

INITIATION | COMMENT

MAY 14, 2008

Pangea DiamondFields (AIM: PDF)
Alluvial Leverage in Central and Southern Africa

Outperform
Speculative Risk

Price:	51.50	Price Target:	70.00
Shares O/S (MM):	133.8	Implied All-In Return:	35.9%
Dividend:	0.00	Market Cap (MM):	69
		Yield:	0.0%

Market Cap in GBP

Initiating Coverage with Outperform Recommendation

Investment Opinion

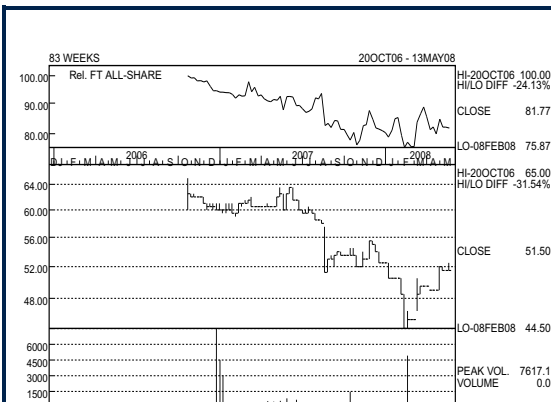
- Pangea has eight alluvial projects in four countries, with six of them already at or exceeding the bulk sampling stage by the end of Q1/08. The most advanced projects are in Angola, the Central African Republic (CAR) and the Democratic Republic of Congo (DRC). These projects could become mines within the next 18 months.
- The company has a strong management team at the centre and on the ground in all of its project areas. The directors have a long history of involvement with junior mining projects, including Zimplats and Southern Mining (Corridor Sands).
- Pangea has sufficient funds to meet short-term exploration and development needs, but it will need to raise capital before the end of this year to finance the commissioning of plant and equipment in Angola, the CAR and DRC.
- The major risks facing Pangea are geological and political, rather than being related to the diamond market, where prices are still strong. Alluvial properties in the DRC and CAR have proven to be disappointing for other operators. Pangea, however, has a conservative approach to exploration and promptly relinquishes ground where prospects appear poor. As for politics, Angola, the CAR and the DRC are not easy environments in which to operate, with corruption and the ever-present threat from artisanal miners.
- We have modelled production building up from 79,000 ct in 2009 to 450,000 ct in 2010 as Pangea's three most advanced projects are brought into production.
- Pangea, being close to production, is in a strong position to participate in the consolidation of the junior mining sector, in our opinion.

Valuation

We have valued three of Pangea's most advanced projects as conceptual mines and accorded a multiple to in-situ resources at the exploration properties to come to an add-up value. In arriving at our £0.70/share target price we have discounted the NPV of the "mines" by 20% to take into account the lack of certainty over resources and production levels. We have also assumed that Pangea will fund the development of the mines largely through equity, with an additional \$28 million raised through the issue of shares.

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

For Required Disclosures, please see Page 12.



Royal Bank of Canada Europe Limited

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FY Dec	2007A	2008E	2009E	2010E
Prod.	0	22	79	452
Revenue (MM)	4.8	1.9	9.4	70.1

All market data in GBP; all financial data in USD.

Details

We are initiating coverage of Pangea DiamondFields with a target price of £0.70 per share and a recommendation of Outperform, Speculative Risk. Our valuation is based on DCF models for three projects, using short lives for mines (less than 7 years) and a multiple of in-situ value for the exploration/development projects.

Share Price Drivers

Bringing at least three projects to production: We have assumed that three of Pangea's eight projects will develop into short-life diamond mines over the next 18 months.

Raising sufficient capital: Pangea's progress toward becoming a diamond producer is dependent on raising additional funds.

Diamond prices: We have assumed that real diamond prices will increase 4% per year over the life of the projects. This is in line with the projection from WWW International Consultants, one of the leading diamond valuers in the sector.

Retaining key personnel: Pangea has built an experienced team of geologists, engineers and mining contractors who are critical to success in the regions in which it operates.

Corporate action: The junior diamond sector has been undergoing consolidation and further consolidation is likely, which may involve Pangea.

Political issues in host countries: Pangea operates in countries that have had a history of political turbulence. Bringing mines into production is dependent on continued stability in these countries.

Mining and processing costs, particularly oil prices: Diesel is a critical component of Pangea's cost base, which renders the company vulnerable to interruptions in the availability of fuel and to rising prices.

NAV and Target Price

In Exhibit 1 we detail our add-up value for Pangea based on DCF models of three projects (Dimbi, Cassanguidi and Longatshimo), to which we have added a percentage (4%) of the value of the in-situ resources at other projects where inferred resources have been published. We have also included the \$15 million in cash raised earlier this year in a private placing, assuming that \$5 million has been spent to date.

