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The Directors of the Company whose names appear on page 5 of this document accept responsibility individually and collectively for the information contained in this document and compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and there are no other facts the omission of which would affect the import of such information. All the Directors accept responsibility accordingly. In connection with this document, no person is authorised to give any information or make any representation other than as contained in this document. Under no circumstances should the information contained in this document be relied upon as being accurate at any time after Admission.

Application has been made for all the Ordinary Shares of the Company to be admitted to trading on AIM. No application is being made for the Warrants to be admitted to trading on AIM. It is expected that dealings in the Ordinary Shares will commence on AIM on 6 June 2005. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. A prospective investor should be aware of the risks in investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority (“Official List”).

The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made for admission of these securities to the Official List. The London Stock Exchange plc has not itself examined or approved the contents of this document. Apart from the application for admission to AIM, the Ordinary Shares are not dealt in on any other recognised investment exchange and no other such applications have been made.

This document, which is an admission document, constitutes a prospectus and has been drawn up in accordance with the requirements of the AIM Rules and the Public Offers of Securities Regulations 1995 (as amended) (the “POS Regulations”). A copy of this document has been delivered for registration to the Registrar of Companies in England and Wales in accordance with Regulation 4(2) of the POS Regulations.

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# Sunrise Diamonds plc

(Incorporated in England and Wales under the Companies Act 1985 with Registered Number 05363956)

**Placing of 15,375,000 Ordinary Shares of 0.1p each at a price of 2p per share  
together with one Warrant for every two Ordinary Shares**

**and**

**Admission to trading on AIM**

**Nominated Adviser  
Ruegg & Co Limited**

**Broker  
WH Ireland Limited**

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## Share Capital of the Company immediately following Admission

<i>Authorised</i>			<i>Issued and fully paid</i>	
<i>Amount</i>	<i>Number</i>		<i>Amount</i>	<i>Number</i>
£2,000,000	2,000,000,000	Ordinary Shares of 0.1p each	£75,375	75,375,000
<i>Authorised</i>			<i>Issued and fully paid</i>	
<i>Amount</i>	<i>Number</i>		<i>Amount</i>	<i>Number</i>
£30,000	30,000	Redeemable Preference Shares of £1 each	£Nil	Nil

All the Placing Shares will, upon Admission, rank *pari passu* in all respects with the existing issued Ordinary Shares and will rank in full for all dividends and other distributions declared, made or paid in respect of the Ordinary Shares after Admission.

This document does not constitute an offer to sell or the solicitation of an offer to buy shares in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not for distribution in the United States, Canada, Australia, the Republic of Ireland, the Republic of South Africa or Japan. The Ordinary Shares have not been and will not be registered under the applicable securities laws of the United States, Canada, Australia, the Republic of Ireland, the Republic of South Africa or Japan or to any resident of the United States, Canada, Australia, the Republic of Ireland, the Republic of South Africa or Japan. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restriction. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdiction.

Ruegg & Co Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is the Company's Nominated Adviser for the purposes of the AIM Rules. Its responsibilities as the Company's Nominated Adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire Ordinary Shares in reliance on any part of this document. Ruegg & Co Limited has not authorised the contents of this document for the purposes of regulation 13(1)(g) of the POS Regulations and no representation or warranty, express or implied, is made by Ruegg & Co Limited as to the contents or the completeness of this document. Ruegg & Co Limited is acting for the Company and no one else and will not be responsible to any other person for providing the protections afforded to customers of Ruegg & Co Limited nor for providing advice in relation to the contents of this document or any other matter referred to herein.

WH Ireland Limited which is authorised and regulated in the United Kingdom by the Financial Services Authority, is the Company's broker for the purposes of the AIM Rules. WH Ireland Limited has not authorised the contents of this document for the purposes of regulation 13(1)(g) of the POS Regulations and no representation or warranty, express or implied, is made by WH Ireland Limited as to any of the contents or completeness of this document. WH Ireland Limited is acting for the Company and no one else and will not be responsible to any other person for providing the protections afforded to customers of WH Ireland Limited nor for providing advice in relation to the contents of this document or any matter referred to therein.

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## DEFINITIONS

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

“Act”	the Companies Act 1985, as amended
“Admission”	the admission of the issued and to be issued ordinary share capital of the Company to trading on AIM and such admission becoming effective in accordance with the AIM Rules
“AIM”	a market operated by the London Stock Exchange
“AIM Rules”	the rules for companies governing admission to and trading on AIM, published by the London Stock Exchange
“Board” or “the Directors”	the directors of the Company listed on page 5 of this document
“Capita Registrars”	a trading division of Capita IRG Plc
“CREST”	the computer based system and procedures which enable title to securities to be evidenced and transferred without a written instrument administered by CRESTCo Limited
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/3755)
“Competent Person’s Report”	the independent report from Ddraig Mineral Developments Limited which appears in Part 4 of this document
“Directors Warrants”	the warrants issued to the Directors in connection with their services to the Company on the terms and conditions set out in the Directors Warrant Instrument
“Directors Warrant Instrument”	the document containing the terms and conditions relating to the Directors Warrants, details of which are set out in paragraph 7.5 of Part 5 of this document
“GTK”	the organisation known as the Geological Survey of Finland
“JORC Code”	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
“London Stock Exchange”	London Stock Exchange plc
“Official List”	the Official List of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 0.1p each in the capital of the Company
“Offer”	the offer for subscription dated 1 April 2005 under which 40,000,000 Ordinary Shares were issued at 1p per share
“Placing”	the proposed placing of the Placing Shares on behalf of the Company at the Placing Price pursuant to the terms and conditions of the Placing Agreement
“Placing Agreement”	the conditional agreement dated 27 May 2005 between the Company (1), the Directors (2), WH Ireland (3) and Ruegg & Co (4) relating to the Placing, details of which are set out in paragraph 11.1.3 of Part 5 of this document
“Placing Price”	2p per Placing Share

“Placing Shares”	the 15,375,000 Ordinary Shares to be issued pursuant to the Placing
“PKF (UK) LLP” or “PKF”	PKF (UK) LLP
“POS Regulations”	Public Offers of Securities Regulations 1995, as amended
“Redeemable Preference Shares”	redeemable preference shares of £1 each in the capital of the Company
“Ruegg” or “Ruegg & Co”	Ruegg & Co Limited
“Ruegg Warrant”	the warrant issued to Ruegg in connection with its services to the Company on the terms and conditions set out in the Ruegg Warrant Instrument
“Ruegg Warrant Instrument”	the document containing the terms and conditions relating to the Ruegg Warrant, details of which are set out in paragraph 7.6 of Part 5 of this document
“Sunrise Diamonds” or “Company”	Sunrise Diamonds plc
“Sunrise Diamonds Warrants”	the Warrants, the Directors Warrants, the Ruegg Warrant and the WH Ireland Warrant
“Tertiary Gold”	Tertiary Gold Limited, a wholly owned subsidiary of Tertiary Minerals
“Tertiary Minerals”	Tertiary Minerals plc, a company whose shares are traded on AIM
“UK”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	The Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
“WH Ireland”	WH Ireland Limited
“WH Ireland Warrant”	the warrant issued to WH Ireland in connection with its services to the Company on the terms and conditions set out in the WH Ireland Warrant Instrument
“WH Ireland Warrant Instrument”	the document containing the terms and conditions relating to the WH Ireland Warrant, details of which are set out in paragraph 7.7 of Part 5 of this document
“Warrant Instrument”	The document containing the terms and conditions relating to the Warrants, details of which are set out in paragraph 7.4 of Part 5 of this document.
“Warrants”	the 7,687,500 warrants to subscribe for Ordinary Shares at the Warrant Exercise Price which are to be issued pursuant to the Placing on the basis of one Warrant for every 2 Placing Shares, further details of which are set out in paragraph 7.4 of Part 5 of this document
“Warrant Exercise Price”	3p per Ordinary Share for a period of 12 months from the date of Admission and 5p per Ordinary Share for the period commencing on the first anniversary of Admission and expiring 24 months from the date of Admission

A glossary of technical terms can be found at the end of Part 4 of this document.

## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Patrick Lyn Cheetham The Hon. Francis Patrick Harcourt Vanden-Bempde-Johnstone Neil Lindsey Herbert	<i>Executive Chairman</i> <i>Non-Executive Director</i> <i>Non-Executive Director</i>
	All of:	
<b>Registered Office</b>	Sunrise House Hulley Road Macclesfield Cheshire SK10 2LP	
<b>Company Secretary</b>	Christine Wyn Hulley, FCMA, MCMI	
<b>Nominated Adviser</b>	Ruegg & Co Limited 39 Cheval Place London SW7 1EW	
<b>Broker</b>	WH Ireland Limited 11 St James's Square Manchester M2 6WH	
<b>Auditors and Reporting Accountants</b>	PKF (UK) LLP Sovereign House Queen Street Manchester M2 5HR	
<b>Solicitors to the Company</b>	Cobbetts Ship Canal House King Street Manchester M2 4WB	
<b>Independent Geological Consultants and Competent Person</b>	Ddraig Mineral Developments Limited 31 Madoc Street Llandudno Conwy North Wales LL30 2TL	
<b>Bankers</b>	National Westminster Bank plc 2 Spring Gardens Buxton Derbyshire SK17 6DG	
<b>Registrars</b>	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	

## PLACING STATISTICS

Placing Price	2p
Number of Placing Shares	15,375,000
Number of Warrants to be issued pursuant to the Placing	7,687,500
Number of Ordinary Shares in issue following the Placing	75,375,000
Market Capitalisation of the Company on Admission at the Placing Price	£1,507,500
The Placing Shares as a percentage of the enlarged issued share capital on Admission	20.40%
Gross proceeds receivable by the Company pursuant to the Placing	£307,500
Number of Ordinary Shares to be issued on exercise of the Sunrise Diamonds Warrants (assuming exercise of all the Sunrise Diamonds Warrants)	12,187,500
Percentage of the enlarged issued share capital represented by the Placing Shares and the Ordinary Shares to be issued on exercise of the Sunrise Diamonds Warrants (assuming exercise of all the Sunrise Diamonds Warrants)	31.48%
Number of Ordinary Shares in issue assuming exercise of all the Sunrise Diamonds Warrants	87,562,500

## EXPECTED TIMETABLE

Admission and dealings in the Ordinary Shares to commence on AIM	8.00 am on 6 June 2005
Placing Shares credited to CREST accounts	6 June 2005
Despatch of definitive share certificates (where applicable)	13 June 2005

## PART 1

### INFORMATION ON THE COMPANY

#### **Introduction and Strategy**

Sunrise Diamonds has been established primarily to acquire and exploit the diamond exploration interests of Tertiary Gold. It also intends to acquire, explore for, and develop additional diamond exploration properties.

Whilst there are no geographic or commodity restrictions on its future activities, the Company intends to focus initially on exploration and evaluation of diamond exploration projects in Finland and prospective complementary geological terrains in Northern Europe and adjoining areas. In Finland, this strategy will be supported and enhanced by the extensive, publicly available geological, geophysical and geochemical databases collected by GTK throughout the country.

Initially, work will be concentrated on the Company's projects in Finland, involving ground magnetics, deep till sampling and diamond drilling followed by micro diamond analysis together with indicator mineral geochemistry. A pro-forma exploration budget covering a 19 month period is set out in the Competent Person's Report in Part 4 of this document. The extent to which this budget is followed will depend on the actual amount of funds raised over this period and the results of exploration.

The Company may expand its exploration activities elsewhere in future and may consider the acquisition of advanced or producing diamond or other mineral assets.

The Directors believe that current world demand for diamonds and limits on identifiable new mine supply will continue to support diamond prices and the ability of the Company to raise funds to follow its diamond exploration and development strategy.

#### **Company History**

The Company was formed in February 2005 as a subsidiary of Tertiary Minerals as set out in paragraphs 2 and 3 of Part 5 of this document. The initial costs of the Company have been funded by Tertiary Minerals. On 28 February 2005, the Company acquired the diamond exploration interests of Tertiary Gold as set out in paragraphs 11.1.5 and 11.1.6 of Part 5.

The Company's diamond exploration interests were acquired and explored by Tertiary Gold during 2004 and comprise 2 claims (exploration licences) and 34 claim reservations in the Kuusamo region of north-east Finland. These confer exclusive exploration rights over new kimberlite discoveries made by Tertiary Gold at Kalettomanpuro and Kattaisenvaara and over 45 additional targets that the Directors believe justify further exploration for diamondiferous kimberlites in the newly defined Kuusamo kimberlite cluster.

In April 2005 the Company raised £400,000 gross pursuant to the Offer. It was a term of the Offer that subscribers agreed *inter alia*, not to dispose of their shares for a period of 6 months from the date of Admission.

#### **Company Structure and Management**

The Company is incorporated in England and Wales and has no subsidiaries. The Executive Chairman of Sunrise Diamonds is Patrick Cheetham, a geologist, who was responsible for the development of the Company's diamond interests. He is also the Executive Chairman of Tertiary Minerals. Mr Cheetham is supported by two independent non-executive directors who are independent of Tertiary Minerals and its board of Directors.

All of the Directors are experienced in the management of public mining companies and have many years of combined technical and commercial experience in the evaluation and development of mineral resources including exploration for diamond deposits.

Sunrise Diamonds is also able to use the services of Tertiary Minerals' key staff who have considerable experience in mineral processing, diamond exploration, project development and public company administration.

The Company's diamond projects have benefited from an excellent working relationship between Tertiary Gold and diamond exploration specialists at GTK who bring significant past experience of diamond exploration in Finland. This experience will also be available to Sunrise Diamonds on a consultancy and contract basis. The Company operates from the offices of Tertiary Minerals in Macclesfield, Cheshire and Tertiary Minerals has agreed to provide office accommodation, facilities and staff to Sunrise Diamonds at cost.

### **Overview of the Natural Diamond Industry and Market**

Global natural rough diamond production for 2004 was valued at around US\$10.8 billion, up from around US\$ 9.4 billion in 2003 when production was estimated at around 144 million carats. Rough (uncut) diamonds fall into the broad quality groups of gem, near gem and industrial. Typically, gem and near gem diamonds are used in jewellery whereas industrial diamonds are used principally for cutting and grinding purposes.

Diamonds are sold in rough and polished format in a variety of ways throughout the world. They can be sold as individual stones, parcels of multiple stones, by tender or auction, or in fixed priced contracts. Antwerp is the world's largest diamond trading centre with other key centres including Mumbai, Johannesburg and Tel Aviv. Early in 2003, the Kimberley Process, which is a scheme whereby diamonds are certificated as to their origin, was implemented. The aim of the process is to combat illegal trade in diamonds, especially those sold to fund armed conflict. There are currently 42 participating countries.

It is estimated that approximately 48 per cent of the world's annual production of rough diamonds is under the control of the De Beers Group ("De Beers") through their marketing arm, The Diamond Trading Company. This is a steep fall from 2000 when their market share was 60 per cent and the 1970s and 1980s, when it was 80 per cent. Other major diamond producers include Rio Tinto Group, BHP Billiton Group (BHP) and Alrosa Group (Alrosa). Currently, both BHP and Alrosa sell a portion of their production to De Beers.

Gem diamonds have established a unique market niche as the pre-eminent "symbol of love" in the form of engagement rings and other jewellery. Being essentially luxury retail goods, general consumer confidence and economic conditions are therefore major drivers of total diamond demand. The end retail market for diamond jewellery, which incorporates costs and margins at the mining, trading, cutting, polishing, jewellery production, marketing and retail stages, is currently estimated at some US\$60 billion for 2003, about 6 per cent higher than 2002.

The diamond market has been less prone to the cyclical price fluctuations typical of many commodities, due both to its retail product nature and the domination of the market by De Beers, which has aimed to preserve an orderly market for diamonds through adjusting supply in times of over-production or economic recession. In recent years, De Beers has also dedicated substantial effort to diamond marketing. Since the Second World War rough diamond prices have shown an overall upward trend, with gem and near gem diamonds generally showing the greatest increases. The De Beers diamond stockpile is reported to be now almost eliminated and rough prices have risen by 20 per cent on average in 2003 and 2004. Demand is postulated to rise 50 per cent and prices increase by 30 per cent to 2012 in real terms.

### **Background to Diamond Geology**

Terrestrial diamonds are known to form and remain stable within a specific range of temperatures and pressures that are calculated to exist below certain parts of the earth's crust in a geological environment known as the mantle. Two main mantle rock types, harzburgite and eclogite, are identified as the source rocks in which diamond is formed. These diamond bearing source rocks have in a series of geological events, via mantle convection systems, been brought to or near the earth's surface in the form of dykes, pipes and sills. Primary terrestrial diamonds are found in these formations in two main rock types known as kimberlite and lamproite which may contain diamonds in commercially recoverable quantities. Kimberlites form the majority of the diamond bearing deposits as pipes and dykes whilst lamproites are rare.

There are two main types of kimberlite: Group I and Group II. It has been proposed that these distinctive Groups are derived from mantle sources having different chemical characteristics. Both



kimberlites and lamproites carry diamonds and as a rule Group I kimberlites are better carriers of diamond than Group II.

All known primary diamondiferous deposits are found close to or at the surface of the crust, in a wide variety of geological environments, but predominantly in the central portions of cratons, where the crust is thickest and mantle conditions favour the preservation of diamonds in the so-called “diamond window”.

## **Projects**

The diamond exploration interests acquired by Sunrise Diamonds from Tertiary Gold include three kimberlites in a previously unrecognised cluster in north central Finland, known as the “Kuusamo” kimberlite cluster. The Company has the benefit of Tertiary Gold’s recently developed knowledge base, and the excellent countrywide geological databases in Finland, and now has interests in 47 kimberlite targets under claim (exploration licence) or claim reservation. The Kuusamo project is located in the centre of the Karelian Craton which extends from Sweden, through Finland and eastwards into Russia. Published geochemical data on indicator minerals suggest that the diamond window beneath central Finland may be some 90 kilometres thick, on a par with other cratons in the world containing diamond deposits. Kimberlites are widely distributed in the Karelian Craton and within Finland a higher-than-average percentage of these kimberlites contain diamonds.

Kimberlites have been discovered by Tertiary Gold at two localities in the Kuusamo area:

- Kalettomanpuro
- Kattaisenvaara

These projects have been subject to historical data review, interpretation of airborne geophysics, ground geophysical surveys, drilling, core logging, photography, and diamond and diamond indicator mineral picking. GTK has undertaken petrological work and mineralogical studies on samples from the Kuusamo kimberlites for Tertiary Gold. This work was designed to characterise the kimberlites and study the diamond bearing capacity of the mantle source rocks for the Kuusamo kimberlites.

The work carried out at Kuusamo so far indicates that the geological conditions considered necessary for the occurrence of diamondiferous kimberlites occur in the Kuusamo area.

The Company’s interests are held as 2 claims and 34 claim reservations. In Finland claims can be held by residents of the European Economic Area (“EEA”) and companies registered in the EEA. Claims are valid for up to 5 years and in certain circumstances can be renewed for up to 3 years. Claims can be converted to mining licenses provided that any deposit discovered is demonstrably viable, technically and commercially, and provided that an environmental management plan has been submitted.

Claims and mining licences can be assigned. A claim reservation allows the holder the exclusive right to apply for one or more claims within its boundaries and is valid for 12 months. A claim reservation is not renewable or transferable. However, Sunrise Diamonds has the benefit of the claim reservations pursuant to the agreement described in paragraph 11.1.5 of Part 5 of this document. Further details of the mining law and the Company’s interests in claims and claim reservations in Finland are set out in section 9 of Part 4 and paragraph 11.1.7 of Part 5 of this document respectively.

### ***Kalettomanpuro (“KP”)***

This prospect was originally targeted by De Beers, following regional till sampling and airborne magnetic surveys. At KP, Tertiary Gold has carried out interpretation of airborne geophysics, a ground geophysical survey, drilling, core-logging, photography, diamond and diamond indicator mineral picking and diamond indicator mineral geochemistry.

Two shallow, vertical holes drilled by De Beers were reported to have targeted a magnetic anomaly and intersected kimberlite.

Modeling of the ground magnetic survey undertaken by Tertiary Gold was carried out by GTK who interpreted the magnetic target as a north-south trending body dipping steeply to the east with approximate dimensions of 100 metres long by 40 metres wide.

A drilling contract was given to GTK to test the ground magnetic anomaly. One drill hole was drilled at 45 degrees towards the east and intersected the kimberlite (Group I geological characteristics) reported by De Beers from 71.55 metres to 98.43 metres down-hole. Unexpectedly, the hole intersected a second kimberlite (Group II geological characteristics) between 51.35 metres and 59.8 metres on the western side of the Group I kimberlite. This second kimberlite was not reported in the De Beers vertical drill holes.

A second larger diameter hole was drilled adjacent to the first hole for sampling purposes and made a second intersection of the Group II kimberlite from 46.41 metres to 48.75 metres where the hole reached the technical limit of the small drill rig used. Drilling results confirm the magnetic model although it is significant that the Group II kimberlite was not expected and was not significantly magnetic in relation to the wall rocks; nor was it detected as a separate magnetic body. This may, in part, be a function of the size of the body and the spacing of the ground survey.

Detailed mineralogical work has been carried out on thin sections of both of the Kalettomanpuro kimberlites. A 50 kilogram sample of the Group I kimberlite was laboratory tested by caustic digest and micro diamond picking. No micro diamonds were recovered. A 24 kilogram sample of the Group II kimberlite was similarly tested at Independent Diamond Laboratories in Perth, Western Australia. No micro diamonds were recovered but a large suite of diamond indicator minerals was recovered including visually distinctive G9 and G10 pyrope-garnets, picroilmenites and chrome diopsides.

The Company intends to undertake further exploration at KP to explore the known kimberlites and to identify further targets in the immediate area.

#### ***Kattaisenvaara (“KV”)***

This prospect, 28 kilometres west north-west of KP, was selected on the basis of the similarity of its airborne magnetic signature to that of KP. At KV, Tertiary Gold has carried out interpretation of airborne geophysics, a ground geophysical survey, drilling, core logging, photography, diamond, diamond indicator mineral picking and diamond indicator mineral geochemistry.

The KV target was defined as a 180 metres wide high priority magnetic anomaly. GTK undertook a ground magnetic survey in July 2004 and modeling of the anomaly pattern inferred several magnetic bodies.

In August 2004, Tertiary Gold drilled four holes. The first hole intercepted Group I kimberlite at a down-hole depth of 26 metres and passed through the northern edge of kimberlite into granitic gneiss basement at a down-hole depth 69 metres.

The second hole and the fourth hole were abandoned in deep glacial fill.

