

HEADS OF AGREEMENT

between

FIRESTONE DIAMONDS LIMITED

(British Virgin Islands Registration Number: 187191)

("Firestone")

and

FIRESTONE DIAMONDS PLC

(UK Registration Number: 368905)

("Firestone PLC")

and

WILLIAM GLOUGH

("Clough")

and

DAVID O'CONNOR

("O'Connor")

and

DALY CITY VENTURES (PROPRIETARY) LIMITED

(a company registered in Botswana with registration number 3082/1772)

("Daly City")

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1. INTRODUCTION

- 1.1 Daly City is the holder of Prospecting Licence 48/2003 (the "Prospecting Licence"), attached hereto as Annexure "A", which has been issued under the laws of Botswana in respect of the Licence Area (as specified in the Prospecting Licence).
- 1.2 Firestone is a limited company incorporated in accordance with the laws of the British Virgin Islands, and has experience in, *inter alia*, prospecting for diamonds and Kimberlite.
- 1.3 Firestone is a subsidiary of Firestone PLC, which is quoted on the Alternative Investment Market of the London Stock Exchange.
- 1.4 Daly City and Firestone have agreed to enter into a joint venture in order to prospect for diamonds in the Licence Area, with Firestone being appointed as project operator in respect of such prospecting operations.
- 1.5 The parties wish to record the terms and conditions of their Agreement in writing.

2. HEADS OF AGREEMENT

- 2.1 It is the declared intention of the parties to conclude further comprehensive agreements as soon as reasonably possible after the execution of these heads of agreement, which comprehensive agreement(s) shall incorporate, *inter alia*, the terms and conditions set forth in these heads together with such other terms and conditions as are ordinarily found in agreements recording the terms and conditions set forth in these heads and such other terms and conditions as the parties may agree (the "Comprehensive Agreements").
- 2.2 Until such time as the Comprehensive Agreements are concluded in writing between the parties (or failing the conclusion of such Comprehensive Agreements for any reason whatsoever), these heads shall be and remain valid and binding upon and enforceable against the parties in all respects, and the terms hereof shall be duly implemented by the parties.

3. SALE OF SHARES

- 3.1 Prior to the date upon which these heads are signed by the last party to do so (the "Signature Date"), the issued shares in the



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capital of Daly City (as varied from time to time in accordance with the terms of these heads, the "Shares") were held as follows:

- 3.1.1 Clough as to 50% (fifty percent) of the Shares; and
- 3.1.2 O'Connor (together with Clough, the "Existing Shareholders") as to 50% (fifty percent) of the Shares.

3.2 With effect from the Signature Date, each of the Existing Shareholders hereby sells:

- 3.2.1 25.5% (twenty five comma five percent) of the Shares to Firestone, with the effect that, upon the Signature Date, the Shares shall be held as follows:
 - 3.2.2 Clough as to 24.5% (twenty four comma five percent) of the Shares;
 - 3.2.3 O'Connor as to 24.5% (twenty four comma five percent) of the Shares; and
 - 3.2.4 Firestone as to 51% (fifty one percent) of the Shares.

3.3 As an alternative to the sale of Shares set forth in clause 3.2.1, and upon the written election of Firestone, the Existing Shareholders shall procure that such additional shares in the capital of Daly City are issued to Firestone at the par value thereof with the effect that the Shares shall, as of the Signature Date, be held in accordance with the percentages set forth in clauses 3.2.2, 3.2.3 and 3.2.4 above.

3.4 Notwithstanding anything to the contrary set forth in these heads, if Firestone fails, within 24 (twenty four) months reckoned from the Signature Date, to complete Stage 1 (as described below), Firestone shall forthwith be obliged to sell all of the Shares sold or issued to it pursuant to this clause 3 to the Existing Shareholders (in equal parts) for 1 Botswana Pula, with the effect that the Shares shall be held as follows:

- 3.4.1 Clough as to 50% (fifty percent) of the Shares; and
- 3.4.2 O'Connor as to 50% (fifty percent) of the Shares.

3.5 In the event that the Shares held by Firestone are sold in accordance with the provisions of clause 3.4 above, any directors appointed to the board of Daly City (the "Board") by Firestone

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pursuant to clause 5.1.2 below shall forthwith resign from the Board.

