value US$	*Book value of assets acquired US$*	*Fair value adjustments US$*	*Fair value to the Group US$*
Fixed assets				
Intangible assets	—	—	1,100,000	1,100,000
Net assets	—	—	1,100,000	1,100,000

	US$
Cash consideration	1,100,000
Net assets acquired	1,100,000
Goodwill arising on acquisition	—

The fair value adjustments to the intangible fixed assets acquired were determined by the Directors, having regard to reports by independent reserve engineers and are provisional.

The company did not trade in previous periods.

20. Acquisition of Gemchib Minerals Ltd ("Gemchib")

2005

On 23 July 2004 the Group signed an agreement under which it paid US$200,000 to acquire 70 per cent. of Gemchib along with an option to purchase the remaining 30 per cent. for US$1,250,000. This option was exercised on 20 January 2005 taking the Group's total shareholding to 100 per cent. of the issued share capital. Gemchib was a newly formed company with no assets or liabilities other than a mining licence and no previous trading.

In calculating the goodwill arising on acquisition, the fair value of the net assets of Gemchib has been assessed and adjustments from book value have been made where necessary. These adjustments are summarised in the following table:

	Book value US$	*Book value of assets acquired US$*	*Fair value adjustments US$*	*Fair value to the Group US$*
Fixed assets				
Intangible assets	—	—	1,450,000	1,450,000
Net assets	—	—	1,450,000	1,450,000

	US$
Cash consideration	1,450,000
Net assets acquired	1,450,000
Goodwill arising on acquisition	—

The fair value adjustments to the intangible fixed assets acquired were determined by the Directors, having regard to reports by independent reserve engineers and are provisional.

21. Capital commitments

There were no capital commitments as at 30 June 2004 and 30 June 2005.

22. Related party transactions

2004

During the period, the Group received non-interest bearing loans from Rajiv Gupta, a director, his family members and companies controlled by Mr Gupta's family members.

The amounts outstanding in respect of these loans at 30 June 2004 were US$15,675.

2005

The acquisition of Gemhouse Inc. in the period ended 30 June 2004 has resulted in non-resident withholding tax liabilities payable by the Group on behalf of the non-Canadian shareholders at the time of the acquisition. A provision of US$1,180,000 has been made for these liabilities although the exact amount has yet to be determined. The Group intends to pay these liabilities on behalf of the shareholders once the exact amount is finalised. The Group then intends to recover the amounts from the shareholders. However a provision has been made against the full amount of these receivables.

The amounts outstanding in respect of these loans at 30 June 2005 were US$1,180,000 against which a provision of US$1,180,000 has been made.

23. Reconciliation of operating loss to net cash flow from operating activities

	Period ended 30 June 2004 US$	*Year ended 30 June 2005 US$*
Operating loss	(50,000)	(3,916,365)
Adjustments for non-cash items:		
Depreciation	—	97,445
Profit on disposal of subsidiary	—	(774)
Decrease in provisions	—	(14,189)
	—	82,482
Cash provided/(used) by changes in non-cash working capital items:		
Decrease in debtors	—	1,199,166
Increase in creditors	50,000	394,036
	50,000	1,593,202
Foreign exchange adjustments:		
Recognised foreign exchange gains	—	9,120
Unrecognised foreign exchange gains	—	583
Cash outflow from operations	—	(2,230,978)

24. Reconciliation of net cash flow to movement in net funds

	Period ended 30 June 2004 US$	*Year ended 30 June 2005 US$*
Opening funds	—	695,988
Increase in cash in the period/year	695,988	3,323,814
Closing net funds	695,988	4,019,802

25. Analysis of changes in net funds

	At 30 June 2004 US$	*At 30 June 2005 US$*
Opening funds	695,988	695,988
Cash flow	—	3,323,814
Closing net funds	695,988	4,019,802

26. Commitments under operating leases

The Company had annual commitments under non-cancellable operating leases as set out below:

	30 June 2004 US$	*30 June 2005 US$*
Land and buildings		
Expiring within year	—	15,120

27. Post balance sheet events

2004

Subsequent to 30 June 2004, the Group disposed of the land and buildings held at 30 June 2004.

2005

On 4 July 2005 Gemfields Holdings Zambia Limited entered into an agreement with Kuber Mineral and Metal Mining Company Limited and Haree Enterprises Limited to purchase the Kamakanga Mine and its assets for $2,451,000. An initial down payment of $1,100,000 was made with the balance of $1,351,000 due within 180 days of the signing of the agreement.

The Company has entered into the following exploration licence agreements:

- an agreement dated 26 September 2005 between CA Fiduciary Services Limited (as trustee of certain trusts) and the Company pursuant to which the entire issued share capital of Almizan Development Limited was transferred to the Company for a total consideration of 9,000,000 Ordinary Shares. Almizan Development Limited held the right to call for the transfer to it of the Miputu, Mitondo North, NR South, Mitondo South, Nkabashila East and Nkabashila West exploration licences which are now owned by the Group.

- an agreement dated 26 September 2005 between CA Fiduciary Services Limited (as trustee of a trust) and the Company pursuant to which the entire issued share capital of Sarina Global Limited will subject to the transfer of the Mitondo East exploration licence to a member of the Group be transferred to the Company for a total consideration of 1,500,000 Ordinary Shares. Sarina Global Limited holds the right to call for the transfer to it (or its nominee) of the Mitondo East exploration licence.

- an agreement dated 21 September 2005 between Gemfields Holdings Zambia Limited ('GHZL') and Arinus Limited, a company incorporated in Zambia, pursuant to which GHZL has been granted an exclusive option, exercisable within a period of 120 days, to acquire a part of Plot No. 10B in the Kafubu area of the NRERA covered by Gemstone Licence No GL81 for an initial option fee of US$160,000 and a further payment of US$540,000 on exercise of the option. Completion of the agreement is conditional upon the Ministry of Mines granting a separate licence for the area of the plot to be acquired by GHZL as set out in the agreement. GHZL has been granted exclusive permission, from the date of the agreement for the duration of the option period, to carry out geological exploration of the property. GHZL must indemnify Arinus for any liability caused by its exploration activity.

PART 5

Additional information

1. Responsibility

The Company and the Directors, whose names are set out on page 7 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.

A.C.A. Howe International Ltd. accept responsibility for the information contained in Part 2 of this document. To the best of the knowledge of A.C.A. Howe (who have taken all reasonable care to ensure that such is the case) the information contained in Part 2 of this document is in accordance with the facts and makes no omission likely to affect the import of such information.

BDO Stoy Hayward LLP accepts responsibility for the information contained in Part 4 of this document. To the best of the knowledge of BDO Stoy Hayward LLP (who has taken all reasonable care to ensure that such is the case) the information contained in Part 4 of this document is in accordance with the facts and makes no omission likely to affect the import of such information.

2. The Company

The Company was incorporated in England and Wales under the name Gemfields Resources Plc with registered number 5129023 on 14 May 2004 under the Companies Act 1985 as a public company limited by shares. On 13 July 2004, the Company obtained its certificate to do business and exercise borrowing powers pursuant to section 117 of the Act. The principal legislation under which the Company operates is the Act and the regulations made thereunder. Under the Act the Company operates as a public limited company whereby the liability of its members is limited. The registered office of the Company is at Beaufort House, 15 St Botolph Street, London EC3A 7EE, telephone number 0207 016 9416.

3. Subsidiaries

The Company is the ultimate holding company of the Group and has the following subsidiaries:

Name	*Company Number*	*Percentage of issued shares owned and owner*	*Place and Date of Incorporation*	*Principal Activity*
Gemfields Limited	595609	Company, 100%	British Virgin Islands, 6 May 2004	Intermediate holding company
Gemfields Canada Inc	613239	Gemfields Limited, 100%	New Brunswick, Canada, 18 June 2004	Intermediate holding company
Gemfields Holdings Zambia Limited	55178	Gemfields Canada Inc., 100%	Lusaka, Zambia, 30 April 2004	Gemstone exploration and mining
Gemchib Minerals Limited	55176	Gemfields Holdings Zambia Limited, 100%	Lusaka, Zambia, 30 April 2004	Gemstone exploration and mining
Mbuva Mining Limited	LCO 31204	Gemfields Canada Inc, 100%	Lusaka, Zambia, 21 March 1994	Gemstone exploration and mining
Kariba Minerals Limited	LCO 13422	Gemfields Canada Inc., 50%	Lusaka, Zambia, 4 October 1984	Gemstone exploration and mining

Name	*Company Number*	*Percentage of issued shares owned and current*	*Place and Date of Incorporation*	*Principal Activity*
Gemfields India Pvt Ltd	436911 MH 2005 PTC 152358	Gemfields Limited, 100%	India, 1 April 2005	Gemstone cutting and polishing
Almizan Development Limited	622038	Company, 100%	British Virgin Islands, 2 November 2004	Dormant
Gemhouse Far East Limited	1179, 2543	Gemfields Canada Inc., 49%	Thailand, 15 August 2000	Dormant
Gemhouse Mining Zambia Limited	LCO 37071	Gemfields Holdings Zambia Limited, 100%	Lusaka, Zambia, 18 October 1996	Gemstone exploration and mining