The third hole was located some 86 metres to the north of the first hole and was drilled in the opposite direction. It entered hypabyssal kimberlite beneath glacial till at 18 metres down-hole and then continued in kimberlite to 42 metres down-hole before entering a short interval of mylonite followed by more glacial gravel.

An interpretation of the drilling suggests the kimberlite has a width of approximately 48 metres in the plane of the drilling. It comprises hypabyssal kimberlite on the north side with a thick zone of kimberlite breccia on its southern margin.

A sample of the Kattaisenvaara kimberlite was crushed and subjected to dense media separation by GTK to collect possible indicator minerals. A 27 kilogram sample was laboratory tested by caustic digest and micro diamond picking. No micro diamonds were recovered. A further 22 kilogram sample was subjected to special digest at Independent Diamond Laboratories in Perth, Western Australia with the objective of separating both micro diamonds and diamond indicator minerals. No micro diamonds were recovered but the sample yielded a suite of diamond indicator minerals including chrome diopsides, pyrope-garnets and chromites.

The Company has planned further work at KV to evaluate the potential for different kimberlite facies for the occurrence of diamonds.

### ***Prospectivity of the Kuusamo Kimberlite Cluster***

GTK carried out petrological and mineralogical studies on samples from the Kuusamo kimberlites designed to characterise the kimberlites and study the diamond-bearing capacity of the mantle source rocks for the Kuusamo kimberlites. The principal conclusions drawn from this work are:

- the geological conditions considered necessary for the occurrence of diamondiferous kimberlites occur in the Kuusamo area
- the newly discovered kimberlites have tapped the diamond stability field of the earth's mantle
- the mantle tapped by the kimberlites contains both types of potential diamond-hosting mantle materials – harzburgite and eclogite and the mantle has not been affected by diamond destroying processes.
- kimberlite magmatism may have been active in the Kuusamo area over an extended period of geological time.

GTK concludes that the lack of micro-diamonds in the kimberlite samples tested to date does not necessarily limit the diamond prospectivity of any future kimberlite discoveries in the area.

### **Additional Targets**

Following the success of these initial drilling programmes, further regional targeting has been carried out based on GTK airborne magnetic and electromagnetic data and focusing on magnetic anomalies having similarities and/or proximity to those identified at KP and KV. As a result 45 additional kimberlite targets have been covered within the area of the claims and claim reservations.

### **Finland**

Finland, part of the European Union (“EU”), has a favourable investment climate. The operating environment in Finland is generally favourable for exploration and mine development. The country has a long mining history, and a traditional focus on primary resources such as mining, forestry and farming. Finnish mining equipment manufacturers are recognised throughout the world's mining community. There is a well developed infrastructure with good port facilities, extensive high voltage power grid and an extensive road network.

### **Directors**

#### ***Patrick Cheetham, (aged 45) – Executive Chairman***

Mr Cheetham has 24 years experience in minerals exploration management for a wide range of mineral commodities and over 18 years experience as an executive director of public traded companies. He is currently Executive Chairman of Tertiary Minerals plc which he founded in 1997. He has a first class honours degree in Mining Geology from the Royal School of Mines, Imperial College, University of London. Mr Cheetham co-founded Australian company Archaean Gold NL in 1993 and in July 1996 it was the subject of a successful A\$50 million takeover bid by Lachlan Resources NL. Prior to founding Archaean Gold, Mr Cheetham was, from 1986 to 1993, joint managing director of Dragon Mining NL, during which time he was responsible for the formation of that company, the identification of and acquisition of its exploration projects, its listing on the Australian Stock Exchange and the subsequent development of its exploration projects. Prior to that, he worked for Western Mining Corporation in Western Australia, and for Imperial Metals Corporation in British Columbia, Canada.

#### ***Neil Herbert (aged 39) – Non-Executive Director***

Mr Herbert is currently a director of Kalahari Diamond Resources plc, International Molybdenum plc and Galahad Gold plc. He graduated in Economics and Economic History from the University of Leicester in 1987 and he is a Fellow of the Association of Chartered Certified Accountants. Formerly a director of HPD Exploration (now Patagonia Gold plc), Mr Herbert has held several senior finance posts with listed international mining and exploration companies and he has been involved in a number of acquisitions, mergers and disposals. Between 1991 and 1997 he worked for the accountancy firm PriceWaterhouseCoopers in southern Europe. He was Group Financial Controller of Antofagasta plc from 1998 to 2001 when the Los Pelambres and El Tesoro copper mines were put into production. He was Chief Financial Officer of the AIM listed Argentinean gold explorer Brancote Holdings plc from

September 2001 until the successful completion of its acquisition by Meridian Gold Inc. for US\$368 million in July 2002. He then joined other members of the former Brancote Holdings plc management team at Patagonia Gold plc where he managed the company's successful AIM flotation in March 2003 and where he was Finance Director until the completion of a merger with Minera Puerto Madryn S.A. in December 2003.

***Francis Johnstone (aged 39) – Non-Executive Director***

Mr Johnstone is currently Commercial Director of Ridge Mining plc, an AIM listed exploration and development company focused on its platinum and associated metal projects in South Africa. Mr Johnstone joined the Board of Ridge Mining in 2003 having been an adviser to the company as a corporate finance and commercial consultant since 1996, including its admission to AIM in May 2000. From 1989 to 1996, he was Group Projects and Operations Manager for Cluff Resources plc, which was producing approximately 140,000 ounces of gold per annum from its mines in Zimbabwe and Ghana and had recently discovered the Geita gold mine in Tanzania at the time of its acquisition for approximately £86 million by Ashanti Goldfields in 1996. He is currently a non-executive director of Brazilian Diamonds Limited, a company which is actively exploring a number of diamondiferous kimberlites in Brazil and is listed on the Toronto Stock Exchange and AIM and also of Hidefield Gold plc, an AIM listed company with gold exploration interests in North and South America.

**Senior Management**

The following are employed by Tertiary Minerals which has agreed to make their services available to Sunrise Diamonds under a management agreement, further details of which are set out in paragraph 11.1.4 of Part 5:

***Andrew Dixon, Project Manager, New Business Development***

Mr Dixon is a mineral processing engineer and a Chartered Professional Metallurgist. He holds a Masters degree in Mineral Economics and has 20 years experience in managing, operating and developing mineral and diamond projects in a variety of countries worldwide. He has held various plant supervisory and management positions with De Beers, Argyle Diamond Mines, Trans Hex and Ashton Mining Australia including time as a senior sales analyst with Argyle Diamond Sales. More recently, Mr Dixon was manager of the 9.5 million tonnes per annum German Creek coal handling and preparation plant for Anglo Coal.

***Judith Hayes, Administration Manager***

Ms Hayes has over 30 years management and supervisory experience in both public and private companies, including 19 years supporting senior executives at the financial arm of Midland Bank Group. She has been with Tertiary Minerals since 2000 in the capacity of Administration Manager where she has direct responsibility for the day-to-day running of the head office administrative functions, including treasury.

***Johan Bradley, Exploration Manager Scandinavia***

Mr Bradley is an Oxford graduate geologist with a Masters Degree in Mineral Deposit Evaluation. He has worked as a field geologist with Hunter Exploration in Australia and with RTZ in Scandinavia prior to joining Tertiary Minerals as a project geologist in 2000. He has been Exploration Manager, Scandinavia for Tertiary Minerals since 2004.

**The Placing**

The Company is proposing to raise £307,500 by the issue of 15,375,000 new Ordinary Shares at the Placing Price together with one Warrant for every two new Ordinary Shares. Under the Placing Agreement, WH Ireland and Ruegg & Co have agreed to use all reasonable endeavours to place the new Ordinary Shares at the Placing Price together with the related Warrants. The Placing is not being underwritten. The expenses of the Placing and Admission are estimated to be £100,000 and are payable by the Company. The net proceeds of the Placing are expected to be £207,500.

The Placing is conditional, *inter alia*, on:

1. The Placing Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms prior to Admission; and
2. Admission.

The new Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the existing Ordinary Shares and application will be made for all the Ordinary Shares to be traded on AIM. No application is being made for the Warrants to be traded on AIM.

Placees are required to remit their subscription monies by 12.00 noon on 3 June 2005.

The arrangements for paying for the Placing Shares are set out in WH Ireland's placing letter. All monies received by WH Ireland will be held by WH Ireland prior to Admission when the net proceeds will be paid to the Company. If Admission does not become effective all subscription monies shall be returned without interest by cheque at the placees' risk.

A summary of the principal terms and conditions of the Placing Agreement is set out in paragraph 11.1.3 of Part 5 of this document.

#### **Reasons for Admission and Use of Proceeds**

The Directors are applying for the Company's shares to be admitted to trading on AIM to provide access to capital to enable the Company to pursue its business strategy set out on page 7. The Directors also believe that Admission will enhance the Company's profile within the diamond exploration industry and increase the business opportunities available to the Company.

The Company will raise approximately £307,500 before commissions and expenses through the Placing. The funds raised will be used by the Company for the costs of Admission, the exploration of its diamond interests in Finland, the costs of applying for and maintaining claims, and to expand its diamond interests.

#### **Admission to AIM and Dealings in Ordinary Shares**

Application has been made for the Ordinary Shares to be admitted to trading on AIM. Dealings in the Ordinary Shares are expected to commence on 6 June 2005.

Ruegg & Co has been appointed as the Company's Nominated Adviser and WH Ireland as Broker in relation to Admission.

#### **Current Trading and Prospects**

At present the Company has no trading profits, as its principal activity is the exploration of its diamond interests. The Directors intend to develop the Company by:

- sourcing and acquiring additional suitable projects
- conducting further exploration

#### **CREST**

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument in accordance with the CREST Regulations. The Company's Articles of Association permit the holding of the Ordinary Shares to be evidenced in uncertificated form in accordance with the CREST Regulations. The Directors have applied for the Ordinary Shares to be admitted to CREST with effect from Admission and CRESTCo has agreed to such admission. Accordingly settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system, should shareholders so wish.

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

All the Ordinary Shares will be in registered form and no temporary documents of title will be issued.

## **Corporate Governance**

The Directors intend that the Company will comply with the main provisions of the guidelines set out in the Principles of Good Corporate Governance and Code of Best Practice (“Combined Code”) in so far as is appropriate having regard to the size and nature of the Company. The Company has appointed two non-executive directors with relevant experience to complement the Executive Chairman and to provide an independent view to the Board. Mr Johnstone has been appointed the senior non-executive director.

An Audit Committee, comprising the non-executive Directors, has been established by the Company. The Audit Committee will be chaired by Neil Herbert and will meet at least twice each year. The Audit Committee will be responsible for ensuring that appropriate financial reporting procedures are properly maintained and reported on and for meeting with the Company’s auditors and reviewing their reports on the accounts and the Company’s internal controls.

The Company has in addition established a Remuneration Committee, comprising the non-executive directors. The Remuneration Committee will be chaired by Francis Johnstone. The Remuneration Committee will be responsible for reviewing the performance of any executive directors, setting their remuneration, considering the grant of options under any share option scheme and, in particular, the price per share and the application of performance standards which may apply to any such grant.

## **Share Dealing Code**

The Company has adopted and will operate a share dealing code to prevent Directors and applicable employees from dealing in Ordinary Shares during close periods in accordance with Rule 21 of the AIM Rules.

## **Lock-ins and Orderly Market Arrangements**

At Admission the Directors and persons connected with them will together own 7,000,000 Ordinary Shares representing 9.29 per cent of the issued share capital and in addition will have Directors Warrants over 1,500,000 Ordinary Shares representing 1.99 per cent of the issued share capital. In addition Tertiary Minerals will own 20,000,000 Ordinary Shares representing 26.53 per cent of the issued share capital. The Directors and persons connected with them and Tertiary Minerals have undertaken to the Company, Ruegg and to WH Ireland that they will not sell or dispose of, except in certain circumstances (as permitted by the AIM Rules), any of their respective interests in Ordinary Shares at any time before the first anniversary of Admission and for the 12 months immediately following will effect a sale only through the brokers for the time being of the Company and will only do so following consultation with the broker in relation to any such disposal and further that any such disposal will be made in such a manner and as such broker may reasonably require with a view to maintaining an orderly market in the Ordinary Shares.

## **Dividend Policy**

It is the intention of the Directors to achieve capital growth by maximising the Company’s exploration projects and not to pay dividends until such time that the Company’s interests have been brought into profitable production or sold. Considering the anticipated capital expenditure requirements for the Company’s exploration projects, payment of a dividend in the near future is unlikely.

## **Warrants**

Under the Placing, the Company will grant one Warrant for every 2 Ordinary Shares subscribed. The Company has granted to each of the Directors 500,000 Directors Warrants to subscribe for Ordinary Shares exercisable at the Placing Price at any time up to the fifth anniversary of Admission. In addition it is intended to grant to each of Ruegg and WH Ireland 1,500,000 warrants exercisable at the Placing Price at any time up to the fifth anniversary of Admission. Further details of the Sunrise Diamonds Warrants are set out in paragraph 7 of Part 5 of this document.

## **Taxation**

The attention of prospective investors is drawn to paragraph 8 of Part 5 of this document.

**Shareholders who are in any doubt as to their tax position should consult their professional advisers immediately.**

## PART 2

### RISK FACTORS

**The exploration for and development of natural resources is a speculative activity which involves a high degree of financial risk. Before deciding whether to invest in the Ordinary Shares, prospective investors should carefully consider the risks described below together with all other information contained in this document. If any of the following risks actually occur the Company's business, financial condition and/or results of operations could be materially and adversely affected. In such case, an investor may lose all or part of his or her investment. Additional risks and uncertainties not currently known to the Directors may also have an adverse effect on the Company's business and the information set out below does not purport to be an exhaustive summary of the risks affecting the Company.**

#### **Exploration and Mining Risks**

Mineral exploration is highly speculative in nature, involves many risks and frequently is unsuccessful. There can be no assurance that any mineralisation discovered will result in mineral resources or ore reserves being attributed to the Company. Once mineral resources have been estimated, it can take a number of years until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish ore reserves through drilling, to determine processes to extract diamonds and other minerals and metals from ore and, in the cases of new properties, to construct mining and processing facilities. As a result of these uncertainties, no assurance can be given that the exploration programmes undertaken by the Company will result in any new commercial mining operations being brought into operation. Should the mineral properties later be shown to be commercially viable then delays in the construction and commissioning of mining projects or other technical difficulties may result in the Company's future projected target dates for production being delayed or further capital expenditure being required.

The activities of the Company may be disrupted by a variety of risks and hazards which are beyond the control of the Company, including geological, geotechnical and seismic factors, environmental hazards, industrial accidents, occupational and health hazards, technical failures, labour disputes, unusual or unexpected rock formations, flooding and extended interruptions due to inclement or hazardous weather conditions, explosions and other acts of God. These risks and hazards could also result in damage to, or destruction of, production facilities, personal injury, environmental damage, business interruption, monetary losses and possible legal liability. No assurance can be given that the Company will be able to obtain insurance coverage at reasonable rates (or at all), or that any coverage it obtains will be adequate and available to cover any such claims.

The occurrence of any of these hazards can delay activities of the Company and may result in liability. The Company may become subject to liability for pollution or other hazards against which it has not insured or cannot insure, including those in respect of past mining activities for which it was not responsible.

#### **Volatility of Commodity Prices**

Historically, commodity prices (including diamonds) have displayed wide ranges and are affected by numerous factors over which the Company does not have any control. These include world production levels, international economic trends, currency exchange fluctuations, expectations for inflation, speculative activity, consumption patterns and global or regional political events.

#### **Governmental Regulations and Processing Licenses**

Governmental approvals, licenses and permits are, as a practical matter, subject to the discretion of the applicable governments or governmental offices. The Company must comply with known standards, existing laws and regulations that may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and the interpretation of the laws and regulations implemented by the permitting authority. New laws and regulations, amendments to existing laws and regulations, or more stringent enforcement of existing laws and regulations, could have a material adverse impact on the Company's results of operations and financial condition.

The Company's exploration, and any future mining and processing activities are dependent upon the grant of appropriate licenses, concessions, leases, permits and regulatory consents which may be withdrawn or made subject to limitations. There can also be no assurance that they will be renewed or if so, on what terms.

### **Limited Operating History**

The Company does not have an established trading record. The Company's operations are at an early stage of development and success will depend upon the Directors' ability to raise funding, manage the current projects and to identify and take advantage of further opportunities which may arise.

The Company has no properties producing cash flow and its ultimate success will depend on its ability to either sell properties or to generate cash flow from producing properties in the future. The Company has not earned profits to date and there is no assurance that it will do so in the future. A significant portion of the Company's activities will be directed to the search for and the development of new mineral deposits. Significant capital investment will be required to explore and develop the Company's existing projects. There is no assurance that the Company will be able to raise the required funds to continue these activities.

### **Financing**

The successful extraction of any diamonds or other minerals may require very significant capital investment. In addition, delays in the construction and commissioning of any of the Company's mining projects or drilling projects or other technical difficulties may result in projected target dates for related production being delayed and/or further capital expenditure being required. In common with all mining and drilling operations, there is uncertainty, and therefore risk, associated with operating parameters and costs resulting from the scaling up of extraction methods tested in laboratory conditions. The Company's ability to raise further funds will depend on the success of existing and acquired operations. The Company may not be successful in procuring the requisite funds and, if such funding is unavailable, the Company may be required to reduce the scope of its operations or anticipated expansion and curtail its budgeted exploration programmes.

### **Marketing**

Diamond marketing is a highly specialised activity dominated by a small number of powerful sellers including De Beers, BHP Billiton and Rio Tinto plc. The Company has limited expertise in this area and consequently there is risk that it may not in future maximise the value of any diamond discoveries.

### **Environmental Factors**

The Company's operations are subject to environmental regulation (including environmental impact assessments and permitting). Such regulation covers a wide variety of matters, including, without limitation, prevention of waste, pollution and protection of the environment, labour regulations and worker safety. The Company may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations. A number of the areas in which the Company is exploring are subject to environmental restrictions. Environmental legislation and permitting are likely to evolve in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors and employees.

### **Political Risks**

The political situation in Finland, as in any country, introduces a certain degree of risk with respect to the Company's activities. The government of Finland exercises control over such matters as exploration and mining licensing, permitting, exporting and taxation, which may adversely impact the Company's ability to carry out exploration, development and mining activities.

Existing political conditions are subject to the introduction of new legislation, amendments to existing legislation by governments or the interpretation of those laws by governments which could impact adversely on the assets, operations and ultimately the financial performance of the Company.



Changes in political stability, changes in political attitudes and changes to government regulations relating to foreign investment and the mining business are beyond the control of the Company and may adversely affect its business. Operations may be affected in varying degrees by government regulations with respect to restrictions on various areas, including production, price controls, export controls, income taxes, expropriation of property, environmental legislation and mine safety.

### **Uninsured Risks**

The Company, as a participant in exploration and mining programmes, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs or other reasons. The Company may incur a liability to third parties (in excess of any insurance cover) arising from pollution or other damage or injury. Currently, the Company does not carry insurance for every aspect of its business or management.

### **Dependence on Key Personnel**

The Company is dependent upon its current executive management team. Whilst it has entered into contractual arrangements with the aim of securing the services of these personnel, the retention of their services cannot be guaranteed. Accordingly, the loss of any key management of the Company may have an adverse effect on the future of the Company's business. There are currently no arrangements in place for key-man insurance.

### **Competition**

The mineral exploration and mining business is competitive in all of its phases. The Company competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than the Company, in the search for and acquisition of exploration and development rights on attractive mineral properties. The Company's success will depend not only on its ability to develop the properties on which it currently has exploration and development rights, but also on its ability to select and acquire exploration and development rights on further suitable properties for exploration and development. There is no assurance that the Company will continue to be able to compete successfully with its competitors in acquiring exploration and development rights on such properties.

### **Payment Obligations**

Under the exploration licenses and claims reservations and certain other contractual agreements to which the Company is or may in the future become party, the Company is or may become subject to payment and other obligations. If such obligations are not complied with when due, in addition to any other remedies which may be available to other parties, this could result in dilution or forfeiture of interests held by such companies. The Company may not have, or be able to obtain, financing for all such obligations as they arise.

### **Currency Risk**

Currency fluctuations may affect the cash flow that the Company may realise from its future operations, as diamond production is sold in the world market in United States dollars ("USD"). Certain costs to the Company are denominated in currencies other than USD, for example the Euro, which is the currency of Finland where the Company operates. Fluctuations in exchange rates between currencies in which the Company operates may cause fluctuations in its financial results, which are not necessarily related to the Company's underlying operations.

### **Title Matters**

Whilst the Company has diligently investigated title to all mineral claims and, to the best of its knowledge, title to all properties is in good standing, this should not be construed as a guarantee of title. The properties may be subject to undetected title defects. If a title defect does exist it is possible that the Company may lose all or part of its interest in properties to which the title defect relates.

The Company is dependant upon the Finnish government approving, and Tertiary Gold complying with, its contractual obligations relating to the 2 claims and 34 claim reservations in the Kuusamo

region of north-east Finland (the Agreements between the Company and Tertiary Gold detailed at paragraphs 11.1.5 and 11.1.6 of Part 5 of this document). If such obligations are not complied with, in addition to any other remedies which may be available to other parties, this could result in dilution or forfeiture of interests held by the Company.

### **Market Perception**

Market perception of mining and exploration companies may change which could impact on the value of investors' holdings and impact on the ability of the Company to raise further funds by the issue of further shares in the Company.

### **Areas of Investment Risk**

The prices of publicly quoted securities can be volatile. The price of securities is dependent upon a number of factors, some of which are general or market or sector specific and others that are specific to the Company.

The Ordinary Shares will not be listed on the Official List of the UK Listing Authority and although the Ordinary Shares will be traded on AIM, this should not be taken as implying that there will always be a liquid market in the Ordinary Shares. In addition, the market for shares in smaller public companies is less liquid than for larger public companies. Therefore an investment in the Ordinary Shares may be difficult to realise and the price of the Ordinary Shares may be subject to greater fluctuations than might otherwise be the case.

An investment in shares quoted on AIM may carry a higher risk than an investment in shares quoted on the Official List. AIM has been in existence since June 1995 but its future success and liquidity in the market for the Ordinary Shares cannot be guaranteed. Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment.

The market price of the Ordinary Shares may not reflect the underlying value of the Company's net assets. The price at which investors may dispose of their Ordinary Shares may be influenced by a number of factors, some of which may pertain to the Company and others which are extraneous. On any disposal of their Ordinary Shares, investors may realise less than the original amount invested.