4. PURCHASE PRICE

- 4.1 The purchase price for the sale of Shares set forth in clause 3.2 above shall be 1 Botswana Pula, payable by Firestone to the Existing Shareholders on the Signature Date, and, subject to the achievement of certain milestones set forth in clause 4.2 below, shares in Firestone PLC shall be issued to the Existing Shareholders in accordance with the provisions set forth therein.
- 4.2 In addition to the purchase price of 1 Botswana Pula for the sale of Shares set forth above (or, in the case of issuance of additional shares in the capital of Daly City described in clause 3.3 above, in addition to the par value paid by Firestone to Daly City), Firestone PLC shall, subject to the provisions of clause 4.3 below, be obliged to issue to the Existing Shareholders a total of 150,000 (one hundred and fifty thousand) shares in the capital of Firestone PLC (collectively, the "PLC Shares") in the event that certain milestones are achieved in relation to the prospecting operations and work programmes conducted in the Licence Area, as follows:
- 4.2.1 50,000 (fifty thousand) PLC Shares on discovery by Firestone of a new kimberlite pipe in the Licence Area;
- 4.2.2 50,000 (fifty thousand) PLC Shares on completion of the first positive bulk sample of 1,000 tonnes of a kimberlite pipe in the Licence Area, the term "positive bulk sample" meaning that the results of the bulk sample warrant further evaluation of that pipe; and
- 4.2.3 50,000 (fifty thousand) PLC Shares on completion of the first positive bankable feasibility study on a kimberlite pipe in the Licence Area, the term "positive bankable feasibility study" meaning that the results of the bankable feasibility study warrant the development of a commercial mining operation on that pipe.
- 4.3 Any and all share certificates in respect of the PLC Shares issued to the Existing Shareholders shall be held in escrow by Firestone's attorneys for a period of 12 (twelve) months following issuance thereof to the Existing Shareholders.

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5. PROSPECTING IN THE LICENCE AREA

5.1 Firestone shall conduct the prospecting operations in the Licence Area as project operator in accordance with the work programmes formulated by Firestone, which work programmes shall be substantially in accordance with the work programmes set forth below and in Appendix "B" hereto.

5.2 The prospecting operations in respect of the work programmes shall comprise the following 5 (five) stages:

5.2.1 Stage 1 - conducting exploration work in the Licence Area up to and including the discovery of kimberlite deposits by drilling and the evaluation of any kimberlites discovered by testing of materials recovered from such drilling;

5.2.2 Stage 2 - carrying out a 100 tonne bulk sample on any kimberlite discovered in the Licence Area that is deemed by Firestone to warrant further evaluation;

5.2.3 Stage 3 - carrying out a pre-feasibility study on any kimberlite discovered in the Licence Area that is deemed by Firestone to have economic potential;

5.2.4 Stage 4 - carrying out a bankable feasibility study on any kimberlite discovered in the Licence Area that is deemed by Firestone to have economic potential, after the completion of a positive pre-feasibility study on that kimberlite; and

5.2.5 Stage 5 - upon completion of a positive bankable feasibility study, pursuing the establishment of full-scale mining operations on the relevant kimberlite.

5.3 Following the Signature Date, Firestone shall be responsible for taking all steps reasonably necessary to maintain the Prospecting Licence in good standing (and/or, to the extent that the Prospecting Licence is not in good standing at the Signature Date, to take such steps as may be reasonably necessary to ensure that it is restored to good standing) and for meeting all relevant statutory requirements in relation to the Prospecting Licence.

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- 5.4 Daly City and the Existing Shareholders shall provide Firestone with such assistance as may be reasonably necessary in order to meet its obligations set forth in clauses 8.1 and 8.3 above.
- 5.5 If no work (including laboratory and other assays and analyses and studies related to the evaluation of material recovered from sampling or drilling or bulk sampling of any kimberlite in the Licence Area) of any kind has been carried out by Firestone for a continuous period of 12 (twelve) months within the area covered by the Prospecting Licence:
- 5.5.1 the Existing Shareholders will be entitled by written notice to Firestone and to Daly City to convene a meeting of the Board on reasonable notice to Firestone;
 - 5.5.2 at the relevant Board meeting, the Board will be obliged to express an opinion as to whether or not further expenditure on the relevant area by Firestone as Daly City's project operator is justified.
- 5.6 If the Board is of the opinion that such further expenditure is justified:
- 5.6.1 the Board must immediately and in good faith formulate a further work programme in respect of the Licence Area; and
 - 5.6.2 Firestone must without unreasonable delay carry such work programme into effect;
- 5.7 If the Board is of the opinion that further expenditure within the area in question is not justified, the joint venture shall be deemed to have been abandoned and Firestone shall forthwith be obliged to sell all of the Shares held or issued to it pursuant to clause 3 above and clause 8 below to the Existing Shareholders (in equal parts) for 1 Botswana Pula, with the effect that the Shares shall be held as follows:
- 5.7.1 Clough as to 50% (fifty percent) of the Shares; and
 - 5.7.2 O'Connor as to 50% (fifty percent) of the Shares.
- 5.8 In the event that the Shares held by Firestone are sold in accordance with the provisions of clause 5.7 above, any directors

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appointed to the Board by Firestone pursuant to clause A.1.2 below shall forthwith resign from the Board.

