

## Regulatory Announcement

**Company** [Pangea DiamondFields PLC](#)  
**TIDM** PDF  
**Headline** Audited Results  
**Released** 07:01 15-May-07  
**Number** 5847W



15<sup>th</sup> May 2007

Pangea DiamondFields plc

(“Pangea” “PDF” or “the Company”)

### **Audited Results for the year ended 31 December 2006**

Pangea DiamondFields plc (AIM: PDF), the mid-tier African diamond producer and exploration company releases their Audited results for the year ended 31 December 2006.

The company’s portfolio to date consists of eight projects, comprising of 24 distinct resource areas, located in the Central African Republic (“CAR”), Democratic Republic of the Congo (“DRC”), South Africa and Angola.

#### Highlights for 2006

- Investment by Capital International Private Equity Fund IV LP
- Successful admission to AIM in October 2006, in conjunction with a well supported equity placement, predominantly to UK institutions, which raised gross proceeds of US\$30 million
- Exploration projects advanced with one project at pilot mining stage, two at bulk sampling and the remaining at differing stages of exploration
- Design, transportation and commissioning of plant and equipment at the Dimbi project, CAR
- Negotiation of Dimbi mining convention in progress and concluded subsequent to year end
- Decision taken to cease funding Project Lumuanza, with a resultant US\$2.9 million impairment charge, and its shareholding in the project was sold subsequent to year end

- Strong balance sheet, at end of 2006 cash resources US\$26 million
- Key appointments of skilled and experienced personnel
- Establishment of regional offices in CAR and DRC

#### Post Period Highlight

- Conditional offer to acquire a 40+% strategic Equity stake in Lesotho Diamond Corporation

Rob Still, CEO stated, “The year under review has been an extremely busy one for Pangea, largely highlighted by our successful admission to AIM in October 2006. With our eight projects strategically located in diamond areas across four African countries, and given the fact that three quarters of the value of diamonds mined historically come from Africa, the Board believes Pangea is favourably positioned for success. I am proud of our achievements this year and hope that our shareholders share our excitement about the future.”

#### **Pangea DiamondFields plc**

Rob Still (CEO)

T: +27 11 438 4105

M: +27 82 442 4542

Michelle Jenkins

(Investor relations)

T: +27 11 4384122

M: +27 83 303 3074

#### **Ambrian Partners Limited**

Richard Brown

T: +44 (0) 20 7776 6400

#### **Parkgreen Communications**

Justine Howarth

T: +44 (0) 20 7851 7480

## Chairman's Review

Successful mineral exploration has often largely been attributable to serendipity, but the same cannot be said for the PDF team. It has a successful and long track record of exploration and mine development throughout Africa thereby creating significant shareholder wealth. The birth of Pangea DiamondFields was a result of the predicted medium- to long-term supply deficit of diamonds, and an excellent knowledge of exploration in Africa.

The directors of PDF believe that the predicted supply/demand fundamentals of the diamond industry and the resultant prognosis are attractive for new diamond entrants. With eight projects strategically located in diamond areas across four African countries and the fact that three quarters of the value of diamonds mined historically come from Africa, PDF is favourably positioned for success.

From its experience in Africa, PDF is acutely aware of the fact that operational sustainability in remote areas is dependent on managing the impact those operations have on the natural and social environment. It also recognises the need to engage and support the local communities, and work closely with local authorities and governments, which it does as a matter of course. The favourable relationships we currently have on the ground are a reflection of our efforts in this regard.

During 2006, the Company successfully listed on the AIM Market of the London Stock Exchange and managed to construct and commence the commissioning of the plant at the Dimbi Project in a remote area of the Central African Republic. This was a remarkable achievement for a small team of dedicated professionals.

In 2007, I look forward to the eight projects reaching critical mass with the acceleration of the exploration process, and the upgrading of three projects from advanced exploration stage to bulk sampling.

It is my pleasure on behalf of the board and all shareholders, to express our appreciation of the achievement of our team under the leadership of our chief executive Rob Still. I would also like to include in this all our consultants who have worked so diligently in bringing our exploration projects to their current status.

Bill Nairn

Chairman

7 May 2007

## Chief Executive Officer's Report

### OVERVIEW

The year under review has been a very busy one, highlighted by the admission of the Company to AIM in October 2006, and the arrival and construction of plant and earthmoving equipment on site in the CAR in December 2006.

### FINANCIAL RESULTS

It is the Group's policy to expense all exploration expenditure. The loss for the year of US\$14.85 million (2005: US\$4.24 million) included US\$8.2 million (2005: US\$3.2 million) exploration expenditure and the US\$2.93 million impairment charge for Project Lumuanza. Exploration and capital expenditure for the year per country/project was made up as follows:

	Exploration expenditure US\$ millions 2006	Capital expenditure US\$ millions 2006
CAR – Dimbi Project	2.6	3.2
DRC – all projects	1.0	–
South Africa – all projects	1.8	–
Angola – Project Lumuanza	2.8	1.2
Angola – Project Cassanguidi	–	2.0
Total	8.2	6.4

Exploration in the DRC did not progress as anticipated due to the long run-up to the elections during which period very little exploration was performed. At year end, the cash balance was US\$26 million, which is US\$2 million more than the US\$24 million cash balance projected at 31 December 2006 for the Company's AIM admission. This is mainly attributable to the deferral of expansion capital expenditure attributable to Project Cassanguidi.

### REVIEW OF OPERATIONS

#### CENTRAL AFRICAN REPUBLIC

The Central African Republic has long been a source of high quality alluvial diamonds and yet to date has been poorly explored for a variety of reasons and hence is viewed by PDF management as a highly prospective target area.

## Dimbi Project

PDF geologists have been on the ground for the past year on the Dimbi property and have defined four different mineralisation settings, Dimbi Formation, Dimbi Formation Reworked Tributaries, Paleo-Kotto and the recently discovered “Mantle-derived” Source Rocks.

At a development cost to date of US\$3.2 million, our wholly owned subsidiary, Dimbi Diamants SAU (“Dimbi Diamants”) commenced a bulk sampling exercise on the Dimbi concession. Mining equipment and a bulk sampling plant were shipped to Dimbi and constructed on site. Construction commenced late November 2006 and commissioning and operator training commenced mid January 2007. The bulk sampling and processing exercise objectives are to:

- produce and sell a sufficiently large parcel of diamonds to determine expected future carat value and quality;
- establish and confirm geological, metallurgical and mining assumptions and data;
- acquire data to assess the feasibility of upgrading the operations in incremental steps to commercial scale;
- commence the process of hiring and training of operational staff for future commercial scale operations; and
- develop systems and procedures across all facets of the operation, in particular optimal mining methods, logistics, local community and government liaison and marketing to prepare for commercial scale operations.

Resource definition has been slow due to the extremely wet season delaying the arrival of vehicles and exploration equipment. However, since the arrival of the exploration equipment, which included pumps, jigs and a tractor-mounted auger drill, resource tonnages are being rapidly built up in the vicinity of the bulk sampling plant where there is evidence of historic artisanal workings. Grade information is now being developed using the bulk sampling plant, and diamonds which are currently being recovered, contribute to a parcel which will determine the value.

