



BOTSWANA
DIAMONDS PLC



Photo is courtesy of Ian Tomlinson

**ANNUAL
REPORT
2011**



BOTSWANA

DIAMONDS PLC

2011

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2011

CHAIRMAN'S STATEMENT

Botswana Diamonds plc ("Botswana Diamonds" or the "Company") is a diamond explorer active in Botswana, Cameroon and Zimbabwe. The Company was admitted to AIM in February 2011 having been spun out of African Diamonds plc, on its sale to Lucara Diamonds Corp. The new company contains the former exploration interests of African Diamonds and the spin out was on the basis of one share-for-one share. The Company is managed by many of the team responsible for the AK6 diamond discovery in Botswana, now known as Karowe, which is coming on stream as a high value one million carat a year mine in Q1 2012. On admission to AIM we strengthened our board by the addition of Andre Fourie, a former senior De Beers executive, as Technical Director, and subsequently we added further expertise with the addition of Robert Bouquet as Commercial Director. Robert is a widely experienced diamond market specialist.

The fundamentals of the diamond business are improving. Demand is expected to grow at over 6% a year while supply growth will be less than half of that. Demand growth is focused on Asia and within a few years China, India and Korea will dominate world demand. The supply side is more restricted because diamonds are hard to find. There are only seventeen kimberlite diamond mines in the world and there is a lack of new discoveries. There is an expectation of a growing supply gap from 2015 onwards. This augurs well for prices which rebounded in 2010 and 2011 to peaks above those seen in 2008.

The Botswana Diamonds' approach to exploration is simple, but rigorous – go where the geology is best, go where there are or were mines and remember that you cannot find a mine in an office. These rules dictate low overheads and an acceptance of political risk in return for better geological opportunities. Our focus is Botswana, the best diamond address in the world and home to some of the world's greatest mines such as Jwaneng and Orapa. Botswana, which is the largest diamond producer by value in the world, is a landlocked country with a small population of 1.7 million, excellent infrastructure, a stable government, a strong economy and clear mining / foreign investment rules. It is known as the Switzerland of Africa. The centre of the diamond industry is the Orapa region where there are four, soon to be five hardrock mines. Botswana Diamonds is focused on this area where we have existing licences and we are applying for additional ground.

In 2011 we conducted extensive bulk sampling on two diamondiferous kimberlites, AK8 and BK5. The objective was to upgrade previous work, to define grade and value per carat. This would feed into a scoping study estimating the commerciality of an open cast mining operation to supply one of the existing ore processing facilities. Neither kimberlite produced the necessary results. AK9, the third kimberlite with existing prospecting results, is proving enigmatic. It has a thick basalt cover which could have diluted earlier drilling results. We continue to evaluate options. We have a licence in the northern part of Orapa on which we have discovered known diamond indicator minerals, but we have not yet identified the source. This area will be explored in 2012.

We believe there are more diamond mines to be found in Botswana and we are in advanced negotiations to partner with a group who have new technologies and approaches. The objective of the joint work is to identify large diamondiferous kimberlite pipes with the potential to become high-volume, high-value long life mines. The initial focus of this new venture will be in North East Botswana including the Orapa area.

The second area of active exploration is in Cameroon. Cameroon, located in west central Africa, is a socially and politically stable country, blessed with extensive natural resources. Having been split between the British and French states, Cameroon became a united republic in 1984. Cameroon has extensive oil and timber industries and is developing gold and iron ore industries.

Cameroon is not yet known for diamonds. Few people, if any, in the diamond industry, believed that Cameroon has geological potential for diamonds, yet a Korean company CNK Mining ("CNK"), with no

CHAIRMAN'S STATEMENT *(continued)*

history of diamond mining, is developing a mine in the Mobilong area on the border with the Central African Republic. The answer to the apparent conundrum is what are known as palaeoplacers. Palaeoplacer deposits are ancient alluvial type deposits which have cemented together over time into consolidated rock. Until recently, gold and uranium have been the only minerals commercially mined from palaeoplacers. The massive diamond discoveries in the Marange area of Zimbabwe are set in palaeoplacers. Diamond industry professionals have found it difficult to understand, never mind accept, that commercial quality gemstones can be recovered, in economic quantities, from these deposits, but they are being mined.

In Cameroon, diamonds were discovered whilst CNK worked on a palaeoplacer gold opportunity at Mobilong. On the basis of this initial discovery it obtained a mining licence and is now developing a mine which is due to come onstream in 2012. Botswana Diamonds, because of our work in Zimbabwe, understands palaeoplacer diamonds and so applied for the licence adjacent to Mobilong. A concession of over 8,000 sq kms was obtained. During 2011 we prospected the concession, identified palaeoplacer rock and obtained a Stage 2 exploration permit over 400 sq km. We believe that diamonds have been discovered and recovered by local artisans on our concession. The next phase of exploration in early 2012, is to sample the ground to confirm if it contains diamonds and, if so, the type and quality of diamonds. Equipment and people have already been sourced.

Zimbabwe, our third theatre of action, is a country of immense potential in both agriculture and natural resources. There is a well developed infrastructure and an educated workforce. Recent years has seen political uncertainty and international sanctions which have held back development. Zimbabwe has long been known for diamonds. Two hardrock kimberlite mines exist, the Murowa mine and the smaller River Ranch mine. De Beers and Rio Tinto controlled most of the diamond exploration concessions for many years. They explored for kimberlite pipes – a search continued today by Botswana Diamonds and others, but the real excitement lies in palaeoplacers.

The huge Marange deposits in the south east of the country were prospected by De Beers who discovered diamonds but thought them to be of poor industrial quality – though some of them were as large as golf balls. No development took place until recent years when Chinese, Lebanese and a South African company set up joint ventures with the state mining company, Zimbabwe Mining Development Corporation (ZMDC). Current activities are focused on mining the alluvials which have eroded from the hard conglomerate; grades of between 2,000 and 8,000 carats per hundred tonnes of ore (cpht) are being reported. Compare these grades to the mines in Lesotho which yield 1 to 2 cpht and those in the richest diamond mine on earth, Jwaneng in Botswana, grading about 100 cpht. The difference is in quality: the Marange diamonds are reputed to be worth \$20-\$40 a carat compared to \$2,000+ a carat for Lesotho and \$400 a carat for Jwaneng.

While precise figures are difficult to obtain it is thought that current output from the existing mines at Marange would place Zimbabwe in the top 3 world diamond producers by volume. Botswana Diamond directors and personnel have extensive experience in Zimbabwe. We have been seeking a way into Zimbabwe diamonds for some years and we have a joint venture between ourselves, a strong local agribusiness and ZMDC. We have put a proposal to government on a specific licence area and the application is before the President. There is no indication when, or if, the proposal will be approved.

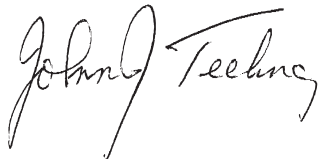
Approximately 30 kms to the Southwest of Marange, in the Chimanimani area, some diamonds have been discovered, once again in palaeoplacers. Botswana Diamonds has an agreement with the group hoping to obtain a licence that we will act as operator to trial mine and, if viable, build and operate the mine.

CHAIRMAN'S STATEMENT *(continued)*

In a more traditional approach to diamond exploration, Botswana Diamonds holds 80% of Metro Mining Ltd, a local Zimbabwe company holding seven claims in the southeast, although local ownership is likely to rise to 51%. There is a known 2.5ha kimberlite on the claims and it is proposed to conduct a bulk sample on this in early 2012.

FUTURE

The business fundamentals for diamond exploration are strong and the company's strategy is clear. Diamond demand is vigorous while supply is at best stable. We are operating in the best areas to find diamonds. We have strengthened an already successful team and we are confident that there are more mines to be found in Botswana where we hope to repeat our earlier success using new technology and new insights. There is significant potential in the new palaeoplacer diamond fields. We are at the forefront of this emerging sector. We have prospective ground in Cameroon and an active programme in Zimbabwe. The coming months will see activity in all three countries. The board is confident of a bright future for Botswana Diamonds.



John Teeling
Chairman

16 December 2011

REVIEW of OPERATIONS

Botswana Diamonds has exploration projects in one of the best diamond addresses of the world, Botswana. In addition to these it also holds exploration licenses in Cameroon and Zimbabwe where exciting new diamond discoveries have been made in recent years. Our licenses in Cameroon are close to where C&K of Korea are constructing a diamond mine. We are well positioned in Zimbabwe to capitalise on the diamond boom currently happening there.

Our strategy is to secure high potential ground and projects in the most prospective diamond provinces of Africa by using our extensive African experience and diamond knowledge. We are looking in areas of both traditional diamond geology as well as in the emerging palaeoplacer prospects. Botswana, however, is still our home and also where our team have previously delivered a mine and where we hold licenses with excellent prospectivity.

The Company's focus for 2011 was on completing the evaluation of two diamondiferous kimberlites on the Botswana licences, where a conceptual study has identified possible production opportunities, and on the Cameroon licence area,

beside which a significant diamond discovery was made by Korean group C&K. We have also been working on an entry plan into Zimbabwe diamonds for some time. We concluded a joint venture with a strong local group of businessmen and the Zimbabwe Mineral Development Corporation. The joint venture group has applied for ground in the heart of the diamond area and are awaiting a final decision.

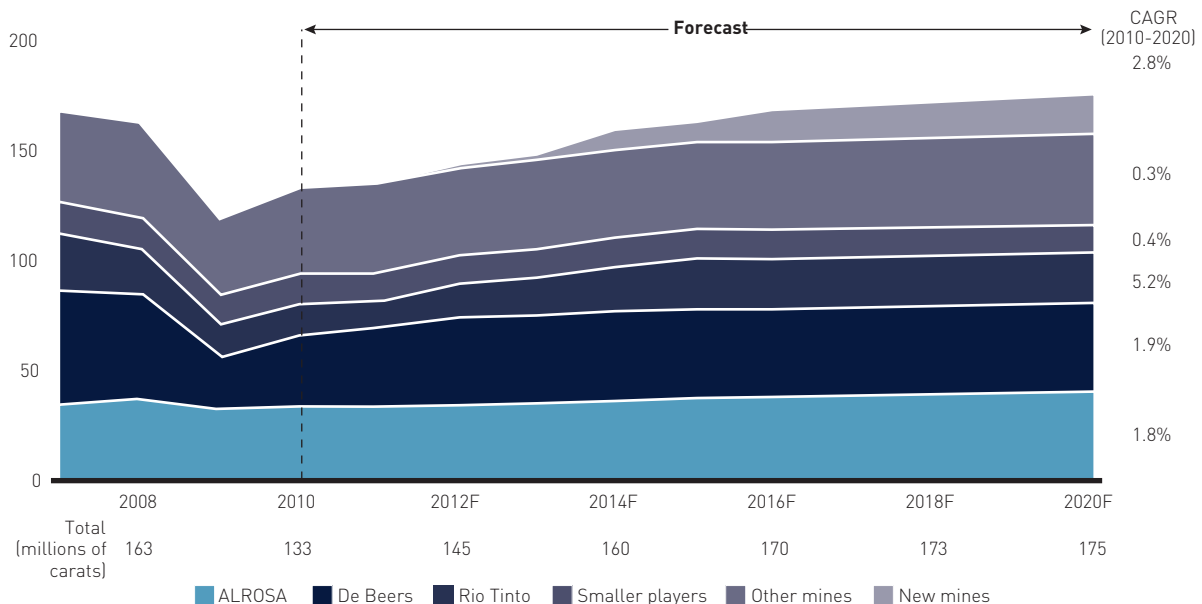
DIAMOND MARKET

2011 has seen an overall positive diamond market – albeit with greater volatility than normal.