6. FINANCING

6.1 Firestone, as project operator, shall, at its sole cost, provide or arrange such financing as may be reasonably necessary to conduct the prospecting operations and work programmes described in clauses 5.2.1 to 5.2.4 above, both inclusive ("the Initial Funding").

6.2 Upon the completion of the work programmes related to each of the stages described in clauses 5.2.2 to 5.2.4 above, both inclusive, and as consideration therefor, the Existing Shareholders shall be obliged to sell to Firestone additional Shares as follows:

6.2.1 Stage 2 - 10% (ten percent) of the Shares, being 5% (five percent) of the Shares from Clough, and 5% (five percent) of the Shares from O'Connor, in each case upon payment, by Firestone, of 1 Botswana Pula to the Existing Shareholder in question;

6.2.2 Stage 3 - 10% (ten percent) of the Shares, being 5% (five percent) of the Shares from Clough, and 5% (five percent) of the Shares from O'Connor, in each case upon payment, by Firestone, of 1 Botswana Pula to the Existing Shareholder in question;

6.2.3 Stage 4 - 10% (ten percent) of the Shares, being 5% (five percent) of the Shares from Clough, and 5% (five percent) of the Shares from O'Connor, in each case upon payment, by Firestone, of 1 Botswana Pula to the Existing Shareholder in question.

6.2.4 In the event that a positive bankable feasibility study is completed on BK13, or on any other Kimberlites known in the Libodan Area as at the Signature Date, the effective interest to which Firestone will be entitled in those Kimberlites at the completion of Stage 4 shall be a maximum of 75%, and the Board shall make the necessary adjustments to the share capital of Daly City, or

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such other adjustments as the Board deems necessary to give effect to this provision.

6.3 As an alternative to the sale of Shares set forth in clauses 6.2.1, 6.2.2 and 6.2.3 above, and upon the written election of Firestone, the Board shall procure that such additional shares in the capital of Daly City are issued to Firestone at the par value thereof with the effect that, as of the respective dates upon which each of the stages set forth in clauses 6.2.1 to 6.2.3 above (both inclusive) are initiated and implemented, the Shares in Daly City shall be held as follows:

6.3.1 Stage 2 - O'Connor, 19.5% (nineteen comma five percent); Clough, 19.5% (nineteen comma five percent); and Firestone, 61% (sixty one percent);

6.3.2 Stage 3 - O'Connor, 14.3% (fourteen comma five percent); Clough, 14.6% (fourteen comma five percent); and Firestone, 71% (seventy one percent);

6.3.3 Stage 4 - O'Connor, 9.5% (nine comma five percent); Clough, 9.5% (nine comma five percent); and Firestone, 81% (eighty one percent);

6.4 The funding requirements of Daly City after the initial Funding shall be determined by the Board (as constituted after the implementation of these heads), and each of Clough, O'Connor and Firestone shall be obliged to advance to Daly City on loan account such additional funding on a pro rata basis in accordance with their respective shareholdings in Daly City, which funding shall include, without limitation, all mine development and commissioning costs and expenses following the completion of a positive bankable feasibility study conducted during stage 4 of the prospecting operations at the Licence Area.

6.5 Should any of Clough and/or O'Connor and/or Firestone be unable or unwilling to meet its respective funding obligations set forth in clause 6.4 above, such party's interest in the Shares shall be reduced on a straight line dilution basis, based on the total expenditure in relation to the joint venture project on the date upon which such calculation is made.

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7. WARRANTIES

7.1 Daly City and the Existing Shareholders hereby jointly and severally warrant to Firestone that save as is otherwise expressly provided in these heads and as at the Signature Date and at all material times thereafter:

7.1.1 The Shares in the capital of Daly City have not been and will not be mortgaged, pledged, subject to any lien, right of set-off, or any security interest whatsoever, including without limitation any right or interest granted or used to a third party, howsoever created or arising;

7.1.2 Daly City and the Existing Shareholders have disclosed to Firestone, prior to the Signature Date, all facts and circumstances material to the transactions provided for in these heads and which would be material or would be reasonably likely to be material in respect thereof;

7.1.3 Daly City has no liabilities other than its obligations to the government of the Republic of Botswana in respect of the Prospecting Licence, and the Existing Shareholders shall be and remain liable for and do indemnify Firestone against any other liability of Daly City incurred prior to the Signature Date and/or for which the Existing Shareholders are liable hereunder;

7.1.4 Daly City has no employees;

7.1.5 Daly City is not a party to any litigation or dispute; and

7.1.6 the most recent audited financial statements, if any (a copy of which shall be provided to Firestone as soon as possible after execution of these heads), fairly and accurately reflect the financial position of Daly City as of the date thereof, and no material alterations have been made thereto.