4. **Share capital**

4.1 The authorised and issued share capital of the Company as at the date of this document is as follows:

	Authorised		*Issued and fully paid*	
	Amount	*Number*	*Amount*	*Number*
Ordinary Shares of 1p each	£2,000,000	200,000,000	£679,707.31	67,970,731

4.2 The authorised and issued share capital of the Company immediately following Admission will be as follows:

	Authorised		*Issued and fully paid*	
	Amount	*Number*	*Amount*	*Number*
Ordinary Shares of 1p each	£2,000,000	200,000,000	£946,373.98	94,637,398

4.3 The Company's share capital history is as follows:

4.3.1 On incorporation the authorised share capital of the Company was £2,000,000 divided into 200,000,000 ordinary shares of 1p each, of which 2 shares were issued for cash at par to the subscribers to the memorandum of association;

4.3.2 On 20 June 2004, 36,251,839 Ordinary Shares were issued pursuant to the share for share exchange under the terms of the Amalgamation Agreement to holders of common shares in Gemfields Canada Inc on a one for one basis;

4.3.3 On 30 June 2004, 7,000,000 Ordinary Shares were issued pursuant to a share subscription by new investors and existing shareholders of the Company at a subscription price of US$0.50 per share;

4.3.4 On 28 November 2004, 350,000 Ordinary Shares were issued pursuant to a share subscription by new investors and existing shareholders of the Company at a subscription price of £0.28 per share;

4.3.5 Warrants convertible into Ordinary Shares at a subscription price of US$0.35 per Ordinary Share were issued in 2004 with an exercise period ending at 5.00pm (Toronto Time) on 29 March 2005. A total of 8,868,890 Warrants were exercised resulting in the issue of 8,868,890 Ordinary Shares on 22 April 2005. Any Warrants that were not exercised before that deadline have now lapsed. There are presently no outstanding Warrants in the Company;

4.3.6 On 22 April 2005, 6,500,000 Ordinary Shares were issued pursuant to a share subscription by new investors and existing shareholders of the Company at a subscription price of US$0.50 per share;

4.3.7 On 26 September 2005, 9,000,000 Ordinary Shares were issued pursuant to an agreement between CA Fiduciary Services Limited and the Company, in consideration for the transfer to the Group of certain exploration licences as more particularly referred to in paragraph 10(g)(i);

4.3.8 As regards share options, the Company currently operates the Unapproved Scheme further details of which are set out in paragraph 8 below. Options have been granted and as at the date of this document remain outstanding over 9,301,667 Ordinary Shares representing 9.8 per cent. of the Company's enlarged issued ordinary share capital following the Placing;

4.3.9 On 8 April 2005, resolutions were passed at an AGM with the following effect:

(a) the Directors were generally and unconditionally authorised pursuant to Section 80 of the Act to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80 of the Act) up to a maximum nominal amount equal to £1,408,732.91, such authority to expire at the conclusion of the next annual general meeting of the Company save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding that the authority conferred has expired; and

(b) the Directors were empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority conferred by the resolution at (a) above as if Section 89(1) of the Act did not apply to any such allotment, such authority, unless renewed, to expire on whichever is the earlier of the conclusion of the next annual general meeting of the Company and the date falling 15 months after the date of the passing of the resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement notwithstanding that the authority conferred has expired, and provided further that this power shall be limited to the allotment of equity securities:

(i) which are offered for cash to those persons who are registered on such date as the Directors may prescribe as the holders of Ordinary Shares of the Company in proportion (as nearly as practicable) to their respective holdings of such Ordinary Shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any jurisdiction, or the requirement of any regulatory body or stock exchange; and

(ii) (otherwise than pursuant to sub-paragraph (i) above) up to an aggregate nominal amount of £1,066,000.

4.3.10 Save as referred to in paragraphs 4 and 10, no share or loan capital of the Company or any other member of the Group is under option or has been agreed, conditionally or unconditionally, to be put under option. There are no listed or unlisted securities issued by the Company not representing share capital.

4.3.11 Save as disclosed in this paragraph 4 and in paragraphs 10(g) and 10(q) of Part 5 of this document, no share or loan capital of the Company has been issued or is proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash.

4.3.12 The Ordinary Shares are in registered form and are capable of being held in uncertificated form. No temporary documents of title will be issued and it is expected that definitive share certificates for those Placing Shares not being held in the CREST system will be despatched by no later than 12 December 2005. All documents or remittances sent by or to a placee, or as they may direct, will be sent through the post at their risk.

4.3.13 All the issued share capital of the Company is fully paid or credited as fully paid up.

4.3.14 The Company has no convertible securities, exchangeable securities or securities with warrants.

4.3.15 The New Ordinary Shares will, when fully paid and issued, be in registered form and will be capable of being held in uncertificated form. None of the New Ordinary Shares have been marketed other than under the Placing or are available in whole or in part to the public in conjunction with the application for the New Ordinary Shares to be admitted to trading on AIM.

4.3.16 There are no founders' or management or deferred shares comprised within the Company's capital.

4.3.17 As a result of the issue of the Ordinary Shares detailed at 4.3.2 and 4.3.7 above more than 10 per cent. of the issued share capital of the Company has been paid for with assets other than cash. The percentage of the issued share capital of the Company paid for with assets other than cash is 66.6 prior to the implementation of the Placing and Admission and 47.8 following the implementation of the Placing and Admission.

5. Memorandum and Articles of Association

5.1 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

5.2 The Articles of Association of the Company ("the Articles") contain, *inter alia*, provisions to the following effect:

5.2.1 *Voting rights*

Subject to any special terms or restrictions as to voting attached to any shares by or in accordance with the Articles, on a show of hands every member, who (being an individual) is present in person or (being a corporation) is present by a representative not being himself a member, shall have one vote and on a poll every member who is present in person or by proxy shall have one vote for every share of which he is the holder.

5.2.2 *Dividends*

(a) The profits of the Company available for dividend and resolved to be distributed shall be applied in the payment of dividends to the members in accordance with their respective rights and priorities. The Company in general meeting may declare dividends accordingly. No dividend or interim dividend may be paid otherwise than in accordance with Part VIII of the Act.

(b) No dividend shall be payable except out of the profits of the Company (available for distribution under the terms of the Act and every other relevant UK Act of Parliament ("Statutes") or in excess of the amount recommended by the Directors.

(c) Dividends must be declared and paid according to the amounts paid on the shares in respect of which the dividends are paid. For the purposes of this Article, no amount paid on a share in advance of calls shall be treated as paid on the share. Dividends shall be apportioned and paid pro rata according to the amounts paid on the shares during any portions of the period in respect of which the dividend is paid but, if any share is issued on terms providing that it ranks for dividend as from a particular date, the share shall rank for dividend accordingly.

(d) The Directors may pay such interim dividends as appear to them to be justified by the profits of the Company.

(e) A general meeting declaring a dividend or bonus may direct payment of the dividend or bonus wholly or partly by the distribution of specific assets and, in particular, of paid up shares or debentures of another company or in any one or more of these ways.

(f) Dividends unclaimed for 12 years after the date they were declared or they became due for payment shall, unless the Directors otherwise resolve, be forfeited and revert to the Company.

(g) The Directors may, if authorised by an ordinary resolution, offer any holders of ordinary shares one or more of the following:

   (i) instead of taking the net cash amount or any part of it (to be determined by the Directors) of the dividend, they may invest the cash in subscribing for unissued ordinary shares; or

   (ii) instead of taking the net cash or any part (to be determined by the Directors) of it of the dividend, elect to receive new ordinary shares credited as fully paid; or

   (iii) forgo their entitlement to all or part (to be determined by the Directors) of the dividend and take fully paid bonus ordinary shares; or

   (iv) any other option in respect of all or part (to be determined by the Directors) of any dividend of any dividend on any ordinary shares held by them as the Directors determine.

(h) The Directors may exclude from any offer referred to at 5.2.2(g) above any holders of Ordinary Shares where the Directors believe that the making of the offer to them would or might involve the contravention of the laws of any territory or that for any other reason the offer should not be made to them.

(i) There is no fixed date on which an entitlement to dividend arises.

(j) There are no provisions relating to the rate of dividend or method of its calculation, periodicity or the cumulative or non-cumulative nature of payments.

5.2.3 *Distribution of assets on a winding-up*

(a) On the winding up of the Company, the balance of the assets available for distribution, after deduction of any provision made under section 719 of the Act and subject to any special rights attaching to any class of shares, shall be applied in repaying to the members of the Company the amounts paid up on the shares held by them together with any premium paid up or credited as paid up on the issue of such shares. Any surplus will belong to the holders of any ordinary shares then in issue.

(b) If the Company is wound up the liquidator may, with the authority of an extraordinary resolution, divide among the members in specie or kind the whole or any part of the assets of the Company. He may for that purpose set such value as he deems fair upon any one or more class or classes of property and may determine how the division is carried out as between the members or different classes or members. He may with the same authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator with the same authority thinks fit, but no contributory shall be compelled to accept any shares in respect of which there is a liability.