The longer-term fundamentals remain the same – the price-trend is upwards driven by limited supply going forward, few new diamond mines coming on-stream and continued surging demand in emerging markets, particularly China and India. A recently published report by Bain & Co. estimates that diamond demand, driven by these factors, will increase by 6.6% per annum until 2020, doubling the size of the industry.

Global rough production for 2011 is estimated to be around 140mcts and \$14bn, and this figure is expected to remain relatively stable over the coming years, growing up to 175m by 2020.

Figure 1: World Diamond Production, millions of carats



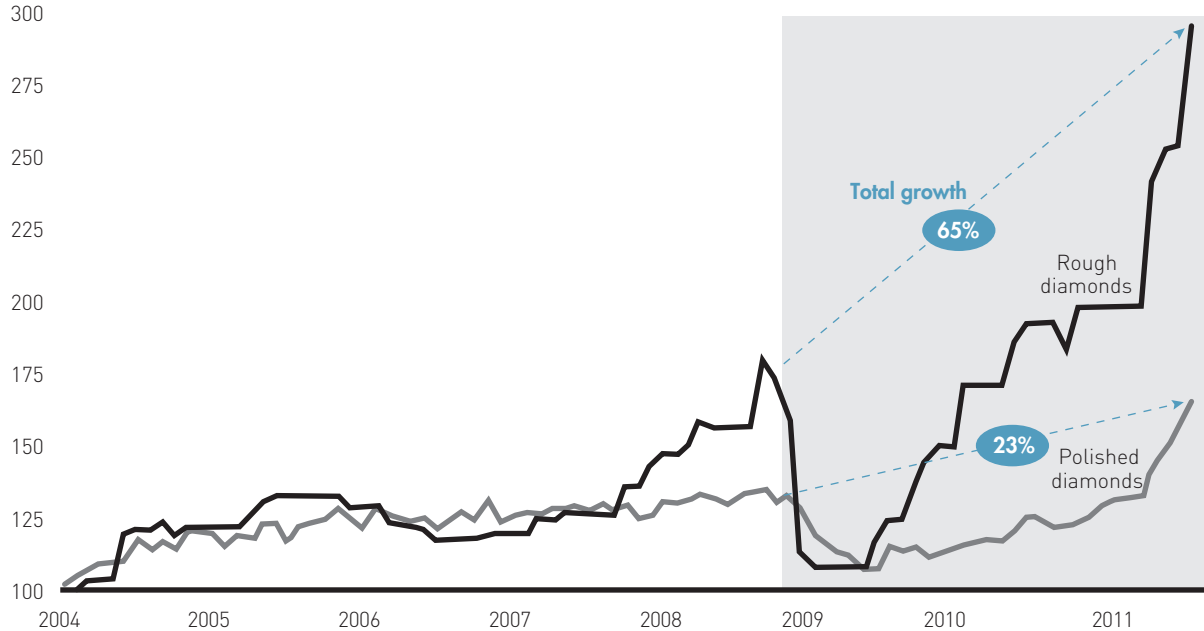
Note: Smaller players include Catoca mine, BHP Billiton, Petra Diamonds and Harry Winston; other mines include all the remaining production in Angola, Australia, Canada, Democratic Republic of the Congo, Russia, South Africa, Zimbabwe and other minor producing countries
Source: Company plans; Kimberley Process; Bain analysis

Source: Bain report, The Global Diamond Industry, December 2011

REVIEW of OPERATIONS *(continued)*

Figure 2: Rough-diamond prices showed a strong recovery after the economic crisis

Price index, 2004=100



Note: Growth indicated is overall growth, not compounded annual growth rate

Source: PolishedPrices.com; Diamond Prices Overall Index; PolishedPrices.com; Composite Rough Diamond Index

Source: Bain report, *The Global Diamond Industry, December 2011*

After 2 consecutive years of 30% annual price growth in 2009 and 2010, the rough market continued with even sharper price rises in the first half of 2011, outstripping prices from before the financial crisis of October 2008.

Prices kept rising until August, with all producers benefitting from rises of up to 50% between January and August. Secondary players trading in the market benefitted from these continuous price rises and a bubble clearly began to form.

However by August 2011, the diamond price increases began to slow and in September we saw the first reality check on rough diamond prices as prices dropped suddenly by 30%.

Liquidity suddenly became an issue and, as the banks reigned in their lending, rough trading in the key centres, Antwerp, Tel Aviv and Mumbai ground to a halt. The 2 largest suppliers into the market, De Beers and Alrosa, resisting dropping their prices were subsequently obliged to hold back sales volumes to allow the market to create some much-needed liquidity; smaller producers selling through tender/auction-based sales selected to

either accept significantly lower prices or postpone sales.

The November Diwali holiday season in India saw factories close for their annual break, allowing the market to take a pause for breath and recalibrate.

Since November trading has resumed at a good level, prices have recovered somewhat and sales volumes have started to increase once more. The short-term market however remains fragile due to continued macro-economic concerns. The expectation is that prices will remain more or less steady at current levels for the coming 3-6 months. Rough prices are estimated to stand at around 20% off the August peak.

The longer-term outlook remains very positive, although further volatility is predicted.

POLISHED PRICES

As with rough prices, the overall trend for polished prices has been positive during 2011 with an early spurt on the back of rough prices. Polished prices did not increase as dramatically as rough prices, and consequently did not reduce as much either

REVIEW of OPERATIONS *(continued)*

when the market turned in September. The second half of the year presented a more varied performance where prices rose and fell slightly on a regular basis. Despite this increased volatility over the second half of the year, polished prices currently stand at around + 23% year-on-year and +20% in 2011 itself.

The global economic situation has caused polished demand to be more cautious, that said expectations are that the year will end well with solid sales levels.

Trade fairs account for around 30% of the annual polished trade sales and are important bellweathers on the market.

The Basel Fair in April and JCK Fair in June were both positive this year with increases in polished prices (driven by rough) prices accepted and good business levels achieved. The increasingly important Hong Kong Trade Fair in September, a key barometer of polished and retail market sentiment in the crucial Asian market, was rather more subdued this year due to global economic woes and the sudden diamond market drop. However despite resistance to high polished

prices, driven by earlier higher rough input costs, business was done and good sales were achieved.

The US remains the world's biggest consumer market for diamond jewellery at around 40% of global sales by value. As we enter the critical holiday period when traditionally almost half of US diamond jewellery sales are made, expectations are that sales will be up 10% on 2010 sales.

Japan as a key retail market (10% of global diamond jewellery sales by value) performed resiliently despite its environmental catastrophe in March.

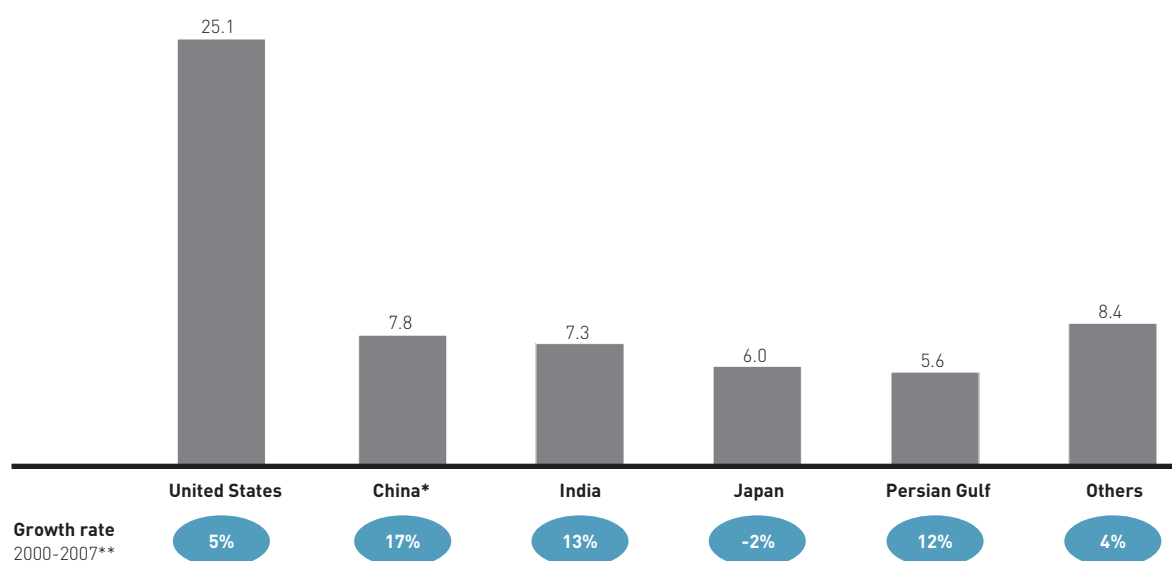
In the emerging markets, principally China (11%) and India (10%), we are expecting to see 15-20% year-on-year growth once more. This success story is the real driver for growth in global demand for diamonds and is expected to continue into the future.

BOTSWANA

Botswana remains the best address in diamonds - in the world.

The country has been a multiracial and democratic society since its inception. The Economist

Figure 3: Demand for diamond jewellery in major markets, 2010, \$ billions



*China includes Hong Kong; **Polished-diamond market growth rates are shown for China, India and Persian Gulf; "Others" include Europe and the remaining geographies. Others' growth rates were estimated by Bain. Growth rates in 2002-2007 show long-term trends and exclude the impact of the economic crisis
Source: IDEX diamond pipeline 2010; Bain analysis

Source: Bain report, *The Global Diamond Industry*, December 2011

REVIEW of OPERATIONS *(continued)*

Intelligence Unit has ranked the country as number 40 out of 167 in its Democracy Index Unit. The BDP (Botswana National Democrat) party won the 2009 election with 53% of the vote and a mandate to lead for a further 5 years.

Botswana, although landlocked, is blessed with natural resources. The economy has been built on the mining sector, specifically the diamond sector, which accounts for over 40% of GDP. The diamond industry has transformed Botswana into a middle-income nation and one of the most dynamic economies in Africa. Diamond mining has fuelled much of its economic expansion and currently accounts for 70-80% of export earnings. The country has benefited from a stable political platform which has resulted in significant foreign direct investment in the sector from the major players. Botswana diamond production, for 2010, was 22.2 million carats with an expected growth rate of greater than 10%, for 2011.

Both the investment climate and the fiscal regime for exploration and production are favourable. Corporate tax is 25%, and 15% if registered with

the local IFSC (International Financial Service Centre). Second tier taxes are the equivalent of 10% while royalty on diamond production is 10% on a 'mine gate' price. The government also reserves the right to purchase up to 15% in any new diamond mining venture but this is based on an arm's length commercial valuation.

ORAPA AREA

Botswana is still the world's largest diamond producing country by value. The Orapa kimberlite province has five producing diamond mines: Orapa, itself the world's biggest, Damtshaa, Lethlakane, BK11 and the new AK6 mine to be called Karowe. Botswana Diamonds holds three Prospecting Licenses in the Orapa area of Botswana, covering a total of 44.2 km². Three diamondiferous kimberlites occur on these licences, i.e. AK8, AK9 and BK5. These kimberlites were investigated by African Diamonds, to the stage where better definition of kimberlite size and continuity, grade and diamond value was achievable within a relatively short timeframe. The surface extents and depth of overburden are well defined and the three kimberlites are known to be diamondiferous.



Figure 4: Botswana Diamonds' Projects in the Orapa Area

REVIEW of OPERATIONS *(continued)*

The diamond grade testing done to date was insufficient for further decision making. A bulk sampling programme to obtain a better estimate of the overall grade and also to recover sufficient diamonds to obtain a representative value per carat was agreed.