**The risks noted above do not necessarily comprise all those faced by the Company and are not intended to be presented in any assumed order of priority.**

**The investment described in this document is speculative and may not be suitable for all recipients of this document. Potential investors are accordingly advised to consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising in investments of this kind before making any investment decisions. Prospective investors should consider carefully whether an investment in the Company is suitable in the light of their personal circumstances and the financial resources available to them.**

**PART 3**  
**FINANCIAL INFORMATION**  
**SECTION A**  
**ACCOUNTANTS REPORT ON SUNRISE DIAMONDS**

The Directors  
Sunrise Diamonds plc  
Sunrise House  
Hulley Road  
Macclesfield  
SK10 2LP



and

The Directors  
Ruegg & Co Limited  
39 Cheval Place  
Knightsbridge  
London  
SW7 1EW

31 May 2005

Dear Sirs

**Sunrise Diamonds plc (the “Company”)**

**Introduction**

We report on the financial information set out below which has been prepared for inclusion in the AIM admission document of the Company dated 31 May 2005 (the “Admission Document”) relating to the proposed admission to AIM of the Company.

The Company was incorporated on 14 February 2005 (company number 05363956). On incorporation, the Company had an authorised share capital of £2,000,000 divided into 200,000,000 ordinary shares of 1p, of which, two subscriber shares were issued. On 28 February 2005 the members passed a resolution that each 1p share be subdivided into 10 ordinary shares with a nominal value of 0.1p each.

Tertiary Minerals subscribed for, and was allotted, 19,999,980 ordinary shares with a nominal value of £19,999.98 on 28 February 2005.

The Company increased its authorised share capital on 4 March 2005 by the creation of 30,000 £1 redeemable preference shares. These shares were allotted to Tertiary Minerals and were 25% paid up as at 5 March 2005. On 18 May 2005, the remaining 75% was fully paid up and the shares redeemed at par.

On 5th May 2005, 40,000,000 Ordinary Shares of 0.1p each were allotted and issued fully paid pursuant to an Offer for Subscription dated 1st April 2005.

**Basis of preparation of financial information**

The financial information set out below is based upon the non-statutory financial statements prepared by the Directors and covers the period from 14 February 2005 to 5 March 2005. The financial statements were audited by PKF, Sovereign House, Queen Street, Manchester, M2 5HR and the audit report was unqualified. The basis of preparation of the financial information is described in the accounting policies note to the financial statements.

## Responsibility

The financial statements of Sunrise Diamonds plc are the responsibility of the Directors of the Company who approved their use.

The Directors are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to compile the financial information set out in this report from the financial statements and to form an opinion on the financial information and report our opinion to you.

## Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

## Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document dated 31 May 2005, a true and fair view of the state of affairs of Sunrise Diamonds plc at 5 March 2005 and of its loss for the period then ended.

## Consent

We consent to the inclusion in the Admission Document of this report and accept responsibility for the report for the purposes of paragraph 45(1)(b)(iii) of Part 7 of Schedule 1 to the Public Offers of Securities Regulations 1995.

## FINANCIAL INFORMATION

### SUNRISE DIAMONDS PLC PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	<i>Period from 14 February to 5 March 2005 £</i>
Administrative expenses		(18,261)
<b>Loss on ordinary activities before taxation</b>		<b>(18,261)</b>
Tax on loss on ordinary activities		—
<b>Loss on ordinary activities after taxation</b>	6	<b>(18,261)</b>
Loss per share – basic (£)	4	0.003

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

## SUNRISE DIAMONDS PLC BALANCE SHEET

	<i>Notes</i>	<i>As at 5 March 2005 £</i>
<b>Fixed assets:</b>		
Intangible assets	1	150,000
<b>Current assets:</b>		
Debtors	2	22,500
Cash at bank and in hand		157,500
		180,000
<b>Creditors: amounts falling due within one year</b>	3	(168,261)
<b>Net current assets less current liabilities</b>		11,739
<b>Total assets less current liabilities</b>		<b>161,739</b>
<b>Capital and reserves</b>		
Called up share capital	5	50,000
Share premium account	6	130,000
Profit and loss account	6	(18,261)
<b>Shareholders' funds</b>		<b>161,739</b>
Equity interests		131,739
Non-equity interests		30,000
		<b>161,739</b>

## SUNRISE DIAMONDS PLC CASHFLOW STATEMENT

	<i>Period ended 5 March 2005 £</i>
<b>Net cash inflow/(outflow) from operating activities</b>	—
<b>Net cash inflow/(outflow) before management of liquid resources and financing</b>	—
<b>Financing</b>	
Issue of ordinary share capital	150,000
Issue of partly paid preference share capital	7,500
Issue of shares	157,500
Decrease in debt	—
<b>Net cash inflow/(outflow) from financing</b>	157,500
<b>Increase/(decrease) in cash in the period</b>	<b>157,500</b>

**NOTE TO CASHFLOW STATEMENT FOR THE PERIOD ENDED 5 MARCH 2005**

**i) Reconciliation of operating loss to net cash outflow from operating activities**

	2005 £
Operating (loss)/profit	(18,261)
Increase in creditors within one year	18,261
<b>Net cash outflow from operating activities</b>	<u><u>–</u></u>

**ii) Analysis of net funds/(debt)**

	<i>14 February</i> 2005 £	<i>Cash</i> <i>flow</i> £	<i>Other</i> <i>non-cash</i> <i>changes</i> £
<b>Net cash:</b>			
Cash at bank and in hand	–	157,500	–
Bank deposits	–	–	–
Net (debt)/funds	<u>–</u>	<u>157,500</u>	<u>–</u>

**iii) Reconciliation of net cashflow to movement in net funds**

	2005 £
Increase in cash in the period	157,500
Movement in net funds in the period	<u>157,500</u>
Opening net debt	–
Closing net funds	<u><u>157,500</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### ACCOUNTING POLICIES

#### Basis of preparation

These financial statements do not comprise the Company's statutory accounts under Section 242 of the Companies Act 1985. No statutory accounts have yet been prepared or delivered to the Registrar of Companies. The auditors have issued no audit report in respect of any period other than the audit report included in these financial statements.

#### Accounting convention

The financial statements are prepared under the historical cost convention.

#### Intangible Assets – Exploration and Development

Accumulated costs incurred in relation to separate areas of interest (which may comprise more than one exploration licence or exploration licence application) are capitalised and carried forward where:

1. Such costs are expected to be recouped through successful exploration and development of the area, or alternatively by its sale; or
2. Exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas are continuing.

An annual review is carried out by the Directors to consider whether any exploration and development costs have suffered impairment in value and, if necessary, provisions are made accordingly.

Accumulated costs in respect of areas of interest, which have been abandoned, are written off to the profit and loss account in the year in which the area is abandoned.

Costs in respect of reconnaissance exploration (where the Group has no licences or licence applications) are written off to the profit and loss account in the year in which the reconnaissance exploration took place.

Exploration and development costs are carried at the lower of cost and expected net realisable value.

The costs capitalised on specific areas of interest will be amortised over the useful economic life of the projects, once they become income generating, and the costs can be recouped.

#### 1. Intangible fixed assets

	<i>2005 Deferred exploration expenditure £</i>
<b>Cost</b>	
At 14 February 2005	–
Additions	150,000
At 5 March 2005	150,000
<b>Net Book Value</b>	
At 5 March 2005	150,000

## 2. Debtors

	2005 £
Uncalled preference share capital	<u>22,500</u>

## 3. Creditors: amounts falling due within one year

	2005 £
Amounts owed to group undertakings	150,000
Accruals and deferred income	18,261
	<u>168,261</u>

## 4. Loss per share

Loss per share has been calculated on the loss and weighted average number of shares in issue during the period.

	2005
Loss (£)	(18,261)
Weighted average shares in issue (no.)	6,000,014
Basic loss per share (£)	0.003

The loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for the basic earnings per ordinary share.

## 5. Share capital

	2005 £
<b>Authorised</b>	
2,000,000,000 Ordinary Shares of 0.1p each	2,000,000
30,000 Redeemable Preference Shares of £1 each	30,000
	<u>2,030,000</u>
<b>Allotted, called up and fully paid</b>	
20,000,000 Ordinary Shares of 0.1p each	20,000
30,000 Redeemable Preference Shares of £1 each (25p per share paid)	30,000
	<u>50,000</u>

During the period, the following issues took place:-

- An issue of two 1p ordinary shares on incorporation.
- Conversion of each 1p ordinary share into ten 0.1p Ordinary Shares.
- A placement of 19,999,980 0.1p Ordinary Shares for a total consideration of £150,000.
- A placement of 30,000 £1 Redeemable Preference Shares for a total consideration of £30,000.

The redemption rights attached to the Redeemable Preference Shares are as follows:-

- The Company may, at any time, subject to the Companies Act 1985, redeem all (but not part) of the Redeemable Preference Shares then in issue.



## 6. Statement of movement on reserves

	<i>Share premium account</i> £	<i>Profit and loss account</i> £
Retained loss for the period	–	(18,261)
Premium on shares issued during the period	130,000	–
Balance at 5 March 2005	<u>130,000</u>	<u>(18,261)</u>

## 7. Reconciliation of movements in shareholders' funds

	2005 £
Loss for the financial period	(18,261)
Proceeds from issue of shares	180,000
Net addition to shareholders' funds	<u>161,739</u>
Opening shareholders' funds	–
Closing shareholders' funds	<u>161,739</u>

## 8. Control

As at 5 March 2005 the ultimate parent undertaking was Tertiary Minerals plc. This was also the controlling party, but there was no ultimate controlling party.

## 9. Related party transactions

On 28 February 2005 Tertiary Minerals plc and Tertiary Gold Limited each acquired one ordinary share of 1p. On 28 February 2005 each 1p share in the authorised and allotted share capital was subdivided into 10 Ordinary Shares with a nominal value of 0.1p each. On the same day, Tertiary Minerals plc subscribed for, and was allotted, 19,999,980 Ordinary Shares with a nominal value of £19,999.98. On 4 March 2005 Tertiary Minerals plc subscribed for, and was allotted, 30,000 £1 Redeemable Preference Shares. These shares were 25% paid up at 5 March 2005. Consequently there is an outstanding debtor balance of £22,500 due from Tertiary Minerals plc at 5 March 2005.

Mineral exploration rights were purchased by Sunrise Diamonds plc from Tertiary Gold Limited for £150,000 pursuant to a transfer agreement dated 28 February 2005. This value is based on historical costs incurred and an apportionment of overheads incurred by Tertiary Gold Limited.

## 10. Post Balance Sheet Event

On 5 May 2005, 40,000,000 Ordinary Shares of 0.1p each were allotted and issued at 1p per share pursuant to an Offer for Subscription dated 1 April 2005. These shares represented 66.66% of the enlarged share capital and hence, on 5 May 2005, Sunrise Diamonds plc ceased to be a subsidiary of Tertiary Minerals and became an associated company instead.

On 18 May 2005, the 75% outstanding balance on the Redeemable Preference Shares was fully paid up and subsequently redeemed at par.

Yours faithfully

**PKF (UK) LLP**  
*Registered Auditor*

**PART 3**

**SECTION B**

**SUNRISE DIAMONDS PLC**

**ILLUSTRATIVE PRO FORMA STATEMENT OF COMBINED NET ASSETS**

The following unaudited pro forma statement of combined net assets of the Company is prepared for illustrative purposes only and may not, because of its nature, give a true picture of the financial position of the Company after the proposed Placing. It has been prepared to illustrate the effect on the net assets of the Company as if the Offer for Subscription, the redemption of the preference shares and the Placing had taken place on 5 March 2005.

	<i>As at 5 March 2005</i>		
	<i>Audited</i>	<i>Adjustments</i>	<i>Pro-forma</i>
	<i>£</i>	<i>£</i>	<i>Net Assets</i>
			<i>£</i>
<b>Fixed Assets</b>			
Intangible fixed assets	150,000	–	150,000
<b>Current assets</b>			
Debtors	22,500	(22,500)	–
Cash at bank and in hand	157,500	562,064	719,564
	<u>180,000</u>	<u>539,564</u>	<u>869,564</u>
<b>Creditors due within one year</b>	<u>(168,261)</u>	<u>–</u>	<u>(168,261)</u>
<b>Net Assets</b>	<u><u>161,739</u></u>	<u><u>539,564</u></u>	<u><u>701,303</u></u>

**Notes to the pro forma statements**

- (i) The combined net assets of the Group have been extracted from the audited balance sheet of the Company as at 5 March 2005 as set out in the Accountants' Report in Part 3, Section A of this document.
- (ii) The adjustments made are summarised below:

	<i>Adjustment</i>	<i>Adjustment</i>
	<i>to cash</i>	<i>to debtors</i>
	<i>£</i>	<i>£</i>
(a) <b>Redemption of preference share capital</b>	(7,500)	(22,500)
(b) <b>Offer for Subscription</b>		
Gross Proceeds	400,000	–
(c) <b>Placing</b>		
Gross Proceeds	307,500	–
(d) <b>Expenses</b>		
Expenses associated with the Offer for Subscription and Placing	(137,936)	
	<u>562,064</u>	<u>(22,500)</u>

**PART 4**

**COMPETENT PERSON'S REPORT**

**DDRAIG MINERAL DEVELOPMENTS LIMITED**

31 Madoc Street, Llandudno, Conwy, North Wales,  
U.K., LL30 2TL

Tel: (44)-(0)-1492-874888 Fax: (44)-(0)-1492-870547

E-mail Address: [ddraigminerals@aol.com](mailto:ddraigminerals@aol.com)

The Directors  
Sunrise Diamonds plc  
Sunrise House  
Hulley Road  
Macclesfield  
Cheshire. SK10 2LP

and

The Directors  
Ruegg & Co Limited  
39 Cheval Place  
London SW7 1EW

27 May 2005

Dear Sirs

Ddraig Mineral Developments Limited, ("DMD") was commissioned by Sunrise Diamonds plc ("Sunrise Diamonds" or "the Company") to provide a Competent Person's Report (CPR) for their diamond exploration properties located in Finland. This report is to be included in an AIM admission document (the "Admission Document") dated 31 May 2005 relating to the proposed placing and admission to AIM of Sunrise Diamonds.

DMD has not been requested to provide an Independent Valuation or asked to comment on the Fairness or Reasonableness of any vendor or promoter considerations, and no opinions on these matters have been expressed.

DMD is a specialist company that was set up to offer independent technical advice and to assist with the development and financing of mineral projects. The principals of DMD are Tony Hopkins and David Jordan who have a wealth of experience and knowledge in the minerals industry and who have been accepted as authors of Competent Persons Reports for various International Exchanges.

Both Mr Hopkins and Mr Jordan are Members of the Institute of Materials, Minerals and Mining and have Chartered Engineer status.

DMD and its personnel are experienced in the natural resource sector and they have experience in the diamond industry on a world-wide basis. Mr. Hopkins began his diamond career in 1964 in the Kaokaveld region of Namibia but was most involved in the industry as chief geologist for Utah International in South Africa in the mid 1970's to the early 1980's. In this time he was in charge of the exploration for diamonds in South Africa and Zimbabwe and has visited many kimberlite, riverine and marine gravel occurrences in a large number of locations. He has specific knowledge of the Karelian Craton where the Kuusamo project is located.



***Ddraig Mineral Developments Limited***

*Registered in England and Wales No.3109193 Registered Office: 31 Madoc Street, Llandudno, Conwy, LL30 2TL, UK*

*Directors: Mr D.A.S. Hopkins and Mr. D. Jordan*

Mr. Jordan is a mineral processing engineer who has worked on both kimberlite and alluvial diamond deposits in Africa and South America. He has been involved in indicator mineralogical testwork, bulk pilot scale testwork together with flowsheet and engineering design. Mr Jordan has reviewed a number of diamond operating mines and has been involved in specifying and selecting processing equipment. He is familiar with valuation techniques and associated financial analysis and has undertaken a number of such exercises for both public and private companies.

DMD has based its review of the Sunrise Diamonds projects on comprehensive reports and supporting information provided by Tertiary Gold, together with technical reports by government agencies as well as other relevant published and unpublished data. A site visit was undertaken to the project area by Mr. Tony Hopkins of DMD during February 2005. Mr Hopkins visited the site areas, inspected the drill core and held discussions with Tertiary Gold's technical personnel and representatives of the Geological Survey of Finland ("GTK").

The legal status of the properties has not been independently verified by DMD. The present status of tenements listed in this report is based on information provided by Sunrise Diamonds, and the report has been prepared on the assumption that the tenements will prove lawfully accessible for evaluation.

The Competent Person's Report has been prepared in accordance with the rules and guidelines as required by the London Stock Exchange, which pertain to Independent Expert Reports.

The Competent Person's Report has been prepared on information available up to and including 31 March 2005. DMD has provided and not withdrawn written consent for the inclusion of the Competent Person's Report in Part 4 of the Admission Document, and to the inclusion of statements made by DMD and to the references of its name in other sections of the Admission Document, in the form and context in which the report and those statements appear. DMD accepts responsibility for the Competent Person's Report for the purposes of regulation 13(1)(d) of Schedule 1 to the Public Offers of Securities Regulations 1995.

The information for this report has been provided by Sunrise Diamonds and represents information generated by Tertiary Gold and its consultants. In addition DMD has utilised information generated by DMD from previous work on diamond properties in other environments.

Neither DMD, nor the authors of this report, have or have previously had, any material interest in Tertiary Minerals, Tertiary Gold, or Sunrise Diamonds or the Properties in which Sunrise Diamonds has an interest. The relationship with Tertiary Gold is solely one of professional association between client and independent consultant. This report is prepared in return for professional fees based upon agreed commercial rates and the payment of these fees is in no way contingent on the success of any fundraising.

Yours faithfully  
Mr Tony Hopkins  
*Director*

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## 1. Summary

The mineral interests held by Sunrise Diamonds were acquired from Tertiary Gold Limited (“Tertiary Gold”) on 28 February 2005. Tertiary Gold has been exploring for diamonds in Finland since February 2004 and in a brief period has located and drilled three kimberlites in a previously unrecognised kimberlite cluster in Northern Finland, now known as the “Kuusamo” kimberlite cluster.

The Company has the benefit of Tertiary Gold’s recently developed knowledge base and the excellent countrywide geological databases in Finland and now has interests in 47 kimberlite targets under claim or claim reservation.

Kimberlites have been discovered by Tertiary Gold at two localities – Kalettomanpuro and Kattaisenvaara.

Tertiary Gold has carried out the following work at these localities:

- Historical Data Review
- Interpretation of Airborne Geophysics
- Ground Geophysical Survey
- Drilling
- Core logging/Photography
- Diamond & Diamond Indicator Mineral Picking

The Geological Survey of Finland (“GTK”) has undertaken detailed petrological work and mineralogical studies on samples from the Kuusamo kimberlites for Tertiary Gold. This work was designed to characterise the kimberlites and study the diamond bearing capacity of the mantle source rocks for the Kuusamo kimberlites.

The work carried out at Kuusamo by GTK indicates that:

- the geological conditions considered necessary for the occurrence of diamondiferous kimberlites occur in the Kuusamo area
- the newly discovered kimberlites have tapped the diamond stability field of the earth’s mantle
- the mantle tapped by the kimberlites contains both types of potential diamond-hosting mantle materials – harzburgite and eclogite and the mantle has not been affected by diamond destroying processes.
- kimberlite magmatism may have been active in the Kuusamo area over an extended period of geological time and even within the same controlling structure at the same locality.

A detailed work programme and exploration budget produced by Sunrise Diamonds has been reviewed by DMD and project expenditure is estimated at approximately £0.75 million over a period of 18 months. This amount only includes direct project costs and excludes expenses associated with maintaining claims, administration and supervision charges.

The operating environment in Finland is generally favourable for exploration and mine development. The country has a long mining history and a traditional focus on primary resources such as mining, forestry and farming. Finnish mining equipment manufacturers are recognized throughout the world's mining community. There is a well developed infrastructure with good port facilities, extensive high voltage power grid and an extensive road network.

Under the Mining Act in Finland Claims (Exploration Licences) are open to residents of the European Economic Area (“EEA”) and companies registered in the EEA and are valid for up to 5 years. Claims

can be converted to mining licenses if a commercial discovery can be demonstrated. Claims can be “reserved” by a claim reservation for a period of up to twelve months and claims can be assigned.

The mineral properties in which Sunrise Diamonds holds an interest are considered to be “Exploration Projects” which are inherently speculative in nature. DMD considers, nonetheless, that the projects have been acquired on the basis of sound technical merit. The properties are considered to be sufficiently prospective, subject to varying degrees of exploration risk, to warrant further exploration and assessment of their economic potential, consistent with the proposed programmes.

## **2. Introduction**

Tertiary Gold is a subsidiary of Tertiary Minerals plc (“Tertiary Minerals”), a UK based mineral exploration company whose shares trade on AIM (the Alternative Investment Market of the London Stock Exchange). Tertiary Gold has been exploring for diamonds in Finland since February 2004 and in a brief period has drilled three kimberlites in a previously unrecognised kimberlite cluster in Northern Finland now known as the “Kuusamo” kimberlite cluster.

Tertiary Gold, capitalising on its recently developed knowledge base, took advantage of the excellent countrywide geological databases in Finland to acquire 47 kimberlite targets under the claims and claim reservations in which Sunrise Diamonds now has the beneficial interest.

## **3. Background**

### *3.1. General*

Diamond is the isometric normal class homopolar bonded crystalline isomorph of the native element carbon. As a natural crystalline substance it may exhibit a large variety of morphologies. It cannot be metallurgically refined or concentrated; only its physical appearance and optical properties may be enhanced by cutting and polishing. Approximately only 20% of terrestrial diamonds have a degree of crystal perfection that warrants their classification as gem material, the remaining 80% are utilised for their physical hardness (10 on the Moh scale of hardness) as industrial artefacts. In practice, approximately 20% of the gem diamonds produced account for 80% of the total diamond revenue.

Diamond is not only the hardest known substance it also has a high refractive index with a high dispersion. It is these properties that impart the “fire” to the most brilliant of gemstones. Diamond in the naturally occurring state is very rare and occurs in levels from less than one to up to several hundred carats per hundred tonnes (“Cpht” the industry standard of recording diamond grades). A metric carat is 0.2 grammes and the name is derived from biblical times as the average mass of a Carob seed.

Current annual world production of natural diamonds is in the order of 140 million carats for revenue sales of US\$ 10.8 billion. (An average price of US\$77 carat.)

### *3.2. The Occurrences of Primary Terrestrial Diamonds*

Terrestrial diamonds are known to form at extreme pressures and temperatures that are calculated to exist some 250 km below the surface of the earth in a geological environment known as the mantle. Two main rock types being harzburgite and eclogite are identified as the source rocks in which diamond is formed but it is not known if the process of diamond formation occurs throughout this layer of the mantle or only in selected areas. These rock types have distinct mineralogies and associated trace mineral components that are indicative of the physio-chemical conditions under which diamond may form.