Exhibit 1: Add-Up Value of Pangea

\$m	2008E	2009E	2010E	2011E	2012E	2013E
DCF value of mines (8%)	113	154	184	194	205	206
In-situ resources value (7%)	54	54	54	54	54	54
Cash/investments	10	10	10	10	10	10
Less Head office	-3	-3	-3	-3	-3	-3
Total	174	215	245	254	266	267
Per share (£)	0.65	0.80	0.92	0.95	0.99	1.00
Target price (£)	0.57	0.70	0.79	0.81	0.85	0.85

Source: RBC Capital Markets estimates

Our target price assumes a 20% discount to the DCF of the mines and that new funds totalling \$28 million will be raised over the next two years to bring the mines into production. It should be noted that if we increase the lives of the mines by five years it would add £0.21/share (+30%) to our NAV and £0.19/share to our target price, which gives an indication of the potential uplift should Pangea be able to develop additional resources close to the three projects that we have assumed will become mines. The potential additional mine life shown in Exhibit 2 below relates only to the Dimbi and Longatshimo projects, not Cassanguidi in Angola, where life of mine extensions are less likely.

Exhibit 2: Add-Up Value of Pangea Using Additional Five Years' Mine Life (\$MM)

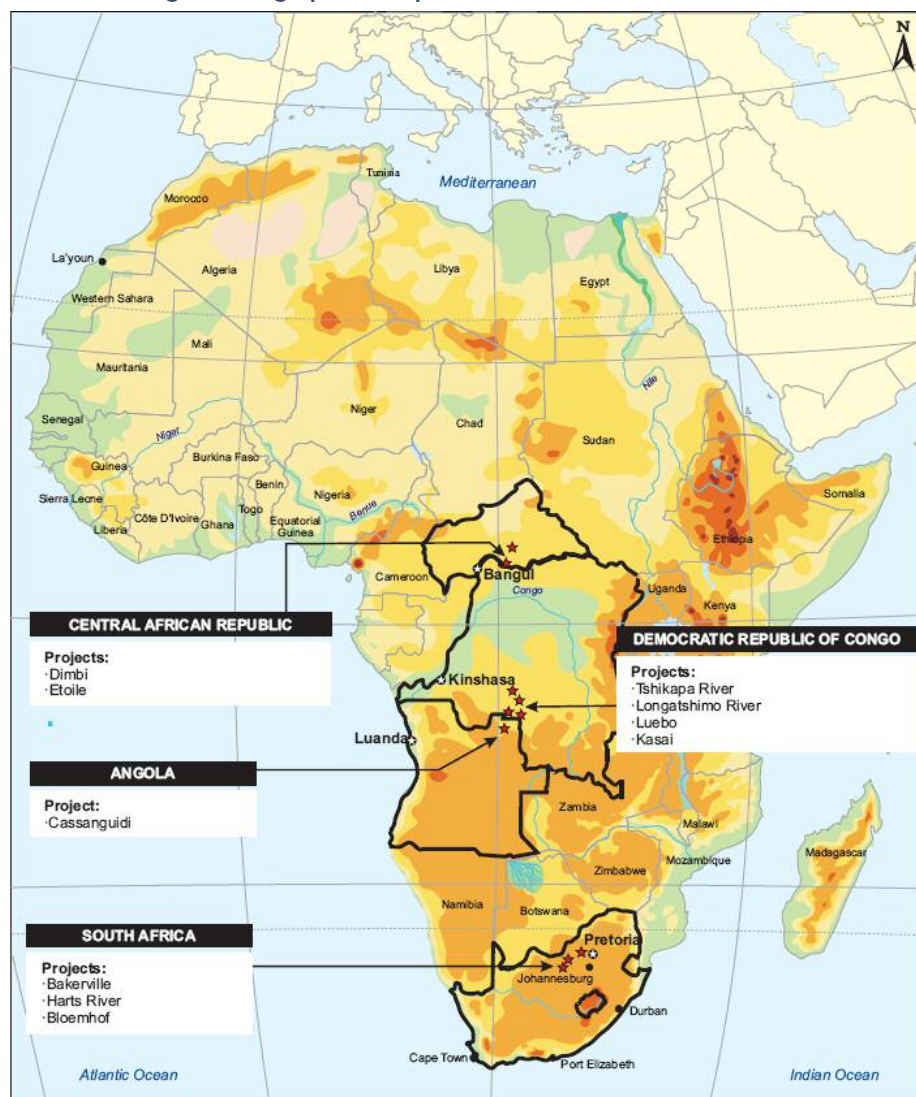
	2008E	2009E	2010E	2011E	2012E	2013E
TOTAL DCF assuming five more years	191	224	229	222	212	199
Add in-situ values	54	54	54	54	54	54
Cash/investments	10	10	10	10	10	10
Less Head office	-3	-3	-3	-3	-3	-3
Total	252	285	289	283	273	260
Per share (£)	0.94	1.07	1.08	1.06	1.02	0.97
Target price (£)	0.81	0.91	0.92	0.90	0.87	0.83

Source: RBC Capital Markets estimates

Company Profile and Operations

Pangea DiamondFields is an emerging mid-tier diamond producer, focusing on alluvial prospects and projects in four countries: Angola, the Central African Republic (CAR), the Democratic Republic (DRC) and South Africa (SA). The company is working on eight projects (see Exhibit 3), with immediate production focus on three projects in Angola, the DRC and CAR.