7.2 To the extent that the warranties contained herein are signed on a date which results in the use of any tense being inappropriate, the warranties set out above shall be read in the appropriate tense.

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7.2 Unless the context clearly indicates a contrary intention, each warranty hereinafter set out shall:

7.3.1 be correct as at each of the various dates specified in this clause 7;

7.3.2 be a separate and independent warranty and in no way limited or restricted by reference to or inference from the terms of any other warranty or by any other provision in these heads.

8. DALY CITY

8.1 The Existing Shareholders and Firestone (as shareholders in Daly City after the execution of these heads, the "Shareholders") agree that their relationship as Shareholders and the relationship between them and Daly City shall be on the basis that:

8.1.1 O'Connor and Clough shall, for so long as they each own 10% or more of the Shares, have the right to appoint 1 (one) director each to the Board;

8.1.2 Firestone shall have the right to appoint 4 (four) directors to the Board;

8.1.3 save as expressly provided in these heads, meetings of the Board and meetings of Shareholders shall be conducted in accordance with the documents of incorporation or articles of association of Daly City;

8.1.4 no resolution of the Board and/or resolution of the Shareholders shall be passed unless appointees representing the Shareholders for the time being of at least 50% (fifty percent) of all the issued Shares shall have voted in favour thereof and any resolution which is passed in breach thereof shall be of no force or effect.

8.1.5 for so long as the Existing Shareholders and Firestone hold Shares in Daly City, none of the following matters will be undertaken or effected by Daly City except by a resolution passed with a 75% majority vote of the Shareholders or directors (as the case may be) that are entitled to attend and vote at the relevant meeting:

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- 8.1.5.1 a change in Daly City's principal business;
 - 8.1.5.2 the sale, transfer, mortgage, pledge or other alienation or encumbrance of the whole, or substantially the whole, of Daly City's undertaking or of any material asset of Daly City (excluding the appointment of any operator, contractor or third party to conduct prospecting and/or mining operations in the Licence area on behalf of Firestone or Daly City);
 - 8.1.5.3 any change in the number or value of the authorized shares in Daly City, other than as contemplated by these heads;
 - 8.1.5.4 any change in the number of issued shares in Daly City, other than as contemplated by these heads;
 - 8.1.5.5 any change in the corporate status of Daly City;
 - 8.1.5.6 the giving by Daly City of any suretyship, guarantee or other form of security or indemnity for the debts or obligations of any other person;
 - 8.1.5.7 the declaration or payment of any dividend otherwise than in accordance with the Comprehensive Agreements or the Daly City documents of incorporation, as applicable; or
 - 8.1.5.8 the appointment or removal of Daly City's auditors (other than the annual re-appointment of Daly City's first auditors).
- 8.1.6 save as contemplated in these heads, neither Clough nor O'Connor shall be entitled to dispose of (which in this context means sell, dispose of, transfer, alienate,cede, pledge or encumber) any of the Shares or any right, title or interest therein, unless and until he shall have obtained and furnished to Firestone a bona fide written offer from a third party (the "Third Party") containing all of the terms and conditions upon which the Third Party is willing to acquire the Shares in question (the

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"Offer"). Delivery of the Offer to Firestone shall constitute the granting of an irrevocable option to Firestone to purchase the Shares specified in the Offer on the same terms and subject to the same conditions set forth therein for a period of 28 (twenty eight) days, exercisable on written notice to Clough or O'Connor, as applicable. Should Firestone elect not to exercise its option in terms of the Offer or fail to respond thereto within the specified period, Clough or O'Connor, as applicable, shall be entitled to sell the Shares to the Third Party on the same terms and subject to the same conditions set forth in the Offer for a period of 28 (twenty eight) days, failing which, the Offer shall lapse and the attempted disposal shall fail.

9. STAMP DUTY

Firestone and Firestone PLC, respectively, shall pay the stamp duty and any incidental costs payable on the issue and/or transfer (including without limitation all costs incidental to the issue and/or transfer of the related share certificates) of the Shares and the PLC Shares.