The diamond bearing source rocks have in a series of geological events been, via mantle convection systems, brought to the mantle crust interface some 30 to 40 km below the earth's surface. In a geological situation associated with arching of the crust, decompression initiated melting of the mantle material produces new magma systems that can be intruded into and extruded on the earth's surface. This geological phenomenon is known as mantle plume development and occurs predominantly below the central portions of crustal elements known as shields or cratons. The magma generation is accompanied by degassing of the high pressure mantle formations which initiates in rare and limited situations the formation of a new magma type derived from the disaggregation and alteration of

diamondiferous mantle material. This new magma type is both intruded into and extruded onto the crust as dykes, pipes and lava flows. Primary terrestrial diamonds are found within all these formations but currently only two rock types known as kimberlite and lamproite contain diamonds in commercially recoverable quantities. Kimberlites form the majority of the diamond bearing deposits as pipes and fissures whilst lamproites are rarer.

There are two main types of kimberlites being: Group I and Group II. It has been proposed that these distinctive Groups are derived from sources in the mantle which are either slightly depleted (Group I) or enriched (Group II) with respect to light rare earth elements. Lamproite is similar to Group II kimberlite but contains more phlogopite and less ilmenite.

Both kimberlites and lamproites carry diamonds but as a rule, Group I kimberlites are better carriers of diamond than Group II.

The above geological processes occur at the mantle crust interface and as a consequence all known primary diamondiferous deposits are found close to or at the surface of the crust in a wide variety of geological environments but predominantly in the central portions of cratons. In cratons, depending on the level of erosion, lithologies vary from a central Archaean granite/greenstone core, often marginally metamorphosed and deformed, to undeformed cover sequences that range in age from Proterozoic to Recent.

Kimberlite generation is neither random in space or time and there is a close relationship with crustal igneous events.

World wide there are some 5,500 known kimberlites of which around 500 contain diamonds. Out of these only some 50 are commercially diamondiferous and of these only 12 occurrences may be regarded as hosting world class operating mines.

Kimberlite pipes and associated dykes tend to occur in clusters and these clusters which may have a radius of tens of kilometres are often centred around recognisable geological structures such as dome/basin culminations and the intersection of structural lineaments.

In South Africa, which is a well known and explored diamondiferous kimberlite province and may serve as an example to other or potential new fields, there are some eight well known clusters containing between 6 and 29 kimberlites each. In any cluster only 10% of the kimberlites may be diamondiferous.

The geological reasons offered for the low percentage of kimberlites that carry diamond are numerous. The main proposal is that in the transportation from the diamond stability field at 250km depth to the surface the diamond may be reabsorbed by physio-chemical process associated with physical mobilisation of the kimberlite magma. Utilising this argument the sites for favourable diamond bearing kimberlite is in the central portion of cratons where the rocks are Archaean in age, the crustal heat flow is low and the lithospheric mantle is thick (>200km).

A more realistic and pragmatic reasoning is that the sites for favourable diamond formation in the mantle are scarce and the chances of areas of favourable diamond source rocks reaching the surface of the earth in a series of geological events is even rarer.

### *3.3. Exploration Philosophy*

Exploration for diamonds is based on three main premises being:

- regional identification of environments where primary diamondiferous deposits, kimberlites etc., may occur;
- localisation of kimberlites etc. within an identified regional province; and
- exploration and evaluation of the diamond content of identified kimberlites.

In the regional or global context the recognition of the craton and related features as described above are the main criteria. If the craton is known to host kimberlites or have known diamonds occurrences



then this increases the potential for finding additional deposits. The main exploration techniques used are regional scale geophysics, mainly airborne magnetic surveys combined with other remote sensing techniques to identify structurally favourable environments and regional geochemical surveys to identify associated indicator minerals. In this phase the objective is to reduce the areas of search from 1000's of square km to targets of 10's of sq km.

Localised areas identified in the global approach are subjected to intense ground based geophysical techniques and geochemical surveys that would locate a potential target that may be investigated by drilling or other physical exposure techniques such as trenching or pitting. The main objective in this phase of exploration is to prove or disprove the presence of kimberlite. At this stage indicator minerals recovered in geochemical exploration may be used to determine if kimberlite is likely to be present, as well as determine the type of kimberlite and its likelihood of being formed in the diamond stability zone of the mantle.

On a project basis the main objective is to determine if the kimberlite is diamondiferous and to what extent (tonnes and diamond content). At this stage kimberlite recovered from drilling is normally examined for the presence of micro diamonds (diamond grit less than 0.5mm) by a total dissolution technique. The presence of micro diamonds is a positive indicator that the kimberlite may contain macro diamonds, but their absence is not necessarily a negative indicator.

Diamond as a commodity presents the following two main problems in its identification and the subsequent derivation of reserves and resources:

- It is not possible to assay for diamond and therefore, to identify and quantify it, it has to be physically recovered.
- Diamonds are highly individualistic and vary in shape, size, colour and clarity which, on a statistical basis, means that a 'parcel' of stones must be recovered to give an indication of the average characteristics and subsequent worth. The recommended minimum size of a parcel to make a realistic estimate is 5,000 carats.

To achieve the above, a bulk sample of tens of thousands of tonnes is required together with the establishment of a recovery plant.

The exploration for and the development of a diamond bearing kimberlite is very expensive and the degree of success is low but if positive the rewards can be very high.

## **4. Property Description**

### *4.1. Location and Description*

The Kuusamo project is located in the centre of the Karelian Craton (a part of the Fenno-Scandian Shield), which extends from Sweden, through Finland and eastwards into Russia. It comprises generally north to north-east/north-west trending Archaean greenstone belts in granitoid basement.

The diamond prospective area of the Karelian Craton in Finland, defined by Archaean rocks with <40 mW/m<sup>2</sup> heat flow and >200 km lithospheric thickness, covers over 300,000 sq.km and is nearly the same size as the Slave Craton in Canada. Published geochemical data on indicator minerals suggest that the diamond window beneath central Finland may be 90km or more thick – on a par with, or greater than, other cratons in the world containing economic diamond deposits (Figure 1).

Kimberlites are widely distributed in the Karelian Craton and a higher-than-average percentage of these kimberlites contain diamonds. These have a broad spectrum of compositions including Group I and II and various hybrids of the kimberlite clan. In the Russian part of the Craton, large economic diamond deposits have been discovered in the Arkhangelsk region, including the Lomonosov diamond project run by Alrosa and the highly diamondiferous Grib pipe.

At Kostamuksha, 100km east of the Finnish/Russian border a cluster of lamproites (50 dykes and 2 diatremes), including olivine lamproites are diamond bearing and developed within a major west-north-west trending shear zone. Similarly oriented fractures in northern Finland are recognised as deep-seated mantle-taping structures that have been active over long periods of geological time.

Known kimberlite intrusion in Finland and Russia has extended from the Proterozoic – e.g. Kostamuksha (1120-1320 Ma) and Lentiira (1200Ma) – through to the Devonian – e.g. Arkhangelsk (365 Ma), Terskii (404 Ma) and Kaavi-Kuopio (430-590 Ma).

The Kuusamo project area is located in east central Finland close to the Russian border and close to the geographic centre of the Karelian Craton. The Kuusamo kimberlites are located some 120 km north of the Group II kimberlites/olivine lamproites reported from the Lentiira area of eastern Finland and about 300 km NE from the Group I kimberlites discovered in the 1980's and 90's in the Kaavi-Kuopio region at the southwestern edge of the craton. Figure 1 illustrates the diamond prospective area of the Karelian Craton.

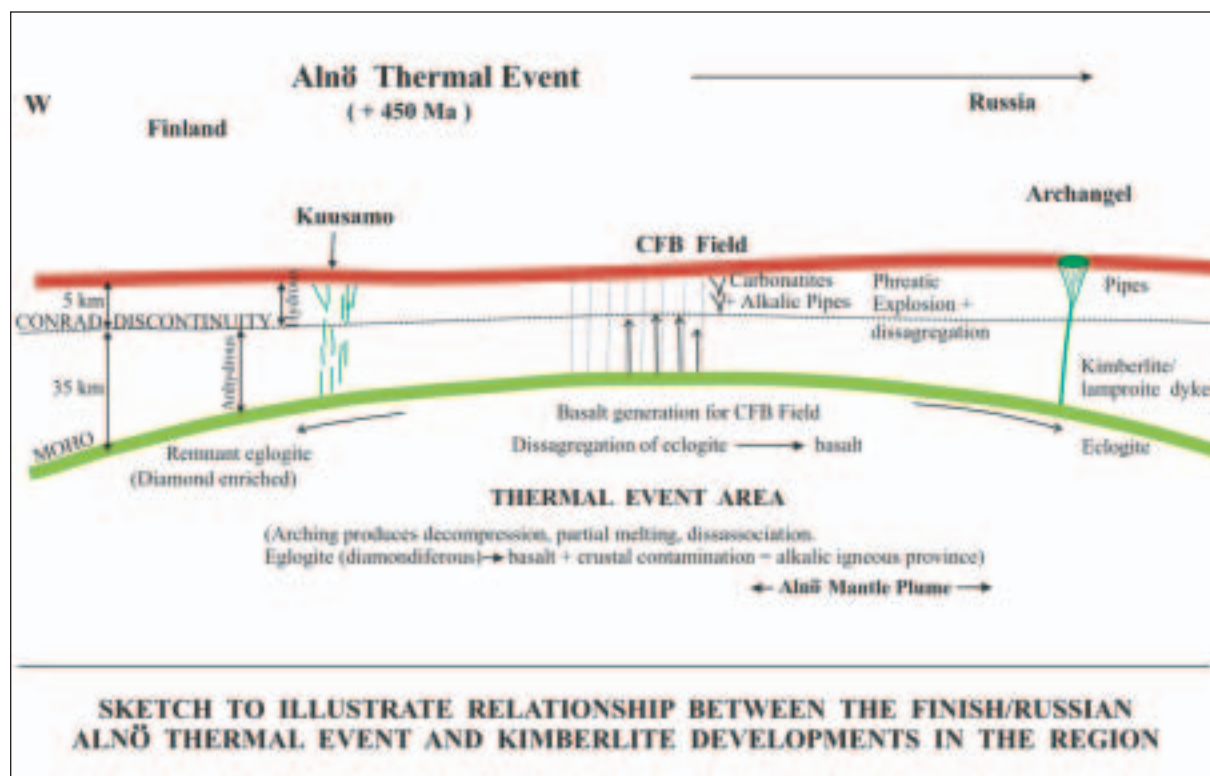
The Kuusamo project area sits on the southern margin of a broad WNW trending alkaline province “the Kola Alkaline province” which stretches for over 1,000 km from Northern Finland through the diamond bearing regions of Kandalaksha, Terskii Bereg, Arkhangelsk and Central Timan in NW Russia.

Within the prospective parts of the Karelian Craton, the Company considers the extension of the Kola alkaline province into Northern Finland particularly prospective. Within this area, the Kuusamo district stands out as a major centre of earthquake activity in Finland. This may also reflect a higher concentration of deep fractures active over a long period of geological time, and therefore a favourable region for repeated kimberlite intrusion. Figure 2 is a schematic illustration of the geological association of the Kola Alkaline province.

**Figure 1 – Diamond Prospective Area of the Karelian Craton.**



**Figure 2 Schematic Illustration of the Geological Association of the Kola Alkaline Province**



#### 4.2. Mineral Holdings

Sunrise Diamonds controls two claims over two recently discovered kimberlite localities :

- Kalettomanpuro
- Kattaisenvaara

The Kalettomanpuro kimberlites are located in the Kuusamo region some 120km north of the Lentiira kimberlite cluster (see Figure 1).

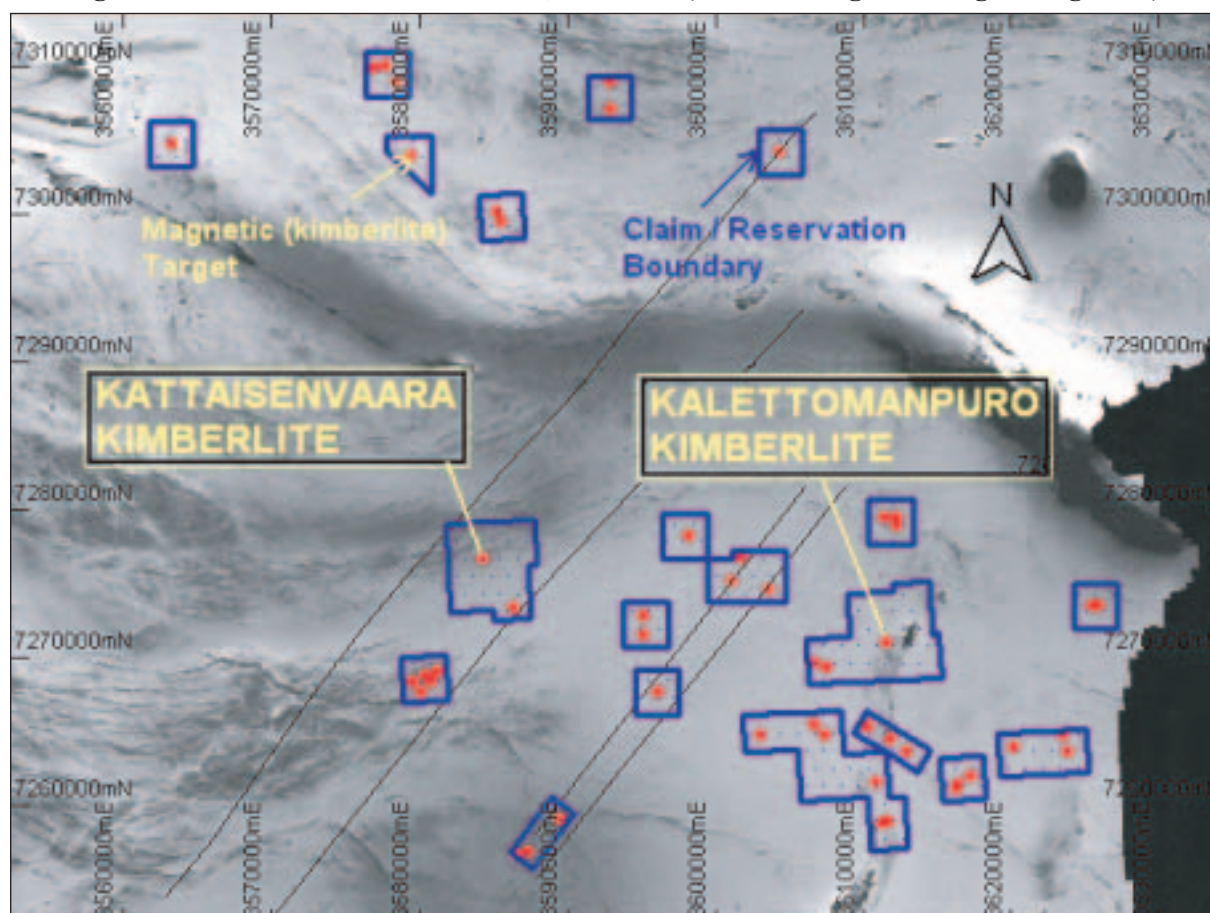
They are covered by the Kalettomanpuro Nr 1 claim registered to Sunrise Diamonds and surrounded by various claim reservations registered to Tertiary Gold.

Kattaisenvaara is located some 28km west-north-west of Kalettomanpuro. It sits within a Natura 2000 area, although no specific natural values are identified within the immediate area of the kimberlite and exploration has not been affected to date.

Additional kimberlite targets in the surrounding area are covered by 34 claim reservations.

Figure 3 illustrates the area of the claims and claim reservations including the Kattaisenvaara and Kalettomanpuro claims.

**Figure 3 Claim and Claim Reservations, Kuusamo (Airborne magnetic image background)**



#### 4.3. History of Exploration and Mining

The first kimberlite in Finland was discovered in the early 1960's near Kuopio (see Figure 1) during a copper exploration programme by Malmikaivos Oy, a small Finnish copper mining company. Follow-up work did not begin until the early 1980's when Malmikaivos discovered a second kimberlite containing micro diamonds. A joint venture with the Australian company Ashton Mining Ltd was initiated in 1986 and in 1994 Malmikaivos Oy became fully owned by Ashton.

Ashton's countrywide regional sampling programme identified several separate and distinct areas in Finland from which kimberlite indicator minerals are sourced. Ashton has discovered 24 kimberlites and related rocks in Finland and 16 of these are now known to be diamond bearing. The main kimberlite clusters are located in Kaavi and close to the city of Kuopio in eastern Finland. Mini-bulk samples have been taken from five of the diamond bearing pipes. At least two of the more closely studied pipes contain substantial quantities of clear and colourless diamonds. A 23 tonne sample from the Lahtojoki pipe (approximately two hectares in surface area) yielded some 26 carats of +0.8 mm diamonds per 100 tonnes, most of which were of good quality. Another pipe, slightly over one hectare in size, contained 13 to 26 carats per hundred tonnes, based on a 9.4 tonne sample.

In 1998 Dia Met Minerals Ltd, after a programme of regional exploration in Finland, entered into a joint venture with Ashton and discovered a 25th kimberlitic body at Viitasalo but exploration was suspended in 2000 and, following Diamet's takeover by BHP, much of their lapsed ground holding was subsequently taken up by Nordic Diamonds, a Canadian junior company which has an active exploration programme.

During the 1990's both RTZ and De Beers also carried out extensive exploration programmes throughout eastern and northern Finland. Much of the work was done without the cover of claims and, as a result, is not on public record. RTZ's exploration comprised direct testing of magnetic anomalies identified from GTK airborne magnetic surveys.

De Beers is understood to have carried out more traditional exploration including till sampling, geophysics and drilling. One kimberlite was discovered by De Beers in the Kuusamo area, remote from previous discoveries but no further work was carried out as the discovery was deemed too small. This discovery, at what is now the Kalettomanpuro project area, has formed the impetus for the Company's exploration programme in Finland.

In the early 1990's GTK carried out regional till sampling for kimberlite indicator minerals in three areas of Finland. In the Kuhmo area of eastern Finland, near Lentiira, positive results were obtained and follow up work discovered two 1m wide kimberlite dykes having diamond-favourable mineralogy and mineral chemistry. Following a successful tender, American Mineral Fields acquired the GTK discovery at Lentiira but relinquished the ground in 1998 following a change in corporate direction. European Diamonds plc acquired the Lentiira project in 1999 and since that date has carried out an extensive programme of till sampling, geophysics, drilling and mini-bulk sampling at Lentiira. As a result a swarm of kimberlite dykes have been discovered but sampling for diamonds has not been successful and the source of diamonds found in till remains elusive. Most recently European Diamonds plc has acquired rights to the well-documented Lahtojoki pipe at Kuopio and is currently bulk sampling to determine if diamond grades are economic.

Other companies involved in diamond exploration in Finland at various times include Glenmore Highlands Inc, Conroy Plc, Baltic Minerals Finland Oy, and Archangel Diamond Corp. Karelian Diamond Resources plc and Gondwana Investments Ltd are active diamonds explorers.

GTK offers sampling, sample processing and other exploration services for diamond exploration companies, and undertakes regional heavy mineral surveys. GTK also undertakes grass-roots exploration activity to stimulate exploration interest in Finland.

## **5. Geological Studies**

Tertiary Gold has carried out exploration at both the Kalettomanpuro and Kattaisenvaara localities. In addition Tertiary Gold has completed the following studies :-

- Kimberlite Petrology & Mineralogy (Mantle Studies)
- Regional Targeting

The following sections are specific to each of the Kalettomanpuro and Kattaisenvaara projects. The mantle studies and regional targeting are summarised in sections 6 and 7 of this report.

### *5.1. Kalettomanpuro*

The exploration for diamonds in Finland was initiated by Tertiary Gold following a routine review of open-file exploration data when it was discovered that De Beers had recorded kimberlite intersections in drill-logs for two shallow vertical holes on their "Kaletto" project.

#### *5.1.1. Geological Setting*

The Kalettomanpuro kimberlites are intruded into meta-basalt on the northern end of the Archaean Suomussalmi greenstone belt (2.7-3.0 Ga) within a broad area of Archaean basement gneiss.

#### *5.1.2. Previous Exploration*

This prospect was originally targeted by De Beers following regional till sampling and airborne magnetic surveys. Two shallow, vertical holes drilled by De Beers were reported to have targeted a bulls-eye magnetic anomaly.

Summary logs recorded intersections of hypabyssal kimberlite.

5.1.3. *Work Carried Out by Tertiary Gold*

At Kalettomanpuro Tertiary Gold has carried out:

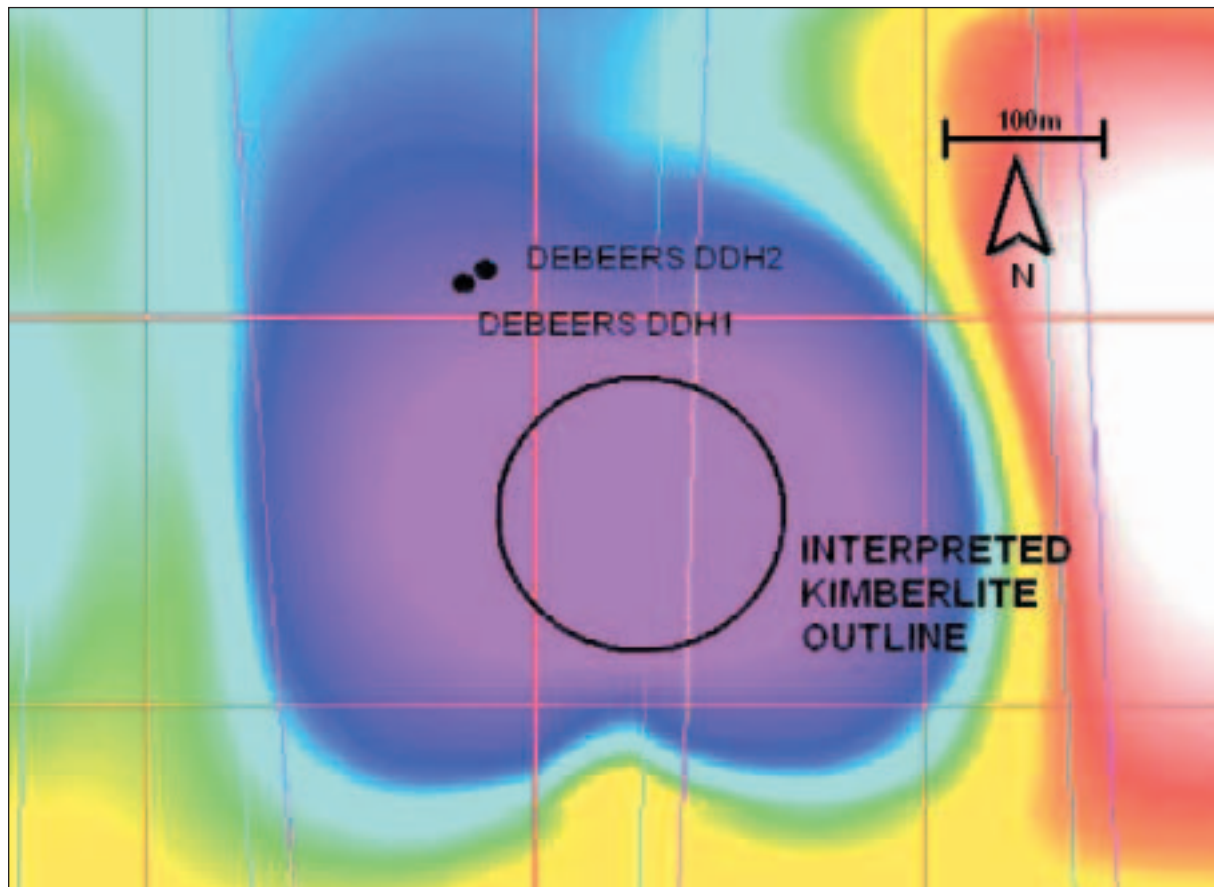
- Interpretation of Airborne Geophysics
- Ground Geophysical Survey
- Drilling
- Core logging/Photography
- Diamond & Diamond Indicator Mineral Picking
- Diamond Indicator Mineral Geochemistry

*Interpretation of Airborne Geophysics*

The Kalettomanpuro airborne magnetic anomaly is a 350m wide, one-line 900nt, high priority anomaly. This anomaly is illustrated in Figure 4.