Exploration is concentrated around the plant and it is estimated that around 1 million m<sup>3</sup> of gravel are present within a 2km radius of the plant. Only a small portion of this resource has been drilled as yet and only a few hand-bulk samples were taken during the previous dry season. This resource is mainly in the Mbia River (Paleo-Kotto) floodplain and the Akongo River (a Dimbi Formation tributary) which are both very wet in the rainy season. This area represents less than 1% of the Prospecting Licence.

Near-surface and highly weathered samples taken from a discovery in the south of the concession in December 2006 have been analysed by independent laboratories as “mantle-derived” source rocks, believed to be either a kimberlite or a lamproite. Similar weathered, green, apparently “mantle-derived” rocks have also been recently discovered in the footwall of current bulk sampling activities some 30km from the original discovery.

These apparently “mantle-derived” source rocks are considered highly prospective and an exploration programme is underway to map, analyse and ultimately sample and, if justified, drill these occurrences.

Despite there having been widespread and significant production of diamonds for many years, it is noteworthy that no diamond-bearing source rocks have been discovered in the CAR to date.

On a more regional scale, evaluation of the Dimbi Formation has commenced about 4km east of the plant. In this setting, diamonds are found on the contact between red soil and sandstone bedrock. However, this contact zone can be up to 2m thick and is found to be extremely erratic.

In February 2007, the Group agreed to enter into a Mining Development Agreement (“MDA”) with the Department of Mines, Energy and Water Affairs in the CAR in respect of the Dimbi concession. The material features of this agreement are as follows:

- A phased payment amounting to US\$750,000 will be made to the CAR government over a 10 month period;
- The CAR government will acquire a 10% non-contributory participation interest in Dimbi Diamants; and
- Concessions on the importation of capital goods and services and tax incentives.

This comprehensive agreement covers much of the future operational and fiscal regime for the Dimbi concession and represents a significant strengthening of tenure in the CAR.

Dimbi Diamants successfully negotiated the reduction of a diamond royalty to US\$4.00 per carat which amount will be further reduced if the sales value per carat is less than US\$150 per carat.

## New Properties

The acquisition of a number of additional attractive properties was in the process of being investigated towards the end of 2006 and a number of these properties have now been secured. Specifically MDAs

have been entered into with the CAR Government in respect of the Etoile (3,000 km<sup>2</sup>) concession. This has dramatically increased the strategic interests of PDF in the CAR and activities in this project area will commence in earnest during 2007. Other prospective project areas are in the process of being evaluated and their tenure secured.

## DEMOCRATIC REPUBLIC OF CONGO

A general political stabilisation within the DRC over recent years as well as the highly prospective nature of the “Lucapa” corridor running from south-west to north-east from Lunda North in Angola through the Tshikapa area in the DRC and beyond, make this region an obvious target for diamond exploration. PDF is confident it has selected some first class target areas in the region.

Exploration activities in the DRC are being stepped up after a lull in the latter half of 2006 in the lead-up to the country’s elections. We are very encouraged by the successful elections which we hope bodes well for future foreign investment in the DRC.

Exploration was recommenced in December 2006 and an increased number of exploration staff were deployed to the DRC and a DRC country manager, based in Kinshasa, was appointed. A new logistics base has since been established near the airport in Tshikapa from which goods and services supplied to the field camps can be coordinated. New vehicles and equipment have been ordered and the pace of exploration will be determined by the delivery of the equipment.

Agreements regarding the Yusufu and Ikulu licences on the Longatshimo River have been revised, thereby strengthening and improving PDF’s tenure over the concessions.

Based on the sampling results to date, a decision was taken to commence a bulk sampling operation on the Yusufu and Ikulu properties about 50km south of Tshikapa airport. Field geologists have been re-deployed in this area and have identified a suitable plant site and construction has commenced. The design has been completed and quotations for the required plant and equipment are currently being received and an operational team is being put together. It is anticipated that the plant could be operational in the latter half of 2007.

Two field geologists have been deployed to the Mvula-Milenge and Dier Licences where a permanent camp is being established. Two jigs (now in Tshikapa) will be commissioned there and the evaluation of the terrace deposits will continue.

Another geologist will commence reconnaissance activities on the Kasai Licence and will also work on the Luebo Licences in due course.

## REPUBLIC OF SOUTH AFRICA

Despite having been mined extensively for diamonds over the past century or more, PDF management believes that South Africa still hosts significant untapped diamond resources. Specifically the recent changes in legislation have provided access to highly prospective areas otherwise sterilised in the past and in addition, many previously mined areas had not been subjected to any recent “brown-fields” exploration using modern techniques. PDF has exploited both of these opportunities to select and acquire a number of exciting target areas in South Africa. The Group companies which hold the prospecting permits comply with Black Economic Empowerment (“BEE”) requirements as determined by the South African legislation.

### Bakerville Project

The Bakerville area was the subject of a major diamond rush in the 1920s during which the declared diamond production was reported to be around 7.5 million carats. The Project areas are high potential extensions of the historical production areas which remained sterilised until the 2004 legislation changes provided a means to provide access to these properties.

There are two distinct sub areas within this project area: Patsema and Malmani. The Patsema area has similar potential to the high grade historical potholes and gravel runs at Bakerville. The Malmani area targets represent trap sites identified from following the extensions of the Patsema area gravel runs and potholes. All licence applications of interest have now been awarded and issued apart from one application, the Ventersdorp Block, which has not been granted and which property at this stage will not be pursued.

### Patsema area

Historic diamond production from this area has yielded diamond grades of the gravel runs of 5ct/100 ton, whilst that of the potholes is up to 500ct/100 ton or 5ct/ton. Consequently, this area is considered highly prospective and PDF’s focus is on identifying the high grade pothole resources. To date, less than 10% of the Patsema area has been investigated.

A ground gravity survey conducted on a portion of the farm Zamenkomst “downstream” from historical potholes, identified runs and ten potential pothole targets which were subsequently tested by the drilling of 415 boreholes. This drilling and subsequent follow-up in-fill drilling then confirmed the presence of at least four distinct pothole structures and numerous gravel runs containing significant gravel resources.

At least six more targets remain yet to be drilled. Our target is to find potholes similar to those mined historically, some of which have yielded up to 3.2 million carats. Targets outside the gravity survey area have also been drilled, yielding thin gravel runs on the farm Houthaaldoorns. Drilling is continuing.

On the farm Geluksdal, within the Patsema area, a kimberlite target was identified by geo-magnetic modelling and analysis and to date four holes were drilled into the postulated kimberlite. The holes were each drilled to a depth of about 50m before being abandoned after intersecting chert lenses and abundant gravels. While a kimberlite below the gravels cannot be ruled out until drilling has been able to penetrate this sequence, this target now appears at the very least to be a large pothole (more than 200m x 200m) and will be followed up as part of the Patsema pothole project, pending further investigation into a potential underlying kimberlite.

#### Malmani area

The Malmani area is an extension of the paleo-river system from Patsema. The extrapolation of the paleo-river system has been explored by means of a ground gravity survey over a portion of the ground and the use of historical drilling data to focus on target areas. At the time, potential trap sites were identified in locations where the projected paleo-rivers intersected the Black Reef Quartzite. Subsequent drilling of 229 holes (6,000m) confirmed the theory and delineated one large pothole and a separate and extensive gravel run on the project. Two bulk sample sites have been selected and a contract miner has commenced excavation. Progress has been hampered by hard calcrete overburden requiring more extensive drilling and blasting than was anticipated, however it is expected that gravels will be excavated and processed yielding results during the second quarter of 2007. The objective of this 1st phase of sampling is to qualitatively investigate the presence of diamonds only.

