



PARAGON DIAMONDS

BUY*

Initiation: An emerging integrated diamond producer

5.3p[#]

Year-end Dec	2013A	2014E	2015E	2016E
Revenue (£m)	-	-	2.6	5.5
EBITDA (£m)	(1.3)	(0.8)	(1.1)	(0.2)
Pre-tax Profit (£m)	(1.3)	(0.8)	(1.4)	(3.2)
Adj. EPS (p)	(0.6)	(0.3)	(0.4)	(0.5)
DPS (p)	-	-	-	-
Net Cash/(Debt) (£m)	(2.7)	(4.1)	(6.4)	4.1
P/E (x)	(8.9)	(20.1)	(14.2)	(10.6)
Dividend yield (%)	-	-	-	-
EV/EBITDA (x)	(11.4)	(27.5)	(23.3)	(146.6)

Key data

Rating (12 month)	BUY*
Price Target	12.9p
Risk	High
Sentiment	n.a.
Ticker	PRG.L
Shares in issue	275.5m
Market cap	£15m
12-mth price range	6.2p-2.7p
Net debt (H114)	£2.4m
Next event	FY14 results – May 15

SOURCE: Northland Capital Partners Limited estimates

[#]Priced at market close, 30/01/2015

*Northland Capital Partners Limited is the Nominated Advisor and Broker to Paragon Diamonds and therefore this information should be viewed as Marketing Material.

Paragon Diamonds is fully funded to move the Lemphane Diamond Project to Stage 1 production by Q215. The Stage 1 production will allow Paragon to collect all the necessary information on diamond values and grade to produce both its maiden resources estimate and complete its feasibility study for Stage 2 production. Based on Paragon's initial economic studies for Stage 2, we expect the project to have a NPV₁₀ of \$296m with an IRR of 68%. We forecast that the mine will generate an average life of mine cash flow of \$58m per annum, with a cumulative positive cash flow of \$874m by 2033, making it a significant player in the junior diamond mining space. Paragon's ambitions, however, go much further than this as the Company is being transformed in to a vertically integrated diamond company. This allows Paragon to generate additional cash flow, at a minimal cost, from the upside resulting from the cutting and polishing of stones, further improving the Company's operating margins.

- Polished upside:** Paragon will receive 25% during Stage 1 and this will rise to 50% in Stage 2 of the polished uplift on stones sold to a recently established sales and marketing company (related party) that will act as a contracted offtaker of diamonds produced by Paragon and seek to buy and sell diamonds globally.
- Diamond market fundamentals:** Based on a detailed review of supply and demand forecasts by leading industry members, we expect demand for rough diamonds to outstrip supply between 2017 and 2020, leading to higher diamond prices.
- Valuation:** Based on a discounted cash flow analysis of both Stage 1 and Stage 2 production and the revenue from the polished upside, we value Paragon Diamonds at 12.9p per share, an upside of 144% on the current share price.

Company description

Paragon Diamonds will own 80% of the Lemphane kimberlite pipe project located in Lesotho, once production commences. The Company is fully funded to complete its Stage 1 production that will allow it to determine the grade and average value of diamonds at the project. It will then seek to move the project to Stage 2 production.

Contacts

ANALYST

Dr Ryan D. Long +44 (0)20 7382 1131
rlong@northlandcp.co.uk

GENERAL

T: +44 (0)20 7382 1100
F: +44 (0)20 7382 1101
STX: 72222
E: info@northlandcp.co.uk
Website: www.northlandcp.co.uk



TABLE OF CONTENTS

INVESTMENT APPRAISAL	3
VALUATION	5
LEMPHANE, LESOTHO.....	6
TENURE	6
GEOLOGY	7
INFRASTRUCTURE	9
MINING	10
PROCESSING.....	11
HISTORY	11
DIAMOND GRADE AND AVERAGE VALUE ESTIMATES.....	12
DIAMOND MARKET.....	14
HISTORIC DIAMOND DEMAND	14
FORECAST DIAMOND DEMAND.....	17
FORECAST DIAMOND SUPPLY.....	21
NCP VIEW ON THE DIAMOND SUPPLY & DEMAND FUNDAMENTALS.....	24
RISKS	25
SHARE REGISTER	25
DIRECTORS.....	27
DCF STAGE 1	28
DCF STAGE 2	29
DCF FOR THE SALES AND MARKETING COMPANY.....	30
FORECASTS.....	31
DISCLOSURES	34
DISCLAIMER	35
CONTACTS.....	36



INVESTMENT APPRAISAL

Last week (28/01/15) Paragon Diamonds announced that it had secured a very favourable \$12m funding package, an impressive achievement in market conditions that are best described as challenging for the sector. The legally binding Memorandum of Understanding with International Triangle General Trading LLC (ITGT) moves Paragon Diamonds to developer status and the mixture of debt and equity ensures that dilution is kept at a relatively low level without overleveraging the Company and burdening it with heavy coupon payments.

Investors should also recognise that Paragon will now be backed by two significant financial institutions (Titanium Capital and ITGT) with the ability to support the Company as it grows organically and through potential acquisitions. In our view, the relatively small amount of slippage in the development schedule for Stage 1 production to Q215 from Q115 is a small price to pay for the positive funding agreement now in place.

Paragon will now accelerate the Stage 1 development work including the conclusion of metallurgical test work and civil construction activities. To date, the Company has already finalised the design of the 0.5mt per annum plant, ordered the long lead time items, finalised provisional tailings storage facilities designs and completed site clearance for the new plant. Paragon is fast tracking the mine development and expects to be commissioning the plant early in H215, an impressively quick build.

The Stage 1 plant will allow the Company to collect information required on factors such as diamond values and grade, allowing the Company to produce both its maiden resources estimate and to complete its feasibility study for Stage 2 production.

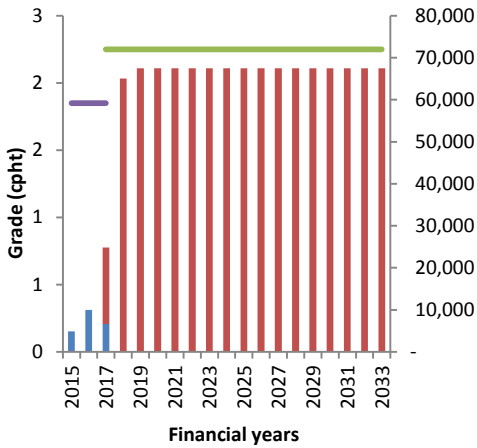
We expect the Stage 2 production to be a game changer for Paragon with the Company moving from producing 20,000cts over thirty-one months from the Stage 1 plant to producing an average of 67,000cts per annum once at full Stage 2 production (Chart 1).

To collect all the data required for Stage 2 the Stage 1 plant will operate for twenty four months and collect 15,000cts. However, we expect Paragon to continue to operate the Stage 1 plant for an additional seven months and during the total thirty-one months the mine will generate total revenue of \$20m, assuming a diamond value of \$930/ct - at the lower end of the value range defined independently by consultants, MSA Group (Chart 2). During Stage 2 this will rise to around \$100m per annum assuming a diamond value of \$1,500cts, in line with Paragon's expectations (Chart 2).

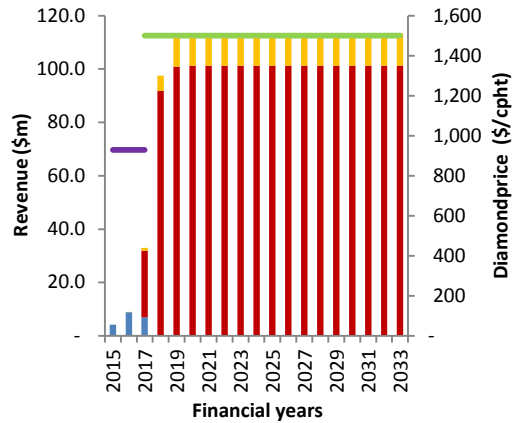
As a result, total cash flow from Stage 1 is expected to be negative \$7.7m (Chart 3), however, during Stage 2 the mine is expected to generate an average of \$58m of positive cash flow per annum (Chart 3). Added to the cash flow from the mine is the c. \$12m per annum we expect Paragon to receive from its share of the profits resulting from the sale of polished diamonds from its interest in the sales and marketing company (Chart 3). We expect this to result in Paragon having a net cash of c. \$1.1bn by 2033, assuming the Company makes no major acquisitions (Chart 4).



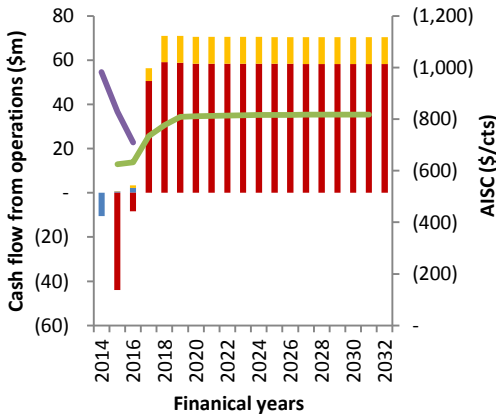
Charts 1-4 Paragon Diamonds' metrics



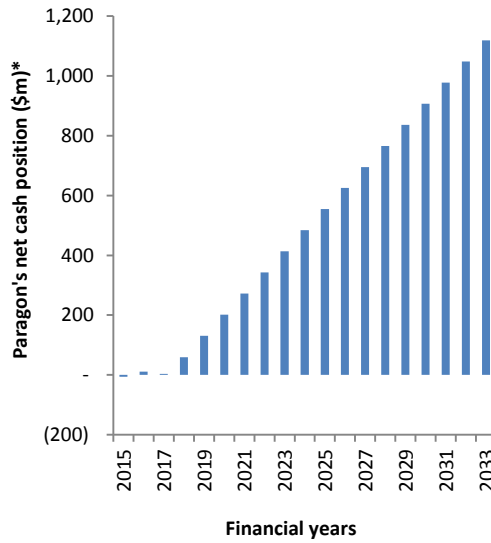
- Lemphane stage 2 production
- Lemphane stage 1 production
- Lemphane stage 1 grade
- Lemphane stage 2 grade



- Revenue from the sales and marketing company
- Lemphane stage 2 revenue
- Lemphane stage 1 revenue
- Lemphane stage 1 diamond price
- Lemphane stage 2 diamond price



- Cash flow from the sales and marketing company
- Lemphane stage 2 cash flow
- Lemphane stage 1 cash flow
- Lemphane stage 1 AISC
- Lemphane stage 2 AISC



SOURCE: Northland Capital Partners Limited estimates, *assumes no major acquisitions or cash outflows from 2017E.