De Beers drill holes plot to the north west of the airborne anomaly and initially it was considered that the De Beers holes may have hit kimberlite bodies marginal to an untested body giving rise to the main magnetic anomaly.

**Figure 4 Plan showing the location of the Kalettomanpuro airborne magnetic anomaly and De Beers drill holes.**



### *Ground Magnetic Survey*

In February 2004 Tertiary Gold contracted a ground magnetic survey to GTK over the centre of the airborne anomaly and extending NW over the site of the De Beers drill holes.

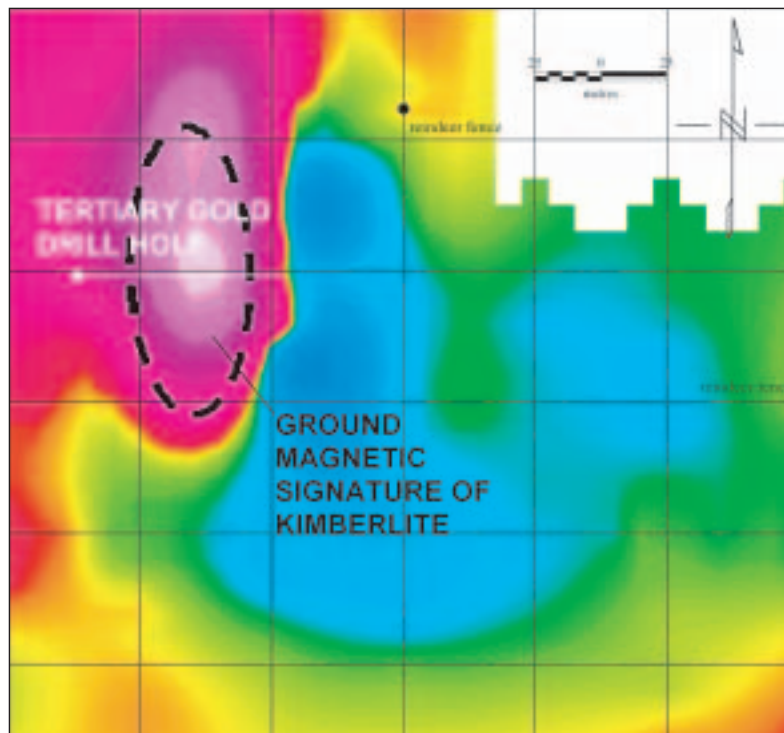
The survey comprised 250 magnetic stations on 10 profiles for a total length of 2.4 km. The station spacing was 10 metres and the line spacing 50 metres in the survey area. The measured profiles were located using Differential Global Positioning System (DGPS) with a precision normally better than 2 metres.

The ground survey revealed that the airborne magnetic survey data had a positional error. The centre of the anomaly was confirmed to lie some 120m to the north-west and the magnetic survey established that the De Beers holes were, in fact, sited on top of the magnetic anomaly.

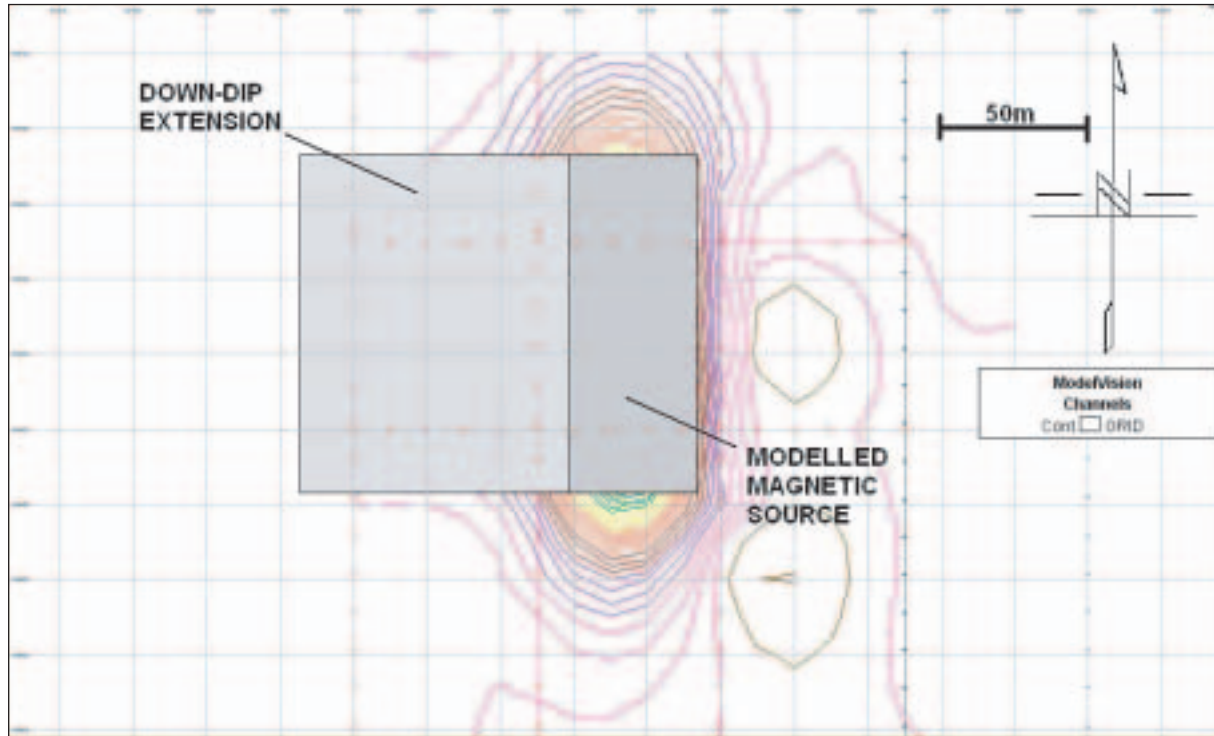
The magnetic map for Kalettomanpuro showing the magnetic anomaly is shown in Figure 5.

Modelling of the ground magnetic data was carried out by GTK. The causative magnetic target was interpreted as a N-S trending body dipping steeply to the east with approximate dimensions 100m long by 40m wide. Figure 6 illustrates this target.

**Figure 5 Illustration of the Ground Magnetic Anomaly at Kalettomanpuro.**



**Figure 6 – Modelled source of the Kalettomanpuro Ground Magnetic Anomaly.**



#### *Drilling*

In June 2004 a short drill contract was let to GTK to test the ground magnetic anomaly.

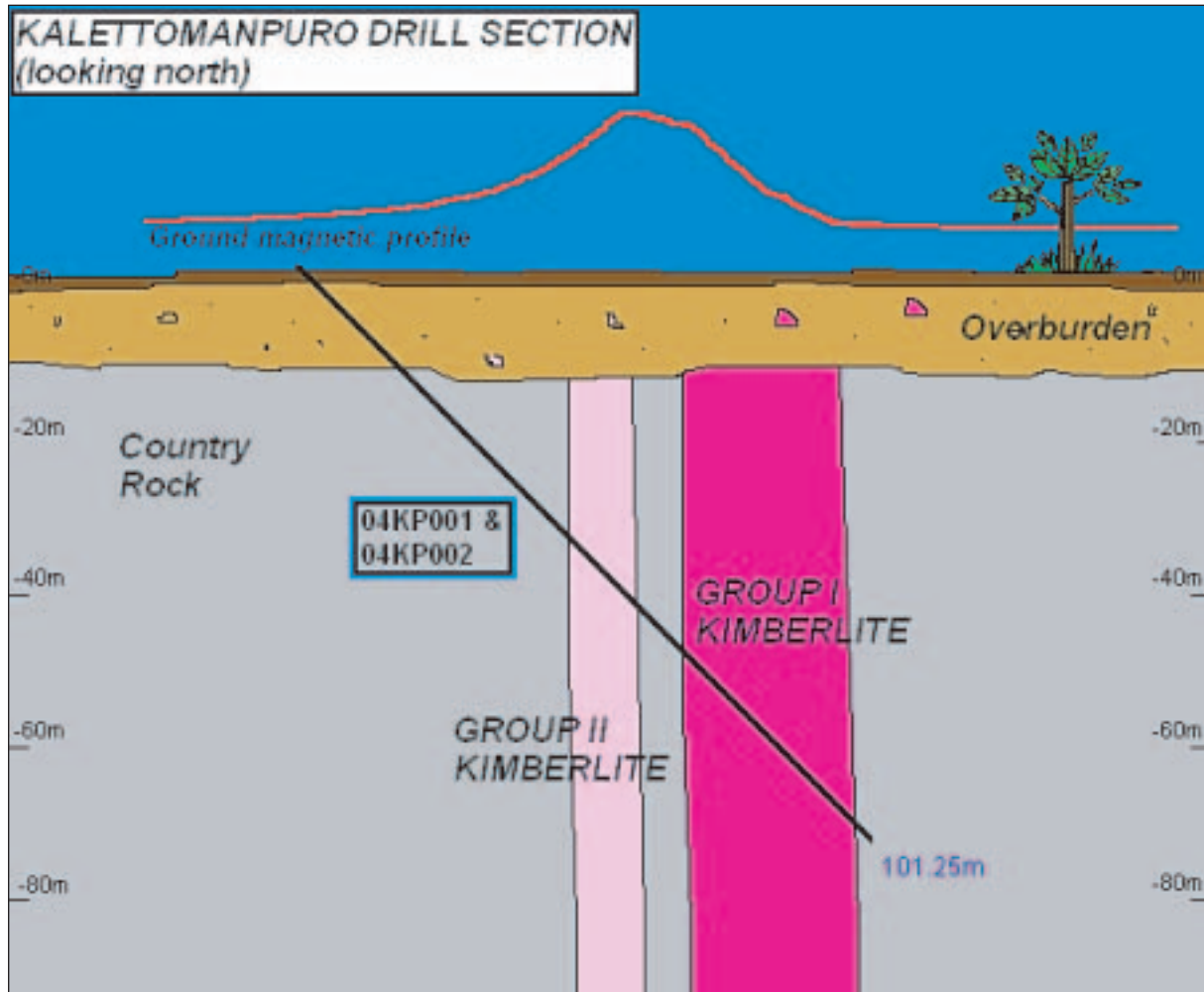
One T56 diameter diamond drill hole was drilled at 45 degrees east and intersected the massive hypabyssal kimberlite (Group I geological characteristics) reported by De Beers from 71.55m to 98.43m down hole. Unexpectedly, the hole also intersected a second kimberlite (Group II geological characteristics) between 51.35m to 59.85m on the western side of the Group I kimberlite. This second, Group II kimberlite was not reported in the logs for the De Beers vertical drill holes.

The Group II kimberlite differs from the Group I kimberlite in that it is micaceous, contains visible kimberlite indicator minerals, is only slightly more magnetic than its host rocks and may be significantly older than the massive kimberlite.

A second larger diameter (T76) hole was drilled adjacent to the first hole for sampling purposes and made a second intersection of the Group II kimberlite from 46.41 m to 48.75 m where the hole reached the technical limit of the small drill rig used. The drill section for Kalettomanpuro is shown in Figure 7.



Figure 7 Kalettomanpuro Drill Section (Looking north)



Drilling results confirm the magnetic model although it is significant that the Group II kimberlite was not expected, and was not significantly magnetic in relation to the wall rocks and was not detected as a separate magnetic body. Whilst this may be, in part, a function of the size of the body and the station spacing of the ground survey, it has implications in the exploration for larger bodies of this type in that such kimberlites may not have a significant magnetic anomaly.

#### *Geology, Mineralogy & Diamond Indicator Mineral Chemistry*

The core from Kalettomanpuro has been logged in detail and photographed by Dr. Hugh O'Brien, diamond specialist at GTK.

Considerable detailed mineralogical work has been carried out on thin sections and mineral separates from both of the Kalettomanpuro kimberlites. This work is detailed in a report by GTK and the main findings are summarised later in this report.

A 50kg sample of the Group I kimberlite was sent to SGS Lakefield diamond laboratories for caustic digest and micro diamond picking. No micro diamonds were recovered. 24kg of the Group II kimberlite were subjected to a special digest at Independent Diamond Laboratories in Perth, Western Australia with the objective of separating both micro diamonds and diamond indicator minerals. No micro diamonds were recovered but a large suite of diamond indicator minerals were recovered from the Group II kimberlite including visually distinctive G9/G10 pyrope-garnets, picroilmenites and chrome diopsides.

## 5.2. *Kattaisenvaara*

### 5.2.1. *Introduction*

Kattaisenvaara was selected during a preliminary phase of targeting based on its similar airborne magnetic signature to that of the Kalettomanpuro

### 5.2.2. *Geological Setting*

The Kattaisenvaara anomaly is an isolated magnetic anomaly in the middle of a large expanse of Archaean basement gneiss.

The kimberlite sits under a prominent regional glacial esker which is now believed, in this area at least, to have followed the same major fracture system along which the kimberlite was emplaced. Brigadier Gold Limited has documented a similar geological relationship between eskers and kimberlite controlling faults for the Munroe esker in Ontario.

### 5.2.3. *Previous Exploration*

Whilst no exploration is formerly documented at Kattaisenvaara the magnetic anomaly did attract the attention of GTK. In 1998 GTK carried out two ground magnetic traverses and drilled five drill holes along an existing access road. These were drilled south of the magnetic anomaly and failed to intersect kimberlite.

### 5.2.4. *Work Carried Out by Tertiary Gold*

At Kattaisenvaara Tertiary Gold has carried out:

- Interpretation of Airborne Geophysics
- Ground Geophysical Survey
- Drilling
- Core Logging/Photography
- Diamond & Diamond Indicator Mineral Picking
- Diamond Indicator Mineral Geochemistry

#### *Interpretation of Airborne Geophysics*

The Kattaisenvaara target was defined as 180m wide one-line 600nt high priority magnetic anomaly.

#### *Ground Magnetic Survey*

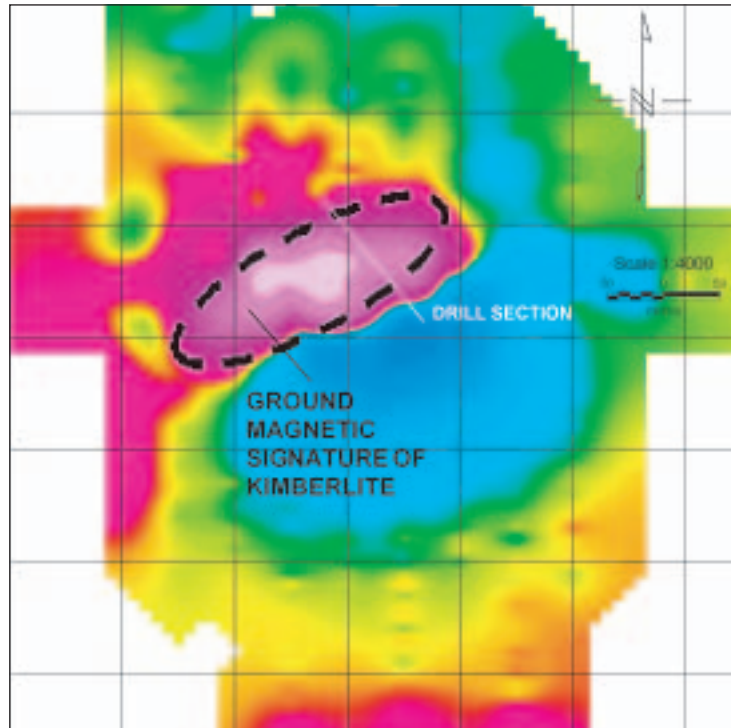
In July 2004 a ground magnetic survey was contracted to GTK over the site of the airborne magnetic anomaly.

Magnetic measurements were carried out using a Scintrex EnviMag proton magnetometer. Diurnal corrections were made using a stationary proton magnetometer as reference.

The station spacing was 10 metres and the line spacing 50 metres. A total of 483 magnetic stations were measured on 9 profiles. The measured profiles were located using Differential Global Positioning System (DGPS) with a precision normally better than 2 metres.

Interpretation of the ground survey was also carried out by GTK. A more complex pattern was revealed and modelling of the anomaly pattern invoked several magnetic bodies of varying magnetic susceptibility. The anomaly map is shown as Figure 8.

**Figure 8 Ground Magnetic Image of Kattaisenvaara Kimberlite**



### *Drilling*

In August 2004 a drill contract was let to GTK to test the ground magnetic anomaly at Kattaisenvaara.

In total four T56 diameter diamond holes were attempted. The first hole unexpectedly entered a Group I kimberlite directly beneath glacial till (esker material) at a down-hole depth of 26m and passed through the northern edge of the kimberlite into granitic gneiss basement at a down hole depth of depth of 69m.

A second hole then stepped back some 57m to the south and was drilled on the same angle and azimuth. It collared in basement gneiss at a down hole depth of 13m after passing through glacial material. At 55m down hole the drill re-entered glacial gravel and was unable to pass through gravel at this depth and the hole was abandoned.

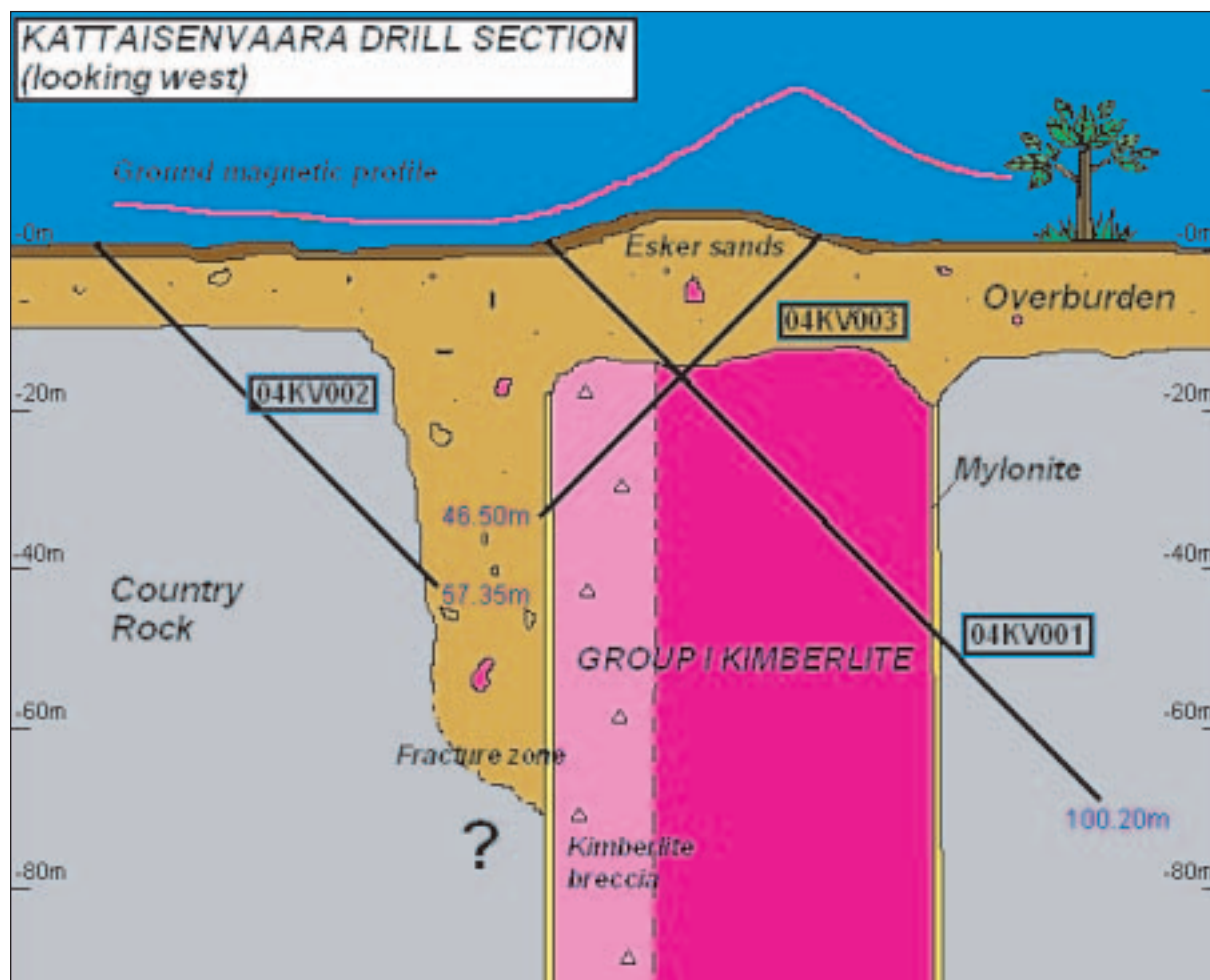
A third hole was then collared some 86m to the north of the first hole designed to cut back to the south. It entered hypabyssal kimberlite beneath glacial till at 18m down hole and then continued in kimberlite to 42m down hole before entering a short interval of mylonite followed by more glacial gravel.