Exhibit 3: Pangea's Geographic Footprint



Source: Company records

Since listing in October 2006, Pangea has raised \$39 million, with 88% of this so far spent on developing the projects. This leaves Pangea with 14 licence areas in the DRC. Pangea concentrates on alluvial diamonds and is not exploring for kimberlites. Pangea aims for rapid assessment of exploration properties, after which the properties are either moved to advanced exploration or relinquished. Hence Pangea relinquished its licences on the Luebo and Kasai properties in the DRC in May because of lower indicated values on the resource and accessibility constraints. The most advanced of Pangea's eight projects is Cassanguidi in Angola, followed by Dimbi in the CAR and Longatshimo in the DRC.

Exhibit 4: Pangea's Project Portfolio

Country	Project	PDF ownership	Status
CAR	Dimbi	90%	Bulk sampling/pilot mining
	Etoile	90%	Reconnaissance
DRC	Longatshimo River	100%	Advanced exploration
	Tshikapa River	100%	Advanced exploration
Angola	Cassanguidi	58%	Pilot mining
	Patsema/Gelukdal	74%	Bulk sampling
South Africa ¹	Harts River	74%	Bulk sampling
	Bloemhof	74%	Advanced exploration

¹: Assumes Pangea exercises option to build stake from 54%

Source: Company records

Angola

The Cassanguidi project is in northeast Angola in the "Lucapa diamond corridor" in the Lunde Norte province, where most of the country's diamonds are sourced. The project, 45 kilometres south of the DRC border, is adjacent to the Fucauma mine in which South African company Trans Hex is a partner and has recently taken over the management. Access from the town of Dundo is via roads which are not in great condition. There is also an air strip.

Pangea's interest in Cassanguidi is held in an unlisted company, Sub-Sahara Investments, which owns 65% of the project. The balance is owned by a local group, Marsanto, which owns the mineral rights on the 112-km² licence area. Pangea has recently lifted its indirect interest in the project from 35% to 58.5% by lifting its shareholding in Sub-Sahara from 50% to 90%. The transaction, which will be concluded in Q2/08, involves Pangea buying a further 10% of Sub-Sahara and acquiring an option on an additional 30% for a total fee of \$500,000. Sub-Sahara pays \$30,000 per month to Marsanto for the right to exploit the project area.

Exhibit 5: Cassanguidi Resource Statement

Project Area	Resource	Gravel (MM m3)	Grade (ct/100 m3)	Carats (000)	Value (\$/ct)	In-situ value (\$m)
Cabuaquece	Inferred	2.6	23.6	606	160	97.0
Catchoque	Inferred	0.8	16.2	125	160	20.0
Cale	Inferred	0.6	27.6	159	160	25.4
Cassanguidi South	Inferred	0.2	6.2	12	160	1.9
Cassanguidi South	Indicated	0.4	17.7	63	160	10.1
Total		4.5	21.6	965	160	154.4

Source: Company records (2007)

Cassanguidi comprises four project areas: Cassanguidi South, Cabuaquece, Catchoque and Cale. While the Luembe River, which flows through the property, is known to contain alluvial gravels, the primary focus is on the on-land alluvial gravels. Pilot mining is taking place at Cassanguidi South using conventional open-pit mining, with recovery through two 14-inch rotary pan plants. The equipment is old and inefficient, and Pangea intends to acquire plant locally from another operator or to order new plant from South Africa, including a DMS and an X-ray unit for final recovery.

Management's targets for the project, which we have used in modelling the mine, are shown in Exhibit 6. Pangea has modelled a 2-million-m³ resource, compared with a 4.1-million-m³ inferred total as shown in Exhibit 5. This reflects management's assumption that it will process smaller volumes with higher grade. The plant head-feed is based on three shifts per day, 50% mining efficiency and 80% plant efficiency. However, it might be possible to improve the efficiency of the pan plants. The \$22/m³ operating cost is based on a 24-day month, three shifts and 35,000 tonnes per month (tpm).

Exhibit 6: Cassanguidi Operating Parameters

Cassanguidi Budgets

Resources (MMm ³)	2.0
Capital (\$m)	3.0
Plant headfeed (000m ³ pa)	420
Grade (ct/m ³)	22
Production (000ct)	92.4
Value per carat (\$)	160
Operating cost (\$/m ³)	22

Source: Company records

The diamond prices shown in Exhibit 7 are based on the sale of some 76,000 carats between the beginning of 2005, when Pangea joined the project, and December 2007. The costs (\$22/m³ or \$11/t) are high when compared with figures of \$2.50–\$4/t at South African alluvial operations. This reflects tough logistics in Angola, where roads are often narrow tarred roads and equipment sometimes has to be flown in, as well as the cost of importing equipment into the country. In addition, while the national power grid is available to Cassanguidi, unreliable supply has forced the project to rely on diesel-generated power (power is 31% of steady-state operating costs). Nevertheless, on the basis of management's projections, the pre-tax margin from mining will be 60% (\$35/m³ revenue and \$22/m³ costs).

