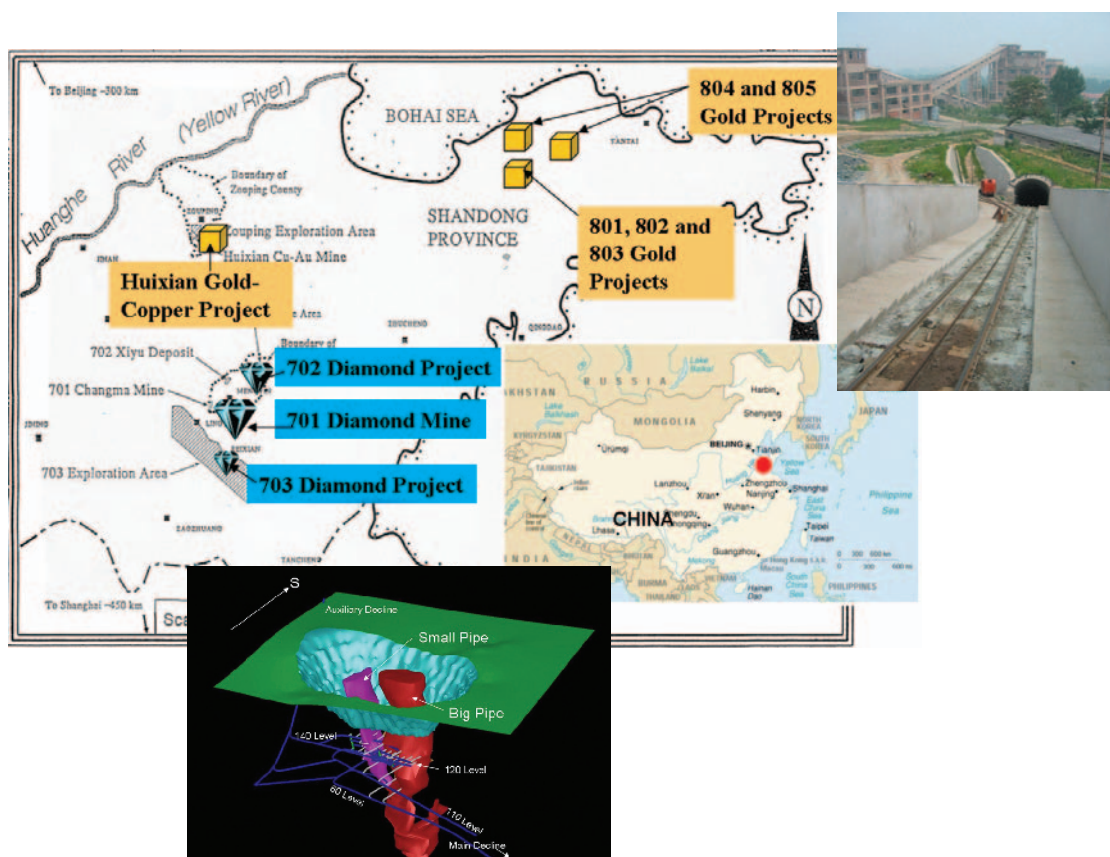


14 October 2005

Price: C\$0.075
Mining Sector

China Diamond Corp (CDC)



New management at China Diamond offers the commitment and technical expertise to modernise and develop its interest in the only producing Chinese diamond mine while its developing gold interests provide opportunity for organic and possibly corporate interest.

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We certify that this report represents our own opinions

Andy Hartwill
Head of Research
0870 080 2965
andy@objectivecapital.co.uk

Sam Kiri, CFA
Senior Analyst
0871 218 0831
sam@objectivecapital.co.uk

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The new management at China Diamond Corp. (CDC) opens a new chapter of opportunity for growth investors. It combines professional and technical expertise with a commitment to modernise and develop existing and new properties. Global demand for diamonds is expected to remain strong while CDC's gold interests provide both organic and possibly corporate interest. Management is aware of attendant project, political and structural risks but attacks its two principal markets from an unusually low cost base.

KEY POINTS

- ***New management rings the changes***

The new management of CDC marks a significant break with the past. In our opinion it provides hope for shareholders after prolonged periods of disappointment and management change at the former Pan Asia Mining Corp.

Current management appears to be committed to transparency of process and to action against its promises. It includes significant expertise in the underlying science and technology of mining.

- ***New technology should improve diamond yield and quality***

CDC "inherited" a legacy of antiquated Russian technology. New management has proposed a capital expenditure of US\$2.9m to update the mining plant and equipment. We expect margins to expand as the new technology improves mining efficiency and thus the yield and quality of mined diamonds. Increased quality should in turn lead to higher achieved prices per carat given the typical exponential scaling of price with size.

- ***New mines promise a bright future not only in diamonds***

CDC's existing, producing, diamond mine is one of six mining/ exploration properties that it owns in China. The portfolio comprises both diamond and gold prospects. Initial indications from independent technical reports are encouraging for both. Whilst we believe that CDC is committed to the full development of its diamond and gold properties, alternative scenarios including spinning-off its gold properties could generate more immediate gains.

- ***New relationships offer to maintain pipeline of new properties***

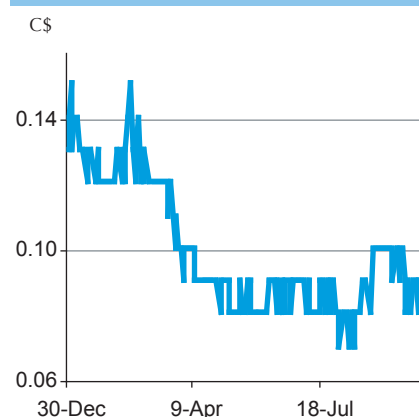
All of CDC's existing properties are located in Shandong Province, not far from Beijing. The province is attracting increasing interest from international mining concerns as the Chinese government seeks to further develop this asset-rich region. Given the nature of business in China, we believe that CDC's existing and developed network of local contacts puts it in a strong position to win new licenses and favourable fiscal incentives.

- ***Low costs enhance margins today and provide comfort tomorrow***

Chinese wage costs are notoriously among the lowest in the world and the same applies to China's mining industry. In Shandong Province average monthly wages are lower again at around US\$150 compared to US\$250 for the rest of the Chinese mining sector – and almost US\$5,000 in Canada. Even as Chinese costs rise in the future, as we believe inevitably that they will, the low starting point provides significant room for comfort including against the possibility of a "de-cartelled" global diamond price.

Key Points

Price chart - CDC.V



Our valuation

Entity Value:	C\$28.4m
Value per share (C\$)	12 cps

Company details

Quote	TSX Venture Exchange
Ticker	CDC.V
Hi-Lo last 12 mos. (C\$)	0.19 – 0.07
Shares issued (m)	224
Fully diluted (m)	302
Management ownership (%)	17
Market cap. (C\$m)	16.8

Company website:

www.ChinaDiamondCorp.com

Company Contact: Mike Michaud

Advisor:

IBK Capital www.IBKCapital.com

Analysts:

Andy Hartwill

Head of Research

andy@objectivecapital.co.uk

Sam Kiri, CFA

Company Analysis

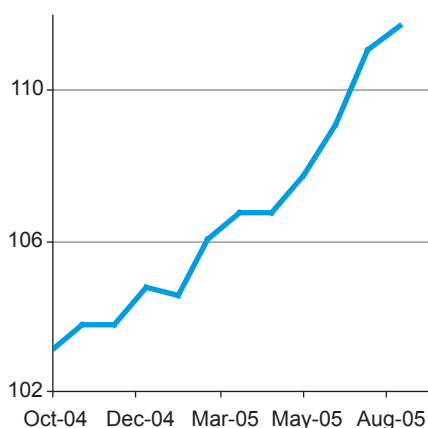
sam@objectivecapital.co.uk

Overview

CDC is the only diamond company in China with a producing mine

CDC is a Canadian junior mining company (TSX-V:CDC) with its operations based in China. CDC's main business is diamond mining and it has a 50% interest in the only producing diamond mine in China. In addition it has interests in five other joint venture in the Shandong Province: two diamond and three gold at different stages of development.

Index of Rough Diamond Prices



Source: International Diamond Exchange

New management promises new investment opportunities for investors

CDC's new management team brings a combination of professional and technical expertise to what was formerly known as the Pan Asia Mining Corp. We believe that the issues associated with the past management have been resolved and that today CDC may be viewed more confidently as a play on the expected growth in global diamond demand. Its gold interests provide opportunities both for organic growth and for possible capital gains should CDC decide to spin out its interests.

Growth in luxury goods, especially in China, supports diamond prices

Demand for both diamonds and gold is primarily a function of global demand. But China's own luxury goods market is developing as domestic demand increases, including for jewellery. CDC is well placed to supply both global and local demand elements.

Immediate prospects driven by diamond production at mine 701

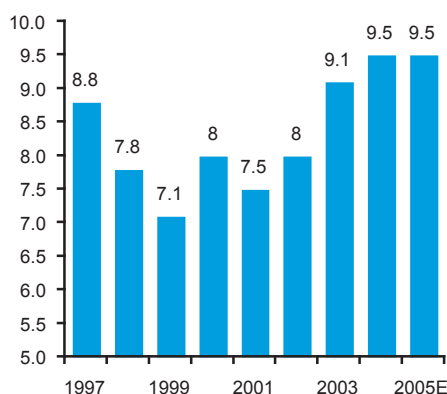
Mine 701 is the only diamond producing mine in China. It is an open pit mine, located in the Shandong Province and has been in operation for 35 years. The mine is 50% owned by CDC under whose ownership 2004 diamond output rose 46% to approximately 74,000 carats. Latest resource estimates for 701 are 1.2m contained carats "indicated" and a further almost 1m "inferred". The company estimates its cost of production at US\$9.6 per carat and an achievable price of US\$50.

Other properties to add more diamonds and introduce gold to the business mix

CDC has interests in two more principal properties: the 702 diamond project and the Huixian gold property. The 702 Project is also located in the Shandong Province. Initial exploration results suggest the potential for larger, higher grade diamonds than at 701. Paterson, Grant and Wilson (PGW) estimates that the property may host over 500,000 carats "indicated" and over 3 million carats are "inferred". Our estimates assume that 702 begins contributing revenue in 2007.

Perhaps the most intriguing property for investors is the Huixian gold property. It admits the possibility of both an organic or corporate future for CDC in gold. Huixian also is located in Shandong and is host to the former Huixian gold-copper mine, mothballed in 1997. Over the preceding 5 years it produced over 6,500 oz of gold and CDC believes that it has identified four new, previously unexploited, mineralized zones. Rising gold prices this decade have improved the economics of gold recovery, making more attractive the historic estimates of some 500,000 oz of

China GDP Growth (%)



Source: National Bureau of Statistics - China, Bloomberg

inferred gold resources.¹ If historic estimates are substantiated by modern measurements, Huixian could be worth between C\$4-10m at the mine's previous production levels.