VALUATION

We have produced discounted cash flow analysis, including some guidance from the Company, for the Stage 1 and Stage 2 operations at Lemphane and the potential revenue generated from the polished upside. We also apply geopolitical risk and development stage discounts to arrive at our valuation.

The Government of Lesotho has a 10% free carried interest in Meso Diamonds as part of the mining licence agreement and an additional 10% stake in the project that cost \$4m and was funded by a loan with an interest rate of 12% per annum. We expect the loan and interest to be funded from the Government's share of the profits during the first years of Stage 2, improving returns for Paragon.

As a result of its interest in the sales and marketing company, Paragon is expected to receive 100% of the value of its rough diamonds from and 25%-50% of the polished uplift margin, less the polishing costs.

The Stage 2 operation is forecast to commence production in 2017 and reach full production in 2018. Once at full production, we expect the mine to produce an average cash flow of \$58m per annum, paying back the capital expenditure for both Stage 1 and 2 within two years. We also forecast that Paragon will receive around \$12m per annum from polished stone sales.

On this basis, we arrive at a risked valuation of 12.9p per share also taking into account the Company's forecast FY15 net cash position and assuming dilution from a placing in FY15 (Table 2). This valuation represents a 144% upside to the current share price. On an unrisks NPV₁₀ basis we would value the Company at upwards of 57p per share.

Table 2: NCP risked valuation

NCP risked valuation	
NCP valuation of the Stage 1 Lemphane project (£m)	(2.8)
NCP valuation of the Stage 2 Lemphane project (£m)	46.4
NCP valuation of paragon's stake in the sales and marketing company (£m)	18.7
Net Cash for FY15E (£m)	(6.4)
NCP valuation of Paragon Diamonds (£m)	55.9
Upside/(downside) (%)	143.8
Current share price (p)	5.3
Shares in issue (m) (FY15E)	432.8
NCP valuation per share (p)	12.9

SOURCE: Northland Capital Partners Limited estimates

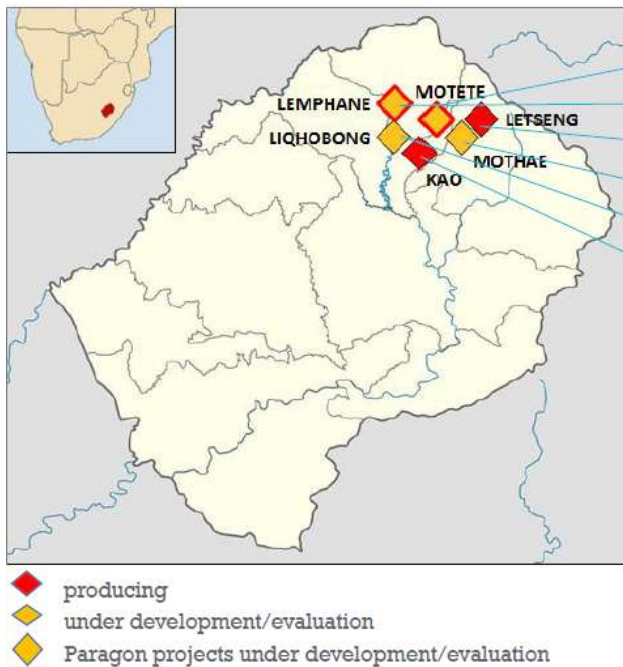


LEMPHANE, LESOTHO

The Lemphane project is the last undeveloped commercial diamond bearing kimberlite pipe known in Lesotho. Producing mines within Lesotho currently include Gem Diamonds' (GEM.L) Letšeng Mine and Namakwa Diamonds' (private) Kao Mine (Figure 1). Firestone Diamonds (FDI.L) is currently developing a commercial mine at Liqhobong and Lucara Diamond Corp.'s (LUC.TSX) Mothae project has been put up for sale. Paragon is in a positive position as it can leverage on the infrastructure installed by other companies and learn from their mistakes, reducing the development risk.

**Last undeveloped
kimberlite pipe in Lesotho**

Figure 1: Location of commercial diamond bearing kimberlites pipes in Lesotho



SOURCE: Company

TENURE

Meso Diamonds, a 80% owned subsidiary of Paragon Diamonds (20% Government of Lesotho), holds a mining lease for the Lemphane project that is valid for ten years from the 24/02/14 and is extendable for a further thirty years. The project has an initial royalty of 4% that will be payable to the Government on the commencement of production and is subject to review within five years.



GEOLOGY

The Lemphane kimberlite pipe occurs within the Northern Lesotho Kimberlite Cluster. The Cluster contains over thirty-nine known kimberlite pipes and three-hundred and sixty-six kimberlite blows and dykes of which twenty four have been shown to be diamondiferous and only five have been demonstrated to be of commercial interest; Lemphane, Letšeng, Liqhobong, Mothae and Kao.

The kimberlites of commercial interest vary in size from the 19.8ha Kao pipe that has a satellite pipe of 3.2ha; the 17.2ha Letšeng pipe that also has a 6.5ha satellite pipe; the 8.8ha Mothae pipe; the 8.5ha Liqhobong pipe and the smallest is the 6.4ha Lemphane pipe. What Lemphane lacks in size it makes up in estimated diamond value compared to its peers with its estimated average diamond value for Stage 2 production second only to Letšeng (Table 1).

Table 1: Stats on the commercial diamond bearing kimberlites pipes in Lesotho

Project	Size of main pipe (ha)	Grade (Cpht)	Average diamond value (\$/ct)
Letšeng	15.9	1.70	2,530
Lemphane	6.4	2.25	1,500E
Mothae	8.5	2.72	1,062
Liqhobong	8.5	32.07	156E
Kao	19.8	6.36	201

SOURCE: Various

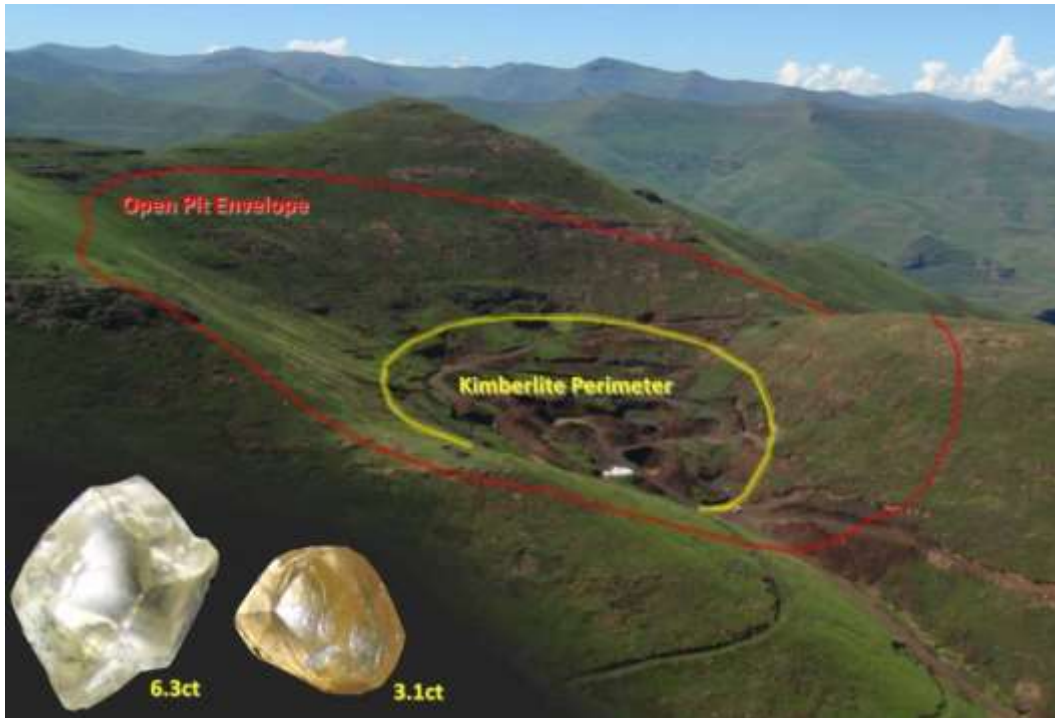
As can be seen from Table 1, the majority of kimberlites in Lesotho are low grade, with the exception of Liqhobong, but they also contain high value stones, except Liqhobong and Kao.