#### Harts River Project

The Harts River Project was identified by the PDF exploration team and represents a target area which had otherwise been overlooked in the past. The project consists of a number of large volume gravel deposits situated over a 200km plus stretch of the Paleo-Harts River and all licences in this project area have been granted.

The 1st phase bulk sampling programme which focused on the Brussels area commenced at the beginning of the year. Bulk sampling during the period January to July 2006 was done by contractors, for their own account and was monitored but not necessarily directed by PDF. The contractor's equipment was rented by PDF to continue sampling for a further three months under the specific direction of PDF geologists, to process specific horizons (within the up to 7m thick gravel package), separately to try to identify the optimal diamond bearing gravel. PDF's objective was to find a smaller but higher grade (around 0.5ct/100t) resource from the larger but lower grade resources currently identified. In this regard, recent work has delineated a specific gravel package referred to as "UCG" which has demonstrated a more attractive grade of around 0.47ct/100t from bulk sampling and with an average diamond selling price of between US\$1,100 and US\$1,500 per carat, which meets the target set. Approximately 250,000 tons of this UCG gravel horizon has been delineated on the current Brussels farm and bulk sampling targeting the UCG package has recently recommenced.

Importantly, the PDF Group has also been granted a very large licence adjacent to the Brussels farm on which a significant tonnage of the UCG gravel is present. Acceptable arrangements to access these properties are progressively being negotiated and agreed.

Another of the large gravel resource areas identified within the Harts River Project occurs on a property (Pampierstad) where the surface rights holders are the local tribal group. PDF holds the prospecting licence over this area together with the local tribe as its BEE partner. Negotiations are underway to appoint a local mining operator to commence bulk sampling on this block.

## Bloemhof Project

The Bloemhof Project occurs in an area of extensive alluvial mining activity and PDF identified prospective properties which in the past were subject to complex mineral rights arrangements. These were acquired as a result of the recent changes in legislation and Prospecting Permits over five blocks of farms have been granted to the underlying PDF Group companies. Negotiations are in progress with the respective surface rights owners for access to these farms.

## ANGOLA

### Project Cassanguidi

During the course of 2006 and more particularly in the latter part of the year, PDF played an increasingly greater managerial role over the Cassanguidi pilot mining operation. Daily headfeed throughput levels increased from 300m<sup>3</sup> per day in July to around 600m<sup>3</sup> per day by October with record diamond production of 3,096 carats in September. Subsequent to year end, production trends have continued to improve with > 4,000 carats produced in March 2007.

Unfortunately seasonal rains in November and December were much heavier than usual and caused major damage to national roads, which led to serious logistical problems in the Lunda Norte province. Access problems coupled with a general diesel shortage in Luanda caused the mine to cease operations for a week in November and for an extended period in December resulting in production losses.

Diamond sale prices through Sodiam (the marketing arm of Endiama, the state-owned diamond company) have been disappointing in the latter part of the year with net average revenues per carat after royalties dropping to an average of US\$109 per carat for the last three sales of 2006. Independent and in-house valuations suggest gross prices received reflect a 30-40% discount to market. This is a major concern to the Group and discussions regarding the sale and marketing procedures are ongoing to identify a more acceptable marketing arrangement.

Regional exploration activities have identified potential resources adequate for a possible capacity expansion, but any possible expansion is dependent on establishing a mechanism to secure sustainable market related diamond prices.

### Project Lumuanza

The bulk sampling campaign at Lumuanza was commenced in September with the commissioning of the 20tph Dense Medium Separation (“DMS”) plant as well as the delivery of earthmoving equipment and was focused on testing the grade in the current Mining Licence area. Coupled with this, a regional exploration campaign was initiated to further evaluate the potential in the Exploration Permit area.

Results from both these programmes were variable, with strip ratios generally higher than prior historic data and bulk sample grades were consistently below those reported in historic Diamang data. The viability of the project has now been re-evaluated using this new data and it has been concluded that the project returns are likely to be marginal for PDF.

Project Lumuanza remains a reasonably prospective exploration target. Notwithstanding this, the extremely high, imposed, structural project overheads, the prejudicial project risk/return shareholder participation and financing ratios and uncertainties regarding mechanisms to sell future output at market prices, combine to yield a result where PDF considers the potential future project returns do not justify continued exploration funding on risk.

Consequently, notice was given to Sociedade Mineira do Lumuanza (“Somilu”), the Angolan company in which PDF has an indirect 41% shareholding, that PDF would cease funding Project Lumuanza. Somilu’s shareholders are currently in the process of seeking other sources of funding. PDF is of the opinion that it has fulfilled its obligations in terms of the various agreements with Somilu.

Impairment losses attributable to Project Lumuanza, amounting to US\$2.93 million, have been recognised in full in the income statement.

Subsequent to year end, Dayspring Management Services (Pty) Ltd, a wholly owned subsidiary, agreed to sell its 41% shareholding in Somilu back to Somilu for a consideration of \$41,000, which has been received, and that Somilu would repay an amount of US\$1.4 million to Dorado in quarterly payments over two years, in full and final settlement of the outstanding loans.

## LESOTHO

### Lesotho Diamond Corporation (LDC) – Kao Project

Early in 2007, PDF was approached by key LDC shareholders holding a significant percentage of LDC’s share capital to acquire a strategic equity stake in the company. After a careful review of the Kao Kimberlite project, held by LDC, PDF considered a major stake in LDC to be a good strategic fit with existing assets.

PDF developed an offer to LDC shareholders which provides sufficient upside and hence attraction to LDC shareholders while providing protection to current PDF shareholders. To date PDF has secured

irrevocable acceptance for its offer from shareholders representing over 40% of the issued share capital of LDC.

The Kao Project is a significant undeveloped kimberlite project in the Maluti mountains of Lesotho with great potential.

## ENVIRONMENTAL, HEALTH AND SAFETY

Many of the project areas are in stages of exploration where the environmental impact is still minimal. Notwithstanding this, the Group undertakes to use all reasonable endeavours to ensure that it:

- implements an environmental management system which enables effective identification, management and monitoring of any risks and provides a framework for action;
- provides safe and healthy working conditions for its employees and contractors; and
- takes account of the impact of its operations on the local community and seeks to ensure that potentially harmful socio- economic, occupational and environmental effects are properly assessed, addressed and monitored.

In South Africa and the DRC, the submission of an Environmental Management Plan (“EMP”) is a prerequisite for the granting of a licence, consequently EMPs have, as a matter of course, been compiled and submitted to the relevant government departments in respect of the licences granted. Environmental Impact Assessments (“EIAs”) have also been conducted for all relevant DRC permits. A baseline environmental assessment has been performed on the Dimbi Project, and an exploration phase EMP is currently being implemented. Environmental and social impact assessments will be undertaken on all projects taking into account the size and resources of the projects and the requirements and practical restrictions prevailing in each location.