Our valuation recognises several risk factors as well as opportunities

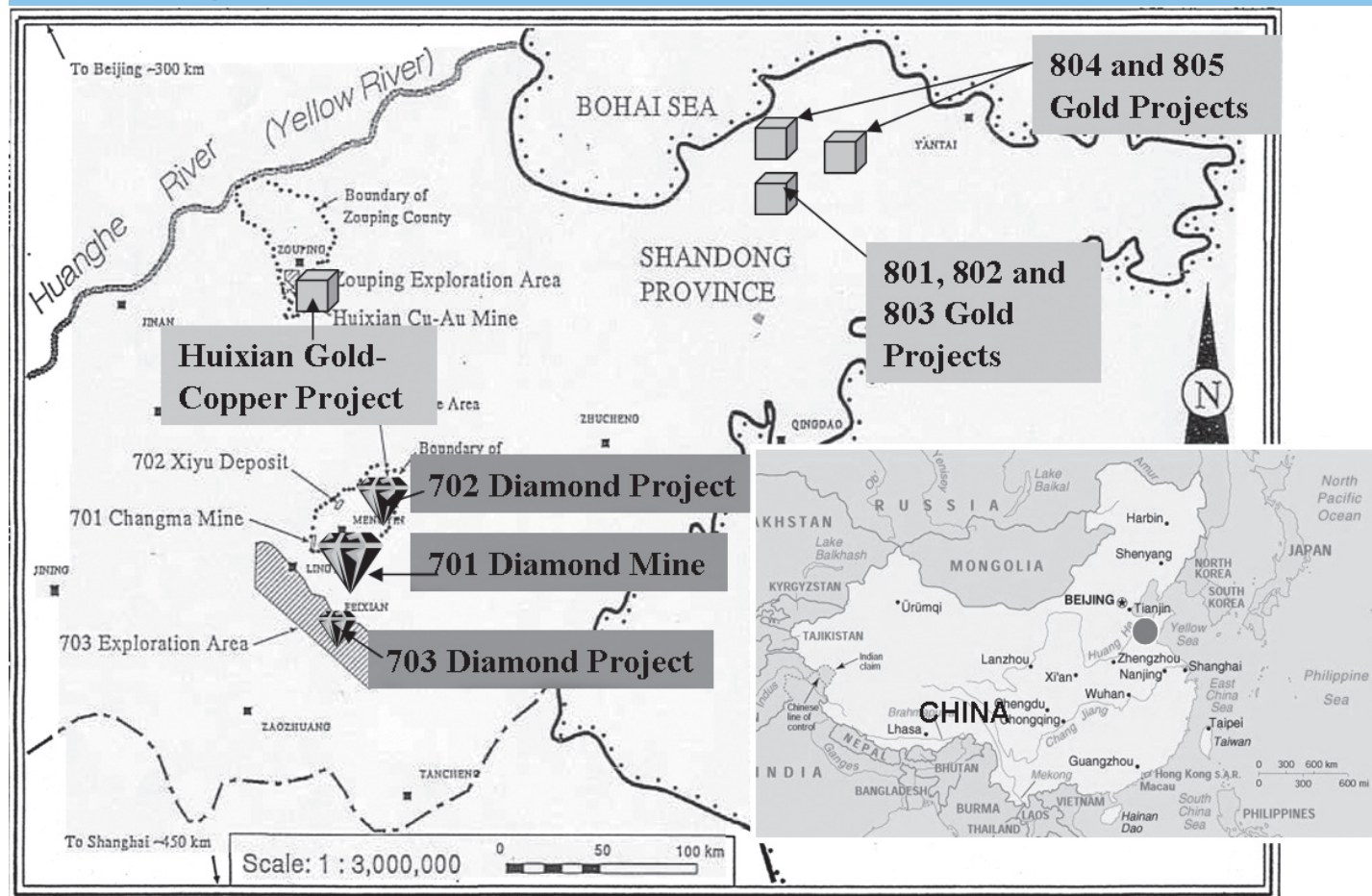
Evidently any exposure to high growth from a low cost-base comes with attendant risks. As a large and fast-growing economy China faces potential political and economic challenges. Elsewhere are the continuing threats of structural change in the global diamond industry.

In addition we recognise what may be regarded as “normal” project risks including the success of the mining program, especially to enhance yield and grade at 701; the risk of rising labor costs, albeit from a low base; the risk of equity dilution with CDC's expansion. As at 30 June, CDC required US\$10.4m to complete the acquisition terms of its JV agreements.

Our base case assumes the benign and successful development of mines 701 and 702; no dislocation to the existing structure of the global diamond market; the continued development of the Chinese economy and of investor-friendly political initiatives.

¹ Historic estimates, while conforming to standards at the time, do not meet the current NI 43-101 standards.

Location of CDC projects



Valuation

China Diamond operates in an environment of some uncertainty. They are exposed to both commodity prices and the political and economic risks of a transitioning economy.

For investors, the key points of concern are:

- **Political & economic risk:** while China offers enormous opportunities risk factors include weak financial and legal systems, perceptions over human rights and the potential for currency revaluation. In the long run, wide social inequalities and the mis-match of growing personal wealth and limited “political” freedom is an unpredictable brew. At least in the next decade, external measures such as bond yields suggest a so far benign interpretation of these issues, particularly since accession to the WTO;
- **The potential for structural changes in the global diamond industry:** the global supply and production of diamonds has historically been heavily influenced by a small cartel. Further instability or structural change is a possibility;
- **And legacy issues:** CDC’s previous incarnations have had a history of disappointing partners and shareholders. While it has resolved the underlying issues and developed a strong operational management it is not clear to what degree this will limit further opportunities in the “delicate” Chinese business environment.

Our base case assumes:

- Further operational improvements in the 701 mine and the successful establishment of the 702 mine;
- A continuation of the current structure of the global diamond market;
- The continued development of the Chinese economy.

Given the limited information, we ascribe only limited value to CDC’s gold and other diamond prospects at this stage. Similarly, while CDC will undoubtedly be able to identify further opportunities as development of China’s mining resources progresses, CDC has yet to establish a track record in exploiting these opportunities.

Valuation Summary – China Diamond Corp

	C\$m
701 diamond mine	13.1
702 diamond mine	19.3
less: overhead & capex	12.8
Total Expected Operating Value	19.6
Add: Other mining prospects	4.3
Add: Benefit of tax losses	3.2
Add: Cash	1.3
Total enterprise value	28.4
Less: Bank & Other Debt	0.1
Total Value for Equity Claims	28.3
Less: Warrants + Options	1.5
Value Attributable to Equity Holders	26.8
Outstanding Shares (m)	224.0
Value per share (cents)	12.0

- other mining prospects include 703 (diamonds), Huixian (gold-copper), Dacheng and SPEI prospect.

Value of 701 mine

	C\$m	Assumptions
Net value of mine*	13.1	Avg sale price (US\$/ct) 35
- per indicated carat (C\$/ct)	11	Indicated res. (m ct) 1.23
		Recovery rate 90%

* before corporate overhead

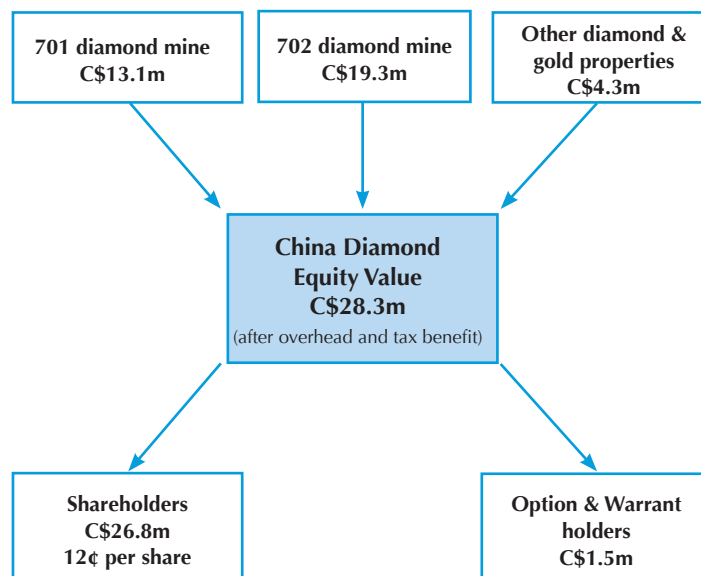
Sensitivity of 701 valuation to average diamond prices

Avg US\$/ct	30	35	40	45	50
Value (C\$m)	10.8	13.1	15.5	17.8	20.1

Sensitivity to Sovereign Risk Assumption

Sovereign risk premium	Entity Valuation (C\$m)	Value per share (C\$ cps)
1.60%	31.0	13.0
2.10%	30.1	12.6
2.60%	29.2	12.3
3.10%	28.4	12.0
3.60%	27.6	11.6
4.10%	26.8	11.3

Components of China Diamond Corp equity value



Value of 702 mine

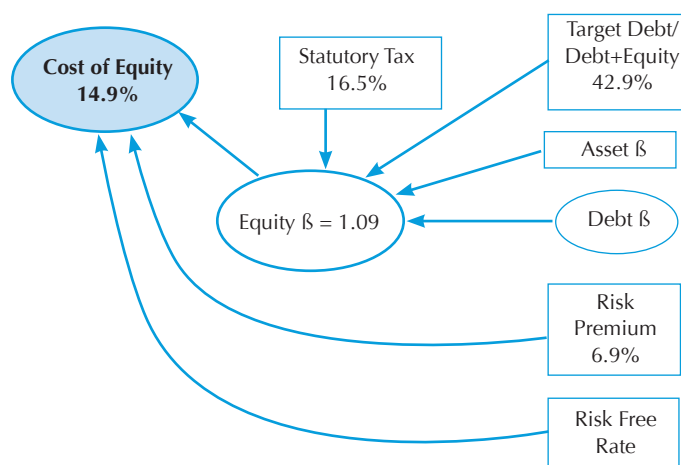
	C\$m	Assumptions
Net value of mine*	19.3	Avg sale price (US\$/ct) 111
- per indicated & measured ct (C\$/ct)	36	Measured & Indicated res. (m ct) 0.53
		Recovery rate 90%

* before corporate overhead

Sensitivity of 702 valuation to average diamond prices

Avg US\$/ct	106	111	116	121	126
Value (C\$m)	18.2	19.3	20.3	21.3	22.3

Weighted Cost of Capital



WACC = 13.3

Note: a sovereign risk premium of 3.1% has been assumed from long run bond yields

Key Risks

Project Risks:

Future profitability entirely depends on the mining success: The future profitability and valuation largely depend on the success of its upcoming mines. Should CDC's new mines (702 mine in particular) prove to be failures with no potential to host economical mines, the company valuation would fall considerably. While mine 702 technical reports have confirmed kimberlite, mine 703 is yet to prove its potential.