5.2.4 *Transfer of shares*

(a) Each member may transfer all or any of his shares held in certified form by a written instrument or transfer in any usual form or in any form approved by the directors. The instrument of transfer of a share shall be executed by or on behalf of the transferor and except in the case of a fully paid share by or on behalf of the transferee. The Directors may in their absolute discretion and without giving reason refuse to register any transfer of shares. Subject to the foregoing, the Directors may also decline to register any instrument of transfer unless:

(i) the transfer, duly stamped is deposited at the Office or such other place as the Directors may appoint accompanied by the certificate of the shares to which it relates, and such other evidence as the Directors may reasonably require;

(ii) the instrument of transfer is in respect of only one class of share; and

(iii) in the case of a transfer to joint holders, they do not exceed four in number.

(b) If the Directors refuse to register a transfer they shall, within 2 months after the date the transfer was lodged with the Company send to the transferee notice of the refusal. The registration of transfers may be suspended at such times and for such period (not exceeding 30 days in any year) as the directors may from time to time determine.

5.2.5 *Share capital and changes in capital*

(a) The Company in general meeting may by ordinary resolution increase its capital by such sum, to be divided into shares of such amounts, as the resolutions prescribes.

(b) Unless the Company by ordinary resolution at the general meeting at which the capital is increased otherwise directs, any new shares proposed to be issued shall be offered in the first instance in accordance with section 89 of the Act (save to the extent disapplied from time to time by special resolution) to all the shareholders for the time being, on the same or on more favourable terms than those offered or to be offered to persons other than shareholders, in proportion to the number of shares of the shares of the same class held by them.

(c) The new shares shall be subject to the provisions of the Statutes and of these Articles with reference to payment of calls, lien, transfer, transmission, forfeiture and otherwise.

(d) The Company may purchase its own shares (including any redeemable shares) except where there are outstanding convertible securities of the Company unless there are provisions in the relevant trust deed permitting the purchase or it has been sanctioned by an extraordinary resolution passed by the holders of the convertible shares.

(e) The Company may by ordinary resolution consolidate and divide all or any of its shares into shares of a larger amount, 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, subdivide its shares or any of such shares into shares of smaller amount than is fixed by the Memorandum of Association.

(f) Upon consolidation of fully paid shares into shares of larger amount the Directors may settle any difficulty which arises and in particular may, as between the holders of shares consolidated, determine which shares are consolidated into each consolidated share.

(g) The Company may by special resolution reduce its share capital, any capital redemption reserve fund and any share premium account in any manner subject to any conditions and consents required by law.

(h) The Company may by special resolution create and sanction the issue of shares which are, or at the option of the Company or the holder are to be liable to be redeemed, subject to and in accordance with the provisions of the Statutes.

5.2.6 *Modification of rights*

Whenever the capital of the Company is divided into different classes of shares or groups and either whilst the Company is a going concern or during or in contemplation of a winding up, the special rights attached to any class or group may be modified or abrogated, subject to the provisions of the statutes or of the Company's Memorandum of Association and unless otherwise provided by the terms of issue of the shares of that class or group, either with the consent in writing of the holders of three-quarters of the issued shares of the class or group, or with the sanction of any extraordinary resolution passed at a separate general meeting of the holders (but not otherwise).

5.2.7 *Conversion, redemption and purchase of own shares*

(a) The Company may by ordinary resolution convert any paid-up shares into stock, or re-convert any stock into paid-up shares of any denomination.

(b) Subject to, and in accordance with, the provisions of the Statutes and subject to Article 52.1 of the Company's Articles and the requirements of the Nominated Adviser, the Company may purchase its own shares (including any redeemable shares).

(c) The Company may not purchase its own shares if at the time of purchase there are outstanding any convertible securities of the Company, unless either there are provisions in the relevant trust deed or terms of issue permitting the purchase or the purchase has been sanctioned by an extraordinary resolution passed at a separate class meeting of the holders of the convertible securities.

(d) The Company may by special resolution create and sanction the issue of shares which are, or at the option of the Company or the holder are to be liable, to be redeemed, subject to and in accordance with the provisions of the Statutes. The special resolution sanctioning the issue shall also make such alterations to these Articles as are necessary to specify the terms on which and the manner in which the shares are to be redeemed.

5.2.8 *Directors*

(a) Unless and until determined by ordinary resolution, the number of Directors shall not be less than two nor more than eight.

(b) 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.

(c) The ordinary aggregate remuneration of all of the non-executive directors of the Company from time to time shall not exceed £150,000 per annum or such other amount as the Company may determine by ordinary resolution.

(d) The Company may by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Board.

(e) Any Director who at the request of the Board performs special services or goes or resides abroad may receive extra remuneration.

(f) No shareholding qualification for Directors is required. Directors are not required to retire upon the attainment of a particular age.

(g) Each director may attend and speak at any general meeting of the Company.

(h) The office of a Director may be vacated if:

  (i) he resigns by notice in writing;

  (ii) becomes bankrupt or receives an order against him;

  (iii) he becomes of unsound mind;

  (iv) he is absent from meetings of the Directors for 6 months;

  (v) he is removed or prohibited from being a director under statute; or

  (vi) he is requested in writing by all the other Directors to resign his office.

(i) A director may hold any other office or place of profit with the Company (except auditor) in conjunction with his office of Director.

(j) He may act by himself or his firm in a professional capacity for the Company and be entitled to remuneration. He may also become a director or officer of a company in which the Company is interested in or promoted by.

(k) A Director cannot count in the quorum on a resolution of the Board concerning his own appointment.

(l) A Director will not be disqualified by his office from contracting with the Company either with regard to his tenure of any office or place of profit or as vendor or purchaser or in any other manner.

(m) A Director who is interested in a contract or arrangement with the Company must declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration.

(n) A Director must not vote on or count in the quorum in respect of any resolution of the Board concerning a contract in which he has a material interest otherwise than by virtue of his interests in securities. This does not apply to the following:

(i) a contract for giving the Director security or a guarantee in respect of money lent by him for the benefit of the Company or a debt or obligation of the Company for which he has assumed responsibility under a guarantee or security;

(ii) where the Company is offering securities in which offer the Director may be entitled to participate as holder of securities;

(iii) relating to another company in which he and any connected person do not to his knowledge hold an interest in shares representing one per cent or more of any class of equity share capital or voting rights;

(iv) pension, superannuation or similar scheme or retirement, death or disability benefits scheme or employees share scheme which does not award him any privilege or benefit not awarded to the employees to whom the scheme relates; or

(v) concerning insurance which the Company proposes to maintain.

(o) The business of the Company shall be managed by the Directors, who may exercise all such powers of the Company save where they are required to be exercised in general meeting.

(p) The Directors may arrange that any branch or other business is carried on by a subsidiary of the Company. They may make such arrangements as they think advisable for the taking of profits or bearing of losses of the branch or subsidiary.

(q) The Directors may by power of attorney appoint any person to be the attorney of the Company.

(r) The Directors may procure the establishment and maintenance of any pension or superannuation fund, scheme or arrangement or life assurance scheme.

(s) The Directors may establish and maintain any scheme approved by an ordinary resolution for the allotment of or the grant of options to subscribe for shares of the Company to persons in the employment of the Company.

(t) All cheques, promissory notes, drafts, bills of exchange and other negotiable or transferable instruments, and all receipts for monies paid to the Company, shall be signed, drawn, accepted, endorsed or otherwise executed in such manner as the Directors determine.

(u) The Directors may appoint one or more of their number to an executive office. Such post shall receive such remuneration as the Directors determine.

(v) At every annual general meeting any Directors who are bound to retire under Article 107 and one-third of the other Directors shall retire from office. A Director retiring at a meeting shall retain office until the close of the meeting. The Director to retire shall be those who have been longest in office and a retiring Director shall be eligible for re-election.

(w) The Company may, by ordinary resolution of which special notice has been given in accordance with section 379 of the Act, remove any Director before the expiration of his period of office and may by an ordinary resolution appoint another person in his place.

(x) Questions arising at any meeting shall be determined by a majority of votes and in the case of an equality of votes the chairman shall have a second or casting vote.

(y) The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless fixed at any other number shall be two, save that where all the Directors are conflicted other than one, where upon the quorum is one.

5.2.9 *Borrowing powers*

(a) The directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking; property and assets (both present and future), including its uncalled capital and, subject to the Statutes, 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.

(b) The Board must restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries so as to secure that the aggregate principal amount outstanding of all borrowings by the Group does not, without the previous sanction of an ordinary resolution, exceed the greater of £100,000,000 or three times the aggregate of the amount paid up or credited as paid up on the issued share capital of the Company and the amount standing to the credit of the reserves as shown by the then latest audited balance sheet.

5.2.10 *General Meetings of the Company*

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 Directors. The Directors may convene an extraordinary general meeting whenever they think fit. On the requisition of members in accordance with Statute, the Directors shall convene an extraordinary general meeting. Whenever the Directors convene an extraordinary general meeting on the requisition of members, they 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 Directors.

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.