Commercial scoping studies were completed on each of these kimberlites and the required parameters of grade and diamond quality for economic extraction are known. Bulk samples were subsequently taken of the AK8 and BK5 kimberlites, as the final step in the evaluation process, to test the value of a ton of ore in the ground. This information was needed to show whether the kimberlites could support a mining operation, be it a standalone mine or a satellite supplier operation. Further fieldwork on the AK9 kimberlite was however postponed until the relationship between the overlying, diluting basalt and the kimberlite at depth is better understood. To ensure a continued exploration presence in the Orapa area, a comprehensive prospecting review was completed during 2011 which led to the identification of areas for future prospecting. Applications were submitted for those areas that were available and are expected to be granted early in 2012.

AK8

The AK8 kimberlite pipe is located 10 km south-southeast of the Orapa mine and 10 km north-northwest of the Karowe mine. The AK8 pipe is an approximately 6.2 ha, bi-lobate kimberlite with complex internal geology, particularly in terms of basalt and other country rock dilution. The larger North lobe has an overlying basalt breccia cap of between 70 to 100m thick whilst the smaller South lobe rises to within a few metres of the surface. The kimberlite in the different lobes are geologically similar but previous work has suggested that the South lobe has a higher grade and is also more accessible due to its close proximity to surface.

Our bulk sampling exercise was focused on the shallow Southern lobe. Four trenches were excavated at right angles to each other, across almost the entire lobe, from which a total of 883



Figure 5 & 6: AK8 kimberlite and Trench excavation at AK8

tons of kimberlite was excavated. The excavated kimberlite was transported to the nearby town of Letlhakane where it was processed through a bulk sample plant. The trenches were mapped in detail by the exploration geologist who also did waste counts during the processing of the kimberlite. The results of this work shows that the kimberlite was quite clean, albeit somewhat calcretised, and that dilution by basalt and other country rocks were at a minimum. This means that the recovered grade is most likely an accurate representation of the South lobe kimberlite. A total of 27.05 carats were recovered from this material, which translates into an un-modelled grade of 3.05 carats per hundred tonne of kimberlite (cpht). The recovered diamond size is larger than previously found, which implies a diamond value greater than the current estimate of \$100 per carat, but it is unlikely that the diamond values will be high enough to make the kimberlite economically viable.

REVIEW of OPERATIONS *(continued)*

BK5

This elongated, 5.8 ha, kimberlite is located some 18km east-northeast of the Orapa Mine and some 6km north of Debswana's Damtshaa mine. During 2002 Kukama Mining and Exploration (Kukama) excavated slightly more than 7,000 tons of kimberlite from a 4 metre deep trench situated roughly in the centre portion of the kimberlite. A small amount of this material was treated by Kukama at the time, using a small rotary pan plant, but the bulk of the material remained stockpiled next to the pit. It is not known what grades were recovered from this work. Kukama is now part of Botswana Diamonds.

The Kukama stockpile provided a good opportunity to treat an additional bulk sample from a different portion of the kimberlite without incurring the expense of excavating the material. A total of 1,000 tons of kimberlite was selected from the stockpile and transported to the plant at Letlhakane. After treating 547 tons of this material, from which no diamonds were recovered, further processing of the stockpile material was put on hold.

The BK5 kimberlite is widest and shallowest in the south but rapidly narrows northwards, eventually becoming a narrow, fissure-like structure. The best place to collect the second bulk sample was therefore in the southern portion of the pipe. Two trenches were excavated at right angles to each other across the kimberlite from which 772 tons of kimberlite was extracted and transported to the plant in Letlhakane. As with AK8 the trenches were mapped in detail and waste counts were done during the processing of the sample. The result shows that the excavated kimberlite had very little basalt and other country rock dilution and once again somewhat calcretised. Processing of this sample yielded no diamonds. The discrepancies between the previous results reported by De Beers and our bulk sample results are being analysed but given that the kimberlite had very little dilution, it is believed that the lack of diamonds accurately reflects the low grade nature of this kimberlite. We are evaluating options available.



Figure 7: Trench excavation at BK5

REVIEW of OPERATIONS *(continued)*



Figure 8: Treatment plant used by Botswana Diamonds

AK9

The 3.0 ha AK9 kimberlite pipe is located some 20 km southeast of the Orapa Mine, some 25 km northwest of Debswana's Letlhakane mine and 6 km northwest of both Lucara's new Karowe mine and Firestone Diamond's small BK11 mine. The entire pipe is overlain by overburden (sand, silcrete, and/or calcrete) which can be up to 14m thick in places. The northern portion of the kimberlite is close to surface whilst the southern lobe has up to 80 metres of overlying basalt.

There are significant differences between the micro diamond and macro diamond grade estimates which were thought to result from dilution by basalt breccia. A reduction of the sterile basalt would proportionately improve the grade of the diamond-bearing kimberlite. The extent of dilution needs to be understood prior to further work.

Core from previous diamond drill holes were re-logged, so as to better understand the kimberlite. We found that the kimberlite at depth was fairly clean and undiluted by basalt and that the diamonds recovered from previous samples are most likely an accurate representation of the grade of the kimberlite.

Given the thickness of basalt overburden, the size of the kimberlite pipe and the historically measured grade, we decided not to conduct more work on this kimberlite for now.

Early Stage Exploration

Botswana Diamonds holds a Prospecting Licence directly south of De Beers' BK15 and BK17 kimberlites and to the north of the Orapa mine. The licence has kimberlite indicator anomalies that are not satisfactorily explained by the presence of these adjacent kimberlites. The key next step for this licence area is therefore to determine whether the anomalies area related to any known kimberlites in the area or whether they represent undiscovered kimberlites. As part of this process ground magnetic and/or gravity geophysical surveys are needed. Depending on the results this may be followed by focused indicator mineral sampling and percussion drilling to identify kimberlites.

The Botswana Diamonds team has also completed an in depth review of the Orapa cluster and surrounding areas and as a result have identified several areas of unexplained kimberlite indicator and geophysical anomalies. We have already applied and will continue to apply for ground to

REVIEW of OPERATIONS *(continued)*

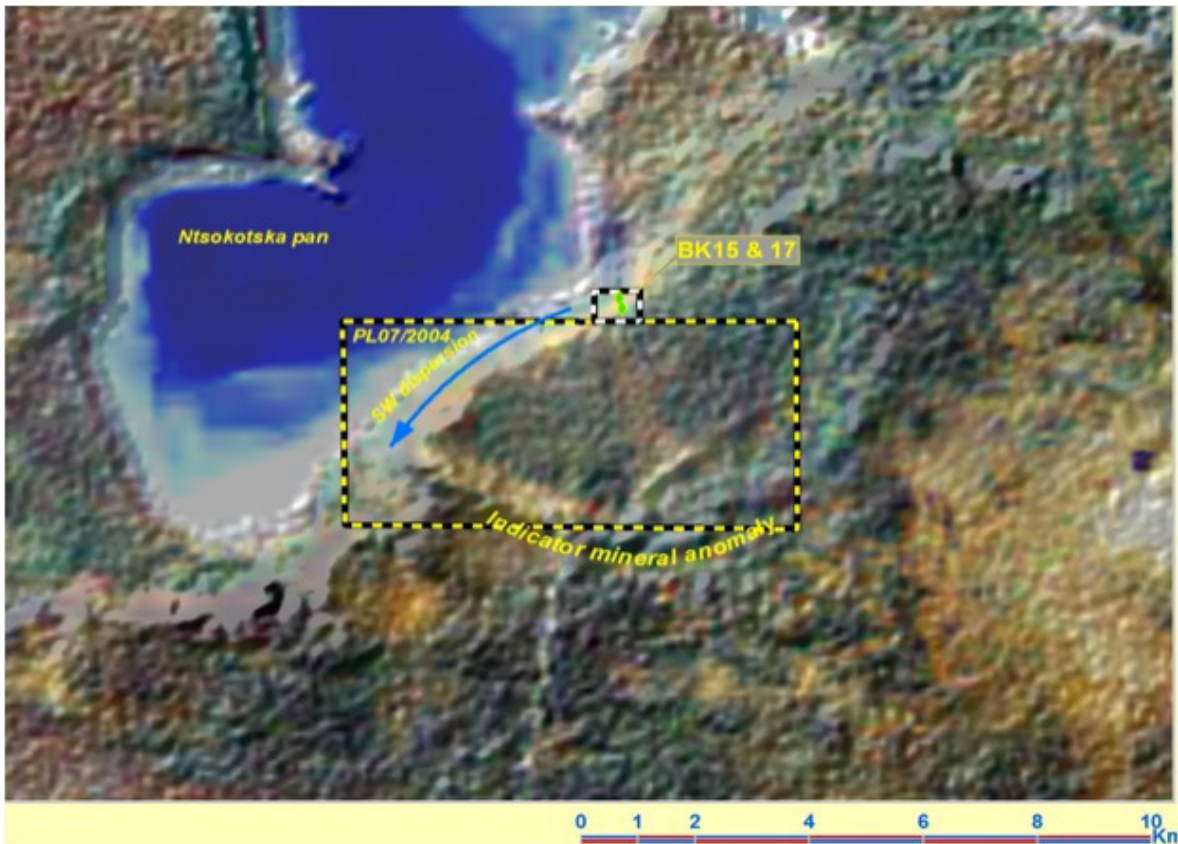


Figure 9: Early stage prospecting area with unexplained anomalies

cover these anomalous areas. Where ground is not available the current licence holders will be approached with the eye towards earn in or joint venture arrangements.

We are negotiating an agreement to utilise new technology in the Botswana search. The purpose of the agreement is to marry outside exploration knowledge with our Botswana-specific expertise in order to identify large diamondiferous kimberlites which have the potential to become significant diamond producers. The initial focus area will be in the North East of Botswana, including the Orapa area. This blends our African and diamond exploration expertise with recent advances in exploration.

CAMEROON

Cameroon has the 10th highest GDP in Sub Saharan Africa and a stable growth rate of 4% p.a. The high level of stability has resulted in large scale infrastructural investment in agriculture, roads and railways. It has substantial petroleum and timber industries.

Cameroon is culturally diverse with over 200 different linguistic groups. Despite the diversity, politically it has remained stable and in October 2011 had its fourth set of multi-party elections. The incumbent president won a clear majority to lead the country for a further seven years.

The country is blessed with a vast array of both mineral (petrol, gas, gold, bauxite) and agricultural resources. In more recent years the country has looked to exploit these resources to drive economic growth. In order to do so the government has started to push forward changes to improve the business environment which has resulted in the country climbing four places in the 'Doing Business' ranking.

Fiscal terms in Cameroon are conducive to foreign direct investment, corporate tax is 38.5% and VAT is 19.25%, exemptions are offered for the first two years of operation.

Botswana Diamonds has an 85% share in an 8,087 square kilometre diamond Reconnaissance

REVIEW of OPERATIONS *(continued)*

Licence in the eastern area of Cameroon of which 430 square kilometers were recently converted to an Exploration Licence. The other 15% is held by local Cameroonian partners. The licences lies immediately to the south and west of the licence area and diamond discovery of C&K Mining, a Korean owned company, at Mobilong. C&K Mining has recently reported a significant diamond discovery here and they are bringing a one million carat a year mine on stream in 2012.

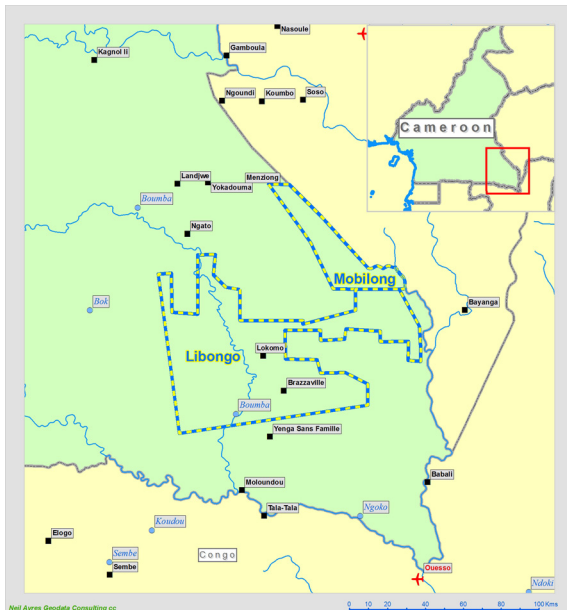


Figure 10: Cameroon

The Botswana Diamonds licence area lies in the remote Eastern Province of Cameroon, close to the border with the neighbouring Central African Republic (CAR). The terrain is heavily vegetated with rudimentary access and infrastructure. Access to the project area relies on using the logging roads made by the Italian logging company, CEFAC. The closest village, Libongo, lies on the Sangha River that forms the border with the CAR. Artisanal mining for gold in the alluvial gravels in and around existing streams and rivers has continued since the 1950's and has yielded numerous diamonds. During the early 1990's it was reported that artisanal miners were producing up to 4,000 carats of diamonds per month.