Grade of diamonds mined: The 701 mine currently produces more industrial grade diamonds, and the relative poor quality is attributed to the use of antiquated Russian technology CDC inherited. Plans are underway to acquire new technology to be employed in all CDC mines, in an attempt to improve the quality of diamonds mined (even from 701). Should the expected quality improvement fail to materialize CDC's margins will suffer.

Higher labor costs: Currently Chinese mine wages rank as one of the lowest in the world (US\$250 per month). Labor cost is even lower in the Shandong Province where CDC's mines are located (US\$150 per month). There is a risk of increasing labor costs as more mining companies setup operations in the Shandong Province.

Technological problems: Initial teething problems with the implementation of new technology could also affect CDC's margins. While these may indeed be short-lived, it may affect the initial profitability as well as the cash flow. We have factored such margin erosion in our forecast.

Future production disruptions: In addition to technological problems, production disruptions could occur due to accidents. China is notorious for its mining accidents.

Equity dilution: CDC needs funds for future expansion, and we expect more equity financing. The probability of new equity is higher when CDC commences commercial production at 702 and the Huixian Gold-Copper mine. Although exploration success may support future funding, there is no guarantee that it can be secured on attractive terms.

Political risk

Government ownership: CDC mines are partially owned by the Chinese government. While the ownership structure is expected to change, it is likely that the government will continue to hold significant equity stakes in CDC's joint venture partners.

Additional licenses by the government: CDC enjoys a competitive advantage due to its already strong presence in China and established contacts. However, it is reasonable to expect more licenses to be offered to other mining companies. While the local market can accommodate more diamond output, new mines may lead to higher labor costs.

Additional risks

Break-up of the De Beers cartel could lead to weaker diamond prices

In an environment which promotes free trade, the diamond industry emerges as an anomaly. For generations, the industry has been run as a cartel by De Beers, which brings all its rough diamonds to a clearing house in London where they are sorted into different grades and valued in a less than transparent manner. For decades, diamonds on the sell side were bought by De Beers and a massive stock-pile in their hands enabled them to maintain the price.

Winds are certainly changing now. In July 2004, in a courtroom in Oslo, De Beers pleaded guilty to charges of price fixing and agreed to pay a fine. However, the cartel and De Beers' practice of buying diamonds from suppliers and selling them to invited clients known as sight holders have continued unabated. Its strong and well-established contacts with the governments of diamond producing countries such as South Africa, Botswana, Tanzania and Namibia, which benefit from stable revenues to government coffers through the diamond trade has certainly helped. While this would enable De Beers to prolong its hold on the diamond industry, the possibility of the De Beers' Cartel becoming ineffective remains a risk.

Concerted attempts by De Beers are underway to continue its influence over the industry and it is unlikely that the world diamond market will be free of the cartel in the near future. However, in the event De Beers' cartel falters, world diamond prices including those in China are likely to fall. This could lead to lower margins, thus impairing CDC's profitability.

Pressure on industrial diamond prices from artificial diamonds

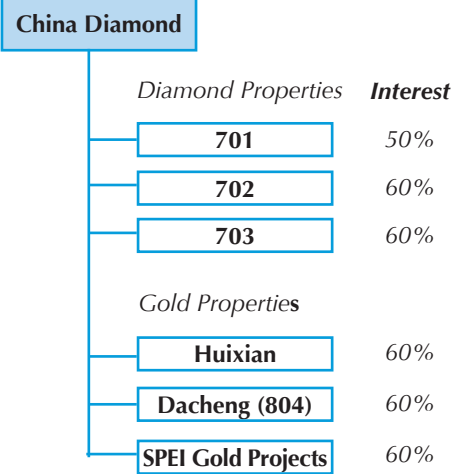
While CDC's focus remains jewellery grade diamonds, the presence of artificial diamonds may continue to have an indirect influence on its operations. A large portion of diamonds from CDC's 701 mine are currently at industrial grade. While its grades are expected to improve with the impending new technology, it is exposed to the industrial diamonds market, which competes with artificial diamonds.

Gold exploration

CDC's main focus and its current competitive advantage in China is diamond exploration. However, the Company has shown an increasing exposure to gold exploration with its new licences. Unlike diamond exploration, gold exploration in China involves over 100 exploration companies including big names. This alters the competitive landscape of CDC's overall operation. The Company would face competition both in obtaining factors of production for its operations as well as government approvals, permits etc on a continued basis, leading to high operating expenses.

China Diamond Corp.

CDC assets



Mine 701 projections

	Tonnes ('000)	Grade (Ct/t)	Carats ('000)
Indicated resources	1,340.6	0.92	1,233.4
With 20% dilution	1,608.7	0.77	1,238.7
With 85% recovery	1,367.4	0.77	1,052.9
Total Production			1,052.9
Estimated Capex (US\$m)			2.9

Source: China Diamond Corp., SRK Consulting

Mine 702 projections

	Tonnes ('000)	Grade (Ct/t)	Carats ('000)
Measured	5,021.0	0.05	251.1
Indicated	4,645.0	0.061	283.3
Inferred	27,664.0	0.121	3,347.3

Source: China Diamond Corp., SRK Consulting

China Diamond Corp. (CDC) is a Canadian junior mining company with operations in China. While its main focus is diamond exploration and mining, CDC has additional gold and copper prospects as well. CDC owns a 50% interest in the only producing diamond mine in China.

CDC plans to develop its existing diamond (702 & 703 mines) and gold prospects (Huixian, SPEI & Dacheng) and replace the technology in its producing mine (701 mine) in an attempt to improve productivity. Mine 701 is currently using outdated Russian technology it inherited, leading to lower diamond recovery.

Mine 701 expected to yield a further 1.05m carats

Mine 701 has produced over 1.5 million carats since 1970. Following its planned capital expenditure program, CDC expects mine 701 to yield a further 1.05 million carats over the next eight years. The new technology is expected to be in place by 2006 and is expected to improve the grade considerably.

Independent technical reports confirm 702's mine potential

Meanwhile, independent technical reports have already confirmed the existence of kimberlite to operate an economic producing mine at 702 as well. This site is characterized by low grade but large diamonds. Mini bulk samples collected in June 2005 recovered 74 stones. The company Inferred resources at 702 of 3.35 million carats.

Initial results are promising for 703

It is premature at this stage to conclude the extent of resources at mine 703. Initial explorations are underway at 703 and have so far yielded encouraging results, sufficient to conclude the potential for an economic mine. During initial sampling CDC recovered 6 diamonds, 1,191 chromite grains, 2 chrome diopside grains and 2 pyrope garnet grains. Its core drilling program is currently underway.

CDC has promising gold prospects

CDC currently has one gold-copper and two gold properties. Its Huixian property is host to a high grade gold and copper mineralization. This site had an operating gold mine that was moth balled in 1997. Backed by technical reports, CDC is planning to develop Huixian's unexplored potential. Historic estimates of the Inferred Mineral Resources of Huixian are in the order of 500,000 oz of gold (these estimates do not conform to N1 43-101 standards).

CDC's Dacheng and SPEI gold properties are located within the highly prolific Zhao-Ye gold producing region in the Western Jiadong Peninsula. This region currently produces 30% of China's gold. The geology and mineralization discovered so far is similar to those of the recently discovered Xiadian gold mine located only 5 km away from Dacheng where over 6 tonnes of gold has been identified. There is another gold mine (Yin Gue Shan) just 2 km North where underground exploration is currently underway.

Positive steps taken to chauffer CDC

A management dispute with one of its former directors adversely affected the CDC stock, as the market viewed its operations as well as company prospects with suspicion. Consequently, the stock has received little investor attention over the last two years. Legal proceedings that ensued helped resolved the conflict.

Operations have taken a dramatic turn since then and a number of positive steps have been implemented:

- The Company has renegotiated its interest in the 703 property with its Chinese joint venture partner (Shandong LinYi Geology and Mineral Resources Development Company). Under the amended agreement, CDC will have a 60% equity interest in the 703 Joint Venture, upon the completion of a staggered capital contribution of US\$1.27 million.
- The management also renegotiated the joint venture agreement with Huixian Copper & Metal Mine. Following the amended agreement, CDC now has 60% interest in the Huixian property. Huixian is a gold copper prospect.
- Following the changes to the management and the board of directors, the Company name was changed to China Diamond Corp in December 2003. Prior to that CDC was known as Pan Asia Mining. Several changes to the senior management have taken place since then and CDC has recently added many professionals with extensive mining background to its fold.

More transparent operations with regular updates to shareholders

CDC has become more transparent in its operations and the market has been regularly updated with its developments. In 2003, CDC commissioned three independent technical evaluations on its 701, 702, and 703 properties to ensure their viability as well as to facilitate more effective drilling. In 2005, CDC commissioned four independent technical reports, primarily on its gold properties.

CDC has also taken several initiatives to improve corporate governance. The company has made necessary changes to its Audit Committee to consist entirely of independent directors. This is expected to further improve transparency.

Operational and management team strengthened

Amongst the management changes, the appointment of Mr. Michael Michaud (President), Mr. Ben Au (CFO), Mr. A. Bradfield (COO), Mr. Lee Barker (Director) and Mr. Sylvio Cohen y Escaloni (Director) stand prominent. All new appointments bring special skill sets to the Company and are expected to help steer CDC in the right direction.

701 Decline



701 Open pit

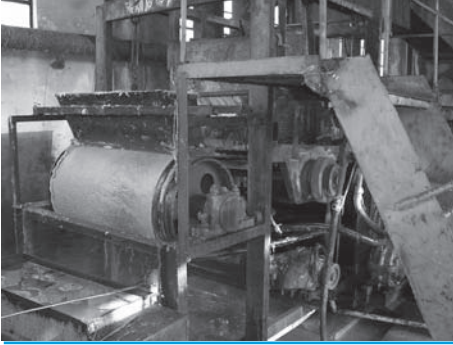


Antiquated Russian technology to be replaced...

Drill



Grease table



An ambitious expansion program underway

In view of impending expansion plans, CDC raised funds during 2004 through several private placements. CDC raised C\$259,000 in May, C\$1.3m in October, C\$1.5m in November, C\$715,000 in December 2004 and a further C\$2.5m in April 2005. Funds raised are expected to be used to develop its existing assets, acquisition of new technology and to finance additional property acquisitions in China.

The management has also been able to develop a strong working relationship with Chinese authorities, which should prove to be particularly important. The Company has been able to obtain necessary approvals both to continue its drilling program as well as the acquisition of new licences.