The Northern Lesotho Kimberlite Cluster is located within the southern edge of the Kaapvaal Craton. In Lesotho, the Archaean basement rocks is covered by c. 4km of flat lying Palaeozoic to Mesozoic Karoo Supergroup. The Kimberlites were emplaced during the Cretaceous Period.

Lemphane has an oval shape in plan view (Figure 2) and near vertical walls down to a depth of at least 200m (Figure 3), the limit of current drilling. There appears to be at least five phases of kimberlite intrusion with some crater facies material preserved, implying that there has been limited erosion of the pipe.

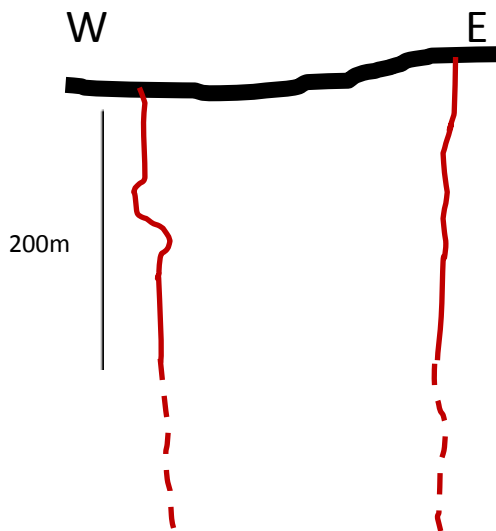


Figure 2: Arial view of the Lemphane kimberlites pipe and proposed pit envelope



SOURCE: Company

Figure 3: Simplified cross section of the Lemphane kimberlites pipe



SOURCE: Northland Capital Partners Limited



FINANCING

Paragon Diamonds entered into a legally binding Memorandum of Understanding with International Triangle General Trading LLC (ITGT) for a \$12m equity and secured debt financing package (28/01/15). ITGT is an international investment group focused on construction, automobiles, real estate and banking with operations in Dubai, the Middle East and China.

ITGT will subscribe for 98m shares in Paragon at a price of 5.5p per share, raising \$8.09m. Paragon will also issue a \$4m secured loan note to ITGT. This note will have a three year term and a 10% per annum coupon payable annually. The note will be secured on the plant and machinery at Lemphane and the cash and assets in Paragon. As part of the deal, ITGT will be entitled to appoint two nominees to the Board of Paragon.

ITGT will also look to increase its holding in Paragon through the acquisition of 9.09m shares from Titanium Capital and 40m from Obtala Resources Limited and Grandinex International Corp all at a price of 5.5p per share.

Table 2: Paragon's funding history and transfer of shares between holders

Date	Type of fund raise/Acquisition through issue of shares	Amount raised (£m)	Issue price (p)
01/11/10	Acquisition of Sierra Leone Hark Rock Ltd. (consideration of £17.5m)	-	20.0
01/11/10	Loan from Obtala Resources Ltd. (2% + LIBOR)	\$3.50	-
01/11/10	IPO	3.80	20.0
08/12/10	Acquisition of a 44.3% interest in IDC (consideration of £5.7m)	-	24.4
22/12/10	Acquisition of African Rock Resources (consideration of £3.49m)	-	27.9
27/01/11	Placing	2.89	34.0
18/05/11	Acquisition of a further 54.2% interest in IDC (consideration of £12.1m)	-	34.0
26/01/12	Placing	1.73	29.0
26/04/12	Acquisition of a further 1.5% interest in IDC (consideration of £0.33m)	-	34.0
29/05/13	Subscription	0.30	5.0
29/05/13	Equity Swap Agreement	1.25	-
09/06/14	Acquisition of remaining 15% interest in Lesotho subsidiary (consideration of £1.3m)	-	3.7
27/08/14	Transfer of Obtala loan note to TCI 73m shares (consideration of £1.0m, convertible at 2.75p per share)	-	-
27/08/14	TCI granted option to purchase 60m shares at 3.25p per share	-	-
26/09/14	Placing	0.05	3.5
20/11/14	TCI exercises option over 24m shares at 3.25p per share	-	-
05/12/14	Placing	0.26	4.5
12/12/14	Share buyback of 63m shares from Lanstead at 3p per share	-	-
28/01/15	MOU with ITGT for \$8.09m equity placing at 5.5p per share and \$4m secured debt financing	\$8.09	5.5
28/01/15	ITGT to purchase 9.09m shares from TCI and 40m from Obtala and Grandinex at 5.5p per share	-	5.5

SOURCE: Northland Capital Partners Limited

INFRASTRUCTURE

Paragon is well advanced in its discussions with the national power company's main contractor, to gain access to the privately funded open-access power line that is nearing completion. Depending on timing of the connection, the mine may initially run on diesel generators.

Paragon has a pump station located on a river that lies a short distance from the mine and allows them to pump additional water to the plant should the existing water storage dams not have sufficient water for the operations.



MINING

Lemphane will be an open pit operation that uses contract miners for Stage 1. A Furukawa 1200 rock drill and Atlas Copco CM348 drill will be used to create the blast-holes for blasting (Figure 4 & 5, respectively). The ore will be extracted using a CAT 336D and a CAT 320D track excavators, and a CAT 950H and CAT 938G wheel loader (Figures 6-9, respectively). To transport the ore to the plant Paragon will use five CAT 730 articulated truck's (Figure 10).

Figure 4-10: Proposed mining fleet



SOURCE: Various



PROCESSING

The Stage 1 plant will have a run of mine (ROM) feed rate of 75tph. The ore will initially be passed to a hopper that has a 250mm screen. Material greater than 250mm in size will be removed to an oversized stock pile, with the finer ore (<250mm) passing through a vibrating grizzly that separates the ore into >90mm and <90mm material. The >90mm ore passes to the primary jaw crusher where it is crushed to <90mm.

All the <90mm ore then passes to the scrubber and on to a dual stacked screen where the ore is separated into a >20mm fraction, <20mm & >2mm fraction and a <2mm fraction.

The <2mm material passes to a water recovery module and then to the slimes dam. The <20mm & >2mm ore passes to a 30t surge bin and then on to the Dense Media Separation module (DMS). The DMS plant has a capacity of 30t per hour. The float material then passes to the DMS float stock pile. The <20mm & >2mm ore then passes to the X-Ray Flowsorts and recovery sort house. The X-Ray tailings are stored in a secure area in case they need reprocessing, while the sorter tailings pass to the Bouvestnik X-Ray machines (BV). The BV machines have a capacity of 100t per hour.

The >20mm fraction passes to another dual stacked sizing screen with the <20mm ore returned to the 30t surge bin. The >50mm ore passes to a 10t surge bin and secondary cone crusher and back through the dual stacked screen. The <50mm & >20mm ore passes to a 20t surge bin and on to the BV machines. The concentrate from the BV machines passes on to the sort house while the tailings are returned to the dual sizing screen.

HISTORY

- 1950: Lemphane kimberlite discovered and limited sampling defined a grade of 1-2cph
- 2010: Meso Diamonds completes the first systematic evaluation work in the pipe



DIAMOND GRADE AND AVERAGE VALUE ESTIMATES

To establish a compliant mineral resource estimate for a kimberlite three things need to be defined to a sufficient confidence level, these include tonnage, diamond grade and the average diamond value.

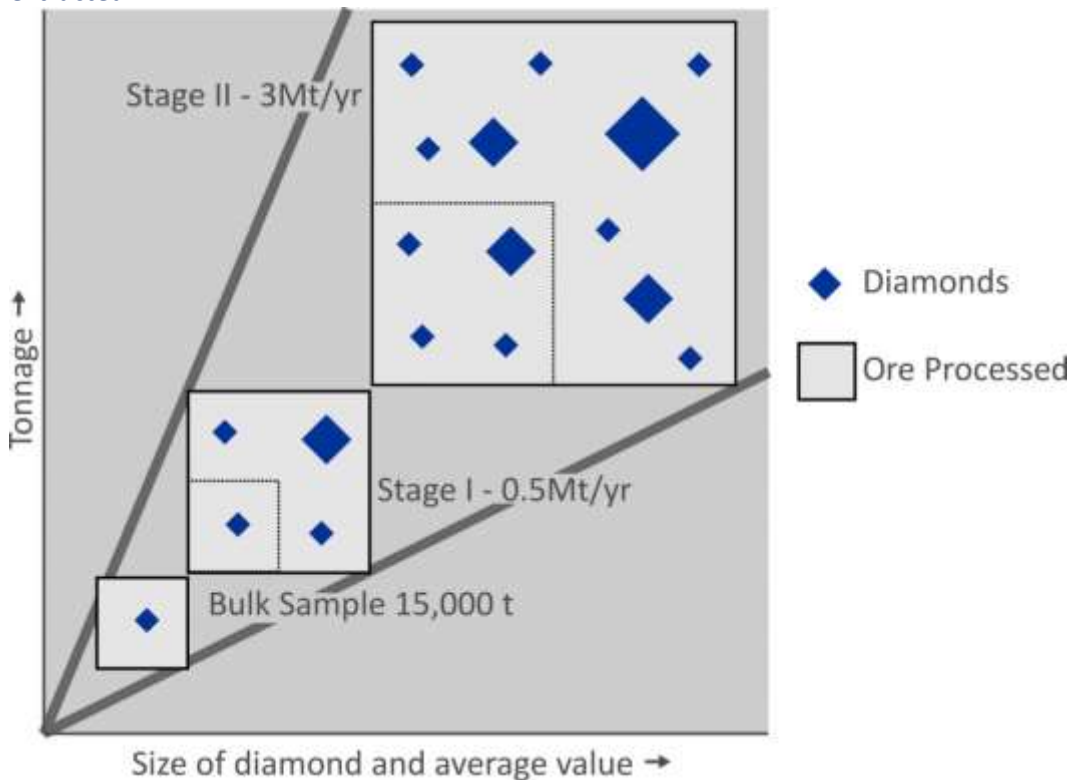
Large and special stones are rare within kimberlite pipes/dykes. Stones greater than 10cts normally make-up less than c. 2% of the average kimberlite globally. In Lesotho, they typically make up over 10% and the high quality of the diamonds means they can contribute over 80% of the total value. In low grade kimberlites, such as Lemphane, the recovery of large stones is key to the project's economics.