Exhibit 7: Diamond Values for Cassanguidi

Date	Carats sold	Total value (\$m)	Value (\$/ct)
Total sales (Jan 2005-Dec 2007)	76,935	12.3	159.96

Source: Company records

While Pangea may well be able to extend its mining resources in its projects in the CAR, DRC and South Africa, Cassanguidi's life is unlikely to be more than five or six years. On the basis of the forecast operating parameters, including a 60% pre-tax operating margin, we come to a DCF-based (8%) value for Cassanguidi of \$29 million in May 2009.

Operating in Angola is fraught with logistical and bureaucratic difficulties. For starters, state company Endiama is permitted to own up to 50% of any project and is usually free-carried to bankable feasibility. On top of that, it is normal for an Angolan partner to own around 25%, leaving the explorer/operator with 25% and required to fund the project up to a decision to mine. Adding further risk is the fact that the state is also the sole buyer of any diamonds produced in the country. All diamonds have to be sold to state company Endiama's marketing arm, Sodiam, at prices which generally are believed to be up to 15% below market price. In addition, a 5% royalty is paid on the value of diamonds sold, and Sodiam charges a further 2.5% valuation tax and a 1% industrial tax. As for state royalties, the rate embodied in the Cassanguidi operating contract with the government is 11% of sales value.

Central Africa Republic

Pangea holds licences covering 3,867 km² in the CAR over the Dimbi and Etoile projects. Dimbi (1,000 km²) is a single area of interest, while Etoile comprises three regions. While Pangea has recently established two field camps in the Etoile project area, its major focus is on the Dimbi project in the southern CAR, on the Oubangui River, which forms the border with the DRC. Pangea owns 90% of the project and the government the balance, which is free-carried to production.

Pangea has established a substantial exploration/mining camp on the property, capable of housing the people required on site. Given a skills shortage in the CAR, most of the technical skills are provided by ex-patriates, mainly South Africans. Access to Dimbi is time-consuming, as roads in the region are narrow and unsealed. The nearby town of Kembe provides access to some supplies, but generally the mine site is supplied from the CAR capital Bangui or by air from South Africa.

Exhibit 8: Dimbi Resource Statement

Project Area	Resource	Gravel (MM m ³)	Grade (ct/100 m ³)	Carats (000)	Value (\$/ct)	In-situ value (\$m)
Dimbi	Inferred	1.1	47.9	510	166	84.6
	Indicated	0.7	38.4	273	166	45.4

Source: Company records (March 2008)

The Dimbi project hosts alluvial (the paleo Kotto River and its tributaries) and blanket diamond deposits. Pangea's exploration effort entailed wide-spaced drilling and pitting, followed, where warranted, by mega pits to provide an indication of grade. By the end of 2007, 17 mega pits had been excavated, with grades averaging 44.6 ct/100 m³ from the tributaries and 25.3 ct/100 m³ from the paleo Kotto River. Pricing information came from the recovery of 4,000 carats recovered from bulk sampling using a rotary pan plant, with final recovery using an automatic grease belt and glove box. Security at present is fairly poor, but as the plant is expanded and production ramped up, security will be enhanced. Most of the diamonds, averaging 0.3 ct/stone, exhibited good colour. As is the case in Angola, power is supplied by diesel generators, with fuel costs accounting for some 30%–35% of operating costs. The assumed operating parameters for Dimbi appear in Exhibit 9.

Exhibit 9: Dimbi Operating Parameters

Resources (MM m ³)	3.0
Grade (ct/100 m ³)	35
Production (000ct)	168
Plant headfeed (000 m ³ /yr)	420
Operating costs (\$/m ³)	22
Prices (\$/ct)	160
Life of mine (years)	6.3

Source: Company records

Pangea is under some pressure from the government to move this project to the mining phase. The company is in the process of preparing its mining licence application, and production is anticipated to start in the fourth quarter of this year. Ramping up to mine-scale production will require capital spending of \$6–\$7 million. This will be spent on three new 150-m³/hour scrubbers, four 14-inch pan plants, a 10-m³/hour DMS plant and a flow-sort machine for final recovery.

The Etoile Project has not issued a resource statement as yet. The two project areas, Nzako and Kotto-Bangana, are in early-stage exploration. We have accorded no value to them as yet.

The CAR is under developed but has been trying to encourage mining. Generally the government insists on a 10% free-carried interest. The tax rate is 30% and diamond companies pay a royalty of 6% of the value of diamonds sold. Dividends remitted outside the CAR are also taxed at 10%, and VAT on services and local purchases is 19%. As is the case with many African countries, HIV/AIDS is a major problem, as is malaria.