Global diamond production, '000 carats

	1999	2000	2001	2002	2003	2004
China	113	160	150	150	150	185
Namibia	1,611	1,542	1,487	1,537	1,455	1,900
Angola	3,625	1,014	5,100	5,700	6,300	6,200
Canada	2,510	2,534	3,685	4,975	11,200	12,800
South Africa	9,733	10,790	11,163	10,883	12,673	14,400
Australia	29,784	26,647	26,176	33,648	31,013	21,100
D.R. Congo	22,000	16,500	19,637	21,985	29,000	27,000
Botswana	21,348	24,635	26,190	28,369	30,412	31,124
Russia	16,200	20,500	20,500	20,000	24,000	32,000
Total	106,811	104,162	113,938	127,097	146,053	146,524

Source: Minerals Bureau of South Africa's Department of Minerals & Energy, British Geological Survey

Diamond deposits in non-traditional regions remain under explored

Most of the known diamond reserves are located in Western Australia and Southern Africa. While available information on reserves in other non-traditional regions, such as the former Soviet Union and China, remains inconclusive at this stage, industry experts believe that these regions do host significant diamond reserves. Leading diamond-producing countries are Russia (22%), Botswana (21%), the Congo (18%), Australia (14%) and South Africa (10%).

Two types of diamond deposits

There are two types of diamond deposits, namely primary and secondary or alluvial deposits. The most common are primary deposits, which usually occur near a volcanic pathway connecting the Earth's mantle to its surface. The diamond-bearing soil surrounding the volcanic pipes come in two types, called kimberlite and lamproite. The most common and productive type of primary deposit diamond mining (kimberlite) is pipe mining, which is an open pit mine. Alluvial mining is not common and mines are less productive.

Chinese resources industry

The sector warrants more attention...

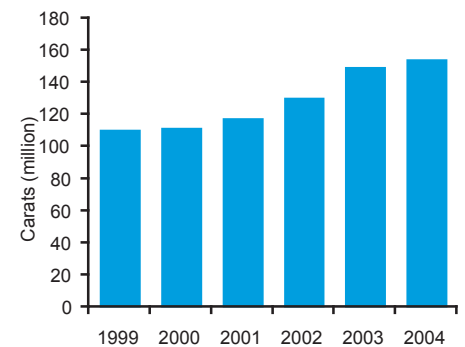
China's proven resources are estimated to be 12% of global resources by volume and ranks third in the world. Currently, the Chinese mining industry employs over 20 million workers and has more than 110,000 mines of different varieties. The total value of China's mining industry is estimated to be over US\$70 billion.

Low cost base due to low wages for Chinese mine workers

The average monthly wage of a Chinese mining worker is US\$250 compared to US\$4,200 for his Australian counterpart. Their wages are lower than other mining nations such as South Africa (US\$400) and Botswana (US\$370) as well. Despite dangerous working conditions (highest incident of mining accidents in the world), monthly wages earned by Chinese mining workers remain one of the lowest in the world.

Diamond Mining Industry

World diamond production



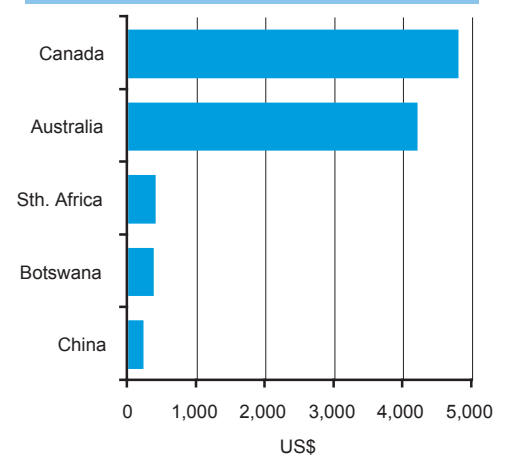
Source: British Geological Survey, Mines Bureau of SA

China's share of world mineral prod.

Metals	% share
Aluminum	18%
Antimony	89%
Copper	12%
Gold	8%
Lead	18%
Magnesium	45%
Molybdenum	24%
Silver	12%
Steel, crude	23%
Tin	32%
Tungsten	83%
Zinc	22%

Source: US Geological Survey

Monthly wages of mining workers



Source: Natural Resources Canada, Australian Bureau of Statistics, Various Govt. Websites

Chinese diamond mining industry

... and the diamond industry is no exception

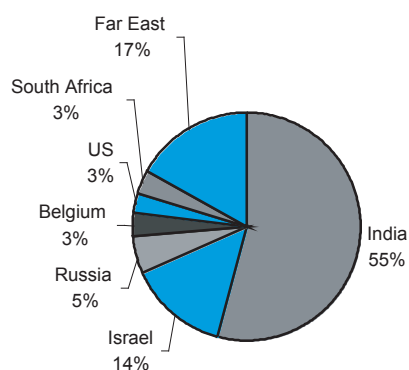
While Australia and Southern Africa have continued to maintain their traditional supremacy in diamond mining, the Chinese diamond industry has made considerable progress in diamond processing, and jewelry manufacturing over the last five years. Currently China employs over 22,000 workers in its diamond processing factories. According to the China Diamond Manufacturers' Association, China exported some US\$1.1 billion worth of finished diamonds in 2004, compared to US\$750 million in 2003. This represents 6% of the value added by the world's US\$6.4 billion diamond polishing industry. The association expects processed diamond exports from China to maintain an annual growth of 20% over the next five years.

The industry receives several government incentives

Having realized the industry potential, the Chinese Government has taken several positive steps to develop its diamond industries with the following concessions made to the diamond industry:

- Diamonds (including rough diamonds) entering the Shanghai Diamond Exchange (SDE) directly from overseas are exempted from import duty, value added tax and consumption tax
- Diamonds traded in the SDE are also exempted from value added tax
- Diamonds entering the SDE from the domestic market are provided with a tax refund
- Subject to the approval of the foreign exchange administration, members of the SDE are allowed to open a foreign exchange account for the exclusive use of diamond transportation

Share of polished output by center



Source: ITI Canada, World Diamond Council

China is the world's second largest processing center

Chinese diamond companies, both processing (dominant at this stage) and mining (such as CDC) benefit from these measures. Such benefits are already apparent in the diamond-processing sector. China currently has the second largest cutting and polishing industry in the world, second only to the long established Indian industry. Following the establishment of the Shanghai Diamond Exchange, Shanghai is only the fourth city in the diamond world, which has both an exchange and a manufacturing base. The country currently processes over three million carats of diamonds a year. Not surprisingly, trading on the bourse has grown by over 30% since its inception in 2000.

China's emergence as a polishing and processing center has caused much concern to the current industry leader, India. More than the market share, it is the pace at which the Chinese polishing industry has grown that has caused concern. The Chinese labor force is more organized and the industry is more automated compared to India. In addition, China has a better infrastructure compared to the Indian diamond polishing industry.

Ability to process smaller diamonds has helped the industry development

China has been able to attract more diamond processing contracts both due to generous government concessions (tax exemptions etc) as well as the availability of skilled labor at a considerably lower cost. In addition, China and India focus on polishing less than one-carat stones, which is not undertaken by well-established centers in Antwerp, etc. Chinese labor cost in the diamond cutting and polishing industry is well below most of the other cutting centers except for India.

Labor cost difference with India is fast narrowing

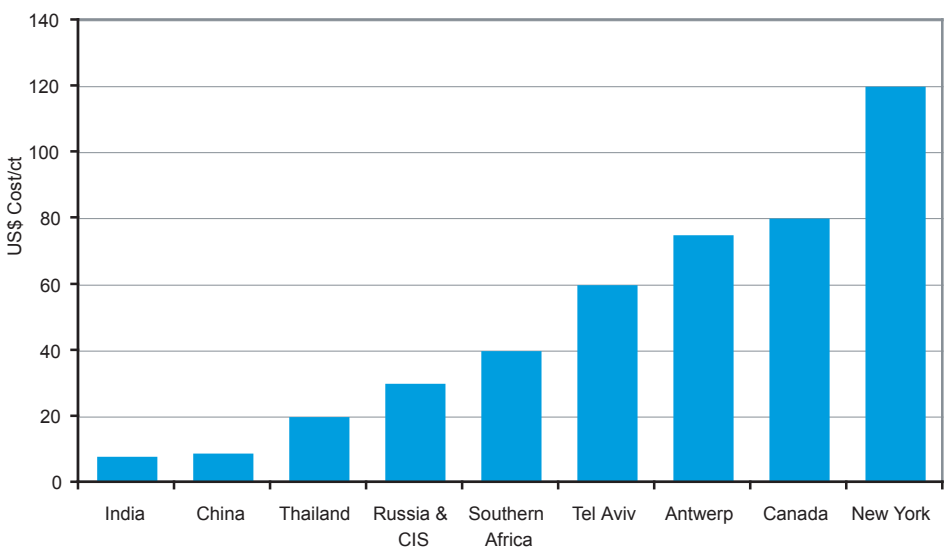
The current difference between Chinese and Indian diamond cutting and polishing workers is just over US\$1 per carat. This can be attributable to the considerably larger labor force in the Indian diamond processing industry (over 900,000 compared to an estimated 25,000 in China). The cost gap is fast narrowing and it is likely that China would be able to attract more outsourcing business from other countries. For instance, discussions are underway between Chinese processing facilities and Israeli diamond companies to set up processing facilities in China.

The end user market growth has continued unabated

Meanwhile, the end user market for processed diamonds remains positive. North America has traditionally been the main market for processed diamonds accounting for approximately 50% of the world retail sales. Asia Pacific and Asia/Arabia (12% each) follow at some distance.

Despite its short history in diamond cutting and polishing, China has been able to gain some foothold in the US jewelry market. The US diamond jewelry imports from China reached US\$912 million in 2004 and are expected to grow 20% in 2005. The expected world demand growth for diamond jewelry in 2005 is approximately 9% according to De Beers' estimates.