Paragon has a good handle on the tonnage of the deposit (48.6mt) from the drilling completed to date. As such, the biggest unknowns associated with the Lemphane Project are the grade and average value of the diamonds. A larger sample of the kimberlite is required to increase confidence levels in the grade and average value estimates for a maiden resource estimate.

To date, Paragon has extracted c. 15,000t of kimberlite containing c. 300cts. This is not large enough to reflect the diamond population of the entire kimberlite or recover large and special stones that are potentially contained within the deposit (Figure 11). As a result, Paragon is not able to define a JORC Mineral Resource estimate at the project until it completes the Stage 1 production.

Grade and value needs more data

Figure 11: How the grade and value of diamonds increases as a larger volume is extracted



SOURCE: Company

The bulk sample completed to date, however, does allow the Company to forecast the potential grade and diamond population based on a statistical analysis of the diamond population. This is a common industry technique that is considered fairly accurate in forecasting kimberlite grade and the size frequency distribution of the diamond population. As a result, Paragon expects the

Diamond size and frequency analysis



diamond grade at Lemphane to be 1.85cphd during Stage 1 and 2.25cphd during Stage 2 as larger volumes are processed.

Based on the diamond size and frequency analysis, Lemphane can be compared to a selection of other kimberlites that have a greater amount data resulting from larger bulk samples (Table 3).

The results show that c. 12% of the diamond population at Lemphane is estimated to be larger than 10cts in size. The distribution is not at the world class level of Letšeng (that is estimated to have 17%) but compares favourably with other deposits including Mothae 10%, and is superior to Karowe 4.5%, Liqhobong 2.5% and Motete 1.5%.

Compares positively

Table 3: Lemphane diamond population and comparable deposits

Deposit/Location	Percentage of the diamond population in a particular size range (+7DTC)						Diamond Population
	>1ct	>5ct	>10ct	>20ct	>50ct	>100ct	
Letšeng - Lesotho ¹	70.00%	30.00%	17.00%	10.00%	4.00%	2.00%	198,647 production carats 2004-8 @ +0.15ct/stn
Lemphane - Lesotho ²	52.00%	22.00%	12.00%	7.50%	2.50%	1.00%	18,400 modelled carats @ +0.15ct/stn
Mothae - Lesotho ³	45.00%	22.00%	10.00%	5.00%	1.50%	N/A	19,470 trial production carats @ +0.15ct/stn
Liqhobong - Lesotho ⁴	25.00%	5.00%	2.50%	N/A	N/A	N/A	7,038cts of 12,620cts bulk sampling 2008 @ +0.15-10.8cts/stn
Karowe - Botswana ⁵	33.00%	8.00%	4.50%	N/A	N/A	N/A	103,350 production carats 2012-13 @ +0.15cts/stn
Motete - Lesotho ⁶	20.00%	5.00%	1.50%	0.50%	0.10%	0.05%	267,000 modelled carats @ +0.15ct/stn

SOURCE: Compiled by Company from 1) 2009: Bowen et al.: *Lithos*, 112S, p767-774. Figure 3; p770; 2) 2014: MSA (Ferreira): *Lemphane Revenue Model J2858 1Mt*, Table 2-3; p9; 3) 2013: MSA (Lynn & Ferreira): *Mothae NI43-101 Resource Statement*, Table 14-9; p93; 4) 2010: ACA Howe (Leroux): *Liqhobong Diamond Project Report # 933*. Table 29; p103; 5) 2014: Lucara Diamond Corp (Lynn, Nowicki et al): *Karowe Diamond Mine 43-101 Technical Report*; Table 14-15 & Figure 14-7; 6) 2012: MSA (Ferreira): *Motete Resource Statement J2391*; Table 5-1; p15.

The average diamond values for the volumes processed during Stage 1 at Lemphane are estimated to be between \$930/ct and \$1,025/ct, Paragon’s independent consultant the MSA Group expects this to increase to \$1,500/ct during Stage 2 as a result of increased volumes. These estimated average diamond values are calculated using the diamond frequency analysis to estimate the amount of stones within a certain size range and assigning value based on comparable stones to the diamonds within that size range.

In our view, the estimated average diamond value remains the area with the least amount of data; as a result we have assumed diamond values at the lower end of Paragon’s expectations for Stage 1 and in line with their expectations for Stage 2.



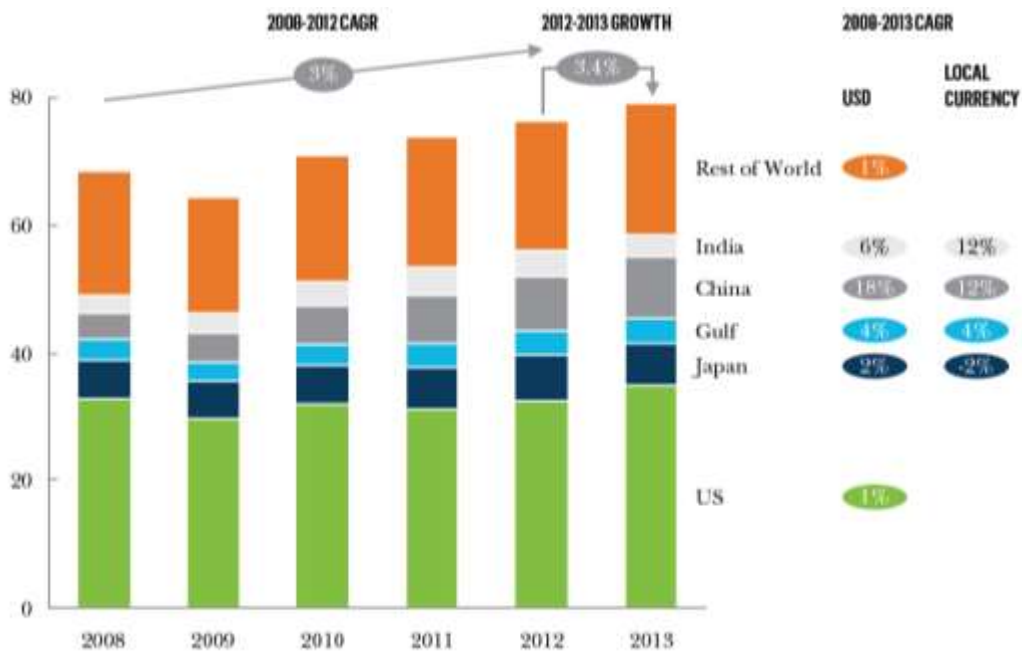
DIAMOND MARKET

HISTORIC DIAMOND DEMAND

Demand for rough diamonds is almost exclusively driven by consumer demand for polished diamond bearing jewellery and ,as a result, the dynamics of the rough diamond industry are unlike any other natural resource industry, which have numerous end uses for the product extracted. In 2013, global diamond jewellery sales increased to \$79bn, increasing by 3.4%, ahead of the 2008-2012 compound average growth rate (CAGR) of 3% (Figure 12).

The continued growth in demand for diamond bearing jewellery since 2008 was dominantly driven by the emerging markets of China and India with CAGR of 18% and 6%, respectively. Established markets such the US and Japan showed below average growth during this period at 1% and 2%, respectively while the Gulf was just above the average growth range at 4% (Figure 12).

Figure 12: Diamond jewellery sales 2008-2013



SOURCE: The Diamond Industry Insight Report 2014, De Beers



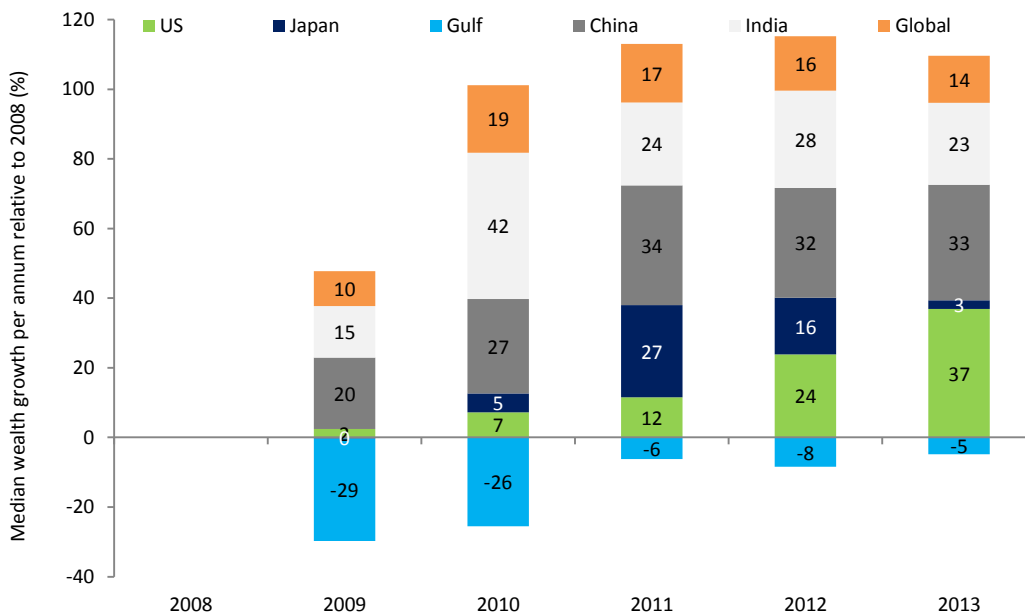
Retailers in the emerging markets largely appear to have outperformed their established counterparts because of the increased level of demand driven by the rapid growth of the middle class communities propelled by an increase in median wealth per adult in those countries (Figure 13).