Democratic Republic of Congo

The DRC is Pangea's most extensive exploration project. The company has 1461 km² of ground under licence through a company named Efidium in the southwest of the country, near the Angolan border, divided into two project areas: Longatshimo and Tshikapa. The Luebo and Kasai project areas have recently been relinquished. The most advanced is the Longatshimo River project, which is divided into five areas located on both banks of the Longatshimo River. Pangea is entitled to 80% of the economics of the Kapopo, Kajama and Ammonia areas by spending a minimum of \$300,000 on exploration at each area over a three-year period. In the cases of Bahala and Somilo, Pangea owns 100% but will be required to pay local partners a 6% royalty on profit once 50% of its capital has been recouped. The most advanced areas of interest are Kapopo and Kamonia, where management budgets capital spending of \$11.5 million and production commencing in Q2/08. A bulk-sampling plant was established in February 2008 after Pangea successfully brought equipment in by road in a 17-truck road fleet which travelled through Angola.

Exhibit 10: Longatshimo Resource Statement

Project Area	Resource	Gravel (MM m ³)	Grade (ct/100 m ³)	Carats (000)	Value (\$/ct)	In-situ value (\$m)
Kapopa	Inferred	6.3	28.2	1.8	180	317.5
Kamonia	Inferred	9.4	35.1	3.3	180	594.3
Total		15.6	32.4	5.1	180	911.8

Source: Company records (March 2008)

The other project areas in the Longatshimo River licence are Kajama, Bashala and Somilo. Kajama is partially adjacent to Kapopo and exploration commenced in mid-2007. There is no resource estimate for this area, or for Bashala and Somilo.

Exhibit 11: Longatshimo Operating Parameters

Resources (MM m ³)	3
Grade (ct/100 m ³)	40
Production (000ct)	192
Plant headfeed (000 m ³ /yr)	480
Operating costs (\$/m ³)	20
Prices (\$/ct)	175
Life of mine (years)	6.25

Source: Company records

The Tshikapa River project area comprises four exploration areas: Tumines, Nanzambi, Mvula Milenge and Kabula. Access to the project is via the new road to Longatshimo constructed by Pangea to bring in the plant from South Africa. The most advanced of the four areas is Mvula Milenge. Bulk sampling is scheduled to begin in early 2009.

Exhibit 12: Tshikapa Resource Statement

Project Area	Resource	Gravel (MM m ³)	Grade (ct/100 m ³)	Carats (000)	Value (\$/ct)	In-situ value (\$m)
Mvula Milenge	Inferred	6.6	15.0	1.0	180	177.8
Nanzambi	Inferred	9.9	23.8	2.4	180	425.7
Total		16.5	20.3	3.4	180	603.5

Source: Company records (March 2008)

The resource statement for Tshikapa is shown above in Exhibit 12. No definitive pricing information is available, as insufficient diamonds have been recovered thus far. The \$180/ct price shown in the table comes from the price received from the sale of 110 carats in December 2007. However, for more certainty at least 2,000 carats need to be recovered and sold. Very little work has been carried out the two other Tshikapa projects, Tumines and Kabula.

The fiscal regime in the DRC is well established. A royalty of 4% is payable on diamond sales, while company tax is 30% and dividends remitted outside the country are taxed at 10%.

South Africa

Pangea's South African assets comprise three alluvial licences in the Northwest and Northern Cape provinces named the Bakerville, Harts River and Bloemhof projects. All projects are at advanced exploration/bulk sampling stage. The resource statements for the projects are not yet sufficiently developed, and nor is price data reliable.

The Black Economic Empowerment and fiscal regimes in South Africa are now well known. Previously disadvantaged South Africans are required to own 26% of mining projects. Corporate tax is 30% and a royalty of 5% is likely to be imposed on the export of uncut diamonds, while a tax of 5% of the value of diamonds is also expected to be imposed from 2009.

In the Bakerville projects, large-diameter drill results from Patsema were mixed, pointing to more complex geology. In the meantime Pangea is focusing on quantifying resources within gravel runs in the area. In the Geluksdal area, large-diameter drilling has been suspended while work is carried out on Patsema.

In the Harts River project, the Brussels area is the most advanced. Exploration started in November 2005 and was aimed at finding the paleo-channels of the Dry Harts River. Problems with surface mining equipment led to the commissioning of a dozer to break the calcrete horizon. This material will be processed this quarter. On the Pampierstad properties, bulk sampling has commenced and results are expected in Q3/08.

The South African assets could add significant value to Pangea over time. While the resources for the South African projects are still in the early stages of being defined, the areas in which Pangea has licences are known to be diamondiferous. Namakwa Diamonds, for example, is already developing mines in the Northwest. In addition, it is possible to be fairly accurate in estimating costs for developing mines and operating the mines. In general, opex of \$2–\$4/t is likely, the higher level being influenced by the extent to which drilling and blasting is needed to break up the calcrete cap on the gravels. The major unknown in South Africa is the availability of power. With an unstable power supply, alluvial miners are turning to the use of diesel-generated power, which adds up to 10% to unit operating costs.

Valuation

Pangea is not yet a diamond producer. However, because three of its projects are on target to be converted into mining operations within the next year, we have modelled them as mines. The rest of the portfolio has been valued using in-situ value multiples. The projects which we have valued as conceptual mines are Cassanguidi (Angola), Dimbi (CAR) and Longatshimo (DRC). We have used the parameters listed in the exhibits above, and have assumed in all cases that mine lives are no more than seven years (six in Angola). Clearly this valuation is keenly dependent on the three projects becoming mines, failing which the total NAV would decline significantly.