5.2.11 *Untraced shareholders*

(a) 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 virtue of transmission on death or bankruptcy if:

    (i) during the period of 12 years prior to the date of the publication of the advertisements referred to in paragraph (ii) below (or, if published on different dates, the first date), being a period during which at least three dividends have been payable, all warrants and cheques in respect of the shares in question sent in the manner authorised by these Articles have remained uncashed; and

(ii) the Company on expiry of the period of 12 years has given notice, by advertisement in both a national newspaper and a newspaper circulating in the area in which the last known address of the member or the address at which service of notices may be effected in the manner authorised by these Articles is located, of its intention to sell the shares; and

(iii) during the period of 12 years and the period of 3 months following the publication of the advertisements, or following the later publication if the two advertisements are published on different dates, the Company has received no indication either of the whereabouts or of the existence of the member or person; and

(iv) notice has been given to the Nominated Adviser (where the Company's shares have been admitted to trading on AIM) or (as the case may be) the UK Listing Authority (where the Company's shares are admitted to the Official List) of its intention to make the sale.

6. Directors' and other interests

6.1 Paragraphs 6.1.1 and 6.1.2 below set out the interests of the Directors, their immediate families and persons connected with them (within the meaning of Section 346 of the Act), in the share capital of the Company (which have been notified to the Company pursuant to Section 324 or 328 of the Act), as they will appear in the register of directors' interests maintained under Section 325 of the Act immediately prior to implementation of the Placing and Admission and as they are expected to be immediately after implementation of the Placing and Admission, which are as follows:

6.1.1 *Issued Ordinary Shares beneficially held:*

	Prior to Admission		*Following Admission*	
Directors and connected persons	*Number of Ordinary Shares*	*Per cent. of Issued Share Capital*	*Number of Ordinary Shares*	*Per cent. of Issued Share Capital*
Rajiv Gupta[1]	10,000,001	14.71	8,888,890	9.39
Sanjay Khandelwal	45,716	0.07	45,716	0.05
Shobha Khandelwal[2]	25,000	0.04	25,000	0.03
Graham Mascall	nil	nil	nil	nil
Richard James	nil	nil	nil	nil
Peter Kitchen	nil	nil	nil	nil
Jeremy Clarke	nil	nil	nil	nil
Valentine Chitalu	nil	nil	nil	nil
Clive Newall	nil	nil	nil	nil

1 The legal owner of these Ordinary Shares is CA Fiduciary Services Limited as trustee of The Tavistock Trust.

2 Shobha Khandelwal is the wife of Sanjay Khandelwal.

6.1.2 *Share Options:*

As at the date of this document, the following Directors have been granted the following options to acquire Ordinary Shares under the terms of the Unapproved Scheme:

Name	*Ordinary Shares under Option*	*Exercise Price US$*	*Grant Date*	*Expiry Date*
Rajiv Gupta	1,600,000	0.50	28 October 2004	28 October 2014
Richard James	300,000	0.50	22 April 2005	22 April 2015
Richard James	200,000	Placing Price	22 April 2005	22 April 2015
Graham Mascall	400,000	0.50	22 April 2005	22 April 2015
Graham Mascall	350,000	Placing Price	22 April 2005	22 April 2015
Sanjay Khandelwal	150,000	0.15	27 January 2004	27 January 2014
Sanjay Khandelwal	100,000	0.50	22 April 2005	22 April 2015
Peter Kitchen	225,000	0.15	27 January 2004	27 January 2014
Peter Kitchen	125,000	0.50	22 April 2005	22 April 2015
Jeremy Clarke	150,000	Placing Price	22 April 2005	22 April 2015
Jeremy Clarke	350,000	Placing Price	01 September 2005	01 September 2015
Jeremy Clarke	1,000,000	Placing Price	01 November 2005	01 November 2015
Valentine Chitalu	25,000	0.15	27 May 2004	27 May 2014
Valentine Chitalu	25,000	0.50	27 May 2004	27 May 2014
Valentine Chitalu	25,000	Placing Price	27 May 2004	27 May 2014
Valentine Chitalu	100,000	Placing Price	01 September 2005	01 September 2015
Clive Newall	500,000	Placing Price	22 April 2005	22 April 2015

Further details of the Unapproved Scheme are given in paragraph 8 below.

6.2 Save as disclosed in paragraph 6.1 above, none of the Directors, their immediate families and persons connected with them (within the meaning of Section 346 of the Act), has any interest in the share capital of the Group.

6.3 Save as disclosed in paragraph 6.1 above and save for the following shareholders, as at the date of this document and disregarding any shares to be acquired in the placing, the Directors are not aware of any direct or indirect interest (within the meaning of Part V of the Act) which represents 3 per cent. or more of the issued share capital of the Company immediately prior to implementation of the Placing and Admission or will represent 3 per cent. or more of the issued share capital of the Company after implementation of the Placing and Admission or of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company:

	Prior to Admission		*After Admission*	
Shareholder	*Number of Ordinary Shares*	*Per cent. of Issued Share capital*	*Number of Ordinary Shares*	*Per cent. of Issued Share capital*
Forest Nominees[1]	13,166,666	19.37	13,166,666	13.91
The Tavistock Trust[2]	10,000,001	14.71	8,888,890	9.39
The Timis Trust[3]	5,133,334	7.55	5,133,334	5.42
The Regency Trust[3]	3,760,000	5.53	3,760,000	3.97
HSBC Global Custody Nominee (UK) Limited[4]	3,700,000	5.44	4,811,000	5.08
T Hoare Nominees Ltd[5]	3,600,000	5.30	4,888,778	5.17
Gundyco	3,293,300	4.85	3,293,300	3.48
The Madison Trust[3]	2,250,000	3.31	2,250,000	2.38
The Park Trust[3]	2,250,000	3.31	2,250,000	2.38
The Lexington Trust[3]	2,250,000	3.31	2,250,000	2.38

1 Forest Nominees is a nominee company who holds its interest in these shares on behalf of various persons and entities. Forest Nominees does not hold more than 3 per cent. on behalf of any connected persons.

2 CA Fiduciary Services Limited holds the legal title to these shares as trustee of The Tavistock Trust. Rajiv Gupta is the beneficial owner of the shares.

3 CA Fiduciary Services Limited holds the legal title to these shares as trustee of The Timis Trust, The Regency Trust, The Madison Trust, The Park Trust and The Lexington Trust, as relevant.

4 After Admission, 3,111,000 of these Ordinary Shares will be held on behalf of Artemis Investment Managers which, after Admission, represents 3.29 per cent. of the Issued Share Capital.

5 T Hoare Nominees Ltd is a member of the Canaccord Capital Inc. group of companies and holds and will hold some of these shares for Canaccord as principal as well as for third parties as nominee.

The voting rights of the Company's major shareholders do not differ from the voting rights of any other shareholder in the Company.

6.4 Save as disclosed in this document:

6.4.1 no Director has or has 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 unperformed; and

6.4.2 no loans or guarantees have been granted or provided to or for the benefit of the Directors by any member of the Group.

6.5 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 referenced to the Ordinary Shares (being a financial product whose value is, in whole or in part, determined directly or indirectly by reference to the price of the Ordinary Shares including a contract for difference or a fixed odds bet).

7. Directors' service agreements and remuneration

7.1 Jeremy Clarke entered into a service agreement with the Company dated 1 September 2005 and a further agreement with its wholly owned BVI subsidiary, Gemfields Limited on 1 September 2005 both agreements terminable by either contracting party on 6 months' notice.

7.2 Rajiv Gupta entered into a service agreement with the Company dated 1 September 2005 and a further agreement with its wholly owned BVI subsidiary, Gemfields Limited on 1 September 2005 both agreements terminable by either contracting party on 6 months' notice.

7.3 Richard James entered into a service agreement with the Company dated 8 March 2005 and a further agreement with its wholly owned BVI subsidiary, Gemfields Limited on 8 March 2005 both agreements terminable by either contracting party on 6 months' notice.

7.4 Each of the agreements referred to in paragraphs 7.1, 7.2 and 7.3 contains post termination restrictive covenants which place limitations and restrictions on the solicitation of customers and employees, interfering with customers and suppliers of the Group and from acting in competition with the business of the Group. Each of the agreements also includes provision for the assignment to the relevant company of intellectual property discovered by the Directors during their term in office and provision for the non-disclosure of confidential information. The current salaries of the Executive Directors payable by the Group, which are subject to review on an annual basis, are as follows:

(a) Jeremy Clarke, US$172,000

(b) Rajiv Gupta, £100,000

(c) Richard James, £100,000

In addition, Richard James receives health insurance and Chartered Accountant membership fees paid by the Company.

7.5 Each of the Non-Executive Directors, save Valentine Chitalu who has personally entered into his appointment letter, has through his service company or trading entity being, Graham Mascall Consulting Services in the case of Graham Mascall, Peaveetu Limited in the case of Peter Kitchen, Emdico (London) Limited in the case of Sanjay Khandelwal and Mill House Mining Limited in the case of Clive Newall, entered into agreements with the Company dated 14 September 2005, for the provision of their services as non-executive directors terminable on 3 months' notice by either party. The remuneration payable by the Company to each of the Non-Executive Directors is £12,000 per annum, save in the case of Graham Mascall's services who receives £36,000 per annum as non-executive chairman of the Company. Each of the agreements includes provision for the non-disclosure of confidential information. The agreements also include non-competition provisions with the Group for 6 months after termination of their services.