Diamond industry processing costs



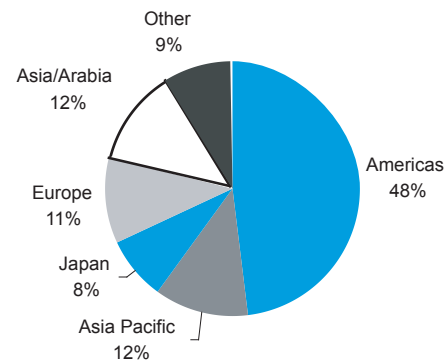
Source: Indian & Northern Affairs Canada, Jewellery Association of China

Processing cost comparisons

US	US\$80/ct for +3 ct roughs
Belgium	US\$25 - US\$40/ct for 0.5 - 1.0 ct roughs
Israel	US\$18 - US\$30/ct for 0.2 - 1.0 ct roughs
China	US\$12 - US\$15/ct for 0.1 - 1.0 ct roughs
India	US\$10 - US\$12/ct for 0.1 - 1.0 ct roughs

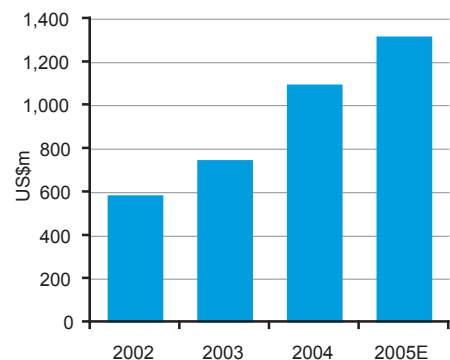
Source: Source: Mineral affairs directorate - Canada, De Beers, Jewellery Association of China

World retail sales by region



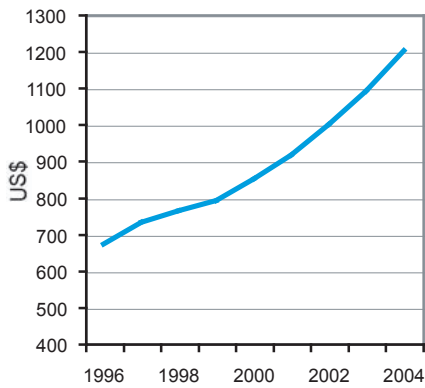
Source: ITI Canada, World Diamond Council

China diamond jewelry exports



Source: Shanghai Diamond Exchange, Jewellery Association of Canada

Growing per capita GDP in China



Source: National Bureau of Statistics - China, Bloomberg

More to come from the domestic market

zuan shi heng jiu yuan, yi ke yong liu chuan (a diamond is forever)

Chinese domestic diamond consumption has also been on the rise along with China's increasing middle class population. The domestic demand has further benefited from the changing taste amongst brides owing to the increasing Western influence in China. Chinese brides now wear white instead of the traditional red wedding dress. The gift from the groom's family is increasingly becoming diamond jewelry rather than a jade or gold jewelry.

Aggressive advertising by local diamond jewelers propels the local demand

Not surprisingly, diamond sales in China reached US\$1.2 billion in 2003 followed by a further 22% increase in 2004. Part of this growth can be attributed to extensive advertising campaigns. For instance, J. W. Thomson launched an ad campaign in 11 Eastern Chinese cities promoting diamond jewelry. This was further augmented by De Beers' marketing arm Diamond Trading Company with their campaign extended to nine additional cities. Diamond Trading Company has further extended its advertising campaign to promote diamond rings in an additional 17 cities.

With an increasing middle class, the rising demand for luxury goods such as diamond products in China is hardly surprising. Merrill Lynch estimates the global sales of luxury goods reached US\$82 billion in 2004 with 11% generated within the Chinese market. According to government statistics, the sales volume of China's top 1,000 gold and silver jewelry companies reached US\$900 million, up 17.5% YoY during 1H2005.

The industry benefited from reforms

After decades of reforms and many government incentives, the Chinese gold mining sector now emerges as an exciting avenue of investment. The sector has certainly attracted many investors and after a minor pause, foreign exploration companies are now returning to China in hordes. While there has been some exciting finds, the sector remains relatively less exploited and opportunities are abundant for companies such as CDC to benefit from the promising gold sector in China.

The industry has certainly benefited from years of reforms. These reforms include tax concessions, abolishment of price controls, removal of barriers to gold licensing for the manufacture and distribution of gold jewellery etc. The sector reforms reached its zenith with the establishment of the Shanghai Gold Exchange in 2002. China is currently the world's fourth largest producer of gold with an annual output of over 200 tonnes.

There are several gold exploration projects in China

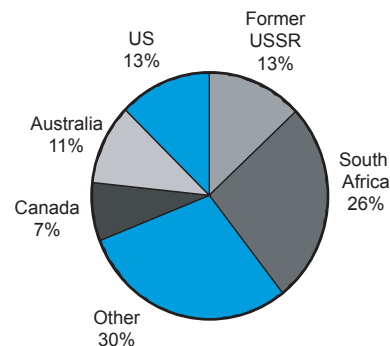
Not surprisingly, China has been able to attract several exploration companies to its gold sector. Amongst these are prominent industry players such as Rio Tinto, Placer Dome, Anglo Gold Ashanti and Gold Fields. In addition there is a plethora of small to medium size multinational companies actively engaged in gold exploration or production in China.

Chinese gold production has consequently increased over the last 10 years at a cumulative average growth rate of 6.5% per annum. Chinese gold production reached 217 tonnes in 2004, and is expected to exceed 220 tonnes in 2005.

Most of China's gold production comes from small, underground mines with little mechanisation. There is a considerable amount of informal mining in China and its actual gold production is estimated to be well above the official statistics. China is estimated to have over 1,200 small to mid size mines. This represents approximately 70% of total gold deposits and 25% of proven mineral reserves. The average production per mine per annum is estimated to be 16,000 oz.

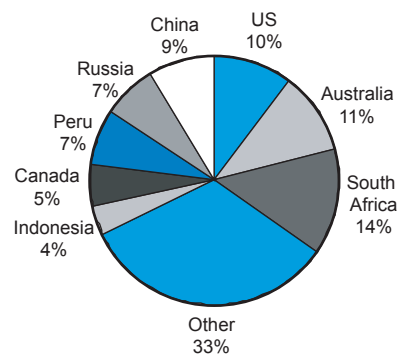
Chinese Gold Industry

World gold production 1990



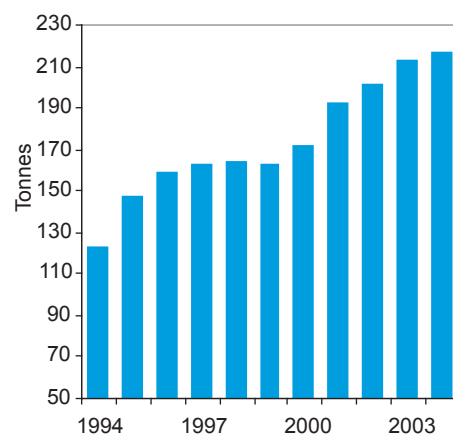
Source: Goldsheet Mining Directory

World gold production 2004



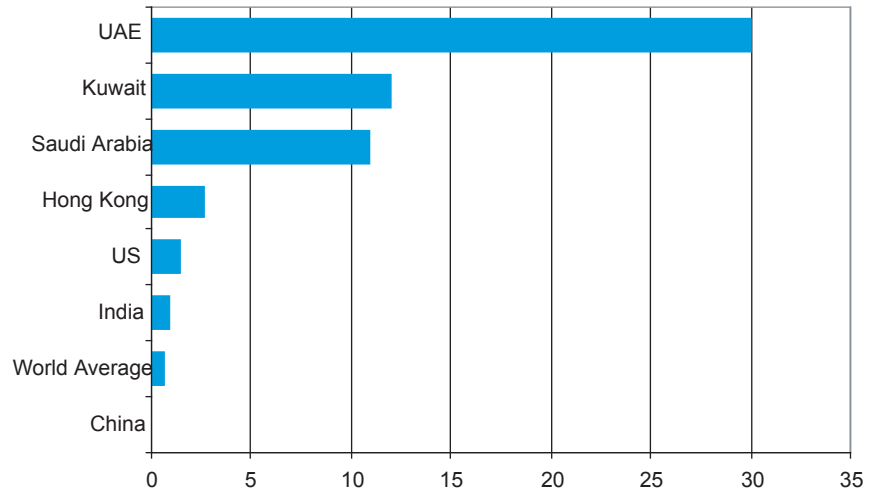
Source: Goldsheet Mining Directory

Chinese gold mine production



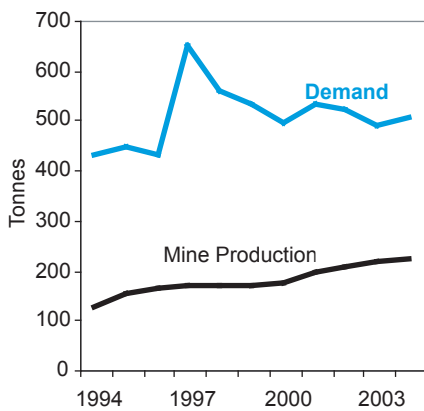
Source: Gold Fields Mineral Services

Per capita gold jewellery consumption



Source: World Gold Council

China gold demand v. supply



Source: Gold Fields Mineral Services

However, China remains a net gold importer

Despite the rising production, China continues to be a net importer of gold, with much of the demand stemming from the jewellery market. China is currently the third largest consumer of gold behind the US and India. The rising middle class population is expected to boost the demand and China is likely to remain a net gold importer for the next few years.

Chinese per capita gold consumption is low

The expectation for a continued demand growth is further supported by China's low per capita gold consumption. The current per capita gold consumption (jewellery demand) in China is a meagre 0.16g compared to the world average of 0.7g per person per annum. Interestingly, the growing prosperity in China has so far been more reflected in platinum jewellery demand. Given the price difference between the two metals and consequently their jewellery, this taste gap is bound to narrow, leading to a higher demand for gold.

Gold reserves by province (tonnes)

Province	Retained Reserves	Proven Reserves	Prospective Reserves
Shandong	800	750	3,000
Sichuan	206	224	800
Guizhou	146	148	620
Yunnan	121	149	550
Tibet	14	16	300
Shaanxi	206	235	700
Gansu	146	158	340
Qinghai	94	91	380
Ningxia	0.1	0.1	5
Xinjiang	72	68	1,630
Total	1,805	1,839	8,325

Source: China Mining Association

Gold producers are bound to benefit from the expected demand growth from increasing Indian and Chinese prosperity. The establishment of the Shanghai Gold Exchange indicates the interest and enthusiasm of the Chinese government to develop its gold industry. Companies able to bring operational skills will benefit from this interest.

Adequate reserves for companies to mine

China has considerable gold reserves for gold exploration companies to develop. According to China Mining Association estimates, China has 1,839 tonnes of proven gold reserves. Interestingly, Shandong Province hosts most of the reserves. It is in the Shandong Province that CDC has its gold and diamond prospects.

China Diamond has interests in one producing (701) and two other diamond properties (702 and 703) as well as interests in several gold prospects.

701 Mine

The only producing diamond mine in China

The 701 Changma mine is an open pit mine, located in the Shandong Province and has been in operation for the past 35 years. The mine is 50% owned by CDC and is currently China's only producing mine with an annual output of approximately 74,000 carats. Under CDC ownership, the mine output increased by 46% in 2004.

Shandong Province and the surrounding region is heavily populated and is an industrial center. The province has good infrastructure with an adequate road network, communications facilities, airports, ports and other industrial facilities.