10. EXCLUSIVITY

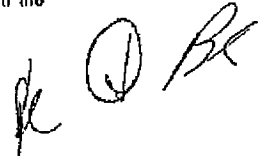
Each of the parties to these heads agrees that, to the extent that these heads or any of the provisions set forth herein are held, for any reason, to be non-binding on the parties, they will negotiate exclusively with each other in respect of the transactions contemplated herein with the intention of creating valid and binding obligations between the parties.

11. GOOD FAITH

In the implementation of these heads, the parties undertake to observe the utmost good faith and they warrant in their dealings with each other that they shall neither do anything nor refrain from doing anything which might prejudice or detract from the rights, assets or interests of any other(s) of them.

12. DISPUTE RESOLUTION

The following provisions will govern the resolution of disputes between the parties:



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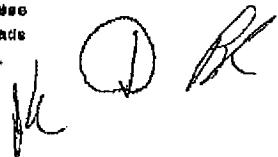
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- 12.1 Whenever one party has by written notice to the other party/ies declared that a dispute exists (including disputes of law, disputes relating to the interpretation of these heads and disputes of a technical nature), duly authorised senior executives of the parties:
- 12.1.1 will meet without delay (with or without the assistance of legal or other experts) at a mutually convenient time and place; and
 - 12.1.2 will make every bona fide and reasonable effort to resolve such dispute through negotiation directed at achieving mutual agreement.
- 12.2 A dispute may be referred for determination to arbitration at a venue in Gaborone in accordance with the then prevailing arbitration laws of Botswana by means of a written notice given by any party to the others at any time after a dispute is first declared, but before legal proceedings concerning that dispute have been instituted.
- 12.3 The determination made at the conclusion of the arbitration proceedings referred to in clause 12.2 may be made an order of any court of competent jurisdiction.
- 12.4 Nothing in this clause 12 will prevent any party from:
- 12.4.1 instituting legal proceedings concerning the dispute at any time before such dispute is formally referred in writing for determination to arbitration as contemplated in clause 12.2; or
 - 12.4.2 instituting legal proceedings in any court of competent jurisdiction for urgent interim relief pending the final determination of the relevant dispute.
- 12.5 This clause 12 is severable from the remainder of these heads and will survive termination thereof.

13. CO-OPERATION

The parties shall respectively cause all resolutions to be passed and undertake to sign all such other documents and do such other things as may be necessary or requisite to give proper and due effect to the terms of these heads, or any contract concluded pursuant to the provisions of these heads or any other matter arising therefrom, according to its intent and purpose.



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14. ASSIGNMENT

- 14.1 Firestone may sell, cede, assign, transfer or otherwise dispose of any of its rights or obligations pursuant to these heads, including the Shares sold or issued to it, to any affiliate or subsidiary of Firestone P.L.C.
- 14.2 Firestone may appoint, at its election, a contractor or third party to carry out the work programmes or any part thereof or to satisfy the obligations of Firestone in relation to the prospecting and/or mining operations in the Licence Area contemplated by these heads.

15. CONFIDENTIALITY

- 15.1 All information, data, methods, technology and designs exchanged between the parties hereto for the purposes of the transactions contemplated by these heads (collectively, the "transactions") shall be deemed as information given in confidence and shall be used by the parties solely for the purposes of the transactions, and no party shall divulge such information given to it by the other to any third party without the prior written approval of the party providing such information unless it is necessary for such party to divulge such information in order to comply with the order of a competent court of law, a statutory obligation, the requirements of a competent government agency or the requirements of any recognised stock exchange.
- 15.2 The provisions of this clause 15 shall remain in force and binding upon the parties at all times during and after the existence of these heads and the transactions contemplated herein.

16. GOVERNING LAW

These heads will be interpreted and applied in accordance with the laws of Botswana, and the parties hereby submit to the exclusive jurisdiction of the courts of Botswana.

17. SUPERCESSION

These heads cancel and supersede all prior negotiations and agreements entered into between the parties relating to the matters set forth herein.



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18. DOMICILIA AND NOTICES

18.1 The parties appoint the following addresses as their respective *domicilium citandi et executandi* ("domicilium") for all purposes arising from these heads (and as the addresses at which they will receive any written notices or reports contemplated in these heads and the service of any legal process):

18.1.1 Firestone: The Chief Executive
Firestone Diamonds Limited
111 Loop Street
Cape Town 8001
South Africa

18.1.2 Firestone PLC: The Chief Executive
Firestone Diamonds PLC
111 Loop Street
Cape Town 8001
South Africa

18.1.3 Daly City: The Company Secretary
C/o Firestone Diamonds PLC
111 Loop Street
Cape Town 8001
South Africa

18.1.4 O'Connor: Calle 24 "Las Retamas" No 80
Calacoto
La Paz
Bolivia

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18.1.5 Cloughy 8/117 Broadway
Nadianda WA 6009
Australia

18.2 Any notice or legal process will, if delivered by hand at the *domicilium* of the addressee referred to above, be deemed to have been received by the addressee on the date of delivery.