The Group operates in isolated rural areas in Africa where, in most cases, it is the major stimulus for economic activity in the region. For these operations to be sustainable in the short- and long term, the Group needs to be sensitive to the impact its operations have on both the natural and social environments. To this end, the Group:

- has a policy of rehabilitating areas on an ongoing basis as part of the exploration process; and
- has a policy of engaging and supporting the local communities by, for example, providing assistance to schools in the project area and assisting with medical emergencies.

Before projects develop into substantial operations, more detailed planning on environmental, health, safety and social impact will be undertaken as part of the various feasibility studies.

## PROSPECTS

The short- to medium-term objectives for PDF in the coming year are:

- progress the Dimbi bulk sampling project to a point where a representative sample of diamonds can be sold and a subsequent assessment of the viability of the project can be meaningfully considered;
- continue to evaluate the significant discoveries made already at Dimbi on potential kimberlite/lamproite source rocks;
- commence evaluation of the newly acquired properties in the CAR;
- construct and commission the Yusufu bulk sampling operation on the Longatshimo River in the DRC;
- progress the exploration activities on the other DRC properties to the point where a further bulk sampling operation can be considered;
- resolve concerns with the marketing situation with the Cassanguidi Project and further optimise output from Pilot Mining activities at this project;
- progress the Bakerville project areas, Malmani and Patsema exploration activities to the bulk sampling stage;
- develop the higher grade UCG resource at the Brussels area of the Harts River Project;
- evaluate the Pampierstad area of the Harts River Project; and
- pursue the strategic position developed to date in the Kao kimberlite project in Lesotho.

## ACKNOWLEDGMENTS

This last financial year has been an extremely busy one for the Company highlighted by the Admission to AIM in the last quarter. An extremely talented and dedicated team made possible what we achieved this year and I would like to thank all the staff for their efforts.

I am proud of our achievements this year and hope that our shareholders share our excitement about the future.

Rob Still

Chief Executive Officer

# Consolidated Annual Financial Statements 2006

## Consolidated Income Statement

for the year ended 31 December 2006

		<b>Group for the year ended 31 December 2006</b>	Group for the 10 months ended 31 December 2005
	Notes	US\$	US\$
Diamond revenue		<b>3,092,223</b>	–
Pilot mining operating expenditure		<b>(4,346,818)</b>	–
Exploration expenditure		<b>(8,216,349)</b>	(3,194,231)
Other operating expenses		<b>(1,567,220)</b>	(1,090,674)
Impairment losses attributable to Project Lumuanza	12	<b>(2,926,187)</b>	–
Equity-settled share-based payment transactions	13	<b>(1,286,011)</b>	–
<b>Operating losses</b>	15	<b>(15,250,362)</b>	(4,284,905)
Interest income		<b>395,525</b>	47,175
<b>Loss before taxation</b>		<b>(14,854,837)</b>	(4,237,730)
Taxation	16	-	-
<b>Loss for the period</b>		<b>(14,854,837)</b>	(4,237,730)
<b>Attributable to:</b>			
– Equity holders of the parent company		<b>(14,283,476)</b>	(3,812,789)
– Minority interests		<b>(571,361)</b>	(424,941)
		<b>(14,854,837)</b>	(4,237,730)
<b>Loss per share (US cents)</b>	17	<b>(15.63)</b>	(6.35)

# Consolidated Balance Sheet

at 31 December 2006

	Notes	Group 2006 US\$	Group 2005 US\$
<b>Assets</b>			
<b>Total non-current assets</b>		<b>10,711,152</b>	6,107,171
Mineral properties	5	<b>3,170,390</b>	3,222,749
Plant and equipment	6	<b>7,540,762</b>	1,680,422
Investment	7	–	1,150,000
Outside shareholders' loans	8	–	54,000
<b>Total current assets</b>		<b>26,640,943</b>	2,865,549
Other receivables		<b>547,245</b>	549,173
Bank and cash		<b>26,093,698</b>	2,316,376
<b>Total assets</b>		<b>37,352,095</b>	8,972,720
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	9	<b>585,415</b>	400,000
Share premium	9	<b>48,000,564</b>	9,937,708
Foreign currency translation reserve		<b>(156,530)</b>	(107,445)
Share-based equity reserves		<b>1,286,011</b>	–
Accumulated losses		<b>(17,632,063)</b>	(3,812,707)
Total equity attributable to equity holders of the Company		<b>32,083,397</b>	6,417,556
Minority interest		<b>327,990</b>	1,363,471
<b>Total equity</b>		<b>32,411,387</b>	7,781,027
<b>Total non-current liabilities</b>			
Non-interest bearing loans	10	<b>4,009,394</b>	610,045
<b>Total current liabilities</b>		<b>931,314</b>	581,648
Short-term loans	11	<b>727,041</b>	241,291
Trade and other payables		<b>204,273</b>	340,357
<b>Total equity and liabilities</b>		<b>37,352,095</b>	8,972,720



Shares issued for cash	400,000	9,937,708	(107,445)	–	(3,812,707)	(3,920,152)	1,363,471	7,781,027
Shares issued – acquisition of participation interest	50,000	9,950,000	–	–	–	–	–	<b>10,000,000</b>
Shares issued on AIM admission	3,000	597,000	–	–	–	–	–	<b>600,000</b>
Share issue expenses paid	132,415	29,720,639	–	–	–	–	–	<b>29,853,054</b>
Acquisition of additional shares in subsidiary		(2,204,783)	–	–	–	–	–	<b>(2,204,783)</b>
Share-based equity reserve	–	–	–	–	464,120	464,120	(464,120)	–
Foreign currency translation reserve	–	–	–	1,286,011	–	1,286,011	–	<b>1,286,011</b>
Loss for the period	–	–	(49,085)	–	–	(49,085)	–	<b>(49,085)</b>
<b>Balance at 31 December 2006</b>	<b>585,415</b>	<b>48,000,564</b>	<b>(156,530)</b>	<b>1,286,011</b>	<b>(17,632,063)</b>	<b>(16,502,582)</b>	<b>327,990</b>	<b>32,411,387</b>

## Consolidated Cash Flow Statement

for the year ended 31 December 2006

		<b>Group</b>	Group
		<b>2006</b>	2005
	Notes	<b>US\$</b>	US\$
<b>Cash flows from operating activities</b>			
Cash utilised by operations	18.1	<b>(9,009,869)</b>	(3,690,614)
Interest received		<b>395,525</b>	47,175
<b>Net cash flows from operating activities</b>		<b>(8,614,344)</b>	(3,643,439)
<b>Cash flows from investing activities</b>			
Plant and equipment acquired		<b>(5,387,994)</b>	(1,314,804)
Acquisition of subsidiary, net of cash	18.2.1	–	13,426
Acquisition of subsidiary, net of cash	18.2.2	<b>(1,985,310)</b>	(1,150,000)
Outside shareholders' loans granted		-	(54,000)
<b>Net cash flows from investing activities</b>		<b>(7,373,304)</b>	(2,505,378)
<b>Cash flows from financing activities</b>			
Shares issued for cash		<b>38,248,271</b>	7,700,407
Loans raised		<b>1,594,362</b>	456,199
<b>Net cash flows from financing activities</b>		<b>39,842,633</b>	8,156,606
<b>Increase in cash balances</b>		<b>23,854,985</b>	2,007,789
<b>Cash balances at beginning of the year</b>		<b>2,316,376</b>	359,972
<b>Foreign currency translation adjustment on cash</b>		<b>(77,663)</b>	(51,385)
<b>Cash balances at the end of the year</b>		<b>26,093,698</b>	2,316,376

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

## 1. Significant accounting policies

Pangea DiamondFields plc (“the Company”) is a company domiciled in the Isle of Man. The consolidated financial statements of the Company for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as “the Group”). The consolidated financial statements incorporate the principal accounting policies set out below.