7.6 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 30 June 2005 amounted to £194,586. 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 £365,526.

7.7 Save as set out above there are no existing or proposed service agreements between any of the Directors and the Company. There is no arrangement in place under which any Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments by any Director in respect of the Company during the financial year immediately preceding the date of this document.

Save in respect of the agreements or letters of appointment set out above, there are no provisions for compensation payable upon termination of any service agreement or letter of appointment.

7.8 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 5 held over the past 5 years by each of the Directors:

Name	*Other current directorships*	*Former directorships (in last 5 years)*
Jeremy Clarke	Kwezi Mining (Pty) Ltd MPD (Pty) Ltd	None
Graham Mascall	Iberian Base Metals Public Limited Company Caledon Resources Plc Eurozinc Mining Corp. International Molybdenum Plc	BHP Billiton International Development Limited Berkeley Mining Plc
Richard James	Fordport Flat Management Limited	Gulf International Minerals Limited Gulf International Minerals (Jersey) Limited Greenback Procurement Limited Atticus Appreciation Limited Haka Horrorshow Limited Radipole Associates Limited Springbok Consulting Limited Trevor Chappell Underarm Limited Arc Professional Consultants Limited
Rajiv Gupta	Gupta Gemhouse Pvt Ltd Top Investments & Finance Pvt. Ltd. Gemtech Lapidary Pvt. Ltd. Crystal Agro Pvt. Ltd. Diacrystal India Pvt. Ltd. Metro Entertainment (Bengal) Pvt. Ltd Metro Entertainment (Bombay) Pvt. Ltd. Broadway Realty Pvt. Ltd. Kristal Exports (Partner) Gemhouse Worldtrade (Partner) Golden Films & Finance Pvt. Ltd	None
Sanjay Khandelwal	Emdico (London) Limited Eternity Range Limited Certificated Diamonds International Limited Indy Gems Limited SKS Properties Limited	Certificated Diamonds (Hatton Garden) Limited SKS Properties (Marble Arch) Limited

Name	*Other current directorships*	*Former directorships (in last 5 years)*
Peter Kitchen	Prosec Amco Limited (Zambia) Brinspark Limited (Zambia)	None
Clive Newall	First Quantum Minerals Ltd Bwana Mkubwa Mining Ltd Cover Investments Ltd Black Bark Investments Ltd Comisa Sprl Mill House Mining Limited	Anvil Mining Ltd Mopani Copper Mines Ltd Ocean Finance Ltd Cover Invest Ltd
Valentine Chitalu	Stanbic Bank Zambia Ltd Zambian Breweries National Breweries Kabwe Industrial Fabrics Afgri/OTK Zambia Limited Empowerment Group Investments Limited InfraCo Ltd PG Bisonite Zambia Limited Greenbelt Fertilizers Koppa Chemicals Limited Pyramid Plaza Limited Kwacha Milling Company Scaw Limited Marasa Holdings Gemfields Holdings Zambia Menel Platinum Gold Equity Platmin Congo Tourism Investments Zambia	Commonwealth Africa Investments Lusaka Stock Exchange Zambia Consolidated Copper Mines Zambia Telecommunications Company Konkola Copper Mines Mpongwe Development Company Zambia Capital Partners Securities Exchange Commission Sunbird Hotels Malawi Indebank Malawi Celtel Zambia Limited

7.8 No Director:

7.8.1 has been a partner in any partnerships in the past 5 years save for those partnerships in which Rajiv Gupta is a partner as referred to in paragraph 7.7 above;

7.8.2 has any unspent convictions in relation to indictable offences;

7.8.3 has had a bankruptcy order made against him or entered any individual voluntary arrangement with any of his creditors;

7.8.4 is or has been involved in:

(a) any receiverships, compulsory liquidations, creditors' voluntary liquidations, administrations, company voluntary arrangements or any composition or arrangement with the creditors generally or any class of the creditors of any company where such Director was a director at the time of or within the 12 months preceding such events;

(b) any compulsory liquidations, administrations or partnership voluntary arrangements of a partnership where such Director was a partner at the time of or within 12 months preceding such events;

(c) receiverships of any asset of such Director or of a partnership of which the Director was a partner at the time of or within the 12 months preceding such events; or

(d) any public criticism of such Director by statutory or regulatory authorities (including recognised professional bodies) or 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.

7.9 The names of the Directors of the Company, none of whom has a previous name, are set out on page 7 of this document.

8. Share Option Schemes

8.1 *Introduction*

The Group operates one share option scheme, the Unapproved Scheme, under which directors, officers and employees of the Company or any subsidiary (a Participating Company) can be offered options to acquire Ordinary Shares. The Unapproved Scheme is administered by the Remuneration Committee. The Stock Option Plan, previously administered by the directors of Gemhouse Inc, is now closed.

In addition to the options granted to the Directors set out in paragraph 6.1, the Company has granted further options to employees, ex-employees and consultants to the Group to acquire an aggregate of 3,676,667 Ordinary Shares under the terms of the Unapproved Scheme which are still subsisting. All these additional options have a term of either five or ten years and 2,723,334 options have an exercise price of US$0.15, 703,333 options have an exercise price of US$0.50, 50,000 options have an exercise price of US$1.50 and 200,000 options have an exercise price equal to the Placing Price. The employees, ex-employees and consultants to whom options have been granted are:

Name	*Position*	*Ordinary Shares under option*	*Exercise Price US$*	*Grant Date*	*Expiry Date*
Employees					
Alok Sood	Vice President Operations	1,500,000	0.15	27.01.2004	27.01.2014
Anjanikumar Sharma	Finance Controller	100,000	0.15	27.01.2004	27.01.2014
James Martin	Accountant	10,000	0.15	27.01.2004	27.01.2014
Ashok Anjara	Project Co-ordinator	15,000	0.15	27.01.2004	27.01.2014
Ashok Anjara	Project Co-ordinator	25,000	0.15	01.03.2004	01.03.2014
Aditya Kant	Geologist	100,000	0.50	28.10.2004	28.10.2014
Parikshaya	Geologist	100,000	0.50	28.10.2004	28.10.2014
Kartikeya Verma	BDM	10,000	0.50	22.04.2005	22.04.2015
Lav Khetra Pal	Accounts Manager	50,000	0.50	22.04.2005	22.04.2015
James Martin	Accountant	10,000	0.50	22.04.2005	22.04.2015
Danny Barnard	Operations manager	200,000	Placing Price	11.05.2005	11.05.2015
Ex employees and consultants					
Sanjay Khandelwal	Former manager	25,000	0.15	01.03.2004	01.03.2014
Dick Gilbert	Former manager	50,000	0.15	24.05.2004	24.05.2014
Gregory Walker	Former manager	100,000	0.15	24.05.2004	24.05.2014
Neil Herbert	Former manager	100,000	0.15	24.05.2004	24.05.2014
Gregory Walker	Former manager	100,000	0.50	24.05.2004	24.05.2014
Dick Gilbert	Former manager	25,000	1.50	27.01.2004	27.01.2014
Donald Woodley	Former manager	25,000	1.50	27.01.2004	27.01.2014
Dick Gilbert	Former manager	250,000	0.15	27.01.2004	27.01.2014
Donald Woodley	Former manager	25,000	0.15	27.01.2004	27.01.2014
Donald Woodley	Former manager	45,000	0.15	27.01.2004	27.01.2014
Martin Dunham	Former Director	83,334	0.15	24.05.2004	24.05.2014
Martin Dunham	Former Director	83,333	0.50	24.05.2004	24.05.2014
Rajendra Koolwal	Former manager	150,000	0.15	27.01.2004	27.01.2014
Rajendra Koolwal	Former manager	100,000	0.15	01.03.2004	01.03.2014
Rajan Mahtani	Consultant	250,000	0.50	28.10.2004	28.10.2014
Arvind Mathur	Consultant	50,000	0.15	27.01.2004	27.01.2014
Greg McKnight	Former advisor	50,000	0.15	27.01.2004	27.01.2014
Jim Skelton	Former advisor	25,000	0.15	27.01.2004	27.01.2014
Mark Wood	Former advisor	20,000	0.15	27.01.2004	27.01.2014
		3,676,667			

8.2 *The Stock Option Plan*

The Stock Option Plan was adopted by Gemhouse in January 2002 and is subject to Canadian law. It was not approved by the Inland Revenue. The options granted under the Stock Option Plan were taken over by Gemfields Canada Inc. under the terms of the Amalgamation Agreement. As a consequence of the acquisition of Gemfields Canada Inc. by the Company, the Company resolved to offer the holders of any options under the Stock Option Plan the opportunity to obtain new or replacement options over Ordinary Shares pursuant to the Unapproved Scheme rules on a one for one basis. All of the holders of options under the Stock Option Plan have agreed to receive replacement options under the terms of the Unapproved Scheme (save in respect of eligibility, exercise price and vesting dates which remain unchanged) and the Stock Option Plan has closed.

8.3 *The Unapproved Scheme*

The principal terms of the Unapproved Scheme are summarised as follows:

8.3.1 *Eligibility*

Participation is restricted to executive directors who work at least 25 hours per week for a Participating Company and employees (other than directors save where such director is a member of the Remuneration Committee) of a Participating Company.