18.3 The *domicilium* of any party may be changed by each party to any other office or street address, provided that at least 21 days' prior written notice of such change is given to the other parties.

19. NO VARIATION

No alteration or variation of, addition to, consensual cancellation of or waiver of any right arising in terms of these heads (including this clause 19) shall be of any force or effect unless it is reduced to writing and signed by each of the parties.

20. WHOLE AGREEMENT

These heads constitute the whole agreement between the parties in relation to its subject matter and no party shall accordingly be bound by nor has any party relied on any undertaking, representation or warranty (whether written or oral) not expressly recorded herein and signed by each of the parties hereto.

21. EXECUTION

These heads:

21.1 may be executed in separate counterparts, none of which need contain the signatures of all of the parties, each of which shall be deemed to be an original and all of which taken together constitute one agreement;

21.2 shall be valid and binding upon the parties thereto, notwithstanding that one or more of the parties may sign a facsimile copy thereof and whether or not such facsimile copy contains the signature of any other party.

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Dated at CAPE TOWN on this the 24th day of JANUARY 2005.

As witnesses:

1. Price
2. Stephen Claba

for: FIRESTONE DIAMONDS LIMITED

[Signature]
who warrants that he is duly authorised thereto

CAPACITY: DIRECTOR
NAME: PAUL KENNY

Dated at CAPE TOWN on this the 24th day of JANUARY 2005.

As witnesses:

1. Price
2. Stephen Claba

for: FIRESTONE DIAMONDS PLC

[Signature]
who warrants that he is duly authorised thereto

CAPACITY: DIRECTOR
NAME: PAUL KENNY

Dated at LONDON on this the 29th day of JANUARY 2005.

As witnesses:

1. [Signature]
2. [Signature]

for: DAILY CITY VENTURES (PROPRIETARY) LIMITED

[Signature]
who warrants that he is duly authorised thereto

CAPACITY: DIRECTOR
NAME: WILLIAM McRAE CLOUGH

Dated at LA PAZ, BOLIVIA on this the 25th day of JANUARY 2005.

As witnesses:

1. [Signature]
2. [Signature]

for: DAVID O'CONNOR

[Signature]

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Dated at LONDON on this the 29th day of JANUARY 2005.

As witnesses:

1. 105-Cannock
2. [Signature]

for : WILLIAM CLOUGH

[Signature]

[Signature]

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ANNEXURE A
PROSPECTING LICENCE

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Republic of Botswana

PROSPECTING LICENCE

MINING

DALY CITY VENTURES (PTY) LTD.

PROSPECTING LICENCE NO. 4800043

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REPUBLIC OF BOTSWANA

Form II

Prospecting License No. 10/2003

Issued in terms of section 16 of the Mines and Minerals Act.

WHEREAS Daly City Ventures (Pty) Ltd, a company incorporated under the laws of Botswana (hereinafter referred to as "the holder") has made application for the right to prospect for precious stones on land to which the Republic of Botswana holds mineral rights.

AND WHEREAS provision is made under section 14 of the Act for the conferring of such rights by means of a prospecting license:

NOW THEREFORE the Minister hereby grants to the holder the exclusive right to prospect for precious stones in the license area for a period of Three Years (3 Yrs) Years commencing on 21-Jul-2003 and ending on 20-Jan-2006.

1. The license area shall be the area shown on the map annexed hereto in extent of Three hundred and seventy six point five square kilometers (376.5 km²), located in Central Botswana and more fully described in Schedule I hereto, and as reduced from time to time in accordance with the provisions of the Act.

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1. In accordance with section 28 of the Act, the holder shall, conditionally with issuance of this license, and thereafter on each anniversary thereof, pay to the Government at the Office of the Director of Fisheries, an annual charge equal to Five Pula (P500) multiplied by the number of water turbines in the license area subject to a minimum annual charge of One thousand Pula (P1000.00).
2. The holder shall bear the minimum rental expenditures and shall conditionally accept the provisions of prospecting operations set out in Annexure II.