### 1.1 Statement of compliance

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations adopted by the International Accounting Standards Board (“IASB”).

### 1.2 Basis of preparation

The consolidated financial statements have been prepared in US dollars on the historical cost basis except for financial instruments available for sale. The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The key area of judgement and estimates by management relates to the assessment of the continued viability of exploration projects in respect of which property acquisition costs and mineral and surface rights have been capitalised as mineral properties on the balance sheet.

### 1.3 Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial information presents the results of the Company and its subsidiaries (“the Group”) as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

### 1.4 Business combinations

The consolidated financial information incorporates the results of business combinations using the purchase method. In the consolidated balance sheet, the accounting acquiree's identifiable assets and liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

## 1.5 Foreign currency

The Company's functional currency is the US dollar (\$).

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

The results of foreign subsidiaries with a functional currency other than the US dollar are translated at the average rates of exchange during the period and their balance sheets are translated into US\$ at the rates of exchange ruling on the balance sheet date. Exchange differences which arise from translation of the opening net assets and results of foreign subsidiary undertakings and from translating the income statement at an average rate are taken to reserves.

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

## 1.6 Exploration and development expenditure

Exploration and development costs are expensed as incurred. If it is subsequently established that a project has reached an economically viable stage then all further pre-production expenditure is capitalised. Costs related to property acquisition and mineral and surface rights are capitalised as mineral properties.

If a project in respect of which project acquisition costs or mineral and surface rights have been capitalised is subsequently considered not viable and is abandoned, the amount capitalised will be written off in the income statement.

Amortisation commences in the first year of commercial production after which amortisation is provided over the time contemplated for the economic extraction of the resource.

## 1.7 Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 1.8 Investments

Investments in unlisted entities over which the Group is unable to exercise significant influence are stated at fair value. The fair value gains and losses arising on investments classified as available for sale securities are recognised directly in equity, except for impairment losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity shall be recognised in profit or loss.

## 1.9 Plant and equipment and depreciation

Depreciation is provided on all tangible assets to write off the cost to its estimated residual value over its expected useful life on a straight-line basis on the following bases:

Plant and equipment	8 – 10 years
Vehicles	3 years
Furniture and office equipment	8 – 10 years

The residual value, if not insignificant, is reassessed annually.

## 1.10 Deferred taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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 tax computations, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the enacted or substantially enacted tax rates that are expected to apply in the period when the liability is settled or the asset is realised. 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 it is also dealt with in equity.

## 1.11 Long-term environmental rehabilitation provisions

The Group is required to restore exploration and mining sites at the end of the project lives to a condition acceptable to the relevant authorities and in terms of the Group's environmental policy.

The cost of any committed decommissioning or restoration programme is provided when the liability arises and is capitalised. The capitalised cost is amortised over the productive life of the operation on a straight-line basis.

## 1.12 Financial instruments

### Recognition and de-recognition of financial instruments

Financial instruments are recognised when, and only when, the Group becomes a party to the contractual provisions of the particular instrument.

The Group de-recognises a financial asset when, and only when, the contractual rights to the cash flows arising from the financial asset have expired or have been forfeited by the Company or it transfers the financial asset including substantially all the risks and rewards of ownership of the asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retains control of the asset.

A financial liability is de-recognised when, and only when, the liability is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or has expired.

All financial instruments are recognised and de-recognised using trade date accounting.

The difference between the carrying amount of a financial liability (or part thereof) extinguished or transferred to another party and consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

#### Measurement

Financial instruments are initially measured at fair value, which includes transaction costs, except for instruments measured at fair value through profit and loss, for which transaction costs are not included. Subsequent to initial recognition these instruments are measured as set out below.

#### Other receivables

Other receivables are stated at cost less impairment losses.

#### Cash and cash equivalents

Cash and cash equivalents are measured at fair value at balance sheet date.

#### Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation. Interest expense, if any, is calculated and recognised in the income statement, using the effective interest rate method.

#### Trade and other payables

Trade and other payables are stated at cost.

Non-interest bearing loans

Non-interest bearing loans that have no fixed term of repayment are stated at cost.

#### 1.13 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

#### 1.14 Revenue

Revenue from the sale of diamonds is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return from diamonds can be estimated reliably, and there is no continuing management involvement with the diamonds.

#### 1.15 Interest income

Interest income is recognised in the income statement as it accrues, using the effective interest method.

#### 1.16 Borrowing costs

Borrowing costs are not capitalised.

#### 1.17 Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

### 1.18 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group currently has one primary segment, which is exploration activities. Its secondary segment classification is based on the geographical location of the exploration projects.

### 1.19 Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises share options granted to employees or consultants.

## 2. Forthcoming requirements

At the date of authorisation of these consolidated financial statements, there are Standards and Interpretations in issue that are not yet effective. The directors have considered all of these Standards and Interpretations and found none to be applicable to the business of the Group and therefore expect none to have an impact on future financial statements.

## 3. Segment reporting

Segment information is presented in respect of the Group’s business and geographical segments. The primary format, business segments, is based on the Group’s management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

#### Business segments

The Group has a single business segment, exploration activities. Accordingly no primary business segment disclosure has been provided as it would mirror the amounts disclosed in the balance sheet, income statement and cash flow statement.

#### Geographical segments

The Group currently only has major exploration projects in Africa. The exploration activities are located in Angola, the Democratic Republic of Congo (“DRC”), Central African Republic (“CAR”) and South Africa.

In presenting information on the basis of geographical segments, segment assets are based on the geographical location of the assets.

	<b>Total</b>	<b>Angola</b>	<b>DRC</b>	<b>CAR</b>	<b>South Africa</b>
<b>at December 2006</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Total assets	<b>11,425,512</b>	<b>6,008,458</b>	–	<b>3,277,474</b>	<b>2,139,580</b>
Cash utilised by operating activities	<b>5,714,507</b>	<b>519,169</b>	<b>990,390</b>	<b>2,419,818</b>	<b>1,785,130</b>
Cash utilised by investing activities	<b>7,204,017</b>		–	<b>3,166,961</b>	–
Cash generated by financing activities	<b>1,844,362</b>	<b>1,844,362</b>	–	–	–
Capital expenditure	<b>5,218,707</b>	<b>2,051,746</b>	–	<b>3,166,961</b>	–
Revenue	<b>3,092,223</b>	<b>3,092,223</b>	–	–	–

	<b>Total</b>	<b>Angola</b>	<b>DRC</b>	<b>CAR</b>	<b>South Africa</b>
<b>at December 2005</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Total assets	6,600,263	4,570,050	97,515	13,000	1,919,698
Cash utilised by operating activities	3,520,807	1,750,375	817,966	270,197	682,269
Cash utilised by investing activities	2,505,379	2,394,864	97,515	13,000	–

Cash generated by financing activities	456,199	456,199	–	–	–
Capital expenditure	1,314,805	1,204,290	97,515	13,000	–

The following items have not been allocated to any of the geographical locations as they relate to the corporate head office located in the Isle of Man:

	<b>2006</b>	2005
	<b>US\$</b>	US\$
Total assets	<b>25,926,583</b>	2,372,457
Cash utilised by operating activities	<b>3,295,362</b>	122,631
Cash utilised by investing activities	<b>169,287</b>	–
Cash generated by financing activities	<b>37,998,271</b>	7,700,407

#### 4. Acquisition of increased shareholding in Pangea Diamonds (Pty) Ltd

With effect from 1 August 2006, the Group increased its shareholding in Pangea Diamonds (Pty) Ltd (“Pangea Diamonds”) from 51% to 74% for a consideration of US\$1,200,000 settled by the issue of shares. As a result of the additional capital injection into Pangea Diamonds, the remaining shareholder’s interest in the entity diluted to become that of a minority shareholder.