Tertiary Gold drilled their fourth hole some 100m to the west-south west to test the western extent of the kimberlite. This hole was terminated in thick glacial till at 23m where the hole was abandoned.

An interpretation of the drilling on section 445950E is shown in Figure 9. On this section the kimberlite is interpreted to have a width of approximately 48m in the plane of the drilling and to comprise hypabyssal kimberlite on the north side with a thick zone of kimberlite breccia on its southern margin terminated against mylonite and an open fissure filled with glacial gravel.

It is very unusual to encounter glacial gravel “beneath” the prevailing bedrock surface. It is considered that this gravel occupies the position of the faulted southern margin of the kimberlite which was scoured and excavated by the advancing ice-sheet and later filled with gravel by the retreating ice-sheet during esker formation.

Figure 9 Interpretation of Drill Section on 445950E (looking west)



*Geology, Mineralogy & Diamond Indicator Mineral Chemistry*

The core from Kattaisenvaara has also been logged in detail and photographed by Dr. Hugh O'Brien, diamond specialist at GTK.

Considerable detailed mineralogical work has been carried out on thin sections and mineral separates from the Kattaisenvaara kimberlite. The main findings are summarised later in this report.

A sample of core from the Kattaisenvaara kimberlite was crushed and subjected to dense media separation by GTK to collect possible indicator minerals.

A 27 kg sample of the Kattaisenvaara kimberlite was sent to SGS Lakefield diamond laboratories for caustic digest and micro diamond picking. No micro diamonds were recovered.

A further 22kg of the Kattaisenvaara kimberlite was subjected to a special digest at Independent Diamond Laboratories in Perth, Western Australia with the objective of separating both micro diamonds and diamond indicator minerals. No micro diamonds were recovered but the sample yielded a suite of diamond indicator minerals including chrome diopsides, pyrope garnets and chromites.

**6. Kimberlite Petrology & Mineralogy (Mantle Studies)**

GTK has undertaken detailed petrological work and mineralogical studies on samples from the Kuusamo kimberlites for Tertiary Gold. This work was designed to characterise the kimberlites and study the diamond bearing capacity of the mantle source rocks for the Kuusamo kimberlites.

Work carried out by GTK includes:

- Thin section examination and petrographic description
- Electron Microprobe work on polished thin sections (diagnostic analysis on phlogopite micas)
- Whole Rock Chemistry
- Electron microprobe analysis on various mineral separates.

The principal findings of the petrological and mineralogical work are:

- The Kalettomanpuro (“KP”) and Kattaisenvaara (“KV”) Group I kimberlites are confirmed as an evolved magnetite rich hypabyssal kimberlites with diagnostic mica compositions;
- The Kattaisenvaara Group I kimberlite is richer in mantle xenoliths, eclogite material and has petrological similarities to the diamondiferous Kuopio kimberlites in south central Finland (430-590 Ma);
- The Kalettomanpuro Group II kimberlite has petrological and mineralogical similarities to the 1200 Ma Kuhmo (Lentiira) kimberlites currently being explored by European Diamonds plc and Karelian Diamond Resources plc, some 150km to the south of Kuusamo. The Group II kimberlite from Kalettomanpuro contains significant amounts of G10 (harzburgite) garnets and G9 (lherzolite) garnets and a high ratio of G10/G9. As harzburgite is known to be one of the main diamond source rocks, this indicates a high diamond potential;
- The Kuusamo Group I kimberlite contains both eclogite grains and eclogite xenoliths (eclogite in the mantle is the other main source for diamonds). So far, however, these are of relatively low sodium garnet type;
- Picroilmenite and pyrope garnet compositional data indicate that metasomatism has not significantly affected the mantle – another positive factor for diamond preservation;
- Chromites for the KV Group 1 kimberlite plot in compositional fields that indicate shallow sampling;
- Whole rock chemistry suggests that the kimberlite magmas are relatively evolved and, taken with the high magnetite content, suggests the kimberlites are fractionated, implying slower transport to the surface which, in the case of these kimberlites only, suggests any contained diamonds may have been resorbed; and
- The proximity of the Group I kimberlites to Devonian alkaline complexes, in particular the Iivaara intrusion, raises the possibility that these new kimberlite discoveries are similar in age to those found near Arkhangelsk in Russia.

## **7. Regional Targeting**

Tertiary Gold has carried out a regional targeting programme based on GTK airborne magnetic and electromagnetic data. Reid Geophysics was utilised as its geophysical consultant.

This work has resulted in the definition of a database of over 200 anomalies throughout eastern Finland, from which 45 higher priority targets (in addition to Kalettomanpuro and Kattaisenvaara) in the Kuusamo area are now covered with the claims and/or claim reservations.

This targeting has focussed on magnetic anomalies having similarities and/or proximity to those identified at Kalettomanpuro and Kattaisenvaara. The magnetic targets are in the same locality to certain geological structures which are believed to have a controlling influence on kimberlite emplacement in the Kuusamo area.

## **8. Infrastructure and Environmental Review**

The operating environment in Finland is generally favourable for exploration and mine development. The country has a long mining history and a traditional focus on primary resources such as mining, forestry and farming. Finnish mining equipment manufacturers are recognized throughout the world's mining community. There is a well developed infrastructure with good port facilities, extensive high voltage power grid and a comprehensive road network.

The Kuusamo area is located in east central Finland adjacent to the Finnish Russian border. It is a glaciated terrain of low relief with abundant lakes and rivers. It is a sub-arctic environment being situated between 64 and 65 degrees north. The climate is continental arctic with long winters and short summers. Snow is on the ground usually from November to May. The area is well served by regional airlines with all year round airports at Kuusamo and Kajaani. Major road communications are good with a supporting network of secondary forestry roads affording access to virtually the whole area. In winter it is possible to travel on and work off frozen lakes.

In general the area is afforested with pine and birch trees.

## **9. Legal Considerations**

Rights under the mining law may be granted to Finnish citizens or corporate bodies and to all foreign corporations established according to European Economic Area (EEA) laws.

Under the mining law, prospecting is considered to be part of the so-called “everyman’s right” that relates to a special Nordic tradition that gives access to all land, whether public or private.

The land tenure system consists of three levels :-

- The Claim Reservation
- The Claim (Exploration Licence)
- The Mining Concession

Claim reservations are up to 9 km<sup>2</sup> and can be adjoining but not within a 1 km exclusion zone around any other company’s Claims. A claim reservation provides the owner the right to carry out exploration with the landowners’ permission and to take up an exploration licence. The claim reservation is valid for one year and is not renewable or transferable.

Claims have a maximum area of 1 km<sup>2</sup> and are valid for between 2 and 5 years. In certain circumstances a claim may be renewed for a further period up to three years. A claim allows the owner to carry out exploration either with or without the landowners’ permission.

A mining concession is granted when a mineral deposit is demonstrated to be technically and economically viable. An application must be accompanied by an environmental impact statement.

## **10. Proposed Work Programme and Budget**

### *10.1. Proposed Work Programme*

A programme of glacial till sampling has been initiated by Sunrise Diamonds and contracted to GTK. Samples are being taken from accessible kimberlite targets identified by Tertiary Gold in the claim reservations shown in Figure 2. The Company has budgeted to evaluate these samples for diamond indicator minerals in order to prioritise the kimberlite targets for follow up exploration. This will involve mineral picking and associated chemistry. Selected targets will be subjected to ground magnetics, diamond drilling followed by micro diamond analysis and indicator mineral geochemistry. For budgeting purposes it is assumed that two further targets will be identified for further investigation using the same techniques as that for Kalettomanpuro and Kattaisenvaara. Provision is included for on-going reconnaissance studies.

Work will also be focussed on the Kalettomanpuro and Kattaisenvaara projects and will involve further ground magnetics, deep till sampling and diamond drilling followed by micro diamond analysis together with indicator mineral geochemistry.

### 10.2. Exploration Budget

The exploration budget has been derived by Sunrise Diamonds based on their operating experience of Tertiary Gold and utilising both historical data and fixed quotations. DMD has reviewed all this information and confirm that it is an accurate assessment of the cost of studies. Sunrise Diamonds composed their budget to cover a 19 month period. A summary exploration budget is given in Table 1.

In practice the work programme and associated budget is flexible and will be success driven.

**Table 1. Sunrise Diamonds' Exploration Budget**

	<i>TOTAL</i>
	£
<b>KALETTOMANPURO</b>	
Ground Magnetics	4,073
Deep Till sampling	13,766
Diamond drilling	60,787
<b>Sub-Total</b>	<b>78,626</b>
<b>KATTAISENVAARA</b>	
Ground Magnetics	4,073
Deep Till sampling	13,766
Diamond drilling	60,787
<b>Sub-Total</b>	<b>78,626</b>
<b>REGIONAL TILL SURVEY</b>	
Sample Processing and Collection	22,143
Mineral Picking	2,500
Mineral Chemistry	4,286
<b>Sub-Total</b>	<b>28,929</b>
<b>TARGET TESTING</b>	
Ground Magnetics	61,460
Diamond drilling	150,220
Microdiamond Analysis	34,640
Indicator Mineral Geochemistry	76,860
<b>Sub-Total</b>	<b>323,180</b>
<b>TESTED TARGET FOLLOW UP</b>	
Ground Magnetics	8,146
Deep Till sampling	27,532
Diamond drilling	121,574
<b>Sub-Total</b>	<b>157,252</b>
<b>RECONNAISSANCE</b>	<b>85,000</b>
<b>TOTAL EXPLORATION BUDGET</b>	<b>751,613</b>

The detailed work programme and exploration budget produced by Sunrise Diamonds has been reviewed by DMD and project expenditure is estimated at approximately £750,000 over a period of 19 months. This amount only includes direct project costs and excludes expenses associated with maintaining claims and administration and supervision charges.

## **11. Project Review**

DMD have also reviewed the current status of the project in terms of the Kaiser Questionnaire. This approach for diamond exploration in Arctic environments is widely accepted by Stock Exchanges and Mining Companies and is regarded as a checklist for the advancement of diamond projects.

**Reference Diamonds: a Diamond Exploration Cycle Checklist Publisher: Kaiser Bottom-Fishing Report  
Author: Copyright 2003 John A Kaiser**

The questionnaire covers eight milestones that cover the project from early production to development. Only the first three have been utilised as relevant to the Sunrise Diamonds projects at this stage.

The current status of the Sunrise Diamonds projects with respect to the questionnaire are summarised in Table 2.



**Table 2. Extract From Kaiser Questionnaire  
Milestone #0 - Is The Land Position Prospective?**

<i>Milestone #0 Checklist</i>	<i>Best Answer</i>	<i>Implications Of Answer</i>	<i>Relevant Answer</i>
<b>Regional Potential</b>			
Is Property On A Craton?	Yes	Potential Very Low If Not	Yes. Karelian Craton
Is Craton Of Archaean Age?	Yes	Preferable, But Maybe Not Necessary	Yes
Was There A Major Thermal Event?	No	Diamond Stability Field Intact	No
Is The Craton Exposed At Surface?	Yes	Maximum Range Of Pipe Age	Yes
If A Platform, What Is The Age Of The Surface Strata?	Variable	Limits Age Of Accessible Pipes	Not on Platform
Have Kimberlites Been Found On Craton?	Yes	Craton Has Deep Mantle Roots	Yes +200km
Are The Kimberlites Diamondiferous?	Yes	Populated Diamond Stability Field	Yes
Do Alluvial Diamond Deposits Exist?	Yes	Diamondiferous Kimberlite Present	Non found as yet
Does The Craton Host World Class Diamond Pipes?	Yes	Where There Is One There Will Be More	Yes in the Arkhangelsk area
What Percentage Of The Craton Does The Junior Control?	100%	More Is Better	Claims and claim reservations over specific targets
<b>Local Potential</b>			
Is Property On Thickest Part Of Craton?	Yes	Highest Diamond Potential	Yes in the centre +200km
Is Property Close To The Craton Margin?	No	Lowest Diamond Potential	No
Does Area Drain Into Alluvial Diamond Bearing Rivers?	Yes	Local Diamond Source	Not known
Is Property Within A Regional Kimberlite Indicator Mineral Anomaly?	Yes	Highest Pipe Potential	Not Known
Does The Anomaly Include Diamond Indicator Minerals?	Yes	Highest Diamond Potential	N/A
Do The Garnets From Till Have Kelyphitic Rims?	Yes	Did Not Travel Far From Source	Not recorded
What Is The Average Overburden Thickness?	Variable	Shallower Is Better	0 to 20m of till
Are There Any Nearby Regional Structural Features?	Yes	Best Kimberlite Cluster Potential	Yes

**Milestone #1 - Generating Kimberlite Targets (this table is reduced from the original to include only questions relevant to the Kuusamo kimberlites)**

<i>Milestone #1 Checklist</i>	<i>Best Answer</i>	<i>Implications Of Answer</i>	<i>Relevant Answer</i>
Does The Target Have A Geophysical Signature?	Yes	Kimberlite Pinpointed	Yes
Is The Geophysical Target Supported By Multiple Data Sets?	Yes	Reduce Risk Of False Anomalies	Yes
How Deep Is The Top Of The Geophysical Anomaly?	Variable	Shallower Is Better	Very shallow
Does Non-Outcropping Target Coincide With A Topographical Low?	Yes	Preferentially Weathered Or Gouged Out	Till covered
Is There A Cluster Of Targets?	Yes	Kimberlites Occur In Clusters	Yes
Are The Targets Close To A Structural Feature?	Yes	Better For Deep Rooted Intrusives	Yes

**Milestone #2 - Hitting A Kimberlite Pipe**

<i>Milestone #2 Checklist</i>	<i>Best Answer</i>	<i>Implications</i>	<i>Relevant Answer</i>
Is It A Group 1 Kimberlite?	Yes	Best Diamond Potential	Yes
Does It Have Crater Facies?	Yes	Pipe Intact, Greatest Tonnage Potential	No
Does It Have Diatreme Facies?	Yes	Good Tonnage At Depth Potential	Yes
Does It Have Hypabyssal Facies?	Variable	Could Be A Dyke Or Root Zone	Yes
How Big Is The Pipe's Surface Area?	Variable	Bigger Is Better For Tonnage	Not known
How Deep Was Kimberlite Intersected?	Variable	Deeper Means More Tonnage	50m
How Deep Is The Top Of The Kimberlite?	Variable	Shallow Is Better For Open-Pitting	20m
How Accessible Is The Kimberlite?	Variable	Accessibility Dictates Sampling Ease	Very accessible
What Is The Tonnage Limit For The Kimberlite?	Variable	Bigger Is Better	Not known

The above table illustrates that at this stage in the project's development the Sunrise Diamonds projects in Finland comply with all the requirements for a successful venture leading to the discovery of a new diamond field.

## 12. Conclusions

The work carried out at Kuusamo so far indicates that:

- the geological conditions considered necessary for the occurrence of diamondiferous kimberlites occur in the Kuusamo area.

- the newly discovered kimberlites have tapped the diamond stability field of the earth's mantle.
- the mantle tapped by the kimberlites contains both types of potential diamond-hosting mantle materials – harzburgite and eclogite and the mantle has not been affected by diamond destroying processes.
- Kimberlite magmatism may have been active in the Kuusamo area over an extended period of geological time and even within the same controlling structure at the same locality (if it proves correct that the Kalettomanpuro Group I and Group II kimberlites have significantly different ages).

GTK concludes that the lack of micro diamonds in the kimberlite samples tested to date does not necessarily limit the prospectivity of any future kimberlite discoveries in the area.

The detailed work programme and exploration budget produced by Sunrise Diamonds has been reviewed by DMD and project expenditure is estimated at approximately £750,000 over a period of 19 months.

The current status of the project reflects an exploration opportunity. Work to date has been carried out in a timely, professional and cost effective manner.

The proposed work programme is typical for this project in this environment. Budgeted explorations costs are reasonable and they include field exploration activities, analysis and data interpretation and reporting.

The Sunrise Diamonds projects in Finland comply with all the requirements for successful early stage ventures and therefore, further exploration activities are fully justified.

### **13. Recommendation**

Individual kimberlite intrusions can be multi-phase, with some phases containing diamonds, others none. Further work is required at both Kalettomanpuro and Kattaisenvaara. At Kalettomanpuro there is potential for additional Group II kimberlite bodies as these are only weakly magnetic and unlikely to show on airborne magnetics. At Kattaisenvaara the Group I kimberlite is poorly delineated by the ground magnetics and other diamondiferous phases may be present.

Further work should focus on those anomalies having similarities to those successfully tested but those having lower magnetic amplitude of anomaly may be reflective of less evolved and more diamond-prospective kimberlites.

Regional till sampling should also be employed as it is possible that some kimberlites in this area are not detected as magnetic anomalies.

The company has a total of 47 targets in the Kuusamo area under claim or claim reservation and existing data strongly suggest that more kimberlites may be discovered.

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## 15. GLOSSARY

The following descriptions are simplified terms for non geological/mining readers. For detailed descriptions refer to [www.infomine.com/dictionary](http://www.infomine.com/dictionary).

<i>Term</i>	<i>Description</i>
Archaean	Geological period older than 2,800 million years
Basalt	Extrusive fine grained mafic igneous rock
Breccia	A coarse grained clastic rock composed of angular rock fragments
Carbonatitic	Pertaining to a Carbonatite
Craton	A part of the Earth's crust that has attained stability and has been little deformed for a prolonged period.
De Beers	DeBeers Consolidated Mines Limited
Diatreme	A breccia filled volcanic pipe
Diopside	A mineral of the clino pyroxene group
Eclogite	A granular igneous rock composed of garnet and sodic pyroxene enstatite
Facies	The aspect, appearance and characteristics of a rock unit, usually reflecting the condition of its origin
Garnet	A group of minerals of varying compositions, mainly double silicates of calcium or aluminium with other metals
Ga	A time unit of one thousand million years
Geotherm	A measure of the heat of the earth
Granitoid	Pertaining to granite
Greenstone Belt	Belt like areas of volcanic/sedimentary rocks within an archaean craton
Glacial Till	Silt, sand, gravel and boulder layer laid down at the surface by the action of glaciers and ice sheets
Harzburgite	A peridotite composed chiefly of olivine and orthopyroxene
Homopolar	Of uniform polarity
Hypabyssal	Depth of igneous intrusion midway between abyssal and the surface
Ilmenite	An iron titanium mineral
(Picro ilmenite)	Titanium rich end member of an isomorphous series
Isomorphic	Having identical or similar form
Igneous	Rocks or minerals that have solidified from molten material
Kelyphitic border	A border around garnet where it is contact with olivine
Kimberlite	A peridotitic rock found in pipes and fissures that is a terrestrial source of diamonds
Lamproite	A potassium rich variety of Kimberlite
Lherzolite	Peridotite composed chiefly of olive, orthopyroxen and clinopyroxene
Magmatic	Pertaining to naturally occurring mobile molten rock material generated within the earth
Magnetite	A magnetic iron mineral
Mylonite	A micro breccia with flow texture
Palaeo-	Denoting great age or remoteness in time
Palaeozoic	Geological period from about 570 to 225 million years ago
Peridotite	A coarse grained plutonic igneous rock comprised chiefly of olivine with or without other mafic minerals such as pyroxenes, amphiboles or micas
Proterozoic	Geological period from about 2,500 to 570 million years ago
RTZ	Rio Tinto Zinc Corporation
Spinel	A magnesium aluminium silicate
Xenocryst	A crystal foreign to the body of the rock
Xenolith	Foreign rock inclusion

## PART 5

### ADDITIONAL INFORMATION

#### 1. Responsibility

The Directors, whose names appear in paragraph 4.1 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2. The Company

- 2.1 The Company was incorporated under the Act and registered in England and Wales on 14 February 2005 with registered number 05363956 under the name Sunrise Diamonds plc as a public limited company. The liability of the members of the Company is limited.
- 2.2 On 22 March 2005 the Company obtained a certificate to trade.
- 2.3 The registered office and principal place of business of the Company is Sunrise House, Hulley Road, Macclesfield, Cheshire SK10 2LP.

#### 3. Share Capital

- 3.1 At the date of its incorporation, the authorised share capital of the Company was £2,000,000 divided into 200,000,000 ordinary shares of 1p each of which two subscriber shares were in issue, fully paid.
- 3.2 On 28 February 2005 the two subscriber shares were transferred one each to Tertiary Minerals and Tertiary Gold.
- 3.3 By way of resolutions dated 28 February 2005:
  - 3.3.1 the 200,000,000 ordinary shares of 1p each in the capital of the Company were subdivided into 2,000,000,000 ordinary shares of 0.1p each in the capital of the Company.
  - 3.3.2 for the purposes of and pursuant to section 80 (1) of the Companies Act 1985 (the “Act”), the directors of the Company were generally and unconditionally authorised and empowered to exercise all the powers of the Company to allot the relevant securities (as detailed in section 80(2) of the Act) up to an aggregate nominal amount of £2,000,000 (in substitution to any subsisting authorities under the Act) to such persons at such times and upon such terms and conditions as they may determine (subject always to the Articles of Association of the Company) provided this authority and power shall, unless renewed, varied or revoked, expire on the 5th anniversary of the passing of the resolution and provided further that the Company may before such expiry make any offers or agreements which would or might require relevant securities to be allotted after such expiry.
  - 3.3.3 the Directors of the Company were empowered pursuant to section 95(1) of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
    - (i) the allotment of equity securities where such securities have been offered (whether by way of rights issue, open offer or otherwise) to holders of ordinary shares made in proportion (as nearly as may be) to their existing shareholdings of ordinary shares, but subject to such exclusions and arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or any legal or practical problems under the laws of any overseas territory, the requirements of any regulatory authority or any stock exchange, or otherwise; and
    - (ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £1,000,000;such power to expire (unless previously revoked, varied or renewed) at the conclusion of the next Annual General Meeting of the Company but so that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry.
  - 3.3.4 clause 3 of the Articles of Association of the Company was altered to read as follows:

“The share capital of the Company is £2,000,000 divided into 2,000,000,000 Ordinary Shares of 0.1p each”

3.3.5 clause 86 of the Articles of Association of the Company was altered to read as follows:

“Subject as hereinafter provided the directors shall not be less than 2 in number but the Company may by ordinary resolution from time to time vary the minimum number and may also fix and vary from time to time a maximum number of directors”

3.3.6 clause 4(i) of the Memorandum of Association of the Company was altered to read as follows:

“The object of the Company is to carry on business as a general commercial company, including but not limited to the exploration, development and mining of minerals including diamonds.”