China has experienced a 33% increase in median wealth since 2008 resulting in a 13% CAGR in demand for diamond bearing jewellery. India experienced a 23% increase in median wealth since 2008 and a 6% CAGR in demand for diamond bearing jewellery.

In developed countries with established middle classes that have been purchasing diamond bearing jewellery for a significantly longer period of time, increases or decreases in the median wealth per adult has only a minor effect on diamond purchases (Figure 13), with the exception of major economic recessions (Figure 13 - 2009).

The US experienced an impressive 37% increase in median wealth since 2008 but the CAGR in demand for diamond bearing jewellery since 2008 was only 1%. In Japan there was a relatively small 3% increase in median wealth since 2008 but the CAGR in demand for diamond bearing jewellery since 2008 outperformed the US at 2%. While in the Gulf there was a 5% reduction in median wealth since 2008 but the CAGR in the demand for diamond bearing jewellery since 2008 was a relatively high 4%.

Figure 13: Increase in median wealth relative to 2008

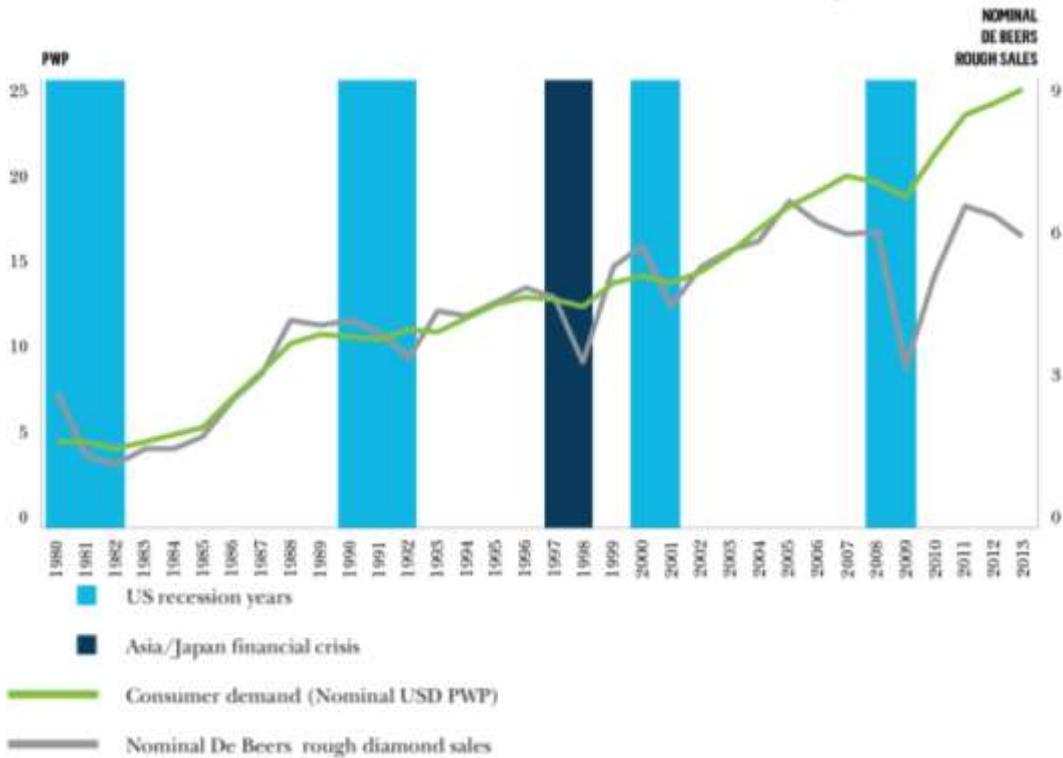


SOURCE: Data from Credit Suisse Global Wealth Databook, October 2014. Gulf defined by Northland to include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE.



Even during major economic recessions in established markets it appears that major changes in personal wealth only affects the demand for diamond bearing jewellery for relatively short periods of time. In Figure 14, there is a correlation between recessions in the US that lead to sudden decreases in diamond demand and recoveries in the US that have led to rapid improvements in the demand for diamond. This could be due to consumers, who refrain from purchasing diamond bearing jewellery during times of economic difficulty, postponing their prospective purchases until the economy improves rather than abandoning the purchases completely.

Figure 14: The link between US recessions and consumer demand



SOURCE: The Diamond Industry Insight Report 2014, De Beers



FORECAST DIAMOND DEMAND

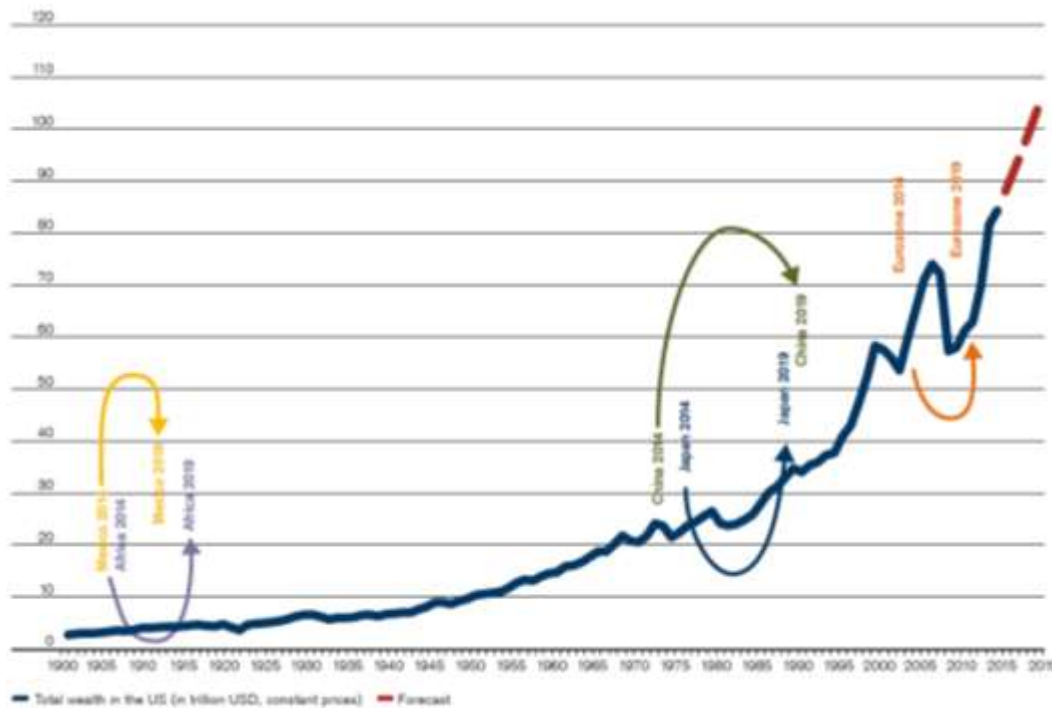
Global wealth is estimated by Credit Suisse to increase by 40% to \$369tr from \$263tr over the next five years, equivalent to a CAGR of 7%. At the macro level, this large increase in wealth will drive increased consumer demand for diamond bearing jewellery that will in turn drive demand for rough stones.

The US economy is in recovery mode but as we have shown above we do not expect this to translate in to dramatic growth in consumer demand for diamond bearing jewellery. Credit Suisse is forecasting that the total wealth in the US increases by 37% to \$115tr by 2019 from \$84tr in 2014, equivalent to CAGR of 7.4%. With the US remaining the world’s wealthiest county by some way (Figure 15) in 2019, we expect the US market to remain an economic cornerstone of the diamond market but not an engine for growth in global demand.

In Japan and the Eurozone, the recovery has not been as definitive and the economic stability of these jurisdictions remains significantly volatile. Japan’s wealth is expected to grow at a slower rate with total wealth expected to increase 26% to \$29tr in 2019 from \$23tr in 2014, equivalent to CAGR of 5.2%. Total wealth in the Eurozone, a smaller but still important component of established demand for diamond bearing jewellery, is expected to grow a slower rate of 38% to \$80tr by 2019 from \$58tr in 2014, equivalent to a CAGR of 7.6%. As a result, we expect diamond demand from these regions to continue to remain subdued/stable in the near to medium-term.

Emerging markets in contrast, are likely to see diamond demand continue to grow at a pace that outstrips those of the established markets with the expansion of the middle classes as the countries move from producer to consumer societies.

Figure 15: Historical & forecast total wealth in the US & other economies



SOURCE: Credit Suisse Global Wealth Report, October 2014.