In March 2005, prior to the date of the reverse acquisition, Efidium acquired a 51% shareholding in Pangea Diamonds by subscribing for additional shares in the company. The fair value of the assets in the acquired company prior to the additional capital injection have been assessed and are summarised below:

	<b>Book value</b>	<b>Fair value adjustments</b>	<b>Fair value at acquisition on date</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Assets</b>			
Mineral properties	819,592	847,763	1,667,355
Plant and equipment	62,041	–	62,041
Receivables	16	–	16
<b>Total assets acquired</b>	<b>881,649</b>	<b>847,763</b>	<b>1,729,412</b>

	<b>Group</b>	Group
	<b>2006</b>	2005
	<b>US\$</b>	US\$
<b>5. Mineral properties</b>		
Balance at the beginning of the year	<b>3,222,749</b>	–
Impairment charge for the year	<b>(1,609,444)</b>	–
Acquisition of businesses – South African projects	–	1,667,355
Somilu Project – Angola	–	1,609,444
Sub Sahara – Angola	<b>1,530,516</b>	–
Foreign currency translation differences	<b>26,569</b>	(54,050)
<b>Carrying value at the end of the year</b>	<b>3,170,390</b>	<b>3,222,749</b>

	<b>Group</b>	Group
	<b>2006</b>	2005
	<b>US\$</b>	US\$
<b>6. Plant and equipment</b>		
<b>Carrying value</b>		
Plant and equipment	<b>7,009,725</b>	1,446,642
Vehicles	<b>381,049</b>	171,785
Furniture and office equipment	<b>149,988</b>	61,995
	<b>7,540,762</b>	1,680,422
<b>Cost</b>		
Balance at the beginning of the year	<b>1,765,228</b>	–
Acquisition of businesses	<b>3,454,053</b>	452,434
Additions:	<b>5,387,994</b>	1,314,804
Plant and equipment	<b>4,955,716</b>	1,146,369
Vehicles	<b>309,788</b>	155,042
Furniture and office equipment	<b>122,490</b>	13,393
Impairment charge for the year	<b>(1,679,164)</b>	–
Foreign currency translation differences	<b>2,010</b>	(2,010)
<b>Balance at the end of the year</b>	<b>8,930,121</b>	1,765,228
<b>Accumulated depreciation</b>		
Balance at the beginning of the year	<b>84,806</b>	–
Depreciation charge:	<b>1,745,960</b>	84,806
Plant and equipment	<b>1,492,759</b>	34,651
Vehicles	<b>94,757</b>	42,819
Furniture and office equipment	<b>158,444</b>	7,336
Impairment charge for the year	<b>(441,407)</b>	–
<b>Balance at the end of the year</b>	<b>1,389,359</b>	84,806
<b>Movement</b>		
Carrying value at the beginning of the year	<b>1,680,422</b>	–
Acquisition of businesses	<b>3,454,053</b>	452,434
Additions	<b>5,387,994</b>	1,314,804
Impairment charge for the year	<b>(1,237,757)</b>	–
Depreciation	<b>(1,745,960)</b>	(84,806)
Foreign currency translation differences	<b>2,010</b>	(2,010)
<b>Carrying value at the end of the year</b>	<b>7,540,762</b>	1,680,422
<b>7. Investment</b>		
Investment in Sub Sahara Investimentos e Consultoria Limitada (“Sub Sahara”)	–	1,150,000

	<b>Group</b>	Group
	<b>2006</b>	2005
	<b>US\$</b>	US\$
<b>8. Outside shareholders’ loans</b>		

Loan to Empresa Nacional de Diamantes E.P ("Endiama")	<b>36,000</b>	36,000
Loan to Sociedade de Representacoes Lunda- Norte SARL (Soreluno")	<b>18,000</b>	18,000
	<b>54,000</b>	54,000
Less: Impairment losses	<b>(54,000)</b>	–
	–	54,000

## 9. Share capital and share premium

### Share capital

#### Authorised

2006: 200,000,000 shares at US\$0.005 cents  
each)

(2005: 100,000,000 shares at US\$0.01 cents  
each) **1,000,000** 1,000,000

#### Issued

2006: 117,083,051 shares issued at US\$0.005  
cents each

(2005: 40,000,000 shares issued at US\$0.01  
cents each) **585,415** 400,000

### Reconciliation of the share movement for the year ended 31 December 2006

	Price per share US\$	Number of shares	Total consideration US\$
Efidium share capital at reverse acquisition (see note below*)			3,285,295
On incorporation, for cash	0.01	200	2
To acquire Efidium		499,900	3,651
To acquire Dorado	4.55	499,900	2,273,760
Shares issued from share premium		34,000,000	–
Shares issued for cash	1.00	5,000,000	5,000,000
Share issue expenses			(225,000)
<b>Balance at 31 December 2005</b>		<b>40,000,000</b>	<b>10,337,708</b>
Shares issued pre-AIM admission	2.00	<b>5,300,000</b>	<b>10,600,000</b>
Total shares in issue		<b>45,300,000</b>	<b>20,937,708</b>
Share split of 1:1		<b>45,300,000</b>	–
Total shares in issue after share split		<b>90,600,000</b>	<b>20,937,708</b>
Shares issued at AIM admission net of costs	1.13	<b>26,483,051</b>	<b>29,853,054</b>
Share issue expenses			<b>(2,204,783)</b>
<b>Balance at 31 December 2006</b>		<b>117,083,051</b>	<b>48,585,979</b>

\* The amount recognised as issued equity in these consolidated financial statements has been determined by adding the issued equity balance of the legal subsidiary, Efidium, immediately before the reverse acquisition, with the cost of the acquisition of the Company amounting to \$3,651. This share capital and share premium of Efidium Limited on the acquisition date amounted to US\$3,285,295. Any shares issued by the Company subsequent to the reverse acquisition date have been included in share capital and share premium.

The equity structure in terms of the number of authorised and issued shares appearing in this note reflects the equity structure of the legal parent, Pangea DiamondFields plc.