Exhibit 13: Add-Up Value of Pangea

\$m	2008E	2009E	2010E	2011E	2012E	2013E
DCF value of mines (8%)	113	154	184	194	205	206
In-situ resources value (7%)	54	54	54	54	54	54
Cash/investments	10	10	10	10	10	10
Less Head office	-3	-3	-3	-3	-3	-3
Total	174	215	245	254	266	267
Per share (£)	0.65	0.80	0.92	0.95	0.99	1.00
Target price (£)	0.57	0.70	0.79	0.81	0.85	0.85

Source: RBC Capital Markets estimates

In setting our target price we have discounted the DCF values of the three alluvial projects by 20% to allow for the risks related to project certainty and timing. Our target price for June 2009 is thus £0.70/share, with the potential for significant uplift if the lives of the projects are extended. In Exhibit 14 we show the impact of an additional five years of life for the DRC and CAR mines.

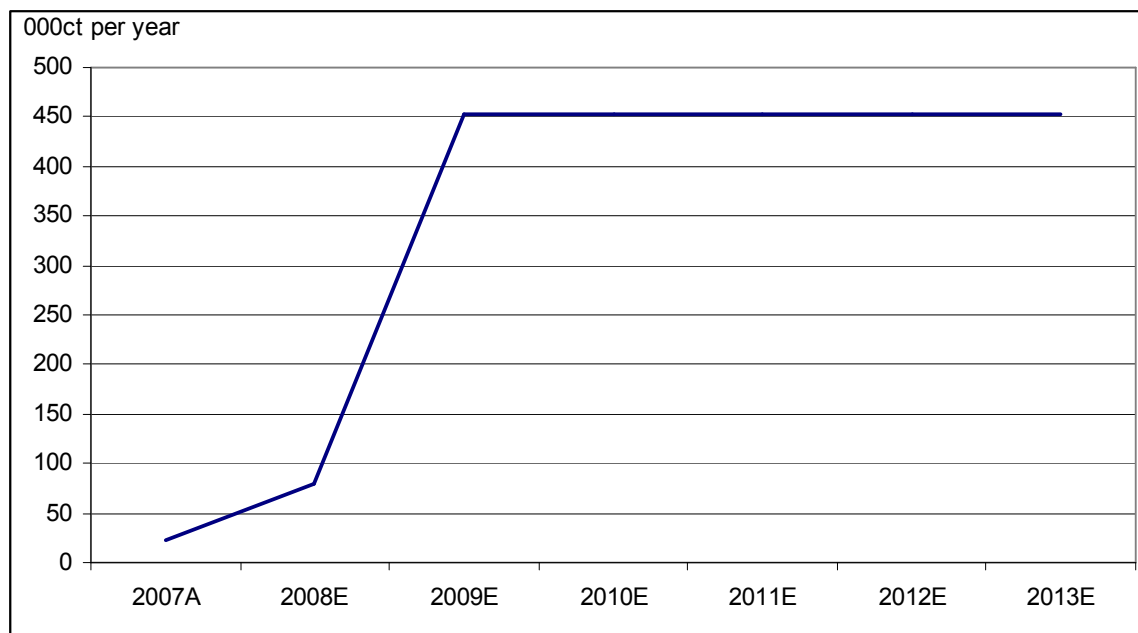
Exhibit 14: Add-Up Value of Pangea Using Additional Five Years' Mine Life (\$MM)

	2008E	2009E	2010E	2011E	2012E	2013E
TOTAL DCF assuming five more years	191	224	229	222	212	199
Add in-situ values	54	54	54	54	54	54
Cash/investments	10	10	10	10	10	10
Less Head office	-3	-3	-3	-3	-3	-3
Total	252	285	289	283	273	260
Per share (£)	0.94	1.07	1.08	1.06	1.02	0.97
Target price (£)	0.81	0.91	0.92	0.90	0.87	0.83

Source: RBC Capital Markets estimates

Our assumptions allow for the development of the mines using mostly equity finance. We have modelled an additional fund raising of \$28 million to bring the mines into production, with the number of shares in issue peaking at 164 million.

Exhibit 15: Forecast Diamond Production



Source: RBC Capital Markets estimates

The major risks to this valuation are the mines not being brought into production and the politics of the countries in which Pangea operates. We believe that Pangea's approach to its projects is conservative and that at least three of them should become mines as we have assumed. It is less easy to be unequivocal about most of the countries in which Pangea operates. While there are instances of corruption in South Africa, in general, the rule of law and the legislative framework surrounding Black Economic Empowerment and taxes are well developed, and the legal system is transparent and independent. This is not the case with Angola, the DRC or the CAR. Patronage, corruption and bureaucratic barriers are the norm in these countries. And in the eastern DRC violence is an ever-present threat. Pangea is far from the troubled eastern part of the country, and its strategy has been to integrate into the local community through the provision of jobs, clinics and education. This has stood the company in good stead, which should underpin mining operations. But the risks remain.