A 'Participating Company' is a company that forms part of Gemfields Resources Plc's group of companies plus certain joint venture companies nominated by the Board to be a Participating Company.

8.3.2 *Exercise Price*

The share price is specified at the time the options are granted. If the shares are listed on a Recognised Investment Exchange then the exercise price will be not less than the mid-market closing price for that class of share on the date immediately preceding grant. Otherwise, the exercise price may be at any level provided it is not less than the nominal value of the share. It is anticipated that shares will be granted at market value on the date of grant.

8.3.3 *Total number of shares*

Due to commitments (arising from acquisitions of other companies) to grant share options, the total number of ordinary shares over which options are granted in any ten year period (whether exercised or not), when added to all such options granted under all other share option schemes of the Company and any options granted to members of the Remuneration Committee as referred to in paragraph 8.3.11 below, shall not exceed the greater of:

(a) 12,000,000 shares; and

(b) 10 per cent. of the fully diluted ordinary share capital of the Company in issue at that time.

8.3.4 *Class of shares*

The shares granted under the Scheme will be fully paid up ordinary shares in the Company.

8.3.5 *Time of exercise*

On the first, second and third anniversaries of the date of grant one third of the shares under the option will become exercisable and shall generally remain exercisable until the tenth anniversary of the grant date. Generally when someone ceases to be an employee or director they lose the right to exercise their share options. In some circumstances, the Board may extend the right to exercise any option by six months from the date of departure but only to the extent the option was exercisable at the date of cessation of employment.

Where an employee or director is to be transferred to work in another country and the Board consider that as a result of that transfer that person will suffer a tax or other disadvantage upon exercising his options he may, in certain circumstances, be entitled to exercise his options at any time during the period beginning three months before and ending three months after the date of the transfer.

In relation to options granted to replace options under the Stock Option Plan the Board has the discretion to adjust the time of exercise to reflect the exercise period in the original option under the Stock Option Plan.

8.3.6 *Performance Conditions*

The Scheme rules permit the Company's board of directors to impose 'Performance Conditions' which must be satisfied before options can be exercised. Performance Conditions, if any, must be objective and set out in full in the option certificate or a schedule referred to in the option certificate. They generally cannot be amended following grant of the option.

It is not currently intended that Performance Conditions be imposed on options granted initially. Such options will be granted to provide incentives to key personnel.

8.3.7 *Tax*

The eligible participants are located in the UK and in other countries and different tax rules will apply to option holders depending on where they were employed at the date of grant and where they are when the option is exercised.

A condition of granting any option is that the option holder indemnifies the Company for any tax liability relating to the exercise of the option that is incurred by the Company or any Participating Company. There is a mechanism allowing the Company at the time of exercise to sell sufficient shares to satisfy the tax liability, unless the option holder pays the tax liability at the time of exercise.

8.3.8 *Change in share structure*

If the share structure of the Company changes, the number of shares over which the employee has an option will be adjusted to reflect any relevant changes.

8.3.9 *Early exercise of share option in event of takeover*

Where control of the Company is obtained as a result of a general offer, an option holder may exercise his options early to participate in the general offer and following the general offer being accepted the options will lapse.

8.3.10 *Amendment of the Scheme rules*

The Board has the power to amend or waive any of the Scheme rules provided that such alteration is made with the prior approval of the shareholders in general meeting or where such amendment does not affect the basic principles of the Scheme.

8.3.11 *Grant of options to Remuneration Committee members*

Where it is necessary or desirable to grant options to members of the Remuneration Committee in order to recruit or retain them and such person is not an employee, that person will not be eligible for a grant of options under the Scheme. In such cases, options may be granted by way of a separate agreement that incorporates all of the rules of the Scheme.

9. Principal establishments

The Group occupies the following principal establishments:

Address	*Tenure*	*Terms of occupation*
MWB Business Exchange 1 Berkeley Street London W1J 8DJ United Kingdom	Licence to occupy	A licence to occupy the premises for a monthly fee of £2,800 (plus VAT) subject to renewal. The licence currently expires on 31 December 2005.
Metro House, 2nd Floor M.G.Road Mumbai – 400 020 Maharashtra. India	Licence to occupy	A licence to occupy on a rent free basis.
Plot 3719 Prescot Road Light Industrial Area Box 22550 Kitwe, Zambia	Freehold	Not applicable.

10. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by a member of the Group within the two years immediately preceding 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:

(a) Amalgamation Agreement – an agreement dated 9 June 2004 between Gemhouse, Gemfields (Canada) Inc. and the Company whereby, inter alia, Gemhouse and Gemfields (Canada) Inc. agreed to amalgamate pursuant to the provisions of the Business Corporations Act (New Brunswick) and to continue as one corporation with the name "Gemfields Canada Inc" under the terms of the Amalgamation Agreement (such that the amalgamated corporation possesses all the property, rights, privileges and franchises and is subject to all liabilities, including civil, criminal and quasi-criminal, and all contracts, disabilities and debts of each of Gemfields (Canada) Inc. and Gemhouse) and the issued and outstanding common shares of Gemfields Canada Inc. were exchanged for Ordinary Shares on the basis of one Ordinary Share issued fully paid for each Gemfields Canada Inc. common share.

(b) Warrants – In March 2004, the Company issued 9,024,868 Warrants to subscribe for Ordinary Shares. The Warrants were convertible on the basis of one Ordinary Share for each Warrant held at a price of US$0.35 per Ordinary Share. The Warrants were capable of conversion on or before 5:00 p.m. (Toronto time) on the earlier of 29 March 2005 and the date of Admission. A total of 8,868,890 Warrants were exercised and an equivalent number of Ordinary Shares issued. All outstanding Warrants not converted into Ordinary Shares have now lapsed.

(c) Kariba – an agreement dated 12 August 2002 and extended on 30 March 2004 to 30 June 2004 made between Lonhro Africa Plc and Gemhouse which entitled Gemhouse to acquire 50 per cent. of the shares in Kariba Minerals Limited. The acquisition of the shares was completed on 30 April 2004 for a total consideration of US$345,402.30.

(d) Chibolele – an agreement dated 23 July 2004 between Chibolele Mining Co-Operative Society (CMCS), Gemfields Holdings Zambia Limited and Gemchib Minerals Limited for the acquisition by Gemchib Minerals Limited of a 70 per cent. interest in Plot No11A/1 in the Kafubu Emerald area in consideration for a transfer of 30 per cent. of the issued share capital in Gemchib Minerals Limited to CMCS. Gemfields Holdings Zambia Limited was granted a six month option expiring on 23 January 2005, to acquire the 30 per cent. shareholding from CMCS for US$1,250,000, which it exercised on 20 January 2005.

(e) Mbuva – an agreement dated 30 May 2004 made between Mbuva Mining Limited, Gemhouse and the shareholders of Mbuva Mining Limited for the acquisition of a 51 per cent. stake in Mbuva Mining Limited for US$200,000 and granting an option (subject to payment by Gemhouse of an option fee of US$150,000) to Gemhouse to acquire all the remaining shares in Mbuva Mining Limited for US$1,100,000. The option was exercised and the entire issued share capital of Mbuva Mining Limited was acquired on 30 May 2005.

(f) Kamakanga – an agreement dated 4 July 2005 made between Kuber Mineral and Metal Mining Company Limited, Haree Enterprises Limited and Gemfields Holdings Zambia Limited for the acquisition by Gemfields Holdings Zambia Limited of Stand No. 3719 at Kitwe in the Copperbelt Province of Zambia, certain moveable property and certain mining rights and consequential developments and improvements for a total consideration of US$2,451,000, payment of US$1,351,000 of which has been deferred until a date on or before the expiry of 180 days from the date the agreement was signed.

(g) Exploration Licences:

    (i) an agreement dated 26 September 2005 between CA Fiduciary Services Limited (as trustee of certain trusts) and the Company pursuant to which the entire issued share capital of Almizan Development Limited was transferred to the Company for a total consideration of 9,000,000 Ordinary Shares. Almizan Development Limited held the right to call for the transfer to it of the Miputu, Mitondo North, NR South, Mitondo South, Nkabashila East and Nkabashila West exploration licences which are now owned by the Group.

(ii) an agreement dated 26 September 2005 between CA Fiduciary Services Limited (as trustee of certain trusts) and the Company pursuant to which the entire issued share capital of Sarina Global Limited will subject to the transfer of the Mitondo East exploration licence to a member of the Group be transferred to the Company for a total consideration of 1,500,000 Ordinary Shares. Sarina Global Limited holds the right to call for the transfer to it (or its nominee) of the Mitondo East exploration licence.

(h) an agreement dated 31 March 2003 between Gupta Gemhouse Pvt Inc (a company of which Rajiv Gupta is a director) and Gemhouse Inc for the sale of the entire issued capital of Gemhouse Mining Zambia Limited to Gemhouse Inc for US$10,000.

(i) subscription agreements between Gemhouse Inc and various European investors dated on or around March 2004 in relation to a fund raising of total proceeds of US$2 million arising from a UK private placing of 13,333,334 'Units' comprising one common share and one half of one share warrant at a subscription price of US$0.15 (each whole warrant entitling the holder to purchase one common share at US$0.35 subject to adjustment in certain events and within a specified period).