Our exploration team of experienced Cameroonian geologists and field officers established a 30

kilometre long, East-West oriented, baseline across most of the smaller, 430 square kilometre, Exploration License. North-South transects that extend 2.5 kilometres either side of the baseline were cut at 5 kilometre intervals along the baseline. The baseline and transects were mapped in detail and as a result a number of previously unidentified conglomerate occurrences were found. These conglomerates occur in the same geological formation as those of C&K Mining and are therefore of similar age and origin. C&K Mining has extensively prospected these conglomerates on their adjacent licence since 2007 and has established the presence of a large palaeoplacer diamond deposit. They are in the process of building a mine with a capacity to produce 1 million carats annually. Large consignments of material and machinery have already been transported to the site and construction is progressing. The mine is due to become operational in 2012. The Cameroonian government is currently applying for Kimberley Process certification in anticipation of exporting rough diamonds from this project.

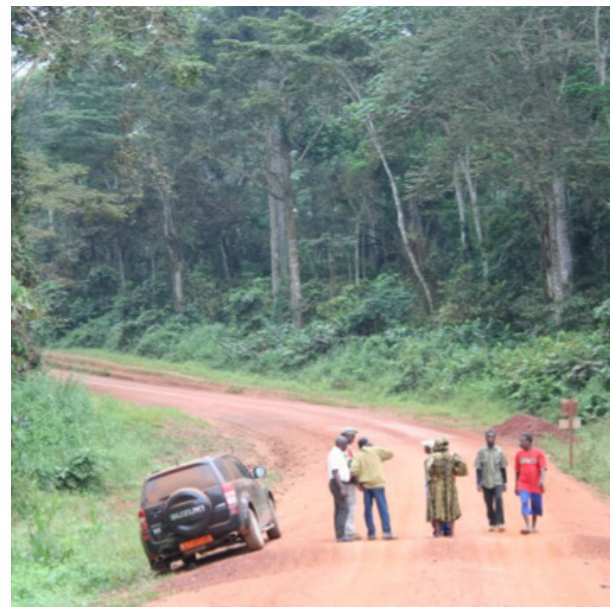


Figure 11: Main road to Eastern province in Cameroon

During 2012 Botswana Diamonds will collect and process samples of the conglomerates discovered on its licence. A small, alluvial diamond plant will be used to process a sample of at least 100 tons

REVIEW of OPERATIONS *(continued)*



Figure 12: Early stage prospecting area with unexplained anomalies

of conglomerate. The purpose of collecting and processing this material is to confirm the presence of diamonds and also to provide information to design future exploration programmes. Assuming that this sampling exercise is successful, a more extensive drilling and bulk sampling exercise will be implemented. This follow-up programme will better define the extent of these conglomerates and, more importantly, determine their economic potential.



Figure 13: Examples of palaeo-conglomerates discovered on Botswana Diamonds' license

ZIMBABWE

Zimbabwe has one of the most exciting diamond discoveries in the world today. A palaeoplacer deposit, with grades reported to be as high as eight thousand carats per hundred tonne (8,000 cpht) albeit of modest quality diamonds (\$20-40 per carat), was discovered in the Marange area of Zimbabwe. The discovery was originally made by De Beers who decided not to pursue the opportunity at that time. It was originally

thought to be localised, of poor quality and not commercially viable. However, mining of this deposit is currently under way and at least four operators are currently active in the concession area. The Marange diamond fields are administered by the Zimbabwe Mining Development Corporation (ZMDC) who also reserve the right to a 50% shareholding in any licenses that are allocated.

Politically Zimbabwe has stabilised since the general election of 2008 which saw a power share arrangement between the two main parties, Zanu PF and MDC. The previous rampant inflation has been largely stabilised by converting to the Rand or Dollar as an alternative primary currency. GDP growth in 2011 is expected to show 9.4% growth as a result of strong commodity prices in mining and natural resources. This increase is expected to continue in 2012 with a more broad growth across the sectors and increase in foreign direct investment. The mining sector has played a prominent role in the ongoing recovery of the Zimbabwean economy; accounting for approximately 40% of all exports.

Growth in the mining sector since the 2008 election has been significant, largely dominated by gold and platinum-group metals. However, the more recent large scale discoveries of diamonds in the Marange District have shown the potential for the sector. The development of the sector from artisanal to industrial has been problematic, although Zimbabwe has recently been cleared by the 'Kimberley Process' to commercially export diamonds produced at three of the current official concessions in the Marange area.

REVIEW of OPERATIONS *(continued)*

Fiscal terms for mining in Zimbabwe are extremely good in comparison to its peers. Diamond royalties are 15% while 100% capital depreciation is allowed for the year of expenditure. Surface taxes are levied at a variable rate, withholding tax on dividends and interest are 5%, while corporate tax stands at 15%; all of these are low by international standards. However, the sector is still hampered by the policy of an obligatory 51% ownership by an indigenous company and the danger of outright nationalisation.

Zimbabwe has one of the most exciting diamond discoveries in the world today. A palaeoplacer deposit, with grades reported to be as high as eight thousand carats per hundred tonne of ore (8,000 cpht) albeit of modest quality diamonds (\$20-40 per carat), was discovered in the Marange area of Zimbabwe. The discovery was originally made by De Beers who decided not to pursue the opportunity at that time. It was originally thought to be localised, of poor quality and not commercially viable. However, mining of this deposit is currently under way and at least four operators are currently active in the concession area. The Marange diamond fields are administered by the Zimbabwe Mining Development Corporation (ZMDC) who also reserve the right to a 50% shareholding in any licences that are allocated.



Figure 14: Highly diamondiferous conglomerate from Marange

Botswana Diamond directors and personnel have extensive experience in Zimbabwe and have spent 18 months in a joint venture with local Zimbabwean partners seeking a concession in the Marange area. An application for a specific licence area was submitted to ZMDC and the application

is reported to be in the final stages of approval. There is however no indication when, or if, the proposal will be approved.

In a more traditional approach, Botswana Diamonds also holds an 80% share of seven diamond claims in the southeast of Zimbabwe through a local subsidiary, Metro Mining Pvt Ltd, over an elongated 2 - 2.5ha kimberlite, discovered in the mid 1990's. The kimberlite was drilled and trenched by the previous owners to determine its size and shape. Limited sampling done during this earlier work suggests that a grade of up to 10 - 15 cpht may be achievable. Although the kimberlite appears to be reasonably well delineated, very little information is available about the quality of the diamonds and a small bulk sample of approximately 100 tons will be excavated and processed early in 2012 to test the grade and to obtain a parcel of diamonds for valuation. Some 30 kms to the Southwest of Marange, in the Chimanimani area, artisanal miners have discovered diamonds, once again in a palaeoplacer deposit. This deposit occurs in the same geological sequence as those of Marange and therefore has the potential to be as good in terms of diamond grades. Botswana Diamonds has an agreement with a local Zimbabwean group that have applied for the licences. In terms of the agreement Botswana Diamonds will be the operator to sample and trial mine the deposit and, if viable, also to build and operate the mine. The awarding of the licences is expected in early 2012 and Botswana Diamonds is well positioned to commence with the sampling and trial mining within a very short timeframe thereafter.



Figure 15: Artisanal mining in the Chimanimani area

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the group and company for the period from 22 September 2010 (date of incorporation) to 30 June 2011.

PRINCIPAL ACTIVITY, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Botswana Exploration plc was formed on 22 September 2010 and changed its name to Botswana Diamonds plc on 14 October 2010. On 20 December 2010 the company completed the acquisition of all assets and liabilities of African Diamonds plc, except for that company's interest in the AK6 mine in Botswana.

The main activity of Botswana Diamonds plc and its subsidiaries and associates (the group) is diamond exploration and developments in Botswana, Cameroon and Zimbabwe. The group also holds an investment in Stellar Diamonds plc which operates in Sierra Leone and Guinea.

Further information concerning the activities of the group during the period and its future prospects is contained in the Chairman's Statement and Review of Operations.

RESULTS AND DIVIDENDS

The consolidated loss for the period after taxation was £696,472.

The directors do not propose that a dividend be paid.

SUPPLIER PAYMENT POLICY

The group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction to ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

DIRECTORS

The current directors are listed on inside of back cover.

DIRECTORS AND THEIR INTERESTS IN SHARES OF THE COMPANY

The directors holding office at 30 June 2011 had the following interests in the ordinary shares of the company:

	Nationality	30 June 2011		22 September 2010*	
		Ordinary Shares of £0.01 each	Ordinary Shares of £0.01 each	Ordinary Shares of £0.01 each	Ordinary Shares of £0.01 each
		Shares Number	Options Number	Shares Number	Options Number
John Teeling	Irish	9,494,320	2,500,000	-	-
James Finn	Irish	3,295,820	2,000,000	1	-
David Horgan	Irish	3,295,720	2,000,000	1	-
Andre Fourie	South African	-	1,000,000	-	-
Robert Bouquet	English	-	250,000	-	-

* or date of appointment if later.

There were no share options exercised during the period.

SUBSTANTIAL SHAREHOLDINGS

The share register records that the following shareholders, excluding directors, held 3% or more of the issued share capital of the company as at 30 June 2011 and 30 November 2011:

	30 June 2011		30 November 2011	
	No. of shares	%	No. of shares	%
Pershing Nominees Limited	7,106,618	7.07%	6,603,618	6.57%
Chase Nominees Limited	5,072,071	5.05%	-	-
WB Nominees Limited	4,849,382	4.82%	6,625,812	6.59%
TD Waterhouse Nominees (Europe) Limited	4,470,340	4.45%	4,701,074	4.68%
Chase Nominees Limited (CMBL)	3,945,104	3.92%	-	-
Rene Nominees (IOM) Limited	3,370,000	3.35%	6,368,550	6.33%
Barclayshare Nominees Limited	3,028,551	3.01%	2,959,818	2.94%
HSBC Global Custody Nominee	2,996,750	2.98%	5,996,750	5.97%

DIRECTORS' REPORT *(continued)*

RISKS AND UNCERTAINTIES

The realisation of exploration and evaluation assets is dependent on the discovery and successful development of economic reserves including the ability to raise finance to develop future projects. Should this prove unsuccessful the value included in the balance sheet would be written off to the statement of comprehensive income. Significant potential risks to the value included in the balance sheet include:

- price fluctuations;
- foreign exchange risks;
- uncertainties over development and operational costs;
- political and legal risks, including arrangements with governments for licenses, profit sharing and taxation;
- foreign investment risks including increases in taxes, royalties and renegotiation of contracts;
- liquidity risks;
- funding risks;
- going concern; and
- operational and environmental risks.

HEALTH AND SAFETY

The company seeks to provide and maintain safe and healthy working conditions, equipment and systems for all employees as far as it is reasonably practicable and to provide such information, training and supervision as may be needed for this purpose. The company also seeks wherever possible to minimise its impact on the environment for the benefit of its staff and the public at large.

GOING CONCERN

Please refer to Note 3 for details in relation to going concern.

CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance and to managing the company in an honest and ethical manner.

The Board approves the group's strategy, investment plans and regularly reviews operational and financial performance, risk management and health, safety, environment and community (HSEC) Matters.

The Chairman is responsible for the leadership of the Board, whilst the Executive Directors are responsible for formulating strategy and delivery, once agreed by the Board. Regional leaders and country managers are responsible for the implementation of the group's strategy.

CHARITABLE AND POLITICAL CONTRIBUTIONS

The group made no political or charitable donations during the period.

KEY PERFORMANCE INDICATORS

The group's main key performance indicators include measuring:

- ability to raise finance on the alternative investment market; and
- quantity and quality of potential diamond reserves identified by the group.

In addition, the group reviews expenditure incurred on exploration projects and ongoing operating costs.

The Board also considers non-financial factors such as the group's compliance with Corporate Governance Standards and compliance with environmental, rehabilitation and other legislation within the group's areas of operations.

CAPITAL STRUCTURE

Details of the authorised and issued share capital, together with details of movements in the company's issued share capital during the period are shown in Note 20. The company has one class of ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. With regard to the appointment and replacement of directors, the company is governed by the Articles of Association, the Companies Act, and related legislation.

DIRECTORS' REPORT *(continued)*

EMPLOYEE CONSULTATION

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings.

FINANCIAL RISK MANAGEMENT

Details of the group's financial risk management policies are set out in Note 25.

DIRECTORS' INDEMNITIES

The company does not currently maintain directors' or officers liability insurance.

AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- 1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- 2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act, 2006.

A resolution to reappoint Deloitte & Touche will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:

James Finn
Secretary

16 December 2011

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act, 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

2011

INDEPENDENT AUDITOR'S REPORT *To the Members of Botswana Diamonds PLC*

We have audited the financial statements of Botswana Diamonds plc for the period from 22 September 2010 (date of incorporation) to 30 June 2011 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act, 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act, 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2011 and of the group's loss for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act, 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act, 2006.

Emphasis of Matter – Going Concern and Realisation of Assets

Without qualifying our opinion, we draw your attention to:

- Note 3 to the financial statements which indicates that the group incurred a loss for the period of £696,472 and had net current liabilities of £112,095 at the balance sheet date. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue a going concern. If necessary the group will raise additional finance to enable it to meet its working capital needs for a period of not less than twelve months from the date of approval of the financial statements and to enable the company to meet its liabilities as they fall due. On the basis that additional finance can be obtained the directors have prepared the financial statements of the group on the basis that the group is a going concern. The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.
- Notes 13, 14, 15 and 17 to the financial statements concerning the valuation of intangible assets, investments in subsidiaries, investments in associates and amounts due by group undertakings. The realisation of the intangible assets of £5,282,778 and investments in associates of £200,000 included in the consolidated balance sheet and intangible assets of £3,142,615, investments in associates of £200,000, investments in subsidiaries of £501,392 and amounts due by group undertakings of £1,685,456 included in the company balance sheet is dependent on the discovery and successful development of economic diamond reserves including the ability of the group to raise sufficient finance to develop the projects. The

INDEPENDENT AUDITOR'S REPORT *(continued)* ***To the Members of Botswana Diamonds PLC***

financial statements do not include any adjustments relating to these uncertainties, and the ultimate outcome cannot, at present, be determined.

SEPARATE OPINION IN RELATION TO IFRS AS ISSUED BY THE IASB

As explained in note 1(ii) to the group financial statements, the group, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT, 2006

In our opinion:

- the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act, 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Kevin Sheehan (Senior Statutory Auditor)
For and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Auditors
Deloitte & Touche House
Earlsfort Terrace
Dublin 2

16 December 2011

2011

CONSOLIDATED STATEMENT of COMPREHENSIVE INCOME

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

	<i>Notes</i>	Period from 22/09/2010 to 30/06/2011 £
REVENUE		-
Cost of sales		-
GROSS PROFIT		-
Listing Costs		(342,476)
Administrative expenses	4	(350,454)
OPERATING LOSS		(692,930)
Finance income	5	1,480
Finance costs	6	(1,272)
Loss on investment held at fair value	16	(3,750)
LOSS FOR THE PERIOD BEFORE TAXATION		(696,472)
Income tax expense		-
LOSS AFTER TAXATION		(696,472)
Exchange difference on translation of foreign operations		(14,817)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(711,289)
Loss per share - basic	7	(1.32p)
Loss per share - diluted	7	(1.32p)

2011

CONSOLIDATED BALANCE SHEET as at 30 JUNE 2011

	<i>Notes</i>	30/06/2011 £
ASSETS:		
NON CURRENT ASSETS		
Intangible assets	13	5,282,778
Investment in associate	15	200,000
Financial assets	16	60,000
		<hr/> 5,542,778
CURRENT ASSETS		
Other Receivables	17	25,822
Cash and cash equivalents	18	290,577
		<hr/> 316,399
TOTAL ASSETS		<hr/> 5,859,177 <hr/>
LIABILITIES:		
CURRENT LIABILITIES		
Trade and other payables	19	(428,494)
TOTAL LIABILITIES		<hr/> (428,494) <hr/>
NET ASSETS		<hr/> 5,430,683 <hr/>
EQUITY		
Called-up share capital	20	1,005,323
Share premium	20	6,031,936
Share based payment reserves	21	88,000
Retained earnings – (deficit)		(711,289)
Other reserve		(983,287)
TOTAL EQUITY		<hr/> 5,430,683 <hr/>

The financial statements of Botswana Diamonds plc, registered number 07384657, were approved by the Board of Directors on 16 December 2011 and signed on its behalf by:

John Teeling
Director

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COMPANY BALANCE SHEET as at 30 JUNE 2011

	<i>Notes</i>	30/06/2011 €
ASSETS:		
NON CURRENT ASSETS		
Intangible assets	13	3,142,615
Investment in subsidiaries	14	501,392
Investment in associates	15	200,000
Financial assets	16	60,000
Receivables (due after one year)	17	1,685,456
		<hr/> 5,589,463
CURRENT ASSETS		
Other Receivables	17	20,273
Cash and cash equivalents	18	239,602
		<hr/> 259,875
TOTAL ASSETS		<hr/> 5,849,338 <hr/>
LIABILITIES:		
CURRENT LIABILITIES		
Trade and other payables	19	(418,655)
NET ASSETS		<hr/> 5,430,683 <hr/>
EQUITY		
Called-up share capital	20	1,005,323
Share premium	20	6,031,936
Share based payment reserves	21	88,000
Retained earnings – (deficit)		(711,289)
Other reserve		(983,287)
TOTAL EQUITY		<hr/> 5,430,683 <hr/>

The financial statements of Botswana Diamonds plc, registered number 07384657, were approved by the Board of Directors on 16 December 2011 and signed on its behalf by:

John Teeling
Director

2011

CONSOLIDATED STATEMENT of CHANGES IN EQUITY

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

	Called-up Share Capital £	Share Premium £	Share Based Payment Reserve £	Retained Deficit £	Other Reserve £	Total £
At 22 September 2010	-	-	-	-	-	-
Preference shares issued	50,000	-	-	-	-	50,000
Preference shares redeemed	(50,000)	-	-	-	-	(50,000)
Ordinary shares issued	1,005,323	6,031,936	-	-	-	7,037,259
Share based payment	-	-	88,000	-	-	88,000
Arising on acquisition (Note 12)	-	-	-	-	(983,287)	(983,287)
Loss for the period and total comprehensive income	-	-	-	(711,289)	-	(711,289)
At 30 June 2011	1,005,323	6,031,936	88,000	(711,289)	(983,287)	5,430,683

Share Premium

The Share Premium comprises of a premium arising on the issue of shares.

Share Based Payment Reserve

The share based payment reserve arises on the grant of share options under the share option plan.

Retained Deficit

Retained deficit comprises of losses incurred in the period ending 30 June 2011.

Other Reserve

Other reserve comprises of the excess of the purchase consideration over the book value of net assets acquired from African Diamonds plc at the date of acquisition.

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COMPANY STATEMENT of CHANGES IN EQUITY*For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011*

	Called-up Share Capital £	Share Premium £	Share Based Payment Reserve £	Retained Deficit £	Other Reserve £	Total £
At 22 September 2010	-	-	-	-	-	-
Preference shares issued	50,000	-	-	-	-	50,000
Preference shares redeemed	(50,000)	-	-	-	-	(50,000)
Ordinary shares issued	1,005,323	6,031,936	-	-	-	7,037,259
Share based payment	-	-	88,000	-	-	88,000
Arising on acquisition (Note 12)	-	-	-	-	(983,287)	(983,287)
Loss for the period and total comprehensive income	-	-	-	(711,289)	-	(711,289)
At 30 June 2011	1,005,323	6,031,936	88,000	(711,289)	(983,287)	5,430,683

Share Premium

The Share Premium comprises of a premium arising on the issue of shares.

Share Based Payment Reserve

The share based payment reserve arises on the grant of share options under the share option plan.

Retained Deficit

Retained deficit comprises of losses incurred in the period ending 30 June 2011.

Other Reserve

Other reserve comprises of the excess of the purchase consideration over the book value of net assets acquired from African Diamonds plc at the date of acquisition.

2011

CONSOLIDATED CASH FLOW STATEMENT*For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011*

<i>Notes</i>	Period from 22/09/2010 to 30/06/2011 £
CASH FLOW FROM OPERATING ACTIVITIES	
Loss for the financial period	(696,472)
Finance Revenue	(1,480)
Finance Costs	1,272
Loss on investment held at fair value	3,750
Share Based Payments	74,925
Exchange movements	29,697
	<hr style="width: 100%; border: 0.5px solid black;"/> (588,308)
MOVEMENTS IN WORKING CAPITAL	
Increase in trade and other payables	156,309
Decrease in trade and other receivables	151,630
	<hr style="width: 100%; border: 0.5px solid black;"/>
CASH GENERATED BY OPERATIONS	(280,369)
Finance Income	1,480
Finance Costs	(1,272)
	<hr style="width: 100%; border: 0.5px solid black;"/>
NET CASH GENERATED IN OPERATING ACTIVITIES	(280,161)
CASH FLOWS FROM INVESTING ACTIVITIES	
Payments for Intangible Assets	(802,500)
Cash Acquired on Acquisition (Note 12)	1,417,752
	<hr style="width: 100%; border: 0.5px solid black;"/>
NET CASH GENERATED IN INVESTING ACTIVITIES	615,252
NET INCREASE IN CASH AND CASH EQUIVALENTS	
	335,091
Cash and cash equivalents at beginning of the financial period	-
Effect of foreign exchange rate changes	(44,514)
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	<hr style="width: 100%; border: 0.5px solid black;"/> 290,577 <hr style="width: 100%; border: 0.5px solid black;"/>

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2011

COMPANY CASH FLOW STATEMENT*For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011*

	Period from 22/09/2010 to 30/06/2011 £
<i>Notes</i>	
CASH FLOW FROM OPERATING ACTIVITIES	
Loss for the financial period	(696,472)
Finance Revenue	(1,480)
Finance Costs	1,272
Loss on investment held at fair value	3,750
Exchange movements	44,514
Share Based Payments	74,925
Provision for intercompany receivable	(14,817)
	<hr/>
MOVEMENTS IN WORKING CAPITAL	(588,308)
Increase in trade and other payables	183,655
Increase in trade and other receivables	(572,627)
	<hr/>
CASH GENERATED BY OPERATIONS	(977,280)
Finance Income	1,480
Finance Costs	(1,272)
	<hr/>
NET CASH GENERATED IN OPERATING ACTIVITIES	(977,072)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Payments for Intangible Assets	(78,286)
Payments for Investment in subsidiary	(1,375)
Cash Acquired on Acquisition (Note 12)	1,340,849
	<hr/>
NET CASH GENERATED IN INVESTING ACTIVITIES	1,261,188
	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	284,116
Cash and cash equivalents at beginning of the financial period	-
Effect of foreign exchange rate changes	(44,514)
	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	<hr/> 239,602 <hr/>

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NOTES to the FINANCIAL INFORMATION***For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011*****1. PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies adopted by the group and company are summarised below:

(i) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. The consolidated financial statements are presented in sterling pounds.