Given under my hand at Gaborone on 14th day of January 2004

[Signature]
 Minister
 Ministry of Minerals, Energy and
 Water Resources

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The license area is Three hundred and seventy six point five square kilometers (376.5 km²) defined by boundary lines, which shall be straight unless otherwise stated, joining successive points at the following coordinates:

Point	Latitude (South)	Longitude (East)
Area 1		
A	-21.17°	25.78°
B	-21.17°	25.82°
C	-21.18°	25.82°
D	-21.18°	25.86°
E	-21.20°	25.86°
F	-21.20°	25.88°
G	-21.23°	25.88°
H	-21.23°	25.87°
I	-21.25°	25.87°
J	-21.25°	25.84°
K	-21.28°	25.84°
L	-21.28°	25.89°
M	-21.30°	25.89°
N	-21.30°	25.93°
O	-21.37°	25.93°
P	-21.37°	25.92°
Q	-21.37°	25.92°
R	-21.33°	25.84°
S	-21.30°	25.83°
T	-21.30°	25.79°
U	-21.28°	25.79°
V	-21.25°	25.78°
W	-21.22°	25.78°
X	-21.22°	25.73°
Y	-21.23°	25.73°
Z	-21.23°	25.78°
AA	-21.22°	25.79°
AB	-21.22°	25.78°

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AREA 2

AC	21.87	25.70
AD	21.87	25.70
AE	21.87	25.70
AF	21.87	25.70
AG	21.87	25.70
AH	21.87	25.70
AI	21.87	25.70
AJ	21.87	25.70

Excluding an area of 2000 sq ft...
Commodity (kg) 21.87 25.70

AREA 3

AP	21.87	25.70
AQ	21.87	25.70
AR	21.87	25.70
AS	21.87	25.70

AREA 4

AT	21.87	25.70
AU	21.87	25.70
AV	21.87	25.70
AW	21.87	25.70

Total Area 274.5 km²

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ANNEXURE II

Programme of Prospecting Operations

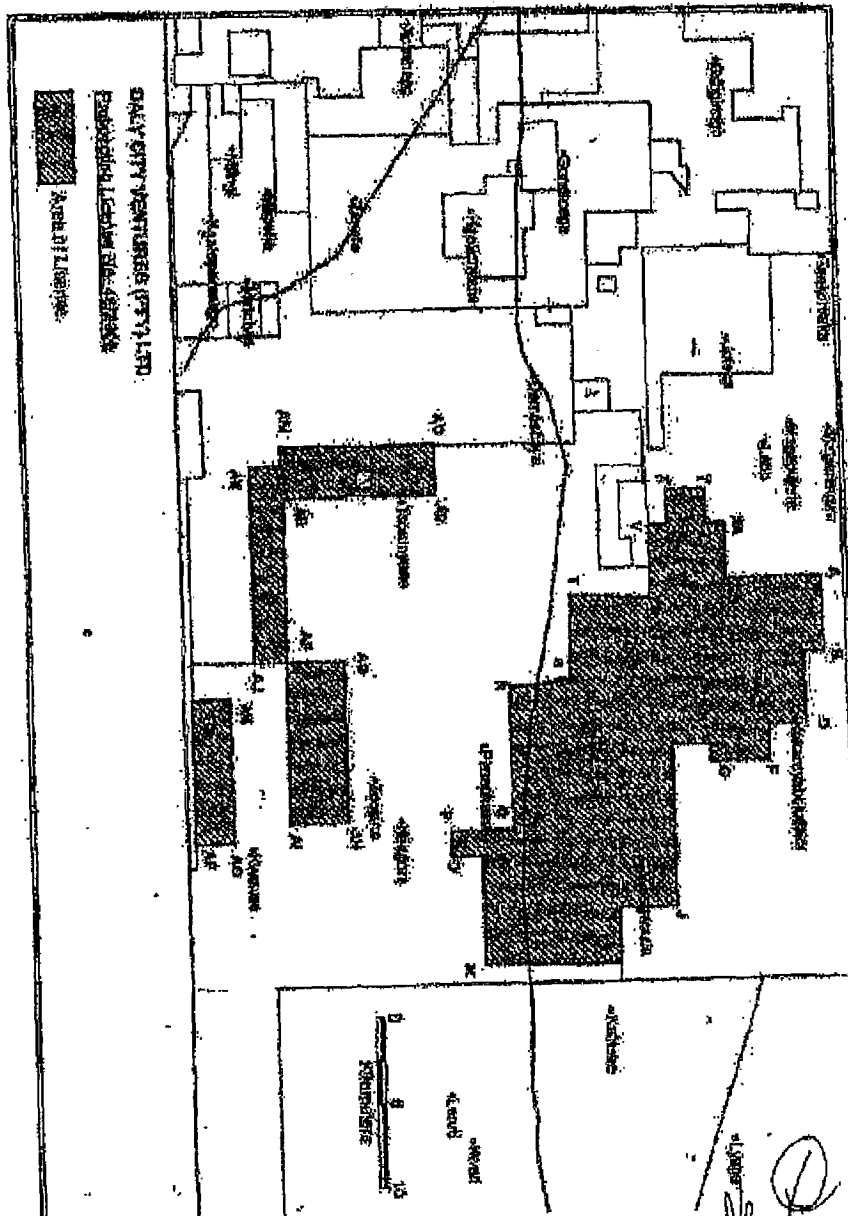
Programme of prospecting operations	Proposed minimum expenditure
<p>Year 1</p> <ol style="list-style-type: none"> 1. Review and interpretation of new epoch file high resolution aeromagnetic data. 2. Review of past exploration by De Beers and others. In particular review of work completed by Afrimex. 3. Follow up target identification and field confirmation with ground geophysics and soil sampling. 	<p>Fifty thousand Rands (P50 000,00)</p>
<p>Year 2</p> <ol style="list-style-type: none"> 1. Drill testing of identified targets. Field identification of intercast kimberlite. 2. Mineral chemical analysis of any kimberlite witness minerals (Zn) and prioritization of further target follow up work. 	<p>One hundred thousand Rands (P100 000,00)</p>
<p>Year 3</p> <ol style="list-style-type: none"> 1. Continuation of target identification, field confirmation and drill testing as warranted by Year 1 and Year 2 results. 2. Further drilling or pitting of any kimberlite discovered to outline the pipes and recover core/bulk sample of kimberlite. 3. Laboratory testing of any kimberlite recovered to establish micro-diamond grade. 	<p>One hundred and fifty thousand Rands (P150 000,00)</p>