Directors and Management

The board and management of Pangea have significant experience in the junior mining sector, with CEO Rob Still, Chief Exploration Officer Anton Esterhuizen and Exploration Manager Helen Pein having been involved in successful projects such as Corridor Sands.

Chairman – Bill Nairn: Former CEO and Managing Director of Johannesburg Consolidated Investments and Group Technical Director of Anglo American plc. He remains a director of Anglo Platinum, AngloGold Ashanti and Kumba.

Chief Executive Officer – Rob Still: A chartered accountant who co-founded Rhombus Exploration in 1986. He has extensive experience in the mining industry at both a junior and senior company level. Has participated in the development of several junior mining companies including Rhovan, Pangea Goldfields, Southern Mining, Kimberley Diamonds, Great Basin Gold and Zimplats.

Chief Operating Officer – Brett Thompson: A mining engineer with experience in ferrous and precious metals and diamonds in Australia, South Africa, West Africa, central Africa and South America. He worked for De Beers on the Koffiefontein and Kimberley mines (Assistant General Manager on the latter).

Chief Financial Officer – Patrick Cooke: A chartered accountant with extensive experience as CFO of Johannesburg-listed companies.

Chief Exploration Officer – Anton Esterhuizen: Has more than 30 years of experience in exploration globally. He was key in the development of the resource for the Corridor Sands project.

Exploration Manager – Helen Pein: Has more than 20 years of experience in exploration, including with Gencor, the predecessor to Billiton.

Engineering Manager – Boris Kamstra: A civil engineer and MBA with more than 20 years of experience in projects and project management. Responsible for the South African and DRC operations.

Operations Manager – Michael Hunt: A chemical engineer who spent 30 years in mineral processing, primarily with De Beers. Responsible for the CAR and Angolan operations.

Non-executive Director – Miles Kennedy: Formerly CEO of Australian-listed Kimberley Diamonds.

Non-executive Director – Dewald Joubert: An attorney and director of Maitland & Company.

Non-executive Director – Ashley Dunster: Vice President of Capital International Research Inc.

Financial Statements

Exhibit 16: Pangea Financial Statements

Income statement

Year to 31 December	2007A	2008E	2009E	2010E
Diamond revenue*	4.8	1.9	9.4	70.1
Operating costs	5.3	1.3	4.8	38.7
Other	5.0	3.2	3.2	3.2
Operating profit	-5.5	-2.6	1.3	28.2
Exploration	8.9	3.0	2.0	1.0
EBITDA	-14.4	-5.6	-0.7	27.2
Share-based payments	2.6	0.0	0.0	0.0
Less: depreciation	2.8	1.4	5.5	5.0
EBIT	-19.8	-7.0	-6.1	22.3
Net interest	0.8	0.4	0.4	0.4
Profit before tax	-19.0	-6.6	-5.8	22.6
Tax	0.0	0.0	0.0	4.3
Profit after tax	-19.0	-6.6	-5.8	18.4
Minorities	-0.3	0.0	0.0	0.0
Attributable profit	-18.7	-6.6	-5.8	18.4
Shares in issue (m)	117.3	133.8	163.8	163.8
Loss per share (c)	-15.9	-5.0	-3.5	11.2
Cash flow per share (c)	-11.6	-3.9	-0.2	14.2

* Net of royalties

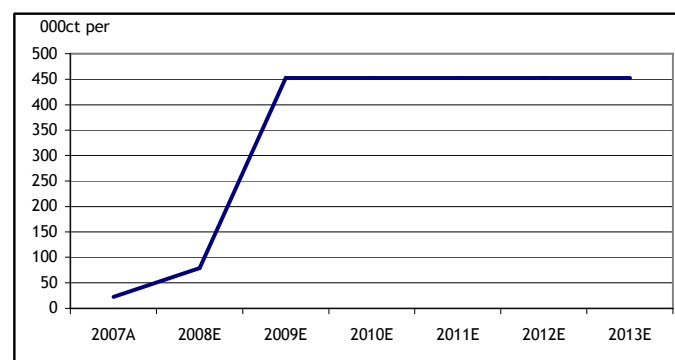
Cash Flow Statement

Year to 31 December	2007A	2008E	2009E	2010E
Cash from Operations	-15.2	-5.6	-0.7	23.0
Operating profit/loss	-15.2	-5.6	-0.7	23.0
Cash used in Investing activities	7.0	15.5	9.8	3.1
Acquisition of plant and equipment	6.4	14.3	8.2	2.4
Increase in exploration assets	0.0	3.0	2.0	1.0
Increase in investments	1.4	-1.4	0.0	0.0
Interest received/paid	0.8	0.4	0.4	0.4
Cash from financing activities	0.1	20.2	27.6	0.0
Shares for cash	0.2	15.2	27.6	0.0
Loans	-0.1	5.0	0.0	0.0
Net cash at beginning of year	26.1	3.9	3.0	20.1
Cash generated/used	-22.1	-0.9	17.1	19.9
Foreign currency translation	0.0	0.0	0.0	0.0
Cash at year end	3.9	3.0	20.1	40.0