(ii) Statement of compliance

The financial statements of Botswana Diamonds plc and all its subsidiaries (the group) have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union.

(iii) Basis of consolidation

The consolidated financial statements comprise the financial statements of Botswana Diamonds plc and its subsidiaries as at 30 June 2011. Subsidiaries are fully consolidated from the date of acquisition, being the date which the group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intragroup balances, income and expenses and unrealized gains and losses resulting from intragroup transactions are eliminated in full.

(iv) Investment in subsidiaries

The company's investments in subsidiaries are stated at cost, less any accumulated impairment losses.

(v) Investments in associates

An associate is an entity over which the group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the group's interest in that associate (which includes any long-term interests that, in substance, form part of the group's net investment in the associate), are recognised only to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the group, profits and losses are eliminated to the extent of the group's interest in the relevant associate.

(vi) Operating loss

Operating loss represents revenue less cost of sales and administrative expenses. It is stated before finance revenue, finance costs and fair value gains/losses on financial assets.

(vii) Foreign currencies

The presentation currency of the group financial statements is pounds sterling and the functional currency and the presentation currency of the parent company is pounds sterling. The individual financial statements of each group company are maintained in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, the presentation currency.

NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(vii) Foreign currencies (continued)

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was re-determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the Statement of Comprehensive Income for the period, other than when a monetary item forms part of a net investment in a foreign operation; then exchange differences on that item are recognised in equity. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the Statement of Comprehensive Income for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(viii) Intangible fixed assets

Exploration and evaluation assets

Exploration expenditure relates to the initial search for deposits with economic potential in Botswana, Zimbabwe and Cameroon. Evaluation expenditure arises from a detailed assessment of deposits that have been identified as having economic potential.

The costs of exploration rights and costs incurred in exploration and evaluation activities, are capitalised as part of exploration and evaluation assets.

Exploration costs are capitalised until technical feasibility and commercial viability of extraction of reserves are demonstrable. Exploration costs include an allocation of administration and salary costs (including share based payments) as determined by management.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

Prior to reclassification to property, plant and equipment, exploration and evaluation assets are assessed for impairment, and any impairment loss recognised immediately in the income statement.

Impairment of intangible assets

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. The company reviews and tests for impairment on an ongoing basis and specifically if the following occurs:

- a) the period for which the group has a right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- b) substantive expenditure on further exploration for and evaluation of diamond resources in the specific area is neither budgeted nor planned;

NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(viii) Intangible fixed assets (continued)

- c) exploration for an evaluation of diamond resources in the specific area have not led to the discovery of commercially viable quantities of diamond resources and the group has decided to discontinue such activities in the specific area; and
- d) sufficient data exists to indicate that although a development in the specific area is likely to proceed the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

(ix) Financial assets

Where the fair value of a financial asset can be reliably measured the financial asset is initially recognised at fair value through the profit and loss account. At each balance sheet date gains or losses arising from a change in fair value are recognised in the Statement of Comprehensive Income, as other gains or losses.

Financial assets for which the fair value cannot be reliably measured are carried at cost.

(x) Financial Instruments

Financial instruments are recognised in the group and company's balance sheet when the group becomes a party to the contractual provisions of the instrument.

Cash

Cash comprises cash held by the group and short-term bank deposits with an original maturity of three months or less.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into, mainly accruals.

Receivables

Receivables are measured at initial recognition at invoice value, which approximates to fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the consolidated income statement when there is objective evidence that the carrying value of the asset exceeds the recoverable amount.

Receivables are classified as loans and receivables which are subsequently measured at amortised cost, using the effective interest method.

Trade payables

Trade payables are classified as financial liabilities, are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

Equity instruments

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

(xi) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The current tax payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(xi) Taxation (continued)

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences arising on investments in subsidiaries and associates, only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

(xii) Share based payments

The group issues equity-settled share based payments only to certain employees and directors. Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period based on the group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Where the value of the goods or services received in exchange for the share based payment cannot be reliably estimated the fair value is measured by use of a Black-Scholes valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

(xiii) Accounting for business combinations of entities under common control

The assets and liabilities acquired in the business combination are recognized at their book values. No goodwill is recognized on the acquisition. The difference between the share of net assets acquired and the purchase consideration is recognized directly in equity.

NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(xiv) Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the group's accounting policies

In the process of applying the group's accounting policies above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Exploration and evaluation expenditure

The assessment of whether general administration costs and salary costs are capitalised or expensed involves judgement. Management considers the nature of each cost incurred and whether it is deemed appropriate to capitalise it within intangible assets. Costs which can be demonstrated as project related are included within exploration and evaluation assets. Exploration and evaluation assets relate to prospecting, exploration and related expenditure in Botswana, Zimbabwe and Cameroon. The group's exploration activities are subject to a number of significant and potential risks including:

- price fluctuations;
- foreign exchange risks;
- uncertainties over development and operational costs;
- political and legal risks, including arrangements with governments for licenses, profit sharing and taxation;
- foreign investment risks including increases in taxes, royalties and renegotiation of contracts;
- liquidity risks;
- funding risks;
- going concern; and
- operational and environmental risks.

The recoverability of these intangible assets is dependent on the discovery and successful development of economic reserves, including the ability to raise finance to develop future projects. Should this prove unsuccessful, the value included in the balance sheet would be written off to the statement of Comprehensive Income.

Impairment of intangible assets

The assessment of intangible assets for any indications of impairment (viii) involves judgement. If an indication of impairment exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds recoverable amount. Recoverable amount is determined as the higher of fair value less costs to sell and value in use.

The assessment requires judgement as to: the likely future commerciality of the asset and when such commerciality should be determined; future revenues; capital and operating costs, and the discount rate to be applied to such revenues and costs.

Deferred tax assets

The assessment of availability of future taxable profits involves judgement. A deferred tax asset is recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised. No deferred tax has been recognised.

Going Concern

The assessment of the group's ability to execute its strategy by funding future working capital requirements involves judgement. Further information regarding going concern is outlined in Note 3.

Key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period. The nature of estimation means that actual outcomes could differ from those estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(xiv) Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of intangible assets

The assessment of intangible assets for any indication of impairment involves uncertainty. There is uncertainty as to whether the exploration activity will yield any economically viable discovery. Aspects of uncertainty surrounding the group's intangible assets include the amount of potential reserves, ability to be awarded exploration licences, and the ability to raise sufficient finance, to develop the group's projects. If the directors determine that the intangible asset is impaired, a provision is made in the income statement.

Share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The group has made estimates as to the volatility of its own shares, the probable life of options granted and the time of exercise of those options. The model used by the group is the Black-Scholes valuation model.

2. STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET ADOPTED

At the date of authorisation of this financial information, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IAS 1** (Amendment) Presentation of Items of Other Comprehensive Income (effective for accounting periods beginning on or after 1 July 2012);
- IAS 19** (Revised) Employee Benefits (effective for accounting periods beginning on or after 1 January 2013);
- IFRS 13** Fair Value Measurement (effective for accounting periods beginning on or after 1 January 2013);
- IFRS 12** Disclosure of Interests in Other Entities (effective for accounting periods beginning on or after 1 January 2013);
- IFRS 11** Joint Arrangements (effective for accounting periods beginning on or after 1 January 2013)
- IFRS 10** Consolidated Financial Statements (effective for accounting periods beginning on or after 1 January 2013);
- IAS 28** (Revised) Investments in Associates and Joint Ventures (effective for accounting periods beginning on or after 1 January 2013);
- IAS 27** (Revised) Separate Financial Statements (effective for accounting periods beginning on or after 1 January 2013);
- IAS 12** (Amendment) Deferred Tax: Recovery of Underlying Assets (effective for accounting periods beginning on or after 1 January 2012);
- IFRS 1** (Amendment) Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for accounting periods beginning on or after 1 July 2011);
- IFRS 7** (Amendment) Disclosures – Transfers of Financial Assets (effective for accounting periods beginning on or after 1 July 2011);
- IFRS 9** Financial Instruments (effective for accounting periods beginning on or after 1 January 2013);
- IAS 24** (Revised) Related Party Disclosures (effective for accounting periods beginning on or after 1 January 2011);
- IFRIC 14** (Amendment) Prepayments of a Minimum Funding Requirement (effective for accounting periods beginning on or after 1 January 2011).
- IFRIC 20** Stripping costs in the production phase of a surface mine (effective for accounting periods beginning on or after 1 January 2013).

The directors are currently assessing the impact in relation to the adoption of these standards and interpretation for future periods of the company; however, at this point they do not believe they will have a significant impact on the financial information of the company in the period of initial application.

3. GOING CONCERN

The group incurred a loss for the period of £696,472 and had net current liabilities of £112,095 at the balance sheet date. The group has retained losses of £711,289 and net assets of £5,430,683 at the balance sheet date.

NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

3. GOING CONCERN (CONTINUED)

If necessary the group will raise additional finance to fund working capital requirements and to develop existing capital projects. On the basis that additional funding can be obtained when required, the directors are satisfied that it is appropriate to prepare the financial statements of the group on the going concern basis. The financial statements do not include any adjustment to the carrying amount or classification of assets and liabilities that would occur if the company was unable to continue as a going concern.

4. LOSS BEFORE TAXATION

Period from
22/09/2010
to 30/06/2011
£

The loss before taxation is stated after charging:

Auditor's remuneration	20,000
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The analysis of auditor's remuneration is as follows:

Fees payable to the group's auditors for the Audit of the group's annual accounts	17,000
Fees payable to the group's auditors and their associates for other services to the group	2,000

Total audit fees	19,000
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Taxation	1,000
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	20,000
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Administrative expenses comprise:

Professional fees	25,569
Foreign exchange losses	44,514
Directors' remuneration (Note 8)	152,150
Management fees	15,000
Other administrative expenses	113,221

	350,454
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5. FINANCE INCOME

Period from
22/09/2010
to 30/06/2011
£

Interest earned	1,480
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6. FINANCE COSTS

Period from
22/09/2010
to 30/06/2011
£

Bank interest and charges	1,272
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NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

7. LOSS PER SHARE

Basic loss per share is computed by dividing the loss after taxation for the period available to ordinary shareholders by the weighted average number of ordinary shares in issue and ranking for dividend during the period. Diluted earnings per share is computed by dividing the profit or loss after taxation for the period by the weighted average number of ordinary shares in issue, adjusted for the effect of all dilutive potential ordinary shares that were outstanding during the period.

The following table sets forth the computation for basic and diluted earnings per share (EPS):

	30/06/2011 £
Numerator	
For basic and diluted EPS retained loss	<u>(696,472)</u>
Denominator	No.
For basic and diluted EPS	<u>52,882,727</u>
Basic EPS	<u>(1.32p)</u>
Diluted EPS	<u>(1.32p)</u>

The following potential ordinary shares are anti-dilutive and are therefore excluded from the weighted average number of shares for the purposes of the diluted earnings per share:

	No.
Share options	<u>8,000,000</u>

8. RELATED PARTY AND OTHER TRANSACTIONS

Group and Company

Key Management Compensation and Directors' Remuneration

The remuneration of the directors, who are considered to be the key management personnel, is set out below.