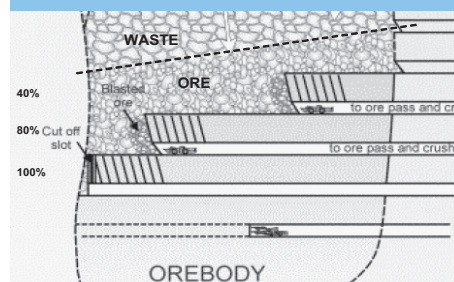
The 701 Changma diamond deposit consists of four primary diamondiferous kimberlite bodies: a big kimberlite pipe, a small kimberlite pipe, the "invisible" pipe which does not reach surface, and the #2 dyke. The big and small pipes merge together at the 10m level (approximately 250 metres below surface). Exploration has defined the kimberlite pipes to a vertical depth of 600 metres below surface.

CDC is continuing the exploration and development of 701. Its current strategic initiatives include a capital expenditure program to acquire the latest technology to increase production. The emphasis will be on minimizing large stone fragmentation, increasing the production rate and reducing operating costs. CDC management also plan to improve the security of its mines and the mining process. The installation of DMS and x-ray equipment should lead to an increase in the recovery rate to over 90%.

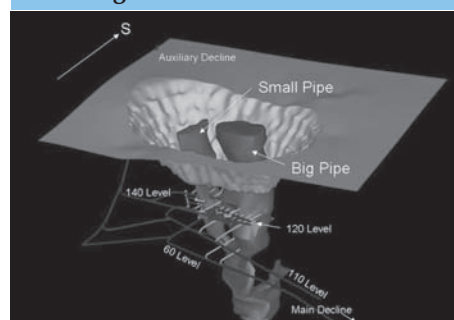
The Company also plans to further explore the "invisible" pipe in order to define the geometry of the pipe and also to collect a representative bulk sample to better define the diamond size distribution and diamond value prior to filing the mineral resources estimates in accordance with the regulations. Processing of the bulk sample will be completed once the DMS and X-ray sorters have been installed.

Properties

Cross-section of 701 mine



3-D image of 701 mine



701 Mine – 2005 capex breakdown

Program	Budget (US\$)
• Underground mine development (near completion).	1,160,000
• Replacement of old plant & equipment and increasing production	560,000
• Working capital	500,000
• Installation of DMS and x-ray plant	680,000
Total	2,900,000

Source: CDC management

701 resource estimates (2004)

Category	Tonnes	Grade (ct/t)	Contained Carats
Indicated	1,340,615	0.92	1,236,579
Inferred	1,533,385	0.63	966,033

Based on a 1.0 mm lower screen size cut off.

701 Mine – Key statistics

	Output (Tons)	Grade (Ct/t)	Carats
Indicated Mineral Resources	1,340,615	0.92	1,236,579
With Dilution (20%)	1,608,738	0.77	1,236,579
With Recovery (85%)	1,367,427	0.77	1,051,092
Total Production (8 Year Life)	1,051,092	Carats	
Estimated Price/Carat	US\$50.00		
Estimated Costs/Carat	US\$ 9.63		

Source: CDC management

702 Diamond Project

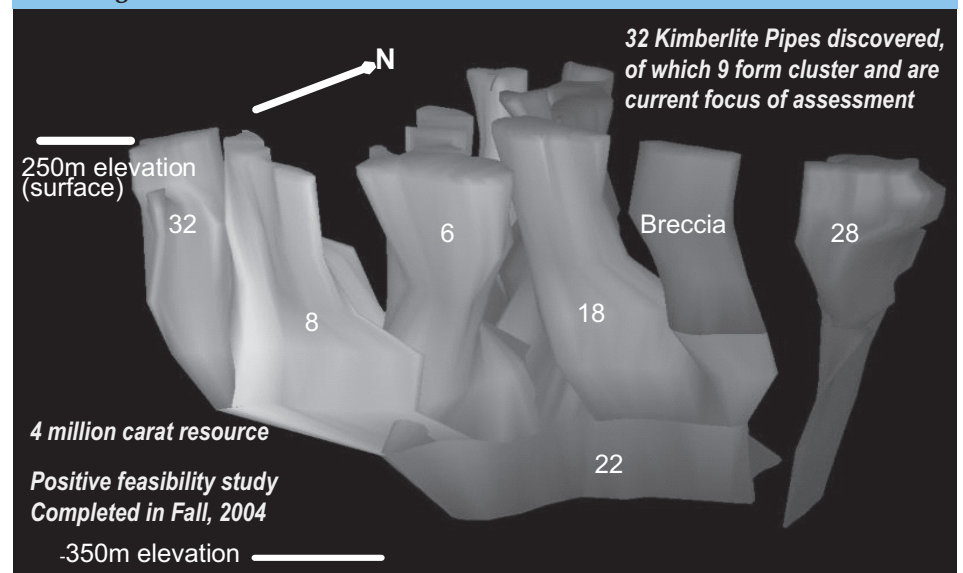
Indications of kimberlite bodies

The 702 Project is an advanced diamond exploration project. Previous exploration in the area has identified at least 32 diamondiferous kimberlite bodies. Of the 32 diamondiferous kimberlite bodies, there are nine major diamond-bearing kimberlite bodies and pipes that form a cluster within the area of the current exploration license. The nine clusters are currently the focus of assessment. Initial exploration results indicate potential for a higher proportion of large, higher quality diamonds together with lower grade small diamonds.

In comparison to 701 mine, the kimberlite pipes from 702 are characterised by larger gemstones (>4mm in size) from larger tonnages of relatively low-grade kimberlite. According to a previous study, the proportion of gem quality diamonds is 24% by weight, of which 4.1% are 8mm in size or greater.

The 702 Property is estimated to host measured and indicated resources totalling approximately 9.7 million tonnes with grading of 0.055 carats/tonne, and inferred resources totalling approximately 27.7 million tonnes with grading of 0.12 carats/tonne. The Company collected another bulk sample in June 2005, to verify the diamond characteristics, current values, and size distribution. The 2.5 tonne

3-D image of 702 diamond licence



Source: CDC

mini-bulk sample recovered 74 diamonds, all less than 2.0mm in size, weighing a total of 12.8 milligrams.

This small sample of 2.5 tonnes did not recover any large diamonds (i.e. diamonds greater than 2.0mm) that would have significantly increased the actual grade of the sample. However, the sample provided an indication of the expected diamond quality including shape and color. The sample confirmed the existence of gem quality, colorless diamonds in conformity with previous bulk sampling on the property.

CDC is now preparing the collection of 50,000 bulk samples to update and confirm diamond value by pipe.

The 703 Property

Another prospect likely to host kimberlite deposits

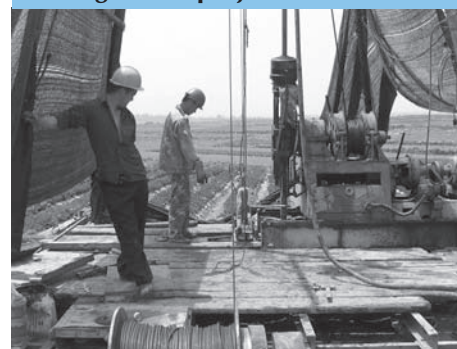
The 703 Property is also situated in Shandong Province, close to 701 and 702 properties, and is held under an exploration license providing a total exploration area of approximately 41 km². According to independent geological assessments 703 can be considered as a potential host for the same type and age of kimberlite that is found at the 701 mine. Due to geological settings peculiar to the site, exploration is expected to be slower.

CDC commenced exploration work on the property in 2004 in order to identify the source of the cluster of diamonds and kimberlite indicator minerals recovered from previous stream sediment sampling. The program intended to identify any new areas with the potential to host a diamond bearing kimberlite body.

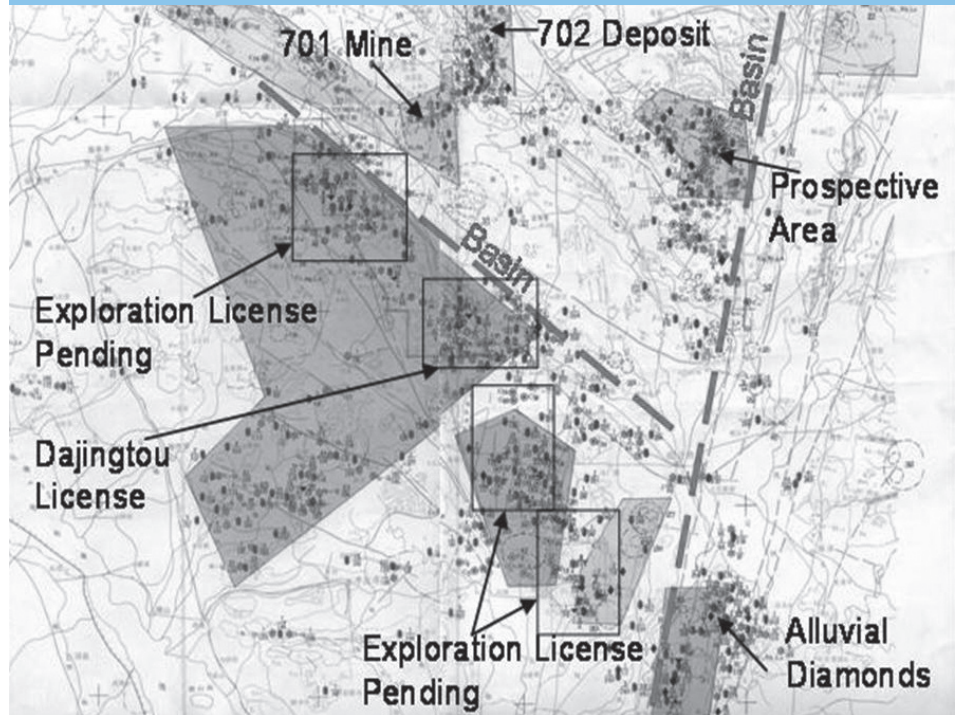
Initial exploration work yielded excellent results and confirmed the prospect of the 703 Property hosting diamondiferous kimberlite deposits. Magnetic surveying has identified eight magnetic anomalies, all with a high magnetic circular signature indicating the potential to host kimberlite bodies. Mineral chemistry of the numerous chromite indicator minerals is similar in composition to those of CDC's neighbouring 701 Changma Mine and 702 diamond projects. Abrasion analysis of the collected mineral grains suggests the original kimberlite source to be in close proximity.

CDC commenced soil sampling of the 703 Property in April 2005. These samples yielded six diamonds, over 1,191 chromite grains, 2 pyrope garnets, and 2 chrome diopside. The six diamonds range in size from 0.6mm to 1.0mm in size and range in color from yellowish to clear. Diamonds have maintained their original crystal shape thus indicating that they are still located close to the original kimberlite source. Compelling evidence from these results has prompted CDC to start core drilling in June of 2005.