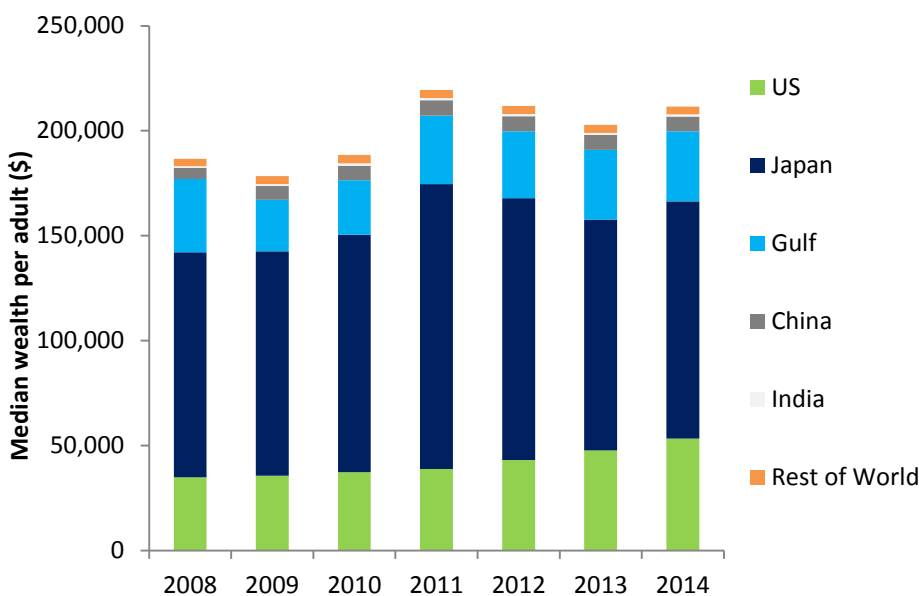
The two key players in the emerging market economies will continue to be China and India. China is expected to become the world second wealthiest economy by 2019 (Figure 15) and its total wealth is forecast grow at an astonishing 66% to \$35tr in 2019 from \$21tr in 2014, equivalent to a CAGR of 13.3%. India is also expected to experience a remarkable total wealth increase, by 50% to \$4.5tr in 2019 from \$3tr in 2014, equivalent to CAGR of 10%.

Other emerging market economies (excluding China and India) currently market up around 9% of total global wealth, these economies could see an increase in wealth of as much as 46%.

We can also examine the diamond bearing jewellery growth potential by looking at the prospective wealth of the middle class in China and India relative to other more established diamond bearing jewellery consuming economies. The median wealth per adult in 2013 for China was 21% that of Gulf States, 13% of the US and 6% of Japan, while the median wealth per adult in 2013 for India was 3% of that of the Gulf States, 2% of the US and 1% of that of Japan (Figure 16).

If the Chinese and Indian middle classes continue to expand matching that of the developed market economies they could experience a 79-94% and 97-99% increase in median wealth, respectively, which would significantly increase disposable incomes and potentially drive the global demand for diamond bearing jewellery above all expectations.

Figure 16: Changes in median wealth since 2008



SOURCE: Data from Credit Suisse Global Wealth Databook, October 2014. Gulf defined by Northland to include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE.

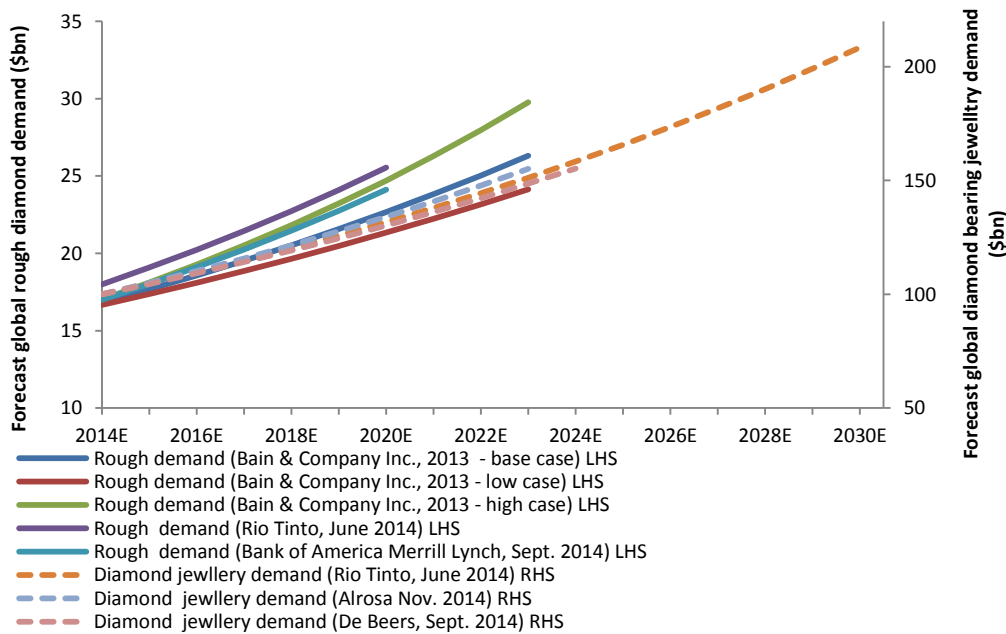


Further highlighting the growth potential of the Chinese market is the percentage of diamond ownership amongst the urbanised population that currently stands at 20% compared to 70% in the US. Around 48% of Chinese brides are currently receiving diamond bridal jewellery compared to c. 80% in the US and Japan.

Many industry participants and experts have forecast the expected trend for the changes in demand for diamond bearing jewellery and also rough diamonds we have collated these forecasts into Figure 17. This provides us a holistic view from numerous key players and experts within the diamond industry on how they expect to see the demand for diamond bearing jewellery (that in turn drives the market for rough stones) and rough diamonds to develop.

The expected trend is clearly positive with CAGR between 4.2% and 6.4% for rough diamond demand and between 4.7% and 5% for diamond bearing jewellery demand (Table 4).

Figure 17: Forecast demand for rough diamonds and diamond jewellery



SOURCE: Data from various authors referenced in the key

Table 4: Forecast CAGR for rough and diamond jewellery demand

Forecaster	Type	CAGR
Bain & Company Inc., 2013 - base case	Rough diamond demand	5.1%
Bain & Company Inc., 2013 - low case	Rough diamond demand	4.2%
Bain & Company Inc., 2013 - high case	Rough diamond demand	6.4%
Rio Tinto, June 2014	Rough diamond demand	6.0%
Bank of America Merrill Lynch, Sept. 2014	Rough diamond demand	6.0%
Rio Tinto, June 2014	Diamond bearing jewellery demand	4.7%
Alrosa Nov. 2014	Diamond bearing jewellery demand	5.0%
De Beers, Sept. 2014	Diamond bearing jewellery demand	4.5%

SOURCE: Data from various authors referenced in the forecaster column



A final point for consideration is that all the forecasts about diamond demand assume that the global desire for diamonds remains steady, and that changes in fashion will not create an increased desire for other gemstones or jewellery types over that for diamonds and diamond bearing jewellery.

Jewellers will have to maintain and likely step up their marketing effort to ensure that the desire for diamonds remains strong, particularly in emerging markets where historic diamond purchases are low but the opportunity for growth is high.

Given the industry's success at maintaining and indeed increasing consumer desire for diamond bearing jewellery in the past, for example the desire for diamond bearing engagement rings has almost always remained well above that of other gemstone bearing engagement rings, while the fashion for wedding dresses has changed dramatically with changes to shape, material and even colour, we have no reason to doubt that diamonds will continue to be a girl's best friend.



FORECAST DIAMOND SUPPLY

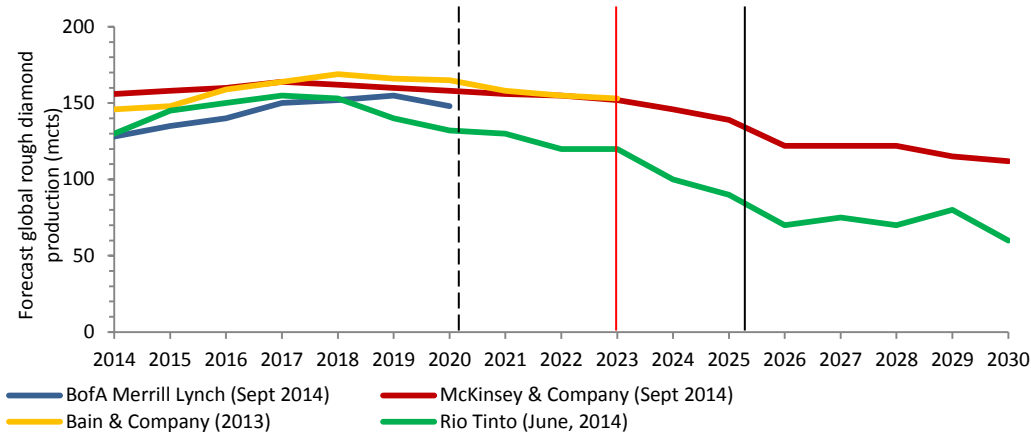
Rough diamond supply is forecast by a number of authors to peak between 2016 and 2019 at between 155mcts and 173mcts per annum (Figure 18). The decline is the result of ageing operations ceasing production, due to depletion of resources and higher operational costs associated with deeper production, plus a limited number of greenfield operations scheduled to come on stream.

Two of the forecasts that extend to 2023 predict rough diamond production to be around 16% above that of 2013 (130mcts), with a compound average decline rate (CADR) of 1.3-2% from when the forecaster expects peak production (Figure 18 – red line). While one forecaster predicts that production will be 8% lower than it was in 2013, with a CADR of 4.2% following peak production (Figure 18 – red line).

As a result, there appears to be two scenarios; in one, the decline in rough diamond production will be a gradual easing of global production levels. In this scenario, global diamond production will fall to a level below that of last year’s production during 2025 (Figure 18 – black solid line).