	Salary or fees £	Share based payments £	Period from 22/09/2010 to 30/06/2011 Total £
John Teeling	50,000	27,750	77,750
James Finn	20,000	22,200	42,200
Andre Fourie	-	11,100	11,100
David Horgan	10,000	22,200	32,200
Robert Bouquet	-	1,975	1,975
	<u>80,000</u>	<u>85,225</u>	<u>165,225</u>

Included in the above is £13,075 of share based payments which were capitalised within exploration and evaluation assets in accordance with IFRS 6. The number of directors to whom retirement benefits are accruing is Nil. Directors' remuneration is included within trade and other payables as this was not paid at year end.

NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

8. RELATED PARTY AND OTHER TRANSACTIONS (CONTINUED)

During the period, an amount of £31,183 in respect of geologist fees and expenses was paid to Andre Fourie Consultancy, a company under the control of Andre Fourie, director.

Cash held in Escrow Accounts

During the period £1,248,945 of cash was held on behalf of the company under a Security Escrow Agreement dated 26 November 2010 by Petrel Resources plc. All funds were returned prior to period end and at 30 June 2011 £Nil was held by Petrel Resources plc on behalf of the company. No funds are currently being held by Petrel Resources plc. Petrel Resources plc shares offices with the company at 162 Clontarf Road and has some common directors.

Other

The company shares offices and overheads with a number of other companies also based at 162 Clontarf Road. These companies have some common directors.

Transactions with these companies during the period are set out below:

	Clontarf Energy PLC	Connemara Mining Company PLC	Hydro- carbon Exploration PLC	Petrel Resources PLC	Greenore Gold PLC	Cooley Distillery PLC	Total
Demerged from African Diamonds plc Office and overhead costs recharged	29,853	7,300	9,449	11,553	-	730	58,885
Repayments	11,111	394	-	7,112	1,838	(15,000)	5,455
At 30 June 2011	(48,103)	(7,694)	(9,449)	(21,762)	-	-	(87,008)
	(7,139)	-	-	(3,097)	1,838	(14,270)	(22,668)

During the period the company acquired certain assets and liabilities from African Diamonds plc, a company previously based at 162 Clontarf Road. Further details are set out in Note 12.

Company

At 30 June 2011 the following amount was due to the company by its subsidiaries:

	30/06/2011 £
Kukama Diamonds (Cameroon) Limited	147,004
Kukama Mining & Exploration (Pty) Ltd	930,931
Atlas Minerals (Pty) Ltd	607,521
	1,685,456

£1,045,569 of amounts due from subsidiaries were acquired from African Diamonds plc as detailed in Note 12. Further amounts were advanced by Botswana Diamonds plc to fund exploration activities. No amounts were repaid during the period. The amount due from Atlas Minerals (Pty) Ltd is recorded net of a provision of £14,817.

NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

9. EMPLOYEE INFORMATION

The average number of persons employed by the group and company during the period was:

	Period from 22/09/2010 to 30/06/2011 Number
Management and administration	7
Staff costs for the above persons were:	£
Wages and salaries	105,785
Share based payments	88,000
Pension costs	-
	<u>193,785</u>

Included in the above is £13,075 of share based payments which were capitalized within exploration assets.

10. INCOME TAX EXPENSE

	Period from 22/09/2010 to 30/06/2011 £
Current tax:	
Tax on loss	-
	<u>-</u>
Factors affecting the tax expense:	
Loss on ordinary activities before tax	(696,472)
UK tax calculated at 28%	(195,012)
Effects of:	
Unutilised Losses	195,012
Tax charge	<u>-</u>

No charge to corporation tax arises in the period due to losses incurred.

At the balance sheet date the group had unused tax losses of £696,472 which equates to a deferred tax asset of £195,012. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

11. SEGMENTAL ANALYSIS

Operating segments are identified on the basis of internal reports about the group that are regularly reviewed by the chief operating decision maker. The Board is deemed the chief operating decision maker and the group is organised into three segments: Botswana, Zimbabwe and Cameroon.

11A. Segment revenue and segment result

Group	Segment Revenue	Segment Result
	2011	2011
	£	£
Botswana	-	-
Zimbabwe	-	-
Cameroon	-	-
Total continuing operations	-	-
Unallocated head office	-	(696,472)
	-	(696,472)

11B. Segment assets and liabilities

Group	Assets	Liabilities
	2011	2011
	£	£
Botswana	5,063,940	101,853
Zimbabwe	124,521	-
Cameroon	150,841	15,703
Total continuing operations	5,339,302	117,556
Unallocated head office	519,875	310,938
	5,859,177	428,494

Company

Company	Assets	Liabilities
	2011	2011
	£	£
Botswana	5,056,033	92,014
Zimbabwe	124,521	-
Cameroon	148,909	15,703
Total continuing operations	5,329,463	107,717
Unallocated head office	519,875	310,938
	5,849,338	418,655

11C. Other segmental information

Additions to non current assets

	Group	Company
	2011	2011
	£	£
Botswana	654,536	62,743
Zimbabwe	28,012	28,012
Cameroon	133,027	606
Total continuing operations	815,575	91,361
Unallocated head office	-	-
	815,575	91,361

NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

12. ACQUISITIONS

On 20 December 2010, the company completed the acquisition of all mining interests and other assets and liabilities of African Diamonds plc ("AFD") and its subsidiaries, Atlas Minerals (Botswana) (Pty) Ltd ("Atlas Minerals") and Kukama Mining & Exploration (Pty) Ltd ("Kukama Exploration"), except for African Diamond's interests in the AK6 diamond resource in Botswana. The cost of the acquisition was satisfied by the issue of shares in Botswana Diamonds plc to the African Diamonds plc shareholders on a one-for-one basis in respect of each share acquired. The fair value of the shares issued was £7,037,259.

Analysis of assets and liabilities acquired at the date of acquisition:

	£
Investment in Kukama Exploration	
Exploration and evaluation assets	1,272,783
Cash and cash equivalents	75,690
Amounts owing to group companies	(924,070)
Trade and other receivables	83,447
Trade and other payables	(7,850)
Total	500,000
Investment in Atlas Minerals	
Exploration and evaluation assets	143,166
Cash and cash equivalents	1,213
Amounts owing to group companies	(121,499)
Trade and other receivables	6,472
Trade and other payables	(29,335)
Total	17
Other assets and liabilities of African Diamonds plc	
Exploration and evaluation assets	3,051,254
Investment in associates	200,000
Financial assets	63,750
Cash and Cash Equivalents	1,340,849
Trade and other receivables	87,533
Trade and other payables	(235,000)
Amounts owed by group companies	1,045,569
Total	5,553,955
Total assets and liabilities acquired	6,053,972
Summary of assets and liabilities acquired by the group	
Exploration and evaluation assets	4,467,203
Cash and cash equivalents	1,417,752
Trade and other receivables	177,452
Trade and other payables	(272,185)
Investment in associates	200,000
Financial assets	63,750
	6,053,972
Non-cash consideration for acquisition	7,037,259
Excess of consideration transferred to other reserves	983,287

NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

13. INTANGIBLE ASSETS

	2011 Group £	2011 Company £
Exploration and evaluation assets:		
Cost:		
At 22 September 2010	-	-
Assets acquired (Note 12)	4,467,203	3,051,254
Additions during the period	815,575	91,361
At 30 June 2011	5,282,778	3,142,615
 Segmental analysis		
	2011 Group £	2011 Company £
Botswana	5,023,374	3,015,632
Zimbabwe	124,521	124,521
Cameroon	134,883	2,462
	5,282,778	3,142,615

Exploration and evaluation assets relate to expenditure incurred in exploration for diamonds in Botswana, Zimbabwe and Cameroon. The directors are aware that by its nature there is an inherent uncertainty in exploration and evaluation assets and therefore inherent uncertainty in relation to the carrying value of capitalized exploration and evaluation assets.

The directors believe that there were no facts or circumstances indicating that the carrying value of intangible assets may exceed their recoverable amount and thus no impairment review was deemed necessary by the directors. The realisation of these intangible assets is dependent on the successful discovery and development of economic diamond resources and is subject to a number of significant potential risks, as set out in Note 1 (xiv).

Included in additions for the period are £13,075 of share based payment expenses.

14. INVESTMENT IN SUBSIDIARIES

	30/06/2011 £
At 22 September 2010	-
Assets acquired (Note 12)	500,017
Additions	1,375
At 30 June 2011	501,392

In the opinion of the directors, at 30 June 2011, the fair value of the investments in subsidiaries are not less than their carrying amounts.

During the period Botswana Diamonds plc acquired 100% of the ordinary share capital of Kukama Diamonds Cameroon Limited SARL.

On 20 December 2010, the company acquired the demerged subsidiaries of African Diamonds plc as per the demerger agreement.

NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

14. INVESTMENT IN SUBSIDIARIES (CONTINUED)

The subsidiaries of the company at 30 June 2011 were:

Name of subsidiary	Total allotted capital	Country of Incorporation and operation	% Ownership	Principal activity
Kumama Mining and Exploration (Proprietary) Limited	2 Ordinary shares of BWP1 each	Botswana	100%	Prospecting and exploration for diamonds
Kukama Diamonds Investments Limited	50,000 shares of US\$1,000 each	British Virgin Islands	100%	Holding Company
Orapa Diamonds PLC	5,000,000 shares of £0.01 each	United Kingdom	100%	Dormant
Kukama Diamonds Cameroon Limited SARL	100 shares of FCA 10,000 each	Cameroon	100%	Prospecting and exploration for diamonds
Botswana Coal PLC	5,000,000 shares of £0.01 each	United Kingdom	100%	Dormant
Congo Diamonds PLC	5,000,000 shares of £0.01 each	United Kingdom	100%	Dormant
Atlas Minerals (Botswana) (Pty) Limited	200 shares of BWP1 each	Botswana	100%	Prospecting and exploration for diamonds

The carrying value of investments in subsidiaries is dependent on the successful discovery and development of economic diamond reserves and is subject to a number of significant potential risks as set out in Note 1 (xiv).

15. INVESTMENTS IN ASSOCIATE

	2011 £
Group and company	
Cost:	
At 22 September 2010	-
Assets acquired (Note 12)	200,000
At 30 June 2011	200,000

On 20 December 2010, as per the demerger agreement, the company acquired 35.42% of the issued share capital of Bugeco S.A.. Bugeco S.A. is incorporated in Belgium and holds highly prospective primary diamond exploration licences in the Democratic Republic of Congo.

The value of the investment of £200,000 in Bugeco is dependent on it discovering and developing economic reserves and on its ability to raise finance to develop future projects. Should this prove unsuccessful the value included in the balance sheet will be written off to the Statement of Comprehensive Income. Having reviewed the carrying value the directors are satisfied that the value of Bugeco is not less than carrying amount.

NOTES to the FINANCIAL INFORMATION
For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

16. FINANCIAL ASSETS

	2011 £
Group and company	
Financial assets carried at fair value through profit or loss (FVTPL):	
Non-derivative financial assets designated as at FVTPL	60,000
	60,000
Investment at FVTPL	
At 22 September 2010	-
Asset Acquired (Note 12)	63,750
Fair value movement	(3,750)
At 30 June 2011	60,000

African Diamonds plc held 1,000,000 shares in Stellar Diamonds plc (formerly West African Diamonds plc). On 22 December 2010 this investment was transferred to Botswana Diamonds as per the terms of the demerger agreement. At the year end this investment represented 0.46% of the issued share capital of Stellar Diamonds plc. Stellar Diamonds plc is listed on the London AIM market. In the opinion of the directors, the company does not have significant influence over Stellar Diamonds plc.

Fair value at 30 June 2011 is based on the market value of the shares of Stellar Diamonds plc at that date.

17. OTHER RECEIVABLES

	2011 Group £	2011 Company £
Other receivables	25,822	20,273
Due by group undertakings (Note 8)	-	1,685,456
	25,822	1,705,729

The carrying value of the other receivables approximates to their fair value. The carrying value of amounts due by group undertakings is dependent on the successful discovery and development of economic diamond resources and is subject to a number of significant potential risks as detailed in Note 1 (xiv).