3.3.7 clause 6 of the Memorandum of Association of the Company was altered to read as follows:

“The share capital of the Company is £2,000,000 divided into 2,000,000,000 Ordinary Shares of 0.1p each”

3.4 On 28 February 2005 the Company issued 19,999,980 Ordinary Shares for cash at a premium of 0.65p to Tertiary Minerals.

3.5 By way of resolutions dated 4 March 2005:

3.5.1 the authorised share capital of £2,000,000 of the Company was increased to £2,030,000 by the creation of 30,000 new redeemable preference shares of £1 each, such redeemable preference shares having the rights, and being subject to the restrictions set out in the Articles of Association of the Company.

3.5.2 for the purposes of and pursuant to section 80 (1) of the Companies Act 1985 (the “Act”), the directors of the Company were generally and unconditionally authorised and empowered to exercise all the powers of the Company to allot the relevant securities (as detailed in section 80(2) of the Act) up to an aggregate nominal amount of £2,030,000 (in substitution to any subsisting authorities under the Act) to such persons at such times and upon such terms and conditions as they may determine (subject always to the Articles of Association of the Company) provided this authority and power shall, unless renewed, varied or revoked, expire on the 5th anniversary of the passing of this resolution and provided further that the Company may before such expiry make any offers or agreements which would or might require relevant securities to be allotted after such expiry.

3.5.3 the directors of the Company were empowered pursuant to section 95(1) of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

- (i) the allotment of equity securities where such securities have been offered (whether by way of rights issue, open offer or otherwise) to holders of ordinary shares made in proportion (as nearly as may be) to their existing shareholdings of ordinary shares, but subject to such exclusions and arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or any legal or practical problems under the laws of any overseas territory, the requirements of any regulatory authority or any stock exchange, or otherwise; and
- (ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £1,030,000;

such power to expire (unless previously revoked, varied or renewed) at the conclusion of the next Annual General Meeting of the Company but so that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry.

3.5.4 clause 3 of the Articles of Association of the Company was altered to read as follows:

“The share capital of the Company is £2,030,000 divided into 2,000,000,000 Ordinary Shares of 0.1p each and 30,000 Redeemable Preference Shares of £1 each”

3.5.5 a new clause 4 as set out below was inserted into the Articles of Association of the Company and the following clauses thereof were renumbered accordingly:

“4. Redeemable Preference Shares

The rights attached to the Redeemable Preference Shares are as follows:

4.1 *Dividends*

In respect of any profits which the Company determines to distribute in respect of any financial year the Redeemable Preference Shares shall rank *pari passu* in all respects with the Ordinary Shares as to dividends.

#### 4.2 *Capital*

In a return of capital on liquidation or capital reduction or otherwise, the surplus assets of the Company remaining after the payment of its liabilities shall be distributed amongst the holders of the Redeemable Preference Shares and the Ordinary Shares (pari passu as if they constituted one class of share) in proportion to the number of Redeemable Preference Shares and Ordinary Shares held by them respectively.

#### 4.3 *Voting*

The Redeemable Preference Shares shall not entitle the holders thereof to receive notice of and to attend and vote (whether on a show of hands or on a poll) at any general meeting of the Company save that the consent or sanction of the holders of the Redeemable Preference Shares shall be required for the modification or variation of the rights attached to classes of shares.

#### 4.4 *Redemption Rights*

The Company may at any time, subject to the Act, redeem all (but not part) of the Redeemable Preference Shares then in issue. Where Redeemable Preference Shares are to be redeemed in accordance with this article, the Company shall give to the holders of the Redeemable Preference Shares prior notice in writing of the redemption (“Redemption Notice”). The Redemption Notice shall specify the date fixed for redemption and shall be given not less than 2 clear days prior to the date fixed for redemption. On the date fixed for redemption, each of the holders of the Redeemable Preference Shares shall be bound to deliver to the Company, at the Company’s registered office, the certificate(s) for such Redeemable Preference Shares in order that the same may be cancelled. Upon such delivery, the Company shall pay to the holder (or, in the case of joint holders, to the holder whose name stands first in the Company’s register of members in respect of such shares) the amount due to it in respect of such redemption against delivery of a proper receipt for the redemption monies.”

3.5.6 clause 6 of the Memorandum of Association of the Company was altered to read as follows:

“The share capital of the Company is £2,030,000 divided into 2,000,000,000 Ordinary Shares of 0.1p each and 30,000 Redeemable Preference Shares of £1 each ”

- 3.6 On 4 March 2005 the Company issued 30,000 Redeemable Preference Shares of £1.00 each a quarter paid up to Tertiary Minerals.
- 3.7 Pursuant to the Offer, the Company issued and allotted 40,000,000 Ordinary Shares at 1p per share on 5 May 2005.
- 3.8 On 18 May 2005 the Company redeemed the 30,000 Redeemable Preference Shares.
- 3.9 Pursuant to the Placing the Company intends to issue, conditional upon Admission, 15,375,000 new Ordinary Shares and Warrants to subscribe for 7,687,500 new Ordinary Shares.
- 3.10 Save as referred to in this paragraph 3 and in paragraph 7 of this Part 5, no share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option.



#### 4. Directors

- 4.1 Other than their directorships of the Company, the current directorships and partnerships of the Directors and directorships and partnerships held by them over the previous five years are as follows:

	<b>Directorships and Partnerships</b>	
	<b>Current</b>	<b>Previous</b>
Patrick Lyn Cheetham	Tertiary Minerals plc Tertiary Gold Limited Tertiary (Middle East) Limited	Carrwood Investments Limited
Neil Lindsey Herbert	Kalahari Diamond Resources plc Sekaka Diamonds (Pty) Limited Galahad Gold plc International Molybdenum plc	Patagonia Gold plc HPD Mining Limited
Francis Patrick Harcourt Johnstone	Ridge Mining plc Hidefield Gold plc Mysterybelle Limited Brazilian Diamonds Limited Ridge Mining (UK) Limited Ridge Mining (Bermuda) Limited Ridge Gold Mines Limited Madibeng Platinum (Pty) Limited Braggite Resources (Pty) Limited Ridge Mining Services (Pty) Limited Premetals Limited Ridge Mining SA (Pty) Limited Fonte Verde Mining (Pty) Limited Woodbush Minerals (Pty) Limited	Pensionersonline Limited

- 4.2 The business address of each of the Directors is Sunrise House, Hulley Road, Macclesfield, Cheshire SK10 2LP.
- 4.3 Save as disclosed in this document, as at the date of this document, none of the Directors has:
- 4.3.1 any unspent convictions in relation to indictable offences; or
  - 4.3.2 been declared bankrupt or made any individual voluntary arrangement; or
  - 4.3.3 been a director of a company at the time of or within the twelve months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors; or
  - 4.3.4 been a partner or in a partnership at the time of or within the twelve months preceding the partnership being subject to a compulsory liquidation, administration or partnership voluntary arrangement; or
  - 4.3.5 had any asset subject to receivership or been a partner of any partnership at the time of or within the twelve months preceding any asset of such partnership being subject to a receivership; or
  - 4.3.5 been subject to any public criticism by statutory or regulatory authorities (including recognised professional bodies), nor disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

## 5. Directors' and Other Interests

- 5.1 The interests of the Directors in the share capital of the Company, all of which (unless stated otherwise) are beneficial, as notified to the Company pursuant to section 324 or 328 of the Act, as they appear or will appear in the register of directors' interests required pursuant to section 325 of the Act, or which are interests of persons connected with the Directors (within the meaning of section 346 of the Act) as at the date of this document and immediately following Admission are and will be as follows:

	<i>Number of Ordinary Shares</i>	<i>Existing and following Admission</i>		<i>Percentage of issued Ordinary Share capital</i>	<i>Directors Warrants to subscribe for Ordinary Shares</i>
		<i>Percentage of issued Ordinary Share capital</i>	<i>Number of Ordinary Shares</i>		
Patrick Cheetham	26,000,000 <sup>1</sup>	43.33%	26,000,000	34.49%	500,000
Neil Herbert	500,000	0.83%	500,000	0.66%	500,000
Francis Johnstone	500,000	0.83%	500,000	0.66%	500,000

<sup>1</sup>Patrick Cheetham is a director of, and shareholder in, Tertiary Minerals which holds 19,999,990 Ordinary Shares in the Company, and a director of Tertiary Gold, a subsidiary of Tertiary Minerals which holds 10 Ordinary Shares. Patrick Cheetham holds 3,000,000 Ordinary Shares in his own name and his wife, Karen Cheetham holds 3,000,000 Ordinary Shares.

- 5.2 Save as disclosed in this paragraph 5, the Directors are not aware of any interests of persons connected with them which would, if such connected person were a director, be required to be notified to the Company pursuant to section 324 or section 328 of the Act and would be required to be entered in the register of directors' interests pursuant to section 325 of the Act.
- 5.3 Other than as set out below, the Company is not aware of any person, other than the Directors and their immediate families, who at the date of this document, or immediately following Admission is, or will be interested directly or indirectly in 3 per cent or more of the ordinary share capital of the Company or who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

	<i>Prior to the Placing</i>		<i>As at Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of issued Ordinary Share Capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued Ordinary Share capital</i>
Tertiary Minerals <sup>1</sup>	20,000,000	33.33%	20,000,000	26.53%
City Equities Limited	–	–	10,000,000	13.27%
Pershing Keen Nominees Limited (HHCLT)	3,000,845	5.00%	3,000,845	3.98%
City of London Group plc	3,000,000	5.00%	3,000,000	3.98%

<sup>1</sup> Tertiary Minerals is the holding company of Tertiary Gold which holds and will hold 10 Ordinary Shares. David Whitehead and Donald McAlister are both directors of Tertiary Minerals and Tertiary Gold and are deemed to be interested in the shares held by Tertiary Minerals and Tertiary Gold.

- 5.4 Save as disclosed in this paragraph 5 none of the Directors has any interest, beneficial or non-beneficial, in the share or loan capital of the Company.
- 5.5 Save as disclosed in this document, no Director has any interest, direct or indirect, in any assets which have been or are proposed to be acquired or disposed of by, or leased to, the Company and no contract or arrangement exists in which a Director is materially interested and which is significant in relation to the business of the Company.
- 5.6 There are no outstanding loans granted by the Company to any of the Directors, nor are there any guarantees provided by the Company for their benefit.
- 5.7 None of the Directors, their spouses or infant children have any interest in any financial products whose value is wholly or partly determined, directly or indirectly, by reference to the price of the Ordinary Shares.

## **6. Directors' Service Contracts**

- 6.1 On 24 March 2005 Patrick Cheetham entered into a letter of appointment with the Company in respect of his appointment as a director of the Company. The letter of appointment is for an initial 12 months (renewable by agreement) and will continue until terminated on not less than 6 months notice given by either party to the other at any time. The letter of appointment contains provision for earlier termination in the event of *inter alia* breach by the Director. The fee payable to Patrick Cheetham is £8,000 per annum, such fee to accrue from the date of appointment but not to be paid until after Admission.
- 6.2 In addition, under the terms of the management agreement (details of which are set out in paragraph 11.1.4) Tertiary Minerals has agreed to provide the executive services of Patrick Cheetham to the Company as Executive Chairman.
- 6.3 The following are particulars of the Non-Executive Directors' Letters of Appointment from the Company:
- 6.3.1 On 24 March 2005 Neil Herbert entered into a letter of appointment with the Company in respect of his appointment as a non-executive Director of the Company. The letter of appointment is for an initial 12 months (renewable by agreement) and will continue until terminated on not less than 6 months notice given by either party to the other at any time. The letter of appointment contains provision for earlier termination in the event of *inter alia* breach by the Director. The fee payable to Neil Herbert is £8,000 per annum, such fee to accrue from the date of appointment but not to be paid until after Admission.
- 6.3.2 On 24 March 2005 Francis Johnstone entered into a letter of appointment with the Company in respect of his appointment as a non-executive Director of the Company. The letter of appointment is for an initial 12 months (renewable by agreement) and will continue until terminated on not less than 6 months notice given by either party to the other at any time. The letter of appointment contains provision for earlier termination in the event of *inter alia* breach by the Director. The fee payable to Francis Johnstone is £8,000 per annum, such fee to accrue from the date of appointment but not to be paid until after Admission.
- 6.4 The aggregate remuneration payable (and benefits in kind to be granted) to the Directors in the current financial period ending 30 September 2005, being the first financial period of the Company, under the arrangements in force at the date of this document is estimated to be £12,000.
- 6.5 There are no Directors' service contracts, or contracts in the nature of services, with the Company, other than those which expire or are terminable without payment of compensation on no more than 12 months' notice.

## **7. Warrants**

- 7.1 The Company will, on Admission, have outstanding the Sunrise Diamonds Warrants, which entitle holders to subscribe for up to 12,187,500 new Ordinary Shares. Assuming the Sunrise Diamonds Warrants are exercised in full, these will represent 13.92 per cent of the Company's then enlarged issued ordinary share capital.
- 7.2 The outstanding Sunrise Diamonds Warrants will comprise:
- Warrants to subscribe for up to 7,687,500 new Ordinary Shares at a price of 3p per Ordinary Share at any time during the 12 month period following the date of Admission and 5p per Ordinary Share for a period commencing on the first anniversary of Admission and expiring 24 months from the date of Admission.
  - the Directors Warrants, to subscribe for up to 1,500,000 Ordinary Shares at a price of 2p per share at any time during the 60 month period following the date of Admission.
  - The Ruegg Warrant, to subscribe for up to 1,500,000 new Ordinary Shares at a price of 2p per share at any time during the 60 month period following the date of Admission, and
  - The WH Ireland Warrant to subscribe for up to 1,500,000 new Ordinary Shares at a price of 2p per share at any time during the 60 month period following the date of Admission
- 7.3 No application has been made or is being made for the Sunrise Diamonds Warrants to be admitted to trading on AIM or any other recognised investment exchange.
- 7.4 By a Warrant Instrument by way of a Deed Poll dated 27 May 2005 the Company created warrants to subscribe in cash for up to 7,687,500 Ordinary Shares at 3p per Ordinary Share exercisable for a period of 12 months from the date of Admission and 5p per Ordinary Share for a period commencing on the first anniversary of Admission and expiring 24 months from the date of Admission on the terms and conditions

set out in the deed (the “Warrants”). The Warrants may be exercised in whole or in part at any time in the 24 month period following the date of Admission and to the extent that they are not exercised during that period they shall lapse. No modification, variation or amendment to the terms and conditions of the Warrants shall be effective unless the modification, variation or amendment has been approved by a Special Resolution of the warrant holders. The terms and conditions include, *inter alia*, anti-dilution provisions and a right of assignment in whole or in part. No application will be made for the Warrants to be admitted to trading on AIM.

- 7.5 By a Deed of Warrant Grant dated 27 May 2005 the Company granted to the Directors warrants (“the Directors Warrants”) to subscribe in cash for up to 1,500,000 new Ordinary Shares at 2p per share upon the terms and conditions set out in the Deed. The Directors Warrant may be exercised, in whole or in part, at any time during the 60 month period following the date of Admission and to the extent that the Directors Warrants are not exercised within this period they shall lapse. No modification variation or amendment to the terms and conditions of the Directors Warrant shall be effective unless the modification, variation or amendment is in writing and has been signed by or on behalf of the parties. The terms and conditions include, *inter alia*, anti-dilution provisions and a right of assignment in whole or in part.
- 7.6 By a Deed of Warrant Grant dated 27 May 2005 the Company granted to Ruegg a warrant (“the Ruegg Warrant”) to subscribe in cash for up to 1,500,000 new Ordinary Shares at 2p per share upon the terms and conditions set out in the Deed. The Ruegg Warrant may be exercised in whole or in part, at any time during the 60 month period following the date of Admission and to the extent that the Ruegg Warrant is not exercised within this period it shall lapse. No modification, variation or amendment to the terms and conditions of the Ruegg Warrant shall be effective unless the modification, variation or amendment is in writing and has been signed by or on behalf of the parties. The terms and conditions include, *inter alia*, anti-dilution provisions and a right of assignment in whole or in part.
- 7.7 By a Deed of Warrant Grant dated 27 May 2005 the Company grants to WH Ireland a warrant (“the WH Ireland Warrant”) to subscribe in cash for up to 1,500,000 new Ordinary Shares at 2p per share upon the terms and conditions set out in the Deed. The WH Ireland Warrant may be exercised in whole or in part, at any time during the 60 month period following the date of Admission and to the extent that the WH Ireland Warrant is not exercised within this period it shall lapse. No modification variation or amendment to the terms and conditions of the WH Ireland Warrant shall be effective unless the modification variation or amendment is in writing and has been signed by or on behalf of the parties. The terms and conditions include *inter alia*, anti-dilution provisions and a right of assignment in whole or in part.

## 8. Taxation

**The comments in this section are intended as a general guide for the benefit of holders of shares as to their tax position under United Kingdom law and Inland Revenue practice as at the date of this document. The comments apply to shareholders who are resident and ordinarily resident for tax purposes in the UK, (except in so far as express reference is made to the treatments of non-UK residents), who will hold Ordinary Shares as an investment and will be the absolute beneficial owners of them. The tax position of certain shareholders who are subject to special rules, such as dealers in securities, broker-dealers, insurance companies and collective investment schemes is not considered. Any shareholder who has any doubt as to his or her tax position or who is subject to tax in a jurisdiction other than the United Kingdom should consult a professional adviser without delay.**

### *Taxation of Chargeable Gains*

The following paragraphs apply to non-employee shareholders. Employee shareholders may be subject to an alternative tax regime and should consult their own professional adviser.

- 8.1 For the purpose of UK tax on chargeable gains, the issue of Ordinary Shares will be regarded as an acquisition of a new holding in the share capital of the Company.
- 8.2 To the extent that a shareholder acquires Ordinary Shares allotted to him, the Ordinary Shares so allotted will, for the purpose of tax on chargeable gains, be treated as acquired on the date of allotment.
- 8.3 The amount paid for the Ordinary Shares will constitute the base cost of a shareholder’s holding. The amount paid for the Ordinary Shares subscribed for will be eligible for taper relief allowance for an individual.
- 8.4 If Shareholders dispose of all or some of their Ordinary Shares, a liability to tax on chargeable gains may, depending on the circumstances, arise.
- 8.5 A disposal of all or any of the Ordinary Shares may, depending on the individual circumstances of the relevant shareholder give rise to a liability to UK taxation of chargeable gains. Shareholders will normally be subject to UK taxation of chargeable gains, unless such holders are neither resident nor ordinarily resident in the UK. Taper Relief will reduce the amount of chargeable gain on a disposal by an individual

shareholder. The extent to which it applies will depend on the length of time the Ordinary Shares have been held since 6th April 1998 and on whether the Ordinary Shares held are business or non-business assets.

#### *Taxation of Dividends*

- 8.6 Under current United Kingdom legislation, no tax is required to be withheld from dividend payments by the Company. Shareholders (other than a company) receiving a dividend from the Company also receive a tax credit in respect of the dividend of an amount equal to one ninth of the amount of the dividend which is 10 per cent of the sum of the dividend and the tax credit. Generally, the liability to United Kingdom income tax is calculated on the sum of the dividend and the tax credit (“the dividend income”). Individual Shareholders whose income is within the starting rate or basic rate tax bands will be subject to income tax at the rate of 10 per cent on their dividend income, so that such Shareholders will have no further liability to income tax on that dividend income. The higher rate of income tax is 32.5 per cent in respect of dividend income. A higher rate tax payer may set the tax credit against his liability to income tax on the dividend income and will have further tax to pay of 22.5 per cent of the dividend income. Shareholders who are not liable to income tax on the dividend income (or any part of it) may not claim payment of the tax credit (or part of it) from the Inland Revenue.
- 8.7 United Kingdom resident corporate shareholders are not normally liable to United Kingdom taxation on any dividend received. United Kingdom resident Shareholders (including authorised unit trusts and open-ended investment companies) and pension funds are not entitled to payment in cash of the tax credit.
- 8.8 Whether Shareholders who are resident for tax purposes in countries other than the United Kingdom are entitled to a payment from the Inland Revenue of a proportion of the tax credit in respect of dividends on their Ordinary Shares depends in general upon the provisions of any double taxation convention or agreement which exists between such countries and the United Kingdom. In addition, individual Shareholders who are resident in countries other than the United Kingdom but who are Commonwealth citizens, nationals of member states of the European Economic Area or fall within certain other categories of person within Section 278 of the Income and Corporation Taxes Act 1988 are entitled to the entire tax credit which they may set against their total United Kingdom income tax liability or, in appropriate cases, reclaim in cash. Non-United Kingdom resident Shareholders should consult their own tax advisers on the possible application of such provisions and the procedure for claiming any relief or credit in respect of such tax credit in their own jurisdictions. However, in general, no cash payment will be recoverable from the Inland Revenue in respect of the tax credit.

#### *Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)*

- 8.9 No stamp duty or SDRT will be payable on the issue of Ordinary Shares save that special rules apply to persons operating clearance services or depository receipt services.
- 8.10 A transfer or sale of shares will generally be subject to ad valorem stamp duty at the rate of 0.5 per cent rounded up to the nearest multiple of £5 on the amount or value of the consideration paid by the purchaser. If an unconditional agreement for the transfer of such Ordinary Shares is not completed by a duly stamped transfer to the transferee by the seventh day of the month following the month in which the agreement becomes unconditional, SDRT will be payable on the agreement at the rate of 0.5 per cent of the amount or value of consideration paid. Liability to SDRT is generally that of the transferee. Where a purchase or transfer is effected through a member of the London Stock Exchange or a qualified dealer, the said member or dealer will normally account for the SDRT.
- 8.11 When Ordinary Shares are transferred to a CREST member who holds those shares in uncertificated form as a nominee for the transferor, no stamp duty or SDRT will generally be payable.
- 8.12 When Ordinary Shares are transferred by a CREST member to the beneficial owner (on whose behalf it has held them as nominee), no stamp duty or SDRT will generally be payable.
- 8.13 Where a change in beneficial ownership of Ordinary Shares held in uncertificated form occurs and such change is for consideration in money or money’s worth (whether the transferee will hold those shares in certificated or uncertificated form) a liability to SDRT at the rate of 0.5 per cent of the amount or value of the consideration will arise. This will generally be met by the new beneficial owner.

### **9. Memorandum of Association**

The principal objects of the Company are set out in clause 4 of the Company’s Memorandum of Association and are to carry on the business of a general commercial company, including but not limited to the exploration, development and mining of minerals including diamonds.

## 10. Articles of Association

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

### 10.1 Voting Rights

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

### 10.2 Transfer of Shares

Title to and interest in shares may be transferred without a written instrument in accordance with statutory regulations from time to time made under the Act.