In the second scenario, diamond production declines quite dramatically reaching a level below that of last year’s production during 2020 (Figure 18 – black dotted line). As we have highlighted above, demand for rough diamonds is likely to be strong and as a result rough diamond prices are also likely to be strong, this would allow marginal projects or projects not economic at current levels to come on stream, as a result we believe this scenario is unlikely.

Figure 18: Forecast changes in rough diamond production levels



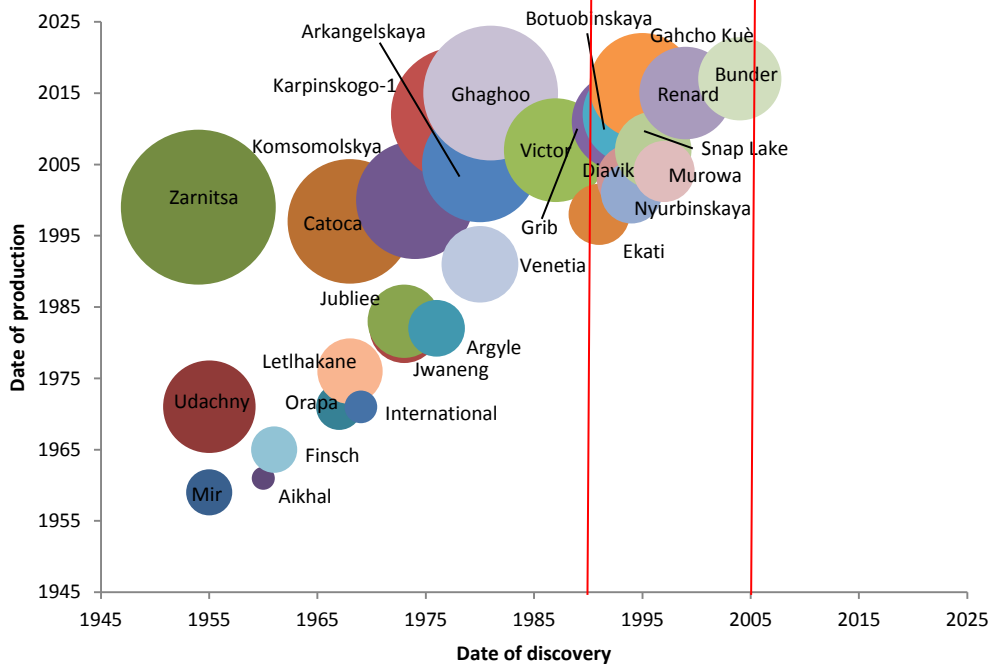
SOURCE: Data from various authors referenced in the key

Based on the range of forecasts, diamond supply is likely to continue to increase in the near to medium-term, with a gradual decline over the medium to long-term assuming no new significant discoveries are made.



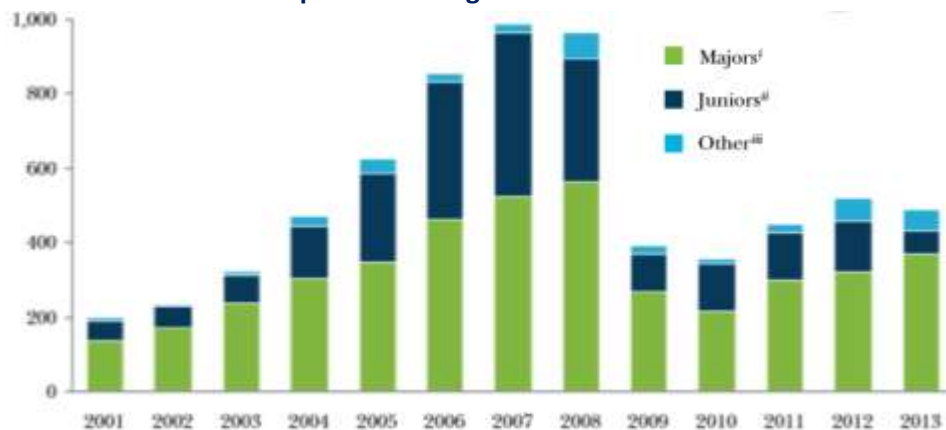
Since 1990, there have been ten major diamond deposit discoveries but not one major discovery since 2005 (Figure 19), though there have been several smaller discoveries including the Karowe Mine located in Botswana. The lack of discoveries is not a result of a lack of exploration with over \$5.6bn being spent on diamond exploration between 2005 and 2013 (Figure 20).

Figure 19: Major diamond deposit discoveries and time to production



SOURCE: Data from; The Diamond Industry Insight Report 2014, De Beers

Figure 20: Global Diamond exploration budgets



SOURCE: The Diamond Industry Insight Report 2014, De Beers

Since its peak of \$1bn in 2007 diamond exploration expense has reduced with both majors and juniors reducing their exploration budgets but still remains relatively high at \$0.5bn in 2013 compared to \$0.3bn ten years earlier. Difficult equity markets for juniors and a lack of investor interest in exploration stories have resulted in the reduction in exploration budgets. While majors have refocused on lower risk expenditure with mine expansions and near mine exploration rather than large regional exploration programmes.

While we continue to expect companies to invest in diamond exploration, the chances of a major discovery are relatively small because the occurrence of kimberlites and lamproites is restricted



to Achaean Cratons. Achaean Cratons have been well defined by modern exploration techniques and as a result these areas have been extensively explored.

Any new discoveries will almost certainly be blind deposits (not visible at surface) and will rely on improved remote sensing and geophysical techniques and as a result they will be expensive to discover and likely expensive to mine.

Even if a new large kimberlite pipe is discovered there is no guarantee that it will be economic. Only 14% of kimberlites sampled over the past 140 years being diamondiferous, only 0.9% of kimberlites are economic and only 0.1% of kimberlites are considered tier 1 (over \$20bn in reserves).

Should a new major discovery be made it will take a significant amount of time before it is moved into production as the average time frame for moving a diamond project from discovery to production has been 15 years since 1950 (Figure 19 – bubble size).

A new major discovery could potentially, though unlikely, be made before peak diamond production is reached between 2016 and 2019 but is almost certainly impossible that it will be possible to move the new discovery to production or even the start of construction by peak diamond production.

If a new discovery was made this year (2015) based on the average timeframe from production to discovery it would be 2030 before it reaches production. By 2030 global annual diamond production is forecast to be 14% to 54% lower than its current level, 18mcts-70mcts. The most diamonds produced from one diamond mine last year was 13mcts per annum from the Orapa Mine located in Botswana and only nine diamond mines currently produce more than 5mcts per annum. As a result, even if several major discoveries were made next year they would be unlikely to fill the void left by declining operations.

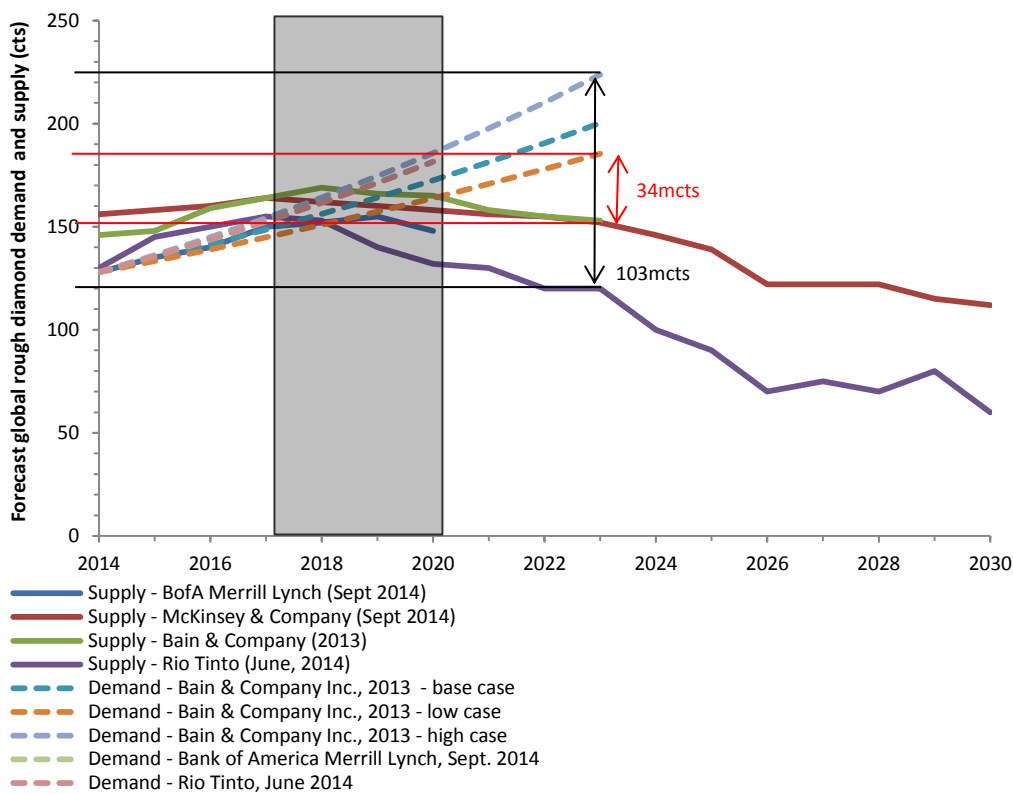


NCP VIEW ON THE DIAMOND SUPPLY & DEMAND FUNDAMENTALS

Based on the range of supply and demand forecasts, we have surveyed, we expect supply to continue to outpace demand in the near term with diamond price likely to soften. We expect that between 2017 and 2020 this will change with diamond demand outstripping supply (Figure 21) driving prices higher in the longer term.