Drilling at 703 project



Location of 703 prospect



Source: CDC

At present, CDC's drilling program at 703 is progressing well. The Company has mobilized a second drill to the site in an attempt to expedite the drill program.

The Huixian Gold-Copper Property

A Gold-Copper prospect

The Huixian property located in Shandong Province is host to the former Huixian gold-copper mine, which was mined for several years and moth-balled in 1997. CDC has recognized unexplored potential within this property and initiated an extensive exploration program in early 2005. Subsequently, CDC has identified four new mineralized zones. This area has already produced several small and medium sized gold and copper deposits, and is considered to be one of the most productive mineralized regions in the Shandong Province.

The original Huixian mine was commissioned in 1993 with a rated throughput of 160 tonnes/day, however, the mill never operated at more than half its capacity due to working capital constraints. Low gold prices in 1997/98 prompted the closure of this mill. The mine infrastructure remains in good condition consisting of a head frame, underground workings, a processing plant, office building, tailing dam, explosive magazines, maintenance facilities, warehouses and an electrical transformer building.

While estimates of Mineral Resources according modern definitions are not available, previous technical reports have provided estimates of Mineral Resources as follows on the next page:

Previous estimates of Mineral Resources reserves

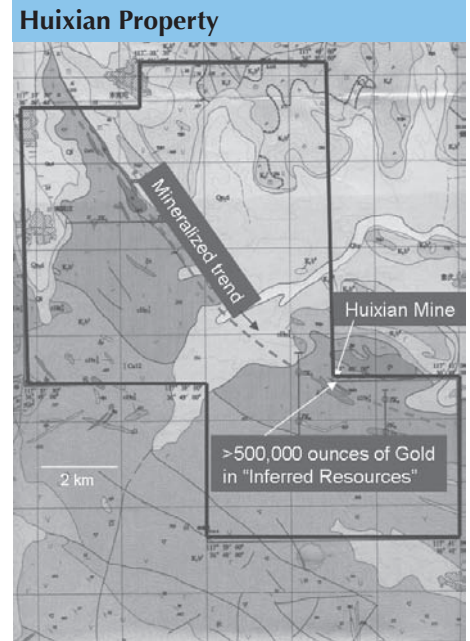
Year	Estimator	Tonnes	Copper Grade (%)	Gold Grade (g/t)
1994	J.F. McIntyre	3,100,000	1.71	5.93
1996	Shandong Institute	2,146,000	1.30	4.15
1996	D.P. Taylor	2,900,677	1.39	4.16

Note: The historical Mineral Resources for the Huixian mine do not currently comply with National Instrument 43-101 and CIM, 2000 definitions for Mineral Resources.

The widespread belief is that the mine was closed more due to low gold prices rather than due to the full exhaustion or the lack of gold deposits. While the latest independent technical report suggests the existence of gold deposits, it does not specify in definitive terms, the extent of this availability. Management estimates 500,000 oz of inferred gold resources at this site.

It is worthwhile highlighting the potential valuation Huixian may command if indeed the company succeeds in its endeavours. If there are enough deposits for instance to operate a 320 tonnes per day mine, its value in Net Present Value terms discounted at 13.3% would amount to C\$3.5 million.

The above values are dependent on the reserves of the Huixian property and CDC's ability to recover high grades. CDC valuations would invariably be higher if Huixian or any other gold prospects prove to be successful. The independent consultants have not specified the extent of reserves in definitive terms and the table is based on a technical report provided by Chinese authorities.



Historic production from the Huixian Mine

Year	Ore Processed (Ton)	Copper Grade %	Gold Grade (g/t)	Copper Recovery %	Gold Recovery %	Copper produced (lbs)	Gold produced (oz)
1993	8,761	1.25	3.86	62	84	145,266	883
1994	21,660	1.21	3.15	81	82	467,624	1,809
1995	16,878	1.26	3.21	77	83	370,230	1,434
1996	14,703	1.21	3.10	75	83	292,249	1,216
1997	15,227	1.21	3.16	76	84	269,265	1,242
Total	77,009	1.23	3.23	76	83	1,544,634	6,584

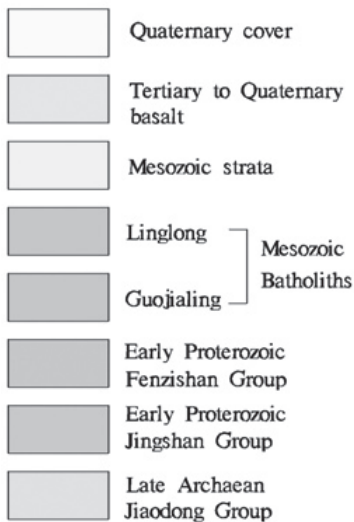
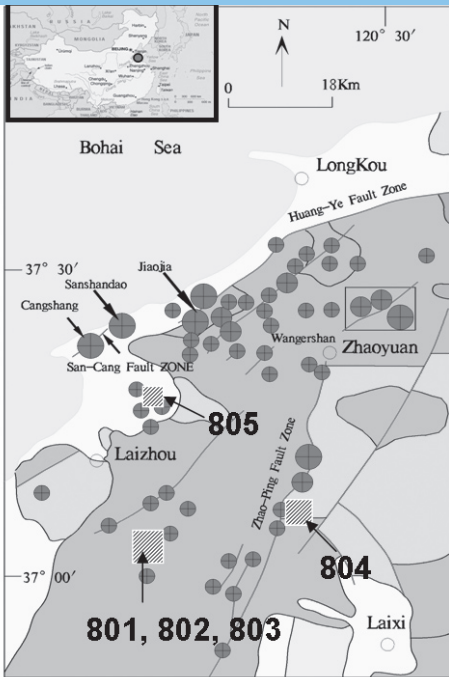
Source: CDC

Different scenarios for potential values of the Huixian property

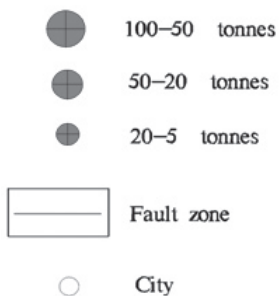
Production	tonnes/day	320	Valuation for different assumptions (C\$m)					
Ore Processed	tonnes/year	99,200	Valuation based on:	Gold Ore Grade	Planned Production Rate (tonnes/day)			
Ore Grade	g Au/t	3.23		(g Au/t)	100	160	320	400
Ore Grade	%Cu	1.25	Lowest achieve grade	3.10	0.5	1.1	2.6	3.3
Plant Recovery	% Au	85.00%	Avg achieved grade	3.23	0.8	1.6	3.5	4.3
Plant Recovery	% Cu	80.00%	Highest achieved grade	3.86	2.1	3.6	7.6	9.3
Oz Au Recovered	Oz Au	8,757	SI Technical Report	4.15	2.7	4.6	9.4	11.6
lbs Cu Recovered	lbs Cu	2,186,368	JF McIntyre Technical Report	5.93	6.4	10.5	21.0	25.6
NPV @ 13.3%		C\$3.5m						

Note: after capex and assuming 2 years before start of production. Gold assumed to be US\$400/oz

Location of gold properties



Gold deposits



Dacheng Gold Property (804 project)

Another Gold prospect

The property is located within the Zhao-Ye gold belt on the western Jiaodong Peninsula that currently produces over 30% of China's gold. There are a number of producing mines within a 5km radius of the property. The exploration license area contains similar geology to that shown to host gold mineralization elsewhere in the area. Prominent among the operating good mines in the area is the Xiadian gold mine (5 km away) and Yin Que Shan mine (2km away).

This project is expected to be developed as a Joint Venture (JV) between CDC and Shandong Dacheng Mining Company (Dacheng), which is a privately owned company with several ongoing gold projects in China. CDC will hold 60% ownership of the JV upon the contribution of US\$300,000 capital.

Preliminary surface rock grab sampling results yielded numerous anomalous values in gold indicating the potential of these zones to host significant concentrations of gold. Both geologic mapping and ground magnetic survey as well as silver and copper values from the soil samples are in agreement with the location of the alteration zones.

SPEI Projects

In June 2005, CDC signed a JV contract with the Shandong Physical Exploration Institute ("SPEI") to effect the acquisition of mineral rights and exploration for three gold projects in Jiaodong Peninsula, Shandong Province, China. Under this agreement CDC is required to contribute the required capital of US\$1.26 million over a two year period, to earn a 60% interest. The SPEI project involves three exploration licences, almost adjacent to each other covering an area of over 60km². The geology and mineralisation style discovered to date from SPEI projects is similar in nature to that of the recently discovered Xiajia Gold mine, located 7km north of the projects along strike. Xiajia's gold reserves are estimated to be over 1 million oz.

The gold mineralization at SPEI is associated with high grade zones and alteration zones with associated quartz veining and silicification, often grading over 10g/t. According to the independent technical report, the recent magnetic surveys have shown known geology and support the existence of several alteration zones that usually host gold deposits.

Profit and loss statement

YE Dec 31, C\$000's	2003	2004	2005F	2006F	2007F
Revenue	400	785	555	1,067	5,362
Cost of sales					
Production costs	183	669	477	569	1,979
Depletion	49	204	200	221	1,065
	232	872	677	789	3,044
Gross Margin	168	-87	-122	278	2,318
Corporate & Other Expenses					
Amortization	15	17	15	15	15
Gen. Exploration & Project Mgt.	590	678	793	600	600
Salaries & benefits	622	740	453	400	400
Bonuses	0	0	140	0	0
Directors' fees	54	35	0	0	0
Professional fees	364	324	160	160	160
Consulting fees	226	194	101	40	40
Investor relations	121	284	121	60	60
Transfer agents & filing	76	67	67	67	67
Travel	95	183	205	150	150
Office and other	202	293	187	200	200
Stock based compensation	427	2,019	200	200	200
Interest & finance fees	324	27	0	0	0
Foreign Exchange loss/(gain)	-34	9	10	10	11
	3,082	4,869	2,451	1,902	1,903
Net Operating Profit	-2,915	-4,956	-2,572	-1,625	415
Loss on disposal of equipment	56	0			
Loss from asset write downs	0	68			
Net Profit/Loss for the year	-2,971	-5,025	-2,572	-1,625	415

Financials

Comments

The 701 Mine is expected to improve the quality of its diamonds following the acquisition of new technology, leading to higher prices.

The 702 Mine expected to commence production in 4Q07.