	Group	Group
	2006	2005
	US\$	US\$
<b>10. Non-interest bearing loans</b>		
Chartered Holdings Limited ("Chartered Holdings") (refer note 19)	148,125	148,125
Dayspring Holdings (Pty) Ltd ("Dayspring") (refer note 19)	74,668	211,920
Luembe Mining (Pty) Ltd (refer note 19)	3,786,601	–
Sociedade de Comercializacao de Diamantes de Angola ("Sodiam")	–	250,000
	<b>4,009,394</b>	<b>610,045</b>
The loans are unsecured, interest-free and with no fixed terms of repayment. The Group cannot avoid the obligation to repay these loans, accordingly they are classified as liabilities.		
<b>11. Short-term loans</b>		
The short-term loans are non-interest bearing and are payable on demand	727,041	241,291
<b>12. Impairment losses attributable to Project Lumuanza</b>		
Mineral properties	1,609,444	–
Plant and equipment	1,237,757	–
Other loans	78,986	–
	<b>2,926,187</b>	<b>–</b>
<b>13. Equity-settled share-based payment transactions</b>		
Equity-settled share-based payment transactions recognised in the income statement	1,286,011	–

**Executive Share Option Plan ("ESOP")**

The Company adopted an ESOP with effect from March 2006 that was formally approved by the board of directors on 7 July 2006. The Company offers any suitable person who is either a bona fide employee (including directors) of any member of the Group, or has provided or is providing services to the Group, the right to participate in the ESOP.

The vesting period shall, unless the Remuneration committee decides otherwise, be one year in respect of one-third of the Shares under option, two years in respect of the next one-third and three years in respect of the remainder.

The number and exercise prices of share options is as follows:

Details of outstanding share options at 31 December 2006:

Recipients	Expiry date	Exercise price (US\$)	Granted	Exercised	Outstanding
Executive management	7 July 2016	0.625	7,400,000	–	7,400,000
Consultants	7 July 2016	0.625	800,000	–	800,000
Staff	7 July 2016	0.625	600,000	–	600,000

**8,800,000**                      –                      **8,800,000**

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial lattice model. The contractual life of the option (10 years) is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

13. **Equity-settled share-based payment transactions**  
(continued)

Fair value of share options and assumptions

	<b>Executive management and staff 2006</b>	<b>Consultants 2006</b>	Executive management and staff 2005	Consultants 2005
Fair value at measurement date	<b>0.56</b>	<b>0.56</b>	–	–
Share price (US\$)	<b>1.20</b>	<b>1.20</b>	–	–
Exercise price (US\$)	<b>0.625</b>	<b>0.625</b>	–	–
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	<b>30%</b>	<b>30%</b>	–	–
Option life (expressed as weighted average life used in modelling under binomial lattice model)	<b>9.6 years</b>	<b>9.6 years</b>	–	–
Expected dividends	–	–	–	–
Risk-free interest rate (based on US national government bonds)	<b>4.6%</b>	<b>4.6%</b>	–	–

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

	<b>Group 2006 US\$</b>	Group 2005 US\$
<b>14. Directors' remuneration</b>		
<b>Executive directors</b>	<b>439,090</b>	72,000
– for services as a director	<b>25,050</b>	–
– for executive services	<b>414,040</b>	72,000
<b>Non-executive directors</b>		
– for services as a director	<b>88,750</b>	30,000
	<b>527,840</b>	102,000

**15. Operating losses**

Operating losses are stated after accounting

for the following:

Depreciation – plant and equipment	<b>1,745,960</b>	84,806
Foreign exchange (gains)/losses	<b>(86,440)</b>	5,266
Salaries and wages	<b>2,154,828</b>	667,171
Audit fees – prior year	<b>25,414</b>	–

**16. Taxation**

No provision for income taxation has been made as all of the Group's operations are currently in a tax loss position. Computed tax losses on which no deferred tax assets were raised because of

uncertainty regarding their utilisation

– Company

–

–

– Subsidiaries

**8,500,000**

**3,598,881**

---

**8,500,000**

---

**3,598,881**

---

	<b>Group</b>	Group
	<b>2006</b>	2005
	<b>US cents</b>	US cents

**17. Loss per share**

The loss per share for the Group has been calculated using the weighted average number of shares in issue during the period. The weighted average number of shares in the period was 91,403,915 (2005: 60,000,000, restated after share split of 1:1) and the loss after tax for the Group was \$14,283,476 (2005: \$3,812,789)

<b>(15.63)</b>	(6.35)
----------------	--------

**Diluted loss per share**

Due to the losses incurred during the year, a diluted loss per share has not been calculated as this would serve to reduce the basic loss per share.

	<b>Group</b>	Group
	<b>2006</b>	2005
	<b>US\$</b>	US\$

**18. Notes to the cash flow statement**

**18.1 Cash utilised by operations**

Loss before taxation	<b>(14,854,837)</b>	(4,237,730)
Less interest received	<b>(395,525)</b>	(47,175)
Adjustments for non-cash flow items:		
Depreciation of plant and equipment	<b>1,745,960</b>	84,806
Equity-settled share-based payment transactions	<b>1,286,011</b>	–
Impairment losses attributable to Project Lumuanza	<b>2,926,187</b>	–
Adjusted for changes in working capital:		
Increase in other receivables	<b>(2,058)</b>	(57,918)
Increase in short-term loans	<b>485,750</b>	241,291
(Decrease)/increase in trade and other payables	<b>(201,357)</b>	326,112
	<b>(9,009,869)</b>	(3,690,614)

	<b>Group</b>	Group
	<b>2006</b>	2005
	<b>US\$</b>	US\$

**18. Notes to the cash flow statement (continued)**

## 18.2 Changes in the Group

18.2.1 Acquisition of subsidiary – Dorado Investments Limited – 13,426

### Investments Limited

Effective 1 July 2005, the Group acquired all the issued share capital of Dorado Investments Limited. The fair value of the assets of the Dorado Group were assessed and are summarised as follows:

	<b>Book value</b>	<b>Fair value adjustments</b>	<b>Fair value at acquisition</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Assets</b>			
Mineral properties	5,000	1,604,444	1,609,444
Plant and equipment	390,393	–	390,393
Receivables	487,588	–	487,588
Bank and cash	13,426	–	13,426
	<b>896,407</b>	<b>1,604,444</b>	<b>2,500,851</b>
<b>Liabilities</b>			
Outside shareholders' interest	59,000	–	59,000
Loans	153,846	–	153,846
Payables	14,245	–	14,245
	<b>227,091</b>	<b>–</b>	<b>227,091</b>
Net assets acquired	669,316	1,604,444	2,273,760
Consideration – shares issued			(2,273,760)
Issue of 499,900 shares			
Cash acquired			13,426
Net cash flow on acquisition			13,426

	<b>Group</b>	Group
	<b>2006</b>	2005
	<b>US\$</b>	US\$
<b>18. Notes to the cash flow statement (continued)</b>		
<b>18.2 Changes in the Group (continued)</b>		
18.2.2 Acquisition of subsidiary – Sub Sahara	<b>1,985,310</b>	1,150,000
With effect from 31 December 2005, the Group acquired an additional 24% of Sub Sahara, bringing its total interest in the company to 50%.		
Mineral properties	<b>1,530,516</b>	–
Plant and equipment	<b>3,454,053</b>	–
Other receivables	<b>21,000</b>	–
Trade and other payables	<b>(65,273)</b>	–
Long-term borrowings	<b>(1,804,986)</b>	–
Cash on hand	<b>14,690</b>	–
Net asset value	<b>3,150,000</b>	–
Less: Investment acquired in prior year – 26%	<b>(1,150,000)</b>	–
Acquisition of additional 24% of Sub Sahara	<b>2,000,000</b>	-
Purchase consideration paid	<b>2,000,000</b>	1,150,000
Less: cash acquired	<b>(14,690)</b>	-
	<b>1,985,310</b>	1,150,000

## 19. Related party transactions

### Identification of related parties

The Group has related party relationships with:

- its subsidiaries
- certain of its shareholders,
- associates of certain shareholders
- the directors of the Company and
- Pangea Exploration (Pty) Ltd (“Panex”).