Balance Sheet

On 31 December	2007A	2008E	2009E	2010E
Assets				
Non-current assets	15.7	30.2	34.9	33.3
Mineral properties	3.2	6.2	8.2	9.2
Plant & equipment	11.1	24.0	26.7	24.2
Investments	1.4	0.0	0.0	0.0
Current assets	4.7	3.8	20.9	40.8
Receivables	0.8	0.8	0.8	0.8
Cash & equivalents	3.9	3.0	20.1	40.0
Total assets	20.4	34.0	55.8	74.1
Equity & Liabilities				
Equity	16.1	24.6	46.5	64.8
Share capital & premium	48.6	63.8	91.4	91.4
Share-based equity reserves	3.8	3.8	3.8	3.8
Retained profit/losses	-36.3	-42.9	-48.7	-30.3
Non-current liability	3.8	3.8	3.8	3.8
Non-interest-bearing loans	3.8	3.8	3.8	3.8
Current liabilities	0.5	5.5	5.5	5.5
Short-term loans	0.2	5.2	5.2	5.2
Payables	0.3	0.3	0.3	0.3
Total equity & liabilities	20.4	33.9	55.8	74.1

Production Build-up (000ct)



Source: RBC Capital Markets estimates

Valuation

We have valued Pangea using DCF models for three projects (Dimbi, Cassanguidi and Longatshimo), to which we have added a percentage (4%) of the value of the in-situ resources at other projects where inferred resources have been published. We have also included the \$15 million in cash raised earlier this year in a private placing, assuming that \$5 million has been spent to date. Our target price assumes a 20% discount to the DCF of the mines and that new funds totalling \$28 million will be raised over the next two years to bring the mines into production. It should be noted that if we increase the lives of the mines by five years it would add £0.21/share (+30%) to our NAV and £0.19/share to our target price, which gives an indication of the potential uplift should Pangea be able to develop additional resources close to the three projects that we have assumed will become mines.

Price Target Impediment

- Bringing three new mines into production in difficult environments is the major impediment to our target price.
- Political instability and potentially unstable regimes in Angola, the DRC and the CAR pose an impediment to companies, such as Pangea, that operate in these countries.
- Controlling mining costs, including diesel, which accounts for +30% of opex, is critical to Pangea's progress.

Company Description

Pangea DiamondFields is a diamond explorer with eight projects in four countries: Angola, Central African Republic, Democratic Republic of Congo and South Africa. The company's focus is on alluvial diamonds and it has three projects that are close to becoming mines.

Required Disclosures

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Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

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

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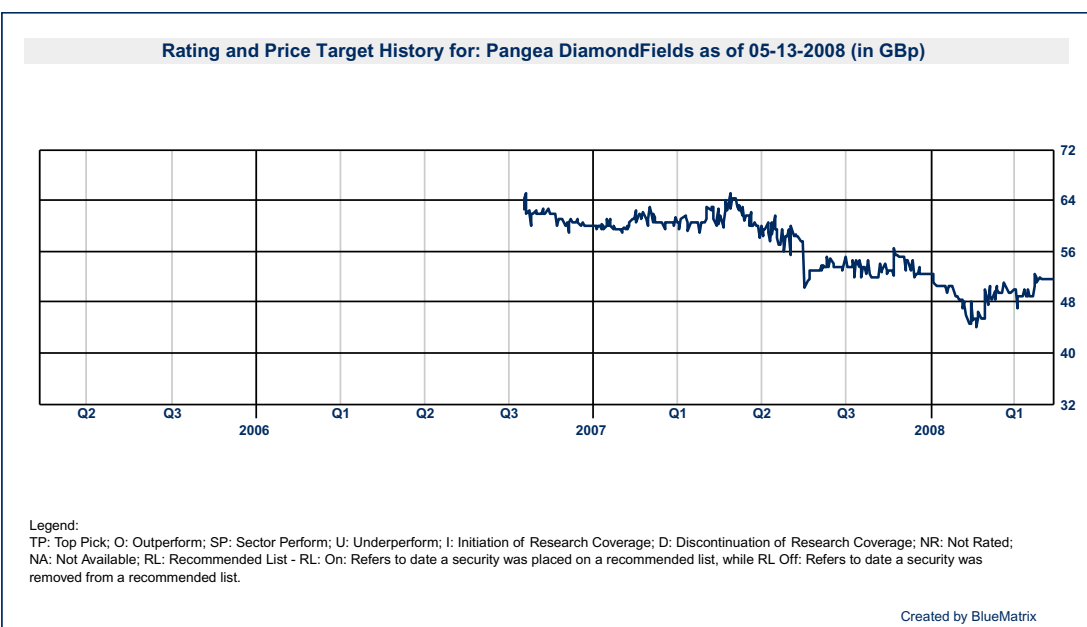
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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			Count	Percent
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