18. CASH AND CASH EQUIVALENTS

	2011 Group £	2011 Company £
Cash and cash equivalents	290,577	239,602

Cash at bank earns interest at floating rates based on daily bank deposits rates.

During the period £1,248,945 of cash was held on behalf of the company under a Security Escrow Agreement dated 26 November 2010 by Petrel Resources plc. All funds were returned prior to period end and at 30 June 2011 £Nil was held by Petrel Resources plc on behalf of the company. No funds are currently being held by Petrel Resources plc. Petrel Resources plc shares offices with the company at 162 Clontarf Road and has some common directors.

NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

19. TRADE AND OTHER PAYABLES

	2011 Group £	2011 Company £
Trade payables	206,764	200,177
Accruals	221,730	218,478
	428,494	418,655

It is the company's normal practice to agree terms of transactions, including payment terms, with suppliers and provided suppliers perform in accordance with the agreed terms, payment is made accordingly. In the absence of agreed terms it is the company's policy that payment is made between 30 – 40 days. The carrying value of trade and other payables approximates to their fair value.

20. CALLED-UP SHARE CAPITAL

		30/06/2011 £	
Authorised:			
300,000,000 Ordinary shares of 1p each		3,000,000	
Allotted, called-up and fully paid:			
	Number	Share Capital £	Share Premium £
Issued on incorporation	2	-	-
Issued during the period	100,532,265	1,005,323	6,031,936
At 30 June 2011	100,532,267	1,005,323	6,031,936

Movements in share capital

On 4 October 2010, 5,000,000 1p redeemable preference shares were issued to African Diamonds plc at par value. On 22 October 2010 these shares were redeemed at par value.

On 22 December 2010 a total of 100,532,265 shares were issued to African Diamonds plc shareholders in consideration of the acquisition of the demerged assets and liabilities of African Diamonds plc. See Note 12 for further details.

Share Options

A total of 8,000,000 share options were in issue at 30 June 2011. These options are exercisable at prices ranging between 5p and 7p up to seven years from the date of granting of the options unless otherwise determined by the board.

NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

21. SHARE-BASED PAYMENTS

The group issues equity-settled share-based payments to certain directors and individuals who have performed services for the group. Equity-settled share-based payments are measured at fair value at the date of grant.

Fair value is measured by use of a Black-Scholes valuation model.

The group plan provides for a grant price equal to the average quoted market price of the ordinary shares on the date of grant. The options vest immediately.

	Options	Weighted average exercise price in pence
Outstanding at beginning of period	-	-
Granted 10 January 2011	7,750,000	7
Granted 1 June 2011	250,000	5
Outstanding at end of the period	8,000,000	6.94
Exercisable at end of the period	8,000,000	6.94

The options outstanding at 30 June 2011 had a weighted average exercise price of 6.94p, and a weighted average remaining contractual life of 6.5 years.

During the period ended 30 June 2011, 8,000,000 options were granted with a fair value of £88,000. These fair values were calculated using the Black-Scholes valuation model.

The inputs into the Black-Scholes valuation model were as follows:

Grant 10 January 2011

Weighted average share price at date of grant (in pence)	7
Weighted average exercise price (in pence)	7
Expected volatility	13.6%
Expected life	7 years
Risk free rate	0.5%
Expected dividends	None

Grant 1 June 2011

Weighted average share price at date of grant (in pence)	5
Weighted average exercise price (in pence)	5
Expected volatility	13.6%
Expected life	7 years
Risk free rate	0.5%
Expected dividends	None

Expected volatility was determined by management based on their cumulative experience of the movement in share prices over the period.

The terms of the options granted do not contain any market conditions within the meaning of IFRS 2.

The group capitalised expenses of £13,075 and expensed costs of £74,925 relating to equity-settled share-based payments transactions during the period.

NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

22. MATERIAL NON-CASH TRANSACTIONS

Material non-cash transactions during the period have been outlined in Note 9, 12 and 21.

23. CAPITAL COMMITMENTS

There is no capital expenditure authorised or contracted for which is not provided for in these accounts.

24. PARENT COMPANY INCOME STATEMENT

As permitted by Section 408 of the Companies Act, 2006, the parent company's income statement has not been presented in this document. The loss after taxation, as determined in accordance with IFRS, for the parent company for the period is £711,289.

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The group's financial instruments comprise cash and cash equivalent balances, and various items such as trade receivables and trade payables which arise directly from trading operations.

The group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The group holds cash as a liquid resource to fund obligations of the group. The group's cash balances are held in euro, US dollar and sterling. The group's strategy for managing cash is to maximise interest income whilst ensuring its availability to match the profile of the group's expenditure. This is achieved by regular monitoring of interest rates and monthly review of expenditure.

The group has a policy of not hedging due to no significant dealings in currencies other than the reporting currency and euro denominated transactions and therefore takes market rates in respect of foreign exchange risk; however, it does review its currency exposure on an ad hoc basis.

The group does not enter into any derivative transactions, and it is the group's policy that no trading in derivatives shall be undertaken.

The main financial risks arising from the group's financial instruments are as follows:

Interest rate risk

The group has no outstanding bank borrowings at the period end. New projects and acquisitions are financed by a combination of existing cash surpluses and through funds raised from equity share issues. The group may use project finance in the future to finance exploration and development costs on existing licences.

Liquidity risk

The directors intend to seek additional funding through a share placing. The proceeds of this placing will be used to fund working capital requirements and to develop existing capital projects. On the basis that additional funding can be obtained when required, the directors are satisfied that it is appropriate to prepare the financial statements of the group on the going concern basis. The financial statements do not include any adjustment to the carrying amount or classification of assets and liabilities that would occur if the group was unable to continue as a going concern.

Capital management

The capital structure of the company consists primarily of equity raised through issue of share capital, which it has invested in operations in Botswana, Cameroon and Zimbabwe.

The primary objective of the company's capital management is to maximise shareholder value. The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The company does not have any external borrowings and accordingly there are no externally imposed capital requirements to which it is subject to.

NOTES to the FINANCIAL INFORMATION

For the Period from 22 September 2010 (Date of Incorporation) To 30 June 2011

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit Risk

The maximum credit exposure of the group as at 30 June 2011 amounted to £316,399 relating to the group's cash and cash equivalents and receivables. The directors believe there is limited exposure to credit risk as the group's cash and cash equivalents are held with major financial institutions. The aging of receivables is reviewed on a regular basis to ensure the timely collection of amounts owing to the group.

The group manages its credit risk in cash and cash equivalents by holding surplus funds in high credit worthy financial institutions and maintains minimum balances with financial institutions in remote locations.

30/06/2011

Financial institutions with S&P A- rating or higher

290,577

26. POST BALANCE SHEET EVENTS

There are no material post balance sheet events affecting the group.

2011

NOTICE of ANNUAL GENERAL MEETING

Notice is hereby given that an Annual General Meeting of Botswana Diamonds plc (the "Company") will be held on 27th January 2012 at 11am at the City of London Club, 19 Old Broad Street, London EC2N 1DS for the following purposes:

ORDINARY BUSINESS

1. To receive and consider the Directors' Report, Audited Accounts and Auditors' Report for the period ended June 30, 2011.
2. To elect Director: John Teeling retires in accordance with Article 25 and seeks election.
3. To elect Director: David Horgan retires in accordance with Article 25 and seeks election.
4. To elect Director: James Finn retires in accordance with Article 25 and seeks election.
5. To elect Director: Andre Fourie retires in accordance with the Article 25 and seeks election.
6. To elect Director: Robert Bouquet retires in accordance with Article 25 and seeks election.
7. To re-elect Deloitte & Touche as auditors and to authorise the Directors to fix their remuneration.
8. To transact any other ordinary business of an Annual General Meeting.

By order of the Board.

James Finn
Secretary

Registered Office: 20-22 Bedford Row, London WC1R 4JS

16 December 2011

Note

1. A member who is unable to attend and vote at the above Annual General Meeting is entitled to appoint a proxy to attend, speak and vote in his stead. A proxy need not be a member of the company.
2. To be effective, the Form of Proxy duly signed, together with the power of attorney (if any) under which it is signed, must be deposited at the Company's Registrars, Computershare Investor Services (Ireland) Ltd., Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, not less than forty-eight hours before the time appointed for the Meeting or any adjournment thereof at which the person named in the Form of Proxy is to vote.

2011

FORM of PROXY

I/We
(BLOCK LETTERS)

of
 being (an) ordinary shareholder(s) of Botswana Diamonds plc, hereby appoint the Chairman of the Meeting #

of
 as my / our proxy to vote for me / us and on my / our behalf at the Annual General Meeting of the Company to be held on 27th January 2012 at 11am at the City of London Club, 19 Old Broad Street, London EC2N 1DS and at any adjournment thereof.

I/We direct that my / our vote(s) be cast on the specified Resolution as indicated by an "X" in the appropriate box.

ORDINARY BUSINESS	FOR*	AGAINST*
1. To receive and consider the Directors' Report and audited financial statements for the year ended 30 June 2011	<input type="checkbox"/>	<input type="checkbox"/>
2. To elect Director: John Teeling	<input type="checkbox"/>	<input type="checkbox"/>
3. To elect Director: David Horgan	<input type="checkbox"/>	<input type="checkbox"/>
4. To elect Director: James Finn	<input type="checkbox"/>	<input type="checkbox"/>
5. To elect Director: Andre Fourie	<input type="checkbox"/>	<input type="checkbox"/>
6. To elect Director: Robert Bouquet	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-elect Deloitte & Touche as auditors and to authorise the Directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
8. To transact any other ordinary business of an Annual General Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

Dated this day of2011/12

Signature

Unless otherwise directed, and in respect of any other business resolution properly moved at the Meeting, the proxy will vote, or may abstain from voting, as he/she thinks fit. If it is desired to appoint another person as a proxy, these words should be deleted and the name and the address of the proxy, who need not be a member of the Company, inserted.

* The manner in which the proxy is to vote should be indicated by inserting an "X" in the boxes provided. Proxies not marked as for or against will be regarded as giving the proxy authority to vote, or to abstain at his/her discretion.

NOTES:

1. To be effective, the Form of Proxy duly signed, together with the power of attorney (if any) under which it is signed, must be deposited at the Company's Registrars, Computershare Services (Ireland) Ltd., Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, not less than forty-eight hours before the time appointed for the Meeting or any adjournment thereof, at which the person named in the Form is to vote.
2. If the Form of Proxy is given to a body corporate, it must be given under its Common Seal or under the hand of the attorney or officer duly authorised.
3. A proxy need not be a member of the Company.
4. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the other registered holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members in respect of such holding.

FOLD 1

FOLD 2

AFFIX
STAMP
HERE

The Company Registrar,
Computershare Services (Ir) Ltd
Heron House, Corrig Road
Sandyford Industrial Estate
Dublin 18, Ireland

FOLD 3
(then turn in)

2011

DIRECTOR'S INFORMATION

DIRECTORS

Dr. John Teeling (appointed 5 October 2010)
James Finn (appointed 22 September 2010)
Andre Fourie (appointed 3 November 2010)
David Horgan (appointed 22 September 2010)
Robert Bouquet (appointed 1 June 2011)

SECRETARY

James Finn

REGISTERED OFFICE

20-22 Bedford Row
London, WC1R 4JS
United Kingdom

BUSINESS ADDRESS

162 Clontarf Road
Dublin 3
Ireland

REGISTERED AUDITORS

Deloitte & Touche
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
Ireland

COMPANY REGISTRATION NUMBER

07384657

SOLICITORS

McEvoy Partners
27 Hatch Street Lower
Dublin 2
Ireland

REGISTRARS

Computer Share Services (Ireland) Limited
Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18
Ireland

BANKERS

AIB
Ashford House
Tara Street
Dublin 2
Ireland