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**ANNEXURE B
WORK PROGRAMES**

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Proposed Work Programmes**Project Area**

Area in the Central District of Botswana covered by PL 40/2003

Stage 1*Work programme details*

The project area will be investigated in detail using data from a combination of high-resolution geophysical surveys. This will be primarily from high-resolution airborne magnetic at 100 meter line spacing. Data for at least 50% of the Project Area must have been acquired by no later than 12 months after the Signature Date, and data for the rest of the Project Area must have been acquired by no later than 24 months after the Signature Date. It is likely that we will use large scale ground gravity surveys in magnetically noisy areas.

Follow-up surveys on selected targets identified by the airborne data will be conducted as necessary using ground gravity, ground magnetic and other ground geophysical techniques. This will include large scale ground surveys to confirm selected airborne magnetic targets, as well as to improve the data resolution for selected high-interest areas identified by the geological and structural interpretation of the airborne data. The ground survey line spacing would typically range from 25 to 100 metres and station spacing would be either continuous or from 20 to 50 metres. Using this approach, each target and the area surrounding it can be investigated in detail to obtain an accurate interpretation of structure, geology and geomorphology.

If necessary, soil/stream samples may also be collected to assist in prioritising targets prior to drilling. Samples would be screened, concentrated and submitted for visual analysis and picking to identify kimberlitic indicator minerals. Selected kimberlitic indicator minerals would be submitted for mineral chemistry evaluation.

All targets that are selected as top priority will be drilled during Stage 1. Rotary, percussion or other drilling techniques will be used to determine the source of the geophysical anomalies identified. In the event that a kimberlite is discovered, drill chips and/or core samples will be collected and submitted for analysis to allow an initial assessment of the economic potential of the kimberlite. This analysis would include a number of techniques, including mineral-chemistry, petrography and micro-diamond studies.

Stage 2*Work programme details*

Bulk sampling will be carried out on kimberlites of potential economic interest via large diameter drilling, or trenching, to sample the deposit and recover approximately 100 tonnes of material. This material will be prepared on site for transport to a DMS plant for concentration and recovery of macro diamonds.

Based on the results of the bulk sampling results, delineation drilling may be carried out to estimate the size of the kimberlite and to gain an understanding of its geometry.

Stage 3*Work programme details*

A pre-feasibility study means the preliminary techno-economic viability study on a potential diamond mining project carried out for the purpose of assessing, within a 40% margin of accuracy, the technical and economic viability of exploiting the relevant deposit. This will involve a range of different activities, including drilling, bulk sampling, diamond value estimation and limited test work and engineering design.

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Stage 4

Work programme details

A bankable feasibility study means a techno-economic feasibility study on a potential diamond mining project that is carried out in accordance with international standards of best practice, that is made within a margin of accuracy sufficient to justify the financing by an informed lender of the costs of constructing and commissioning the relevant mine.

Stage 5

On completion of a positive bankable feasibility study Firestone and Dely City shall contribute to mine development costs on a pro-rata basis.

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