Transfer of shares may be effected by transfer in writing in any usual or common form or in any other form acceptable to the directors. The instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered on the register of members in respect thereof.

The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of shares unless:

- (i) the instrument of transfer is in respect of a share in respect of which all sums presently payable to the Company have been paid;
- (ii) it is in respect of only one class of share;
- (iii) it is in favour of a single transferee or not more than four joint transferees;
- (iv) it is duly stamped (if required); and
- (v) the instrument of transfer duly stamped is deposited at the office or such other place as the directors may appoint, accompanied by the certificate for the shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer, provided that, in the case of a transfer by a nominee of a recognised clearing house or of a recognised investment exchange, the lodgment of a share certificate will only be necessary if a certificate has been issued in respect of the share in question.

The Directors shall not refuse to register any transfer or renunciation of partly paid shares which are admitted to trading on the London Stock Exchange on the grounds that they are partly paid shares in circumstances where such refusal would prevent dealings in such shares from taking place on an open and proper basis.

If the Board refuses to register a transfer it must, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferor and the transferee.

The registration of transfers may be suspended by the Board for any period (not exceeding 30 days) in any year.

The Ordinary Shares now in issue are in registered form. Title to the Ordinary Shares in issue may be transferred by means of a relevant system such as the CREST System.

There are no other restrictions on the transfer of shares and no pre-emption rights in respect of them.

### 10.3 Failure to disclose interests in shares

If a member, or any other person appearing to be interested in shares held by that member, has been issued with a notice pursuant to section 212 of the Act and has failed in relation to any shares (“the default shares”) to give the Company the information thereby required within the prescribed period from the date of notice, the following sanctions shall apply:

- (i) the member shall not be entitled in respect of the default shares to be present or to vote (either in person or by representative or proxy) at any general meeting or at any separate meeting of the holders of any class of shares or on any poll or to exercise any other right conferred by membership in relation to any such meeting or poll; and
- (ii) where the default shares represent at least 0.25 per cent in nominal value of their class the defaulting member shall not be entitled to:

- (a) receive any dividend in respect of the shares; or
- (b) to transfer or agree to transfer any of such shares, or any rights therein.

The above restrictions shall continue until either the default is remedied or the shares are registered in the name of the purchaser or offeror (or that of his nominee) pursuant to an arm's length transfer. Any dividends withheld shall be paid to the member as soon as practicable after the above restrictions lapse.

#### 10.4 *Dividends*

Subject to the provisions of the Act and of the Articles and to any special rights attaching to any shares, the Company may by ordinary resolution declare dividends, but no such dividends shall exceed the amount recommended by the Board. All dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. Interim dividends may be paid provided that they appear to the Board to be justified by the profits available for distribution and the position of the Company. Unless otherwise provided by the rights attached to any share, no dividends in respect of a share shall bear interest. The Board may, with the prior authority of an ordinary resolution of the Company, offer the holders of Ordinary Shares the right to elect to receive Ordinary Shares credited as fully paid instead of cash in respect of all or part of any dividend.

Any dividend unclaimed after a period of twelve years from its due date of payment shall be forfeited and cease to remain owing by the Company and shall thereafter belong to the Company absolutely.

#### 10.5 *Distribution of assets on winding up*

On a winding up of the Company, the liquidator may, with the authority of an extraordinary resolution and any other sanction required by the Act, divide among the members in specie the whole or any part of the assets of the Company, and whether or not the assets shall consist of property of one kind or shall consist of properties of different kinds, and may for such purposes set such value as he deems fair upon any one or more class or classes of property, and may determine how such divisions shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no member shall be compelled to accept any shares in respect of which there is a liability.

#### 10.6 *Redemption*

##### *Ordinary Shares*

The Ordinary Shares are not redeemable.

##### *Redeemable Preference Shares*

The Company may at any time, subject to the Act, redeem all (but not part) of the Redeemable Preference Shares then in issue. Where Redeemable Preference Shares are to be redeemed in accordance with the Articles of Association of the Company, the Company shall give to the holders of the Redeemable Preference Shares prior notice in writing of the redemption ("Redemption Notice"). The Redemption Notice shall specify the date fixed for redemption and shall be given not less than 2 clear days prior to the date fixed for redemption. On the date fixed for redemption, each of the holders of the Redeemable Preference Shares shall be bound to deliver to the Company, at the Company's registered office, the certificate(s) for such Redeemable Preference Shares in order that the same may be cancelled. Upon such delivery, the Company shall pay to the holder (or, in the case of joint holders, to the holder whose name stands first in the Company's register of members in respect of such shares) the amount due to it in respect of such redemption against delivery of a proper receipt for the redemption monies.

#### 10.7 *Changes in share capital*

The Company may alter its share capital as follows:

- (i) it may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amounts, cancel any shares which have not been taken or agreed to be taken by any person and sub-divide its shares or any of them into shares of smaller amounts;
- (ii) subject to any consent required by law and to any rights for the time being attached to any shares, it may by special resolution reduce its share capital, any capital redemption reserve, any share premium account or other undistributable reserve in any manner; and
- (iii) subject to the provisions of the Act and to any rights for the time being attached to any shares it may with the sanction of a special resolution enter into any contract for the purchase of its own shares.

#### 10.8 *Variation of rights*

Subject to the provisions of the Act and of the Articles, the special rights attached to any class of share in the Company may be varied or abrogated either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so varied or abrogated whilst the Company is a going concern or while the Company is or is about to be in liquidation. The quorum for such separate general meeting of the holders of the shares of the class shall be at least two persons holding or representing by proxy at least one third of the nominal amount paid up on the issued shares of the relevant class.

#### 10.9 *Directors' interests in contracts*

A director who is in any way, whether directly or indirectly, interested or deemed by the Act to be interested in a contract, transaction or arrangement or a proposed contract, transaction or arrangement with the Company shall declare the nature of his interest at a meeting of the directors in accordance with Section 317 of the Act.

Save as provided below, a director (including an alternate director) shall not vote in respect of any contract or arrangement or any other proposal in which he has any material interest otherwise than by virtue of his interests in shares or debentures or other securities or rights of the Company. However a director shall be entitled to vote in respect of any contract or arrangement or any other proposal in which he has any interest which is not material. A director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting. A director of the Company shall be entitled to vote (and be counted in the quorum) in respect of any resolution at such meeting if his duty or interest arises only because the resolution relates to one of the following matters:-

- (i) the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company;
- (ii) the giving to a third party of any guarantee, security or indemnity in respect of a debt or obligation of the Company for which he himself has assumed responsibility in whole or in part, under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer for subscription or purchase of shares or debentures or other securities or rights of or by the Company or any of its subsidiaries or of any Company which the Company may promote or in which it may be interested in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;
- (iv) any proposal concerning any other Company in which he is interested directly or indirectly and whether in any one or more of the capacities of officer, creditor, employee or holder of shares, debentures, securities or rights of that other Company, but where he is not the holder (otherwise than as a nominee for the Company or any of its subsidiaries) of or beneficially interested in one per cent or more of the issued shares of any class of such Company or of any third Company through which his interest is derived or of the voting rights available to members of the relevant Company (any such interest being deemed for the purpose of this Article to be a material interest in all circumstances);
- (v) any proposal concerning the adoption, modification or operation of a superannuation fund, retirement benefits scheme, share option scheme or share incentive scheme under which he may benefit; or
- (vi) any arrangement concerning the purchase and/or maintenance of any insurance under which he may benefit.

Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more directors to offices or employments with the Company or any company in which the Company is interested, such proposals may be divided and considered in relation to each director separately and in such case each of the directors concerned (if not debarred from voting because of the limit on shareholding specified in Article) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

The Company may by ordinary resolution suspend or relax the provisions relating to Directors' interests either generally or in respect of any particular matter or ratify any transaction not duly authorised by reason of the contravention thereof.

#### 10.10 *Directors*

The maximum aggregate annual fees payable to the directors for their services in holding office of director of the company shall be the sum of £200,000 or such larger sum as the company in general meeting by



ordinary resolution shall from time to time determine, but this limit shall not apply in respect of the salaries, bonuses or other remuneration payable by the company or any subsidiary of the company or expenses reimbursed to any director.

Any director who serves on any committee or who devotes special attention to the business of the Company, or who otherwise performs services which in the opinion of the directors are outside the scope of the ordinary duties of a director, may be paid such remuneration by way of salary, lump sum, percentage of profits or otherwise as the directors may determine. The directors shall also be entitled to be paid all traveling, hotel and other expenses properly incurred by them in connection with the business of the Company, or in attending and returning from meetings of the directors or of committees of the directors or general meetings or separate meetings of the holders of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties.

Any provision of the Act or any other law affecting the Company which, subject to the provisions of these Articles, would have the effect of rendering any person ineligible for appointment or election as a director or liable to vacate office as a director on account of such person having reached any specified age or of requiring special notice or any other special formality in connection with the appointment or election of any director over a specified age, shall not apply to the Company.

#### 10.11 *Borrowing powers*

Subject as hereinafter provided the directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, assets and uncalled capital, and (subject to the Act) to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

The aggregate principal amount for the time being outstanding in respect of monies borrowed or secured by the Company (after deducting cash deposited) shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to 4 times the aggregate of:

- (i) the nominal amount of the share capital of the Company issued and paid up (or credited as paid up); and
- (ii) the amounts shown as standing to the credit of capital and revenue reserves, including share premium account, capital redemption reserve and profit and loss account (but deducting there from the amount, if any, standing to the debit of profit and loss account) in either a consolidation of the audited balance sheets of all the companies in the Group last laid before the members thereof respectively in general meeting or (at the directors' discretion) in the audited consolidated balance sheet of the Group last laid before the Company in general meeting; but
  - (a) adjusted in respect of any variations in the issued and paid up share capital, share premium account or capital redemption reserve effected or any distributions made (otherwise than within the Group) since the date of such balance sheets except insofar as provided therein; and
  - (b) excluding therefrom any amounts set aside for taxation and, to the extent included, any amounts attributable to outside shareholdings in subsidiaries; and
  - (c) excluding all amounts attributable to intangible items save goodwill arising on consolidation, notwithstanding the fact that these may previously have been written off against reserves.

### 11. **Material Contracts**

11.1 Other than as set out below there are no contracts (not being in the ordinary course of business) entered into by the Company since the Company's incorporation which are or may be material or which contain any provision under which the Company has any obligation or entitlement which is material to the Company as at the date of this document save as disclosed in paragraph 6 of this Part 5.

11.1.1 Under a letter of engagement dated 14 February 2005 the Company appointed Ruegg as Nominated Adviser for the purposes of the AIM Rules. Under this engagement the Company has paid or will pay the following fees:

- (a) £5,000 plus VAT upon commencement of the engagement;
- (b) £7,500 plus VAT and disbursements payable on the earlier of the publication of the pathfinder admission document or publication of the final admission document;
- (c) subject to Admission, £12,500 plus VAT upon Admission;
- (d) subject to Admission, the Ruegg Warrant to subscribe for Ordinary Shares to the value of £30,000 at the Placing Price exercisable at any time up to the fifth anniversary of Admission.

#### 11.1.2 *Provision of Broker Services*

On 27 May 2005, the Company entered into a broker appointment letter with WH Ireland pursuant to which the Company appointed WH Ireland as broker to the Company for a minimum period of 12 months. Under this agreement the Company will pay WH Ireland a fee of £15,000, commission of 5 per cent of funds raised by WH Ireland and grant WH Ireland the WH Ireland Warrant referred to in paragraph 7 above. In addition the Company will pay an annual fee of £15,000 to WH Ireland for acting as broker following Admission.

#### 11.1.3 *Placing Agreement*

Under a Placing Agreement dated 27 May 2005 between the Company, the Directors, Ruegg and WH Ireland, WH Ireland was appointed as agent of the Company to use their reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price together with the related Warrants. Pursuant to the Placing Agreement, the Company and its Directors have given certain warranties to Ruegg and WH Ireland regarding, *inter alia*, the accuracy of information in this Document. The Placing is not underwritten. The Placing Agreement is conditional, *inter alia*, on Admission taking place no later than 6 June 2005 or such later date as may be agreed by the Company, Ruegg and WH Ireland and the Company and its Directors complying with certain obligations under the Placing Agreement. Under the Placing Agreement, the Company has agreed to pay to Ruegg or WH Ireland a commission of 5 per cent of the aggregate value of the Placing Shares at the Placing Price, together with all costs and expenses and VAT thereon, where appropriate and to grant warrants to Ruegg and to WH Ireland as set out in paragraph 7 above. Ruegg and WH Ireland are entitled, in certain limited circumstances, to terminate the Placing Agreement prior to Admission and to the payment of its outstanding costs on such termination.

11.1.4 By an agreement dated 31 March 2005 between the Company (1) and Tertiary Minerals (2), Tertiary Minerals has agreed to provide office accommodation, administrative services, management services (including the executive services of Patrick Cheetham) and other services to the Company. During the period from the date of this agreement to Admission, the Company will pay Tertiary Minerals 10% (ten per cent) of Tertiary Mineral's office costs including rent, rates (where applicable) and 10% (ten per cent) of all other associated office costs, including but not limited to electricity, gas, stationary and all other office supplies. During the period following Admission the Company will pay to Tertiary Minerals 50% (fifty per cent) of Tertiary Mineral's office costs including rent, rates, (where applicable) and 50% (fifty per cent) of all other associated office costs including but not limited to electricity, gas, stationary and all other office supplies. The costs of the management services will be charged to the Company by Tertiary Minerals at cost to Tertiary Minerals.

11.1.5 Under an Agreement dated 28 February 2005 between the Company (1) and Tertiary Gold (2) the Company agreed to (i) purchase certain claims ("Claims") from Tertiary Gold and (ii) be entitled to the benefits and rights in certain claim reservations ("Claim Reservations") each relating to diamond exploration projects in Finland in consideration of the sum of £150,000. The agreement contains warranties in relation to the Claims and Claim Reservations from Tertiary Gold to the Company.

11.1.6 Under a supplemental agreement dated 24 March 2005 the agreement detailed in paragraph 11.1.5 above was varied to provide for the transfer of the Claims and the entitlement to the benefits and rights in the Claim Reservations as a going concern and in addition for any liabilities attaching to the Claims and Claim Reservations to be the responsibility of Tertiary Gold up to and including 28 February 2005 and the responsibility of the Company thereafter.

11.1.7 The Claims and Claim Reservations under which the Company has a material interest are set out in the table below. All Claim Reservations are currently registered in the name of Tertiary Gold but subject to the agreements referred to in paragraphs 11.1.5 and 11.1.6 of this Part 5. The Claims were transferred to Sunrise Diamonds on 26 April 2005. It is the Company's intention that further claims will be applied for over all the Company's kimberlite targets prior to the expiry of the Claim Reservations.

<i>Filing Date</i>	<i>Date</i>	<i>Claim (Exploration Licence) (C) Claim Reservation (R)</i>	<i>Area Name</i>	<i>Mining Registration No.</i>	<i>Expiry Date</i>
Not available	19.5.2004	C	Kattaisenvaara 1	7790/1	19.5.2009
Not available	19.5.2004	C	Kaletto 1	7751/1	19.5.2009
14.6.2004	12.8.2004	R	Kattaisenvaara 1	200489	14.6.2005
14.6.2004	12.8.2004	R	Kattaisenvaara 2	200489	14.6.2005
14.6.2004	12.8.2004	R	Kattaisenvaara 3	200489	14.6.2005
14.6.2004	12.8.2004	R	Kattaisenvaara 4	200489	14.6.2005
14.6.2004	12.8.2004	R	Tyrävaara	200489	14.6.2005
14.6.2004	12.8.2004	R	Kaletto 1	200489	14.6.2005
14.6.2004	12.8.2004	R	Kaletto 2	200489	14.6.2005
14.6.2004	12.8.2004	R	Kaletto 3	200489	14.6.2005
14.6.2004	12.8.2004	R	Kaletto 4	200489	14.6.2005
14.6.2004	12.8.2004	R	Kaletto 5	200489	14.6.2005
14.6.2004	12.8.2004	R	Lounaja 1	200489	14.6.2005
14.6.2004	12.8.2004	R	Lounaja 2	200489	14.6.2005
14.6.2004	12.8.2004	R	Lounaja 3	200489	14.6.2005
14.6.2004	12.8.2004	R	Lounaja 4	200489	14.6.2005
14.6.2004	12.8.2004	R	Lounaja 5	200489	14.6.2005
14.6.2004	12.8.2004	R	Kellarivaara	200489	14.6.2005
14.6.2004	12.8.2004	R	Pahamaailma	200489	14.6.2005
13.9.2004	15.11.2004	R	Honkajärvi Nr. 1	2004130	13.9.2005
14.9.2004	15.11.2004	R	Lounaja	2004132	14.9.2005
14.9.2004	15.11.2004	R	Hossa	2004131	14.9.2005
17.9.2004	15.11.2004	R	Kasma	2004137	17.9.2005
5.11.2004	7.12.2004	R	Lapinsuo 1	2004163	5.11.2005
8.11.2004	7.12.2004	R	Emil 1	2004165	8.11.2005
2.12.2004	27.12.2004	R	Emil Nr2	2004183	2.12.2005
2.12.2004	27.12.2004	R	Emil 3	2004184	2.12.2005
2.12.2004	27.12.2004	R	TGL 107	2004186	2.12.2005
2.12.2004	27.12.2004	R	TGL 112	2004187	2.12.2005
2.12.2004	27.12.2004	R	TGL 115	2004189	2.12.2005
2.12.2004	27.12.2004	R	TGL 118	2004190	2.12.2005
2.12.2004	27.12.2004	R	TGL 120	2004191	2.12.2005
2.12.2004	15.12.2004	R	TGL 114	2004188	2.12.2005
2.12.2004	15.12.2004	R	TGL 100	2004185	2.12.2005
26.11.2004	15.12.2004	R	Jää 13	2004177	26.11.2005
8.11.2004	7.12.2004	R	Sune 1	2004164	8.11.2005

## 12. Litigation

The Company is not engaged in any legal or arbitration proceedings nor, so far as the Company is aware, are any such proceedings pending or threatened against the Company which are having or may have a significant effect on the Company's financial position.

## 13. Intellectual Property Rights

There are no patents or intellectual property rights, licences or particular contracts which are of fundamental importance to the Company's business.

## 14. Investments

There are no investments by the Company in progress which are significant or material.

## 15. Information Relating to the Placing

15.1 The minimum amount which, in the opinion of the Directors, must be raised by the Company pursuant to the Placing in order to provide the sums required pursuant to paragraph 21 of Schedule 1 of the POS Regulations is £150,000 allocated as follows:

Purchase price of property	£ nil
Expenses and commissions	£92,500
Repayments of borrowings	£ nil
Working capital	£57,500
Total	<u>£150,000</u>

15.2 The total expenses payable in connection with the Placing and Admission are expected to amount to approximately £100,000 (exclusive of any applicable value added tax) which are payable by the Company.

15.3 Of the Placing Price, 0.1p represents the nominal value per Ordinary Share and there is a premium of 1.9p per Ordinary Share.

## 16. Working capital

The Directors, having made due and careful enquiry and after taking into account the net minimum proceeds of the Placing, believe that the working capital available to the Company will, as from Admission, be sufficient for its present requirements, that is for at least twelve months from the date of Admission.

## 17. Financial Information on the Company

17.1 The Company's accounting reference date is 30 September in each year. The first accounting period will end on 30 September 2005.

17.2 The financial information set out in this document relating to the Company does not constitute statutory accounts within the meaning of Section 240 of the Act and no such accounts have been filed with the Registrar of Companies in England and Wales.

## 18. General Information

18.1 PKF Accountants and Business Advisers of Sovereign House, Queen Street, Manchester M2 5HR are auditors of the Company and were auditors of the Company for the period relating to the report set out in Part 3 of this document. On 23 May 2005 the business, assets and liabilities of PKF were transferred to PKF (UK) LLP.

18.2 PKF (UK) LLP of Sovereign House, Queen Street, Manchester M2 5HR has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report set out in Part 3 of this document and to the references to its name in the form and context in which such references are included and accepts responsibility for its report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the POS Regulations. PKF (UK) LLP has not become aware, since the dates of such report, of any matter affecting their report at that date.

18.3 Ruegg & Co of 39 Cheval Place, Knightsbridge, London SW7 1EW has given and has not withdrawn its written consent to the issue of this document with the references herein to its name in the form and context in which it appears.

18.4 WH Ireland Limited of 11 St James's Square, Manchester M2 6WH has given and has not withdrawn its written consent to the issue of this document with the references herein to its name in the form and context in which it appears.

18.5 Ddraig Mineral Developments Limited of 31 Madoc Street, Llandudno, Conwy, North Wales LL30 2TL has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report set out in Part 4 of this document and to the references to its name in the form and context in which such references are included and accepts responsibility for its report for the purposes of paragraph 13(1)(d) of Schedule 1 to the POS Regulations.

18.6 Cobbetts Solicitors of Ship Canal House, King Street, Manchester M2 4WB has given and has not withdrawn its written consent to the issue of this document with the references herein to its name in the form and context in which it appears.

18.7 Save as disclosed in this document, the Directors are not aware of any significant recent trends concerning the development of the business of the Company since incorporation.

18.8 Save as disclosed in this document, no person (other than a professional adviser referred to in this document or trade suppliers dealing with the Company) has:

18.8.1 received, directly or indirectly, from the Company, within the twelve months preceding the Company's application for Admission; or

18.8.2 entered into any contractual arrangement (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission, any of the following:

- (a) fees totaling £10,000 or more;
- (b) securities in the Company with a value of £10,000 or more at the date of Admission;
- (c) any other benefit with a value of £10,000 or more at the date of Admission.

#### **19. Documents available for inspection**

Copies of the following documents will be available for inspection at the registered office of the Company and at the offices of Cobbetts of Ship Canal House, King Street, Manchester M2 4WB during normal business hours on any business day (Saturdays and Sundays excepted), for a period of 14 days following the date of this document.

19.1 the Memorandum and Articles of Association of the Company;

19.2 the audited financial statements of the Company for the financial period ended 5 March 2005;

19.3 the Directors' Letters of Appointment referred to in paragraph 6 above;

19.4 the Competent Person's Report set out in Part 4 of this document;

19.5 the material contracts referred to in paragraph 11 above;

19.6 the letters of consent referred to in paragraph 18 above.

#### **20. Availability of Document**

Copies of this document will be available during normal business hours on any business day (Saturdays and Sundays excepted) free of charge to the public at the offices of Ruegg & Co Limited of 39 Cheval Place, London SW7 1EW, for a period of one month from the date of Admission.

Date: 31 May 2005