(j) subscription agreements between Gemhouse Inc and various Canadian investors dated on or around March 2004 in relation to a fund raising of total proceeds of US$600,000 arising from a Canadian private placing of 4,000,000 'Units' comprising one common share and one half of one share warrant at a subscription price of US$0.15 (each whole warrant entitling the holder to purchase one common share at US$0.35 subject to adjustment in certain events and within a specified period). IBK Capital Corp. acted as agent for the Canadian offering and received commission of 9 per cent. of the gross proceeds and an adjustment of the conversion price of certain broker warrants previously issued.

(k) an indemnity letter dated 22 September 2005 and an escrow deed dated 26 September 2005 in relation to a further indemnity letter addressed to the Company from, *inter alia,* Rajiv Gupta in relation to the transfer of certain prospecting licences to Gemfields Holdings Zambia Limited.

(l) an agreement dated 21 September 2005 between Gemfields Holdings Zambia Limited ('GHZL') and Arinus Limited, a company incorporated in Zambia, pursuant to which GHZL has been granted an exclusive option, exercisable within a period of 120 days, to acquire a part of Plot No. 10B in the Kafubu area of the NRERA covered by Gemstone Licence No GL81 for an initial option fee of US$160,000 and a further payment of US$540,000 on exercise of the option. Completion of the agreement is conditional upon the Ministry of Mines granting a separate licence for the area of the plot to be acquired by GHZL as set out in the agreement. GHZL has been granted exclusive permission, from the date of the agreement for the duration of the option period, to carry out geological exploration of the property. GHZL must indemnify Arinus for any liability caused by its exploration activity.

(m) Lock-In Agreements – pursuant to lock-in agreements dated 4 October 2005 between Canaccord, the Company and the persons connected with the Directors and certain significant shareholders, as specified below, the connected persons and shareholders have agreed with Canaccord and the Company conditional upon Admission not to dispose of any Ordinary Shares held by them for a period of 12 months from Admission (subject to certain limited exceptions including, *inter alia*, disposals by way of acceptance of a recommended takeover or offer for the entire issued share capital of the Company). Lock-in agreements were entered into with Rishi Khandelwal, Alok Sood and Shobha Khandelwal.

(n) An escrow agreement dated 2 November 2005 between Rajiv Gupta and the Company pursuant to which Rajiv Gupta has agreed to pay to the Company US$478,000 from the proceeds of the Sale Shares. This sum will be held by the Company in a separate account, pending agreement with the Canadian tax authority of the amount of non resident withholding tax liability payable by the Group on behalf of shares in which Rajiv Gupta had an interest ("Withholding Tax Liability"). Following determination of the Withholding Tax Liability, the Company will be entitled to that part of the escrow account as is equal to the Withholding Tax Liability and any excess will be paid to Rajiv Gupta. The Group intends to recover any shortfall from Rajiv Gupta.

(o) Nominated Adviser Agreement – pursuant to an agreement dated 23 November 2005 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 agreed to pay Canaccord for its services an annual fee of £50,000 (plus VAT).

(p) Placing Agreement – the Company has entered into a Placing Agreement dated 23 November 2005 between (1) the Company, (2) the Directors, (3) Rajiv Gupta (4) CA Fiduciary Services Limited and (5) Canaccord. Under the Placing Agreement, Canaccord has conditionally agreed, as agent for the Company, on the terms and conditions of the Placing Agreement to use its reasonable endeavours to procure subscribers for the New Ordinary Shares at the Placing Price. CA Fiduciary Services Limited has agreed, subject to Admission, to pay to Canaccord commission of 6.5 per cent of the value of the Sale Shares sold pursuant to the Placing at the Placing Price, plus applicable VAT. CA Fiduciary Services Limited is also liable to pay the stamp duty on the transfer of the Sale Shares. Under the Placing Agreement the Company has agreed on the terms and subject to the conditions of the Placing Agreement, to pay to Canaccord commission of 6.5 per cent. of the aggregate value of the New Ordinary Shares placed at the Placing Price other than certain New Ordinary Shares placed with Merrill Lynch on which the Company will pay Canaccord a commission of 3.12 per cent., a corporate finance fee of £225,000, the costs and expenses of the Placing together with any applicable VAT and to grant Canaccord an option over 6.5 per cent. of the New Ordinary Shares on the terms of the Option Agreement dated 23 November 2005 referred to in paragraph 10(p) below and as agent for CA Fiduciary Services Limited to use its reasonable endeavours to procure purchasers of the Sales Shares at the Placing Price. In addition, under the terms of the Placing Agreement the directors agreed with Canaccord and the Company not to dispose of any Ordinary Shares held by them for a period of 12 months from Admission except in certain limited circumstances or with the prior written consent of Canaccord and the Company, such agreement ceasing to have effect if Admission does not become effective on or before 15 December 2005. The Placing Agreement contains warranties and an indemnity from the Company and the Directors and warranties and an indemnity given by Rajiv Gupta to Canaccord. The Placing is not being underwritten. Canaccord is entitled to terminate its obligations under the Placing Agreement in certain specified circumstances prior to Admission.

(q) Option Agreement – pursuant to an Option Agreement dated 23 November 2005 made between the Company and Canaccord the Company has, conditional upon Admission becoming effective in accordance with the Placing Agreement, granted to Canaccord an option to subscribe for 1,733,333 Ordinary Shares representing 6.5 per cent of the New Ordinary Shares in the Company at the Placing Price. The Option is exercisable in whole or in part at any time in the period of 24 months from the date of Admission.

(r) Fee Agreement – pursuant to a letter agreement dated 8 November 2005 between the Company and Chapman Limited, the Company has agreed to pay Chapman Limited a fee of £17,500 in respect of assisting the Company with the placing of certain New Ordinary Shares with Merrill Lynch.

(s) Lock-in Agreements – Pursuant to Lock-in Agreements dated 17 and 18 November 2005 between Canaccord, the Company and each of B.I.D. Construction Ltd, William F White, Kreative Ventures Ltd, Jay Smith, Thomas Haar and Mackenzie Financial Corporation, these shareholders have agreed with Canaccord and the Company conditional upon Admission not to dispose of any Ordinary Shares held by them for a period of 3 months from Admission (subject to certain exceptions including inter-group transfers and at the request of Canaccord to meet market demand).

11. Working capital

The Directors are of the opinion, having made due and careful enquiry and having regard to the bank and other facilities available to it and the net proceeds of the Placing receivable by the

Company, that the working capital available to the Group is sufficient for its present requirements, that is, for the period of 12 months from Admission.

12. Auditors and financial information

12.1 BDO Stoy Hayward LLP, Registered Auditors, 8 Baker Street, London W1U 3LL have audited the financial statements of the Group for the financial period ended 30 June 2004 and for the financial year ended 30 June 2005. BDO Stoy Hayward is a member of the Institute of Chartered Accountants in England and Wales.

12.2 The Company's accounting reference date is 30 June.

12.3 The financial information concerning the Group contained in this document does not constitute statutory accounts within the meaning of section 240 of the Act. Statutory accounts of the Group for the period ended 30 June 2004 and the year ended 30 June 2005, on which the auditors gave an unqualified report and which did not contain statements made under section 237(2) or (3) of the Act, have been delivered to the Registrar of Companies.

12.4 No financial information contained in this document is intended by the Company to represent or constitute a forecast of profits by the Company nor constitute the publication of accounts by it.

13. Taxation

General

The statements below are general in character and are intended only as a general guide to certain aspects of current law and HM Revenue & Customs practice. They apply to the beneficial owners of Ordinary Shares who are resident in the UK for tax purposes and who hold shares as investments and may not apply to certain classes of taxpayers (such as dealers in securities). Prospective purchasers of Ordinary Shares, and in particular those who are subject to taxation in a jurisdiction other than in the UK, are strongly advised to consult their own professional advisers.

No tax will be withheld from dividend payments by the Company.

An individual Company shareholder who is resident in the United Kingdom for tax purposes will be entitled to a tax credit in respect of any dividend received from the Company and will be taxable on the aggregate of the net dividend and the tax credit ("the gross dividend"). The value of the tax credit is currently one ninth of the net dividend (or 10 per cent. of the gross dividend). The gross dividend is treated as the top slice of such individual's income. A United Kingdom resident individual shareholder of the Company who is not liable to income tax in respect of the gross dividend will not be able to reclaim payment of the tax credit from HM Revenue & Customs. In the case of a United Kingdom resident individual shareholder of the Company who is not liable to income tax at a rate greater than the basic rate, the tax credit will discharge his or her tax liability in respect of the gross dividend and there will be no further tax to pay and no right to claim any repayment of the tax credit from HM Revenue & Customs. In the case of a United Kingdom tax resident individual shareholder of the Company who is liable to income tax at the higher rate on dividends (currently 32.5 per cent.), the tax credit will be set against his or her tax liability in respect of the gross dividend and, accordingly, he or she will have to pay additional tax at a rate of 22.5 per cent, of the gross dividend to the extent that the gross dividend falls above the threshold for higher rate income tax.

Subject to certain exceptions, a Shareholder which is a company resident for tax purposes in the United Kingdom is not taxable on dividends paid by the Company and received by that shareholder.