Chartered Holdings Limited (“Chartered Holdings”) and Dayspring Holdings (Pty) Ltd (“Dayspring”)

The Group has transactions with Chartered Holdings and Dayspring. Dayspring is a company associated with Chartered Holdings, which, in turn, is a shareholder of the Company.

Pangea Exploration (Pty) Ltd

Panex performs technical and administrative services and provides infrastructural and purchasing facilities on behalf of the Group in terms of a service agreement entered into between the Company and Panex for which it receives a management fee. Mr RG Still has an indirect interest, and Brait

South Africa Limited, an associate of Brait International Limited, a shareholder, has direct interests in Panex.

Luembe Mining (Pty) Ltd (“Luembe”)

The Group has a related party relationship with Luembe. Luembe is a shareholder of Sub Sahara.

Marsanto-Pesca e Sua Industrializacao I Exportacao Lda (“Marsanto”)

The Group has a related party relationship with Marsanto, the holder of the mining licence over the Project Cassanguidi area. Sub Sahara provides capital and technical expertise to Marsanto in return for an agreed percentage of the net profits so derived.

	<b>Group</b>	Group
	<b>2006</b>	2005
	<b>US\$</b>	US\$
<b>19. Related party transactions (continued)</b>		
<b>Transactions with related parties</b>		
<b>Reimbursement of direct project costs on behalf of the Group with no mark-up</b>	<b>3,209,074</b>	1,041,124
– Chartered Holdings	–	148,125
– Dayspring	–	211,920
– Panex	<b>3,089,703</b>	681,079
– Luembe	<b>59,371</b>	–
– Marsanto	<b>60,000</b>	–
Capital expenditure		
– Luembe	<b>990,807</b>	–
Loans receivable		
– Chartered Holdings	<b>294,838</b>	279,742
Loans payable	<b>4,571,010</b>	601,336
– Chartered Holdings	<b>148,125</b>	148,125
– Dayspring	<b>74,668</b>	211,920
– Panex	<b>442,246</b>	241,291
– Luembe	<b>3,845,971</b>	–
– Marsanto	<b>60,000</b>	–
During the year, the Group acquired a further 23% interest (2005: 51%) in Pangea Diamonds for a consideration of US\$1.2 million (2005: US\$1.8 million).		
<i>Material transactions</i>		
Management fees paid to Panex	<b>420,000</b>	42,000
Directors of the Company		
All amounts paid to the directors of the Company are disclosed in note 14.		

## 20. Financial instruments

The Group's financial instruments, other than its investments, comprise cash, loans and items directly arising from its operations such as trade creditors. The Group has overseas subsidiaries in South Africa whose expenses are denominated in South African Rand. The Group has no specific policy to manage foreign exchange risk from a Group perspective.

As at 31 December 2006, the Group had a cash balance of US\$26,093,698 (2005: US\$2,316,376), which was being held in deposit accounts at the Royal Bank of Scotland and ABSA Bank Limited (South Africa). There is no material difference between the book value and the fair value of the Group's cash.

The Group has no interest rate risk as all cash balances earn interest at variable rates.

## 21. Post-balance sheet events

The following material events have occurred subsequent to year end:

- The Group sold its 41% shareholding in Somilu back to Somilu for a consideration of US\$41,000, and Somilu agreed to repay an amount of US\$1.4 million, payable in quarterly instalments over a period of two years, in full and final settlement of Somilu's loan to Dorado. In these consolidated financial statements, these loans have been impaired in full in the income statement. All income will be accounted for on a cash receipts basis.

- PDF has conditionally offered to acquire a strategic stake in Lesotho Diamond Corporation plc ("LDC"), for the following consideration:

- a cash payment of 8p per LDC share; and

- one PDF warrant for every 3.75 LDC shares

- subject to certain terms and conditions.

- Panex has agreed with Efidium Limited that if it exercises its option to acquire the remaining 26% of Pangea Diamonds after 30 June 2007, but before 30 June 2008, it may do so at a price of US\$2.2 million. The current option is exercisable by 30 June 2007 at a price of US\$1.75 million.

## 22. Contingent liabilities

The arbitration between Dayspring Management Services (Pty) Ltd ("DMS"), a wholly-owned subsidiary of the Group, and Mr. Roberto Santorelli, in terms of which Mr. Santorelli is claiming US\$1.25 million, is still ongoing. Chartered Holdings Limited, a company incorporated in Mauritius, and a shareholder of the Company, has indemnified the Company and the Group against any losses, expenses, claims or damages of whatsoever nature which may be suffered by the Group arising out of and/or in connection with such proceedings.

The directors of DMS, after legal consultation, are of the opinion that the likelihood of the arbitration succeeding against DMS is highly unlikely. Consequently, no provision has been made for this amount.

## Notice of Annual General Meeting

Pangea DiamondFields plc

Notice is hereby given that the Annual General Meeting of the Company will be held at Falcon Cliff, Palace Road, Douglas, Isle of Man IM2 4LB, British Isles on 22 June 2007 at 12.00 noon.

### SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

That the pre-emption rights in Article 6.1 of the Company's Articles of Association shall not apply to the first allotments of equity securities after the date of this resolution (other than under Articles 6.2.1 or 6.2.2) of up to US\$100,000 nominal value, such US\$100,000 amount to include and not be in addition to the amount of US\$50,000 referred to in Article 6.2.4 of the Company's Articles of Association.

### ORDINARY BUSINESS

1. To receive and adopt the Reports of the Directors and Auditor and the Consolidated Financial Statements for the year ended 31 December 2006.
2. To elect directors of the Company:

The following directors retire in accordance with the Company's Articles of Association and being eligible, offer themselves for re-election:

- (a) Mr Dewald Lambertus Joubert
  - (b) Mr Robert George Still
3. To re-appoint KPMG as Auditor of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the directors to fix their remuneration.

By Order of the Board

MC Weipers

Secretary

7 May 2007

Registered Office

Falcon Cliff

Palace Road

Douglas

Isle of Man

IM2 4LB

## NOTES

1. A member of the Company entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company. A form of proxy is enclosed with this notice. Instructions for use are shown on the form. A form of proxy must be received by the Company's Registrars, Maitland Services Limited, no later than 12.00 noon on 20 June 2007. Completion and return of a form of proxy does not preclude a member from attending and voting in person.
2. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that in order to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the Company by no later than 12.00 noon on 20 June 2007, being not more than 48 hours before the time fixed for the meeting. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
3. The Register of Directors' Interests in the share capital and debentures of the Company, together with copies of service agreements under which directors of the Company are employed, are available for inspection at the Company's Registered Office during normal business hours from the date of this notice until the date of the Annual General Meeting and will also be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

END