Cash flow statement

C\$000's	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05
Cash Flow from Operating Activities						
Net Loss for the period	-1,909	-864	-1,010	-1,242	-574	-913
Items not involving cash						
Amortization & depletion	26	26	52	117	46	57
Stock based compensation	1,128	0	347	544	0	132
Diamond inventory write down	0	0	0	108	13	-13
	-755	-838	-612	-473	-516	-737
Net change in non-cash oper. wkg cap.	-138	249	56	-589	-8	-311
CFO	-892	-588	-556	-1,062	-524	-1,047
Cash Flow from Financing Activities						
Share issues through pvt placements	691	259	0	3,312	0	2,211
Exercise of warrants	543	0	2	98	0	0
Share issues for cash thro. Stock options	60	62	187	231	0	24
Share subscriptions	0	0	708	-708	0	0
Restricted cash	1	-8	0	738	0	0
Bank Loan	0	0	0	-397	0	0
Repayments/(Advances) from related parties	-302	310	7	-694	1	-41
CFF	992	623	903	2,580	1	2,194
Cash Flow from Investing Activities						
Purchase of plant and equipment	-52	11	-5	-1	-83	-2
Mine development costs	-65	-45	-62	-81	-190	-113
Capital Cont to Mengying JV	0	0	0	0	0	0
Capital Cont to 702 JV	0	0	-90	0	0	-62
Capital Cont to 703 JV	-65	0	-100	-795	0	0
Capital Cont to Dacheng JV	0	0	0	0	0	-38
Capital Cont to SPEI JV	0	0	0	0	0	-199
Capital Cont to Huixian JV	-13	0	-27	0	0	0
Capital Cont to 703 diamond JV	0	0	0	0	0	0
Cash acquired on acquisition of 703 Diamond JV	0	0	0	0	535	4
CFI	-194	-34	-283	-876	262	-409
Increase (Decrease) in cash	-94	1	65	642	-261	737
Cash beginning of the period	160	66	66	131	773	512
Cash end of the period	66	66	131	773	512	1,249

Balance sheet

YE Dec 31, C\$000's	2003	2004	2005F	2006F	2007F
Assets					
<i>Current:</i>					
Cash	160	773	3,849	7,516	8,252
Receivables & Advances	205	131	94	160	643
Taxes recoverables	34	73	96	119	142
Inventories	166	84	62	68	218
Restricted cash	731	-	-	-	-
	1,297	1,061	4,101	7,864	9,256
Mineral properties	1,683	2,845	3,025	3,254	2,439
Plant and Equipment	925	891	961	1,296	1,481
Deferred Financing Costs	-	-	-	-	-
	3,905	4,797	8,087	12,413	13,176
Liabilities					
<i>Current:</i>					
Accounts Payable & Accrued Liabilities	1,248	709	517	408	655
Bank Loan	397	-	-	-	-
Due to Related Parties	696	85	40	0	-
	2,341	795	557	408	655
	2,341	795	557	408	655
Shareholders' Equity (capital deficiency)					
Share Capital	42,313	47,756	52,756	57,756	57,756
Share Subscriptions	31	-	-	-	-
Contributed Surplus	688	2,860	3,860	4,860	4,860
Obligation to issue Shares	370	-	-	-	-
Warrants	178	427	527	627	727
Deficit	(42,016)	(47,041)	(49,613)	(51,237)	(50,823)
	1,564	4,002	7,530	12,006	12,520
	3,905	4,797	8,087	12,413	13,176

Other Diamond and Gold Properties

The valuation of these properties was guided more by their acquisition costs than their potential output. The full reserve potential of these properties have yet to be proven. We may revise our valuation upward following more conclusive evidence with regard to their reserves.

Options and warrants

Options and warrants were valued using Black-Scholes formula.

Appendix: Management

Michael Michaud, P. Geo, *President*

Mr. Michaud is a professional geologist with over 20 years experience in mineral deposit exploration and mining. Prior to working for China Diamond, he served as a partner and member of the Board of Directors at SRK Consulting in Toronto, and was engaged in exploration management, resource estimation, economic studies, reports for stock exchange listings, and engineering studies. Mr. Michaud will focus on the advancement of the CDC's current portfolio of diamond and gold mineral properties in China, including the development of the strategy of property acquisitions capitalizing on the Company's competitive advantage in China. Mr. Michaud holds a B.Sc. (Hons) from the University of Waterloo, and a M.Sc. from Lakehead University.

Sam Halbouni, *Chairman and Chief Executive Officer*

Sam Halbouni assumed the position of Chief Executive Officer and Chairman in March 2003. He is a successful entrepreneur who has led several highly profitable Canadian enterprises and has over 15 years of strategic planning and project management experience. Mr. Halbouni is also the President of Hi-Tek Developments, a construction and contracting company in London, Ontario.

Philip Cassis, *Director*

Mr. Cassis has over 45 years of management experience, with a focus on capital management and financing for a number of private and publicly traded companies in Canada and the United States. He is also the President of Nu Media Systems, and has interests in international real estate development projects.

Andrew Bradfield, P. Eng., *Chief Operating Officer*

Mr. Bradfield joined CDC as the Chief Operating Officer in October 2003. He has over 23 years of experience in the mining industry, including overseeing open-pit and underground operations in Australia, Brazil, Finland and Sweden, and has held various management positions with William Resources Inc., Bharti Engineering Inc. and Falconbridge. Mr. Bradfield holds an B.Sc. (Hons) in mining engineering from Queen's University.

Sylvio Cohen y Escaloni, *Director*

Bringing over 40 years of experience in the diamonds industry, Mr. Cohen y Escaloni is the administrator of Victory D.C., one of the oldest diamond companies in Antwerp and one of De Beers' first sight holders. Mr. Cohen y Escaloni has served as a consultant for many companies, including Argyle (Australia), BHP (Canada), and Freeport McMoran. He played a crucial role in the marketing of the Bow River diamond production in Australia. More recently, Mr. Cohen y Escaloni was elected as a director of the Diamond Club of Antwerp, the oldest diamond bourse in the world.

Lee Barker, Director

Mr. Barker has over 40 years experience in mineral exploration and mining and has been involved in the exploration, discovery, evaluation and development of several diamond deposits in Canada, South Africa, Angola, and parts of South America. His previous positions include Director of Aber Resources, and President of West Viking Exploration Ltd., where he supervised the initial exploration program on the Diavik Project leading to the discovery of over fifty kimberlite bodies. Mr. Barker has been involved in several similar successful diamond exploration endeavors in different countries. has a B.Sc. in Applied Geology (1966) from the University of Toronto, and an M.Sc. (Applied) in Mineral Exploration and Mineral Economics (1968) from McGill University, and maintains an international network of contacts in all aspects of the diamond industry.

George La Forme, Director, Vice Chairman

George LaForme has been a member of CDC's board of directors since 1997. Mr. LaForme is currently a consultant with Bombardier assisting in aircraft sales around the world, with an emphasis on China. He is retired from the Canadian Armed Forces as Lieutenant Colonel.

Xie Datong, Director

Xie Datong joined the board of directors in November, 2003. Xie Datong is Chairman of Transia International Ltd., a Beijing consulting firm. He has also served as Chairman of a number of private and public companies including Poly Plaza, Sanly Corporation in Shanghai, Baoha Company, Poly Shanghai Group Corporation. Mr. Xie Datong has spent 19 years with the Ministry of Foreign Trade of the PRC, including positions with the embassies in the United Kingdom, Canada, and the Netherlands. Mr. Xie Datong is a graduate of Foreign Economic Relations and Trade in Beijing.

Wu Shou Yuan, ACCA, CPA, Controller China, Management Team

Mr. Wu is based in China and is responsible for the financial accounting of the Company's operations in China. He is responsible for the establishment and monitoring of internal control systems as well as providing financial reporting. Mr. Wu's previous positions include manager of the international business department of BDO International, project manager of Zhong Lei Accountants Firm, and senior consultant of Taida International Investment Consultant Co. Ltd.

Ben Au, Chief Financial Officer and Corporate Secretary

Mr. Au assumed the responsibilities of Chief Financial Officer and Corporate Secretary in December 2004. He is registered as a professional accountant in Ontario and the United States with over 10 years experience in the mining industry as the controller of Agnico-Eagle Mines Limited, a mid-tier mining company listed in the TSE and NYSE stock exchanges. Mr. Au holds a Bachelor of Commerce from Concordia University in Montreal.

Appendix: Glossary of terms

Amphibolite: *a metamorphic rock composed mainly of silica-based rock-forming minerals*

Auriferous: *containing gold*

Breccia: *rock made from pieces of rocks formed earlier*

Chalcopyrite: *a sulphide mineral of copper and iron; the most common ore mineral of copper*

Chromite: *a brownish-black mineral; the major source of chromium*

Covellite: *a crystalline form of copper sulphide.*

Diamondiferous: *containing diamonds*

Diopside: *a crystallised silicate of lime and magnesia found in igneous rocks*

Eclogite: *a coarse-grained grouping of metamorphic rocks that contain microscopic structures and geological relationships.*

Gneiss: *a metamorphic rock derived from either igneous or sedimentary formations*

Kimberlite: *a volcanic diamond bearing rock*

Limonite: *a brown, usually earthy hydrated oxide of iron*

Malachite: *a source of copper*

Mesozoic: *a geological era from 245 to 65 million years ago*

Metamorphic: *rocks changed by temperature and pressure within the crust of the Earth*

Migmatites: *a rock signifying the melting of felsic components in a water-saturated regional metamorphic environment*

Olivine: *an important silicate mineral with magnesium and iron*

Phlogopite: *a brown form of mica consisting of hydrous silicate of potassium and magnesium and aluminium*

Porphyry: *a body of intrusive rock containing a groundmass of minerals. These are often associated with large tonnage copper deposits.*

Pyrope: *a deep red garnet used as a gemstone*

Silica: *silicon dioxide*

Tectonic: *pertains to the rock structures and external forms resulting from the deformation of the Earth's crust*

Tennantite: *a copper arsenic sulphide mineral*

Vuggy silica: *in a high sulphidation epithermal environment the highly acidic waters have dissolved everything but silica. The resulting porous rock is a good host for gold deposition.*

We are pleased to bring you this report on **China Diamond Corp.**



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Gabriel Didham, CFA
Objective Capital

Andy Hartwill – Head of Research

Andy has more than 20 years experience including as UK & Global Strategist at SG Hambros, latterly Soc Gen Securities. Prior to this he was UK and European Strategist for Paribas, and Head of Research at Capital House and Spencer Thornton. He is a regularly guest on Bloomberg and CNBC.

Sam Kiri, CFA

Sam has more than 13 years of international analytical research experience with a primary focus on resources and energy companies. He has previously served with Scotiabank and W.I. Carr in the Far East.

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Objective Capital Limited

2nd floor, 145 St. John St.

London EC1V 4PY

Tel: +44-(0)870-080-2965

Fax: +44-(0)870-116-0839

editor@objectivecapital.com

Corporate: www.ObjectiveCapital.com

Research: www.ObjectiveCapital.co.uk