United Kingdom pension funds are no longer entitled to reclaim the tax credit on dividends paid by the Company.

Subject to a transitional phasing out, UK charities will not be eligible for payment from HM Revenue & Customs of the amount of the tax credit attaching to dividends paid by the Company.

A non-United Kingdom tax resident shareholder of the Company is not generally entitled to the benefit of payment of the tax credit from HM Revenue & Customs in respect of any dividend received. An entitlement to the payment of the tax credit may, however, be available in whole or in part if there is an appropriate provision granting the entitlement under any applicable double tax treaty between the United Kingdom and the county in which the holder is resident for tax purposes. However, the amount payable under any such double tax treaty (if anything) will generally be less than 1 per cent. of the dividend to which it relates.

A Shareholder who is not resident in the United Kingdom (for tax purposes) should consult his or her own tax adviser concerning his or her liabilities on dividends received, his or her entitlement to reclaim any part of the tax credit and, if he or she is so entitled, the procedure for doing so. A Shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under local law.

Capital gains

Any individual Shareholder who is resident or ordinarily resident in the UK in the relevant year of assessment, or who carries on a trade, profession or vocation in the UK to which the Ordinary Shares are attributable, may be subject to UK tax on capital gains in respect of a disposal of Ordinary Shares. In addition, a Shareholder who has previously been resident or ordinarily resident in the UK may in some cases be subject to UK tax on capital gains in respect of a disposal of Ordinary Shares.

The intended activities of the Company are such that the Directors are advised that the Shares will not rank as eligible shares for Enterprise Investment Scheme relief. Individual Shareholders who are neither resident nor ordinarily resident in the UK will not be subject to UK income or capital gains tax in respect of income or profits arising on their shareholding.

Stamp duty and stamp duty reserve tax

The Directors have been advised in relation to stamp duty and stamp duty reserve tax (**'SDRT'**) that no liability to stamp duty or SDRT arises on the allotment of the New Ordinary Shares by the Company.

The registration of and the issue of definitive share certificates to placees or the first registration of New Ordinary Shares in the name of a member of CREST will not give rise to any liability to stamp duty or SDRT.

The conveyance or transfer on the sale of Ordinary Shares will be subject to stamp duty on the instrument of transfer, at the rate of 0.5 per cent. on the amount or value of the consideration. Where an agreement to transfer such shares is not completed within two months after the date of such agreement by a duly stamped instrument of transfer, a charge to SDRT (generally at the same rate) may arise. Where Ordinary Shares are held in uncertificated form within CREST, a liability to SDRT will arise where a change in the legal and/or beneficial ownership of those shares occurs.

Certain categories of persons may be required to account for stamp duty and SDRT at rates higher than those referred to above.

14. Employees

As at the date of this document the Company has eight Directors and no other employees. The average number of employees employed in the Group for the financial year to 30 June 2004 was nil and for the financial year to 30 June 2005 was 70 none of which were employed on a temporary basis. Of the 70, one was employed in England, two in the BVI, seven in India and sixty in Zambia.

15. Fees and other benefits

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:

(a) fees totalling £10,000 or more;

(b) securities in the Company with a value of £10,000 or more (calculated by reference to the Placing Price); or

(c) any other benefit with a value of £10,000 or more.

Name of person	*Relationship with the company*	*Date paid or to be paid*	*Fees/benefit received (US$)*
Sidney Kasungu	Mining Consultant	23.07.2004	10,000
Sidney Kasungu	Mining Consultant	15.09.2004	40,041
Ranchhod Sales Ltd	Consultant	08.12.2004	40,000
Ranchhod Sales Ltd	Consultant	04.03.2004	29,375
S.K. Ranchhod	Consultant	14.03.2005	13,000
Blue Quartz Enterprises Inc	Consultant	01.11.2004	50,000
Minervois Holdings Inc	Consultant	01.11.2004	125,000
Chapman Limited	Consultant	Following Admission	30,625

16. General

16.1 Save as set out in Part 1 of this document there has been no significant change in the financial or trading position of the Group since 30 June 2005, the date to which the most recent audited, published accounts were made up. Save as disclosed in this document, no material factors have influenced the Group's activities.

16.2 Save as disclosed in this document, the Group has not made any 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.

16.3 Save for the Group's various mining licences and other exploration licences referred to in this document, the Group is not dependent on any patents or other intellectual property rights, licences or particular contracts or new manufacturing processes which are considered of fundamental importance to its business.

16.4 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.

16.5 Neither the Company nor any other 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 nor, so far as the Company is aware, are any such proceedings pending or threatened against the Company or any other member of the Group.

16.6 Other than pursuant to the Placing Agreement, no commissions are payable by the Company to any person in consideration of his agreeing to subscribe or his procuring or agreeing to procure subscribers for the Ordinary Shares.

16.7 Other than the application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application been made, nor, except as stated above, are there intended to be any other arrangements for dealing in the Ordinary Shares.

16.8 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.

16.9 The Sale Shares are being offered for sale at the Placing Price by CA Fiduciary Services Limited as trustee of The Tavistock Trust in which Rajiv Gupta, the Executive Vice Chairman of the Company, is interested. The business address of CA Fiduciary Services Limited is PO Box 198, St Peter Port, Guernsey GY1 4HU. Rajiv Gupta was the founder of the Group and former Chief Executive Officer of Gemfields Canada Inc. and the Company. Details of the contracts entered into between the Group, its predecessors and affiliates and Rajiv Gupta are set out in paragraph 10 of Part 5 of this document.

16.10 The Company is placing 26,666,667 New Ordinary Shares pursuant to the Placing and CA Fiduciary Services Limited as trustee of The Tavistock Trust (in which Rajiv Gupta is interested) is placing 1,111,111 existing Ordinary Share pursuant to the Placing. The Placing Price of 45p per Ordinary Share represents a premium of 44p over the nominal value of 1p per

Ordinary Share and is payable in full on acceptance. The value of the New Ordinary Shares at the Placing Price is £12,000,000.15.

The period within which placing participations may be accepted pursuant to the Placing and arrangements for the payment and holding of monies payable thereunder pending Admission are set out in the Placing Agreement and in the placing letters to be sent to prospective placees (the **'Placing Letters'**).

The Placing Shares are not being offered generally and no applications have or will be accepted other than under the terms of the Placing Agreement and in the Placing Letters. The Placing Shares have been conditionally placed. The Placing is not being guaranteed or under-written by any person.

The Directors have applied for the Ordinary Shares (including the New Ordinary Shares) to be admitted to CREST with effect from Admission. Accordingly, it is expected that the Ordinary Shares will be enabled for settlement in CREST following Admission.

It is expected that definitive share certificates will be despatched by hand or first class post by 12 December 2005. In respect of uncertificated shares, it is expected that Shareholders' CREST stock accounts will be credited on 28 November 2005.

Other than the proposed application for Admission, the Ordinary Shares have not been admitted to dealings on any Recognised Investment Exchange nor has any application for such admission been made. The Directors do not currently intend to make any other arrangements for dealings in the Ordinary Shares on any such exchange.

The total costs, charges and expenses relating to or incidental to the Placing and the Admission, including registration and London Stock Exchange fees, printing, advertising and distribution costs, legal and accounting fees and expenses for procuring placees which are payable by the Company, are estimated to amount to approximately £1.6 million (excluding VAT), including £762,500 of commissions. In addition, CA Fiduciary Services Limited will incur commission of £32,500 in relation to the Placing. The gross proceeds of the Placing of the New Ordinary Shares are expected to be approximately £12 million and the net cash proceeds to the Company of the Placing of the New Ordinary Shares are expected to be approximately £10.4 million.

16.11 A.C.A. Howe of 254 High Street, Berkhamsted, Hertfordshire HP4 1AQ has given and has not withdrawn its written consent to the inclusion in this document of its report as set out in Part 2 and of references thereto and to its name in the form and context in which they appear and have authorised its report for the purposes of the AIM Rules.

16.12 BDO Stoy Hayward LLP of 8 Baker Street, London W1U 3LL has given and has not withdrawn its written consent to the inclusion in this document of its report as set out in Part 4 in the form and context in which it appears and has authorised its report for the purposes of the AIM Rules.

16.13 Canaccord has given and has not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they appear.

16.14 Copies of this document will be available free of charge at the offices of Richards Butler at Beaufort House, 15 St Botolph Street, London EC3A 7EE and at the offices of Canaccord Capital (Europe) Limited at 1st Floor, Brook House, 27 Upper Brook Street, London W1K 7QF during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of one month from Admission.

16.15 Copies of the following documents may be inspected at the Company's registered office at Beaufort House, 15 St Botolph Street, London EC3A 7EE during usual business hours on any weekday (Saturdays and public holidays excepted) for a period from the date of this document until the date falling 14 days from the date of Admission:

(a) the Memorandum and Articles of Association of the Company referred to in paragraph 5 above;

(b) the expert's report set out in Part 2 of this document;

(c) the accountant's report set out in Part 4 of this document; and

(d) the consolidated annual accounts for the Group for the financial period ended 30 June 2004 and the financial year ended 30 June 2005.

Dated 23 November 2005