By 2023 the deficit in supply could range between 34mcts, assuming lower demand and higher supply, and 103mcts assuming higher demand and lower supply. We consider the former to be the more likely scenario because as we described above diamond values will be pushed higher by the onset of a supply deficit allowing deposits that are currently uneconomic or marginal to come on stream.

Figure 21: Forecast changes in rough diamond production and demand levels



SOURCE: Data from various authors referenced in the key



RISKS

Technical - The principal risk to the Lemphane Project is that the grade and average value of the diamonds is currently an assumption based on diamond frequency distribution analysis and a larger sample of kimberlite is required to definitively define the grade and average value of the diamonds.

Political – Last year Tom Thabane, Prime Minister of Lesotho, was forced to flee to South Africa following a military coup led by the country’s top army commander Tladi Kamoli, while the event grabbed the international headlines little changed in Country. Lesotho has a long history of coups and disputed elections but these do not generally affect mining operations.

SHARE REGISTER

Shareholders that own greater than 3% and the Directors’ shareholding at present are shown in Table 5. Assuming TCI proceeds with exercising its option on the 60m Obtala shares, the register would look like Table 6. Assuming the equity financing then closes, the register would look like Table 7. If ITGT then acquires shares from TCI, Obtala and Grandex then the register would look like Table 8. Finally if TCI exercises the convertible the share register would look like Table 9.

Table 5: Current shareholders

Shareholder	Interest	Ownership
Titanium Capital Investments	24,000,000	8.71%
Obtala Resources Limited/Grandinex International	87,923,452	31.91%
Martin Matekane	35,471,510	12.87%
Barclayshare Nominees Ltd	10,515,599	3.82%
Philip Falzon Sant Manduca	700,000	0.25%
Simon Retter	1,151,257	0.42%
Steven Grimmer	922,600	0.33%
Martin Doyle	1,022,600	0.37%
Total	275,524,654	

Table 6: Option exercised

Shareholder	Interest	Ownership
Titanium Capital Investments	60,000,000	21.78%
Obtala Resources Limited/Grandinex International	51,923,452	18.85%
Martin Matekane	35,471,510	12.87%
Barclayshare Nominees Ltd	10,515,599	3.82%
Philip Falzon Sant Manduca	700,000	0.25%
Simon Retter	1,151,257	0.42%
Steven Grimmer	922,600	0.33%
Martin Doyle	1,022,600	0.37%
Total	275,524,654	

Table 7: Closure of equity finance

Shareholder	Interest	Ownership
Titanium Capital Investments	60,000,000	16.06%
International Triangle General Trading LLC	98,000,000	26.24%
Obtala Resources Limited/Grandinex International	51,923,452	13.90%
Martin Matekane	35,471,510	9.50%
Barclayshare Nominees Ltd	10,515,599	2.82%
Philip Falzon Sant Manduca	700,000	0.19%
Simon Retter	1,151,257	0.31%
Steven Grimmer	922,600	0.25%
Martin Doyle	1,022,600	0.27%
Total	373,524,654	



Table 8: ITGT acquisition of TCI and Obtala and Grandex shares

Shareholder	Interest	Ownership
Titanium Capital Investments	50,910,000	13.63%
International Triangle General Trading LLC	147,090,000	39.38%
Obtala Resources Limited/Grandinex International	11,923,452	3.19%
Martin Matekane	35,471,510	9.50%
Barclayshare Nominees Ltd	10,515,599	2.82%
Philip Falzon Sant Manduca	700,000	0.19%
Simon Retter	1,151,257	0.31%
Steven Grimmer	922,600	0.25%
Martin Doyle	1,022,600	0.27%
Total	373,524,654	

Table 9: Convertible exercised

Shareholder	Interest	Ownership
Titanium Capital Investments	168,058,485	33.94%
International Triangle General Trading LLC	147,090,000	29.71%
Obtala Resources Limited/Grandinex International	11,923,452	2.41%
Martin Matekane	35,471,510	7.16%
Barclayshare Nominees Ltd	10,515,599	2.12%
Philip Falzon Sant Manduca	700,000	0.14%
Simon Retter	1,151,257	0.23%
Steven Grimmer	922,600	0.19%
Martin Doyle	1,022,600	0.21%
Total	495,117,583	

SOURCE: Northland Capital Partners Limited estimates



DIRECTORS

Philip Falzon Sant Manduca, Executive Chairman

Mr Falzon Sant Manduca has over thirty years' experience at the highest levels in the financial markets industry during which time he founded, managed and sold a number of leading asset management businesses. He is currently CEO of Titanium Capital Group, a private equity investment group of companies that is focused on executing strategic hard asset investments. He was formerly alternative investment manager at Titanium Capital LLP which at time of sale had c. \$1bn under management and CEO and global macro fund manager at Sant Cassia Investments which was acquired by Eldon Capital with c. \$1bn of assets. He was previously Head of Investments at the ECU Group plc, a global macro and currency management company, managing c. \$1.5bn of client money.

Dr Stephen Grimmer, Managing Director

Dr Grimmer has over twenty-five years' mining and geological experience in the diamond industry and a PhD in kimberlites. He has a global experience of kimberlite and alluvial resource development working at the Koidu, Camtchia, Camutue kimberlite mines. Dr Grimmer's career has focussed predominately on Africa working in Angola on the Catoca & Luo Kimberlite pipes and Angolan alluvial projects Calonda/Mufutu/Chitotolo and Yetwene. Dr Grimmer has also worked in Sierra Leone, Kenya, Venezuela, Finland and Lesotho.

Simon Retter, Finance Director

Mr Retter is a chartered accountant and trained with Deloitte. He has advised a number of corporate transactions including moving Yamana Gold from AIM to full board, the reverse takeover of Pan African Resources and listing Paragon Diamonds in 2010.

Martin Doyle, Non-Executive Director

Mr Doyle has over thirty year's mining experience with De Beers in Botswana, South Africa, Brazil and Canada. He is a qualified geologist and was formerly VP Exploration for De Beers Canada.



DCF STAGE 1

Lemphane Stage 1	2015	2016	2017	Total
	0	1	2	
Assumed diamond value 100% (\$/ct)	930	930	930	-
Waste mined (t)	380,000		288,000	1,100,000
Ore mined (t)	310,000		315,000	1,165,000
Ore stockpiled (t)	45,000	45,000	-	
Recovered grade (cpht)	1.85	1.85	1.85	-
Ore processed (t)	265,000		360,000	1,165,000
Diamonds recovered (cts)	4,903	9,990	6,660	21,553
Diamond inventory (cts)	409	833	-	-
Diamonds sold (cts)	4,494	9,566	7,493	21,553
Revenue (\$m)	4.2	8.9	7.0	20.0
Cash cost per carat (\$/ct)	(948.5)	(762.7)	(667.4)	(792.9)
Opex (\$m)	(4.7)	(7.6)	(4.4)	(16.7)
Development capex (\$m)	(9.9)	-	-	(9.9)
Sustaining capex (\$m)	-	(0.3)	-	(0.3)
Operational cash flow (\$m)	(10.4)	1.0	2.5	(6.9)
Gross revenue royalty 4% (\$m)	(0.2)	(0.4)	(0.3)	(0.8)
Tax loss/Depreciation (\$m)	-	1.6	1.9	3.5
Taxable cash flow (\$m)	-	-	-	-
Tax payable (\$m)	-	-	-	-
Minorities (\$m)	-	-	-	-
AISC (\$/ct)	(982.6)	(828.4)	(709.2)	(840.1)
Net cash flow (\$m)	(10.5)	0.6	2.2	(7.7)
Discount factor timing	0.9	1.9	2.9	-
Discount factor	0.92	0.83	0.76	-
NPV10 (%)	(9.7)	0.5	1.7	(7.4)
RISK (%)	0.4	0.4	0.4	-
Valuation (\$m)	(5.8)	0.3	1.0	(4.5)

SOURCE: Northland Capital Partners Limited estimates

DCF STAGE 2

Lemphane Stage 2	2015 0	2016 1	2017 2	2018 3	2019 4	2020 5	2021 6	2022 7	2023 8	2033 18	Total
Assumed diamond value 100% (\$/ct)	-	-	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Waste mined (t)	-	-	1,103,896	3,896,104	3,900,000	3,900,000	3,900,000	3,900,000	3,900,000	4,500,000	66,500,000
Ore mined (t)	-	-	850,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	48,850,000
Recovered grade (cpht)	-	-	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Ore stockpiled (t)	-	-	42,500	150,000	150,000	150,000	150,000	150,000	150,000	150,000	-
Ore processed (t)	-	-	807,500	2,892,500	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	48,700,000
Diamonds recovered (cts)	-	-	18,169	65,081	67,500	67,500	67,500	67,500	67,500	67,500	1,095,750
Diamond inventory (cts)	-	-	1,514	5,423	5,625	5,625	5,625	5,625	5,625	5,625	-
Diamonds sold (cts)	-	-	16,655	61,172	67,298	67,500	67,500	67,500	67,500	67,500	1,090,125
Revenue (\$m)	-	-	25.0	91.8	100.9	101.3	101.3	101.3	101.3	101.3	1,635
Cash cost per carat (\$/ct)	-	-	(514.6)	(484.0)	(466.7)	(466.7)	(466.7)	(466.7)	(466.7)	(466.7)	(471)
Opex (\$m)	-	-	(9.4)	(31.5)	(31.5)	(31.5)	(31.5)	(31.5)	(31.5)	(31.5)	(513)
Development capex (\$m)	-	(44.0)	(22.0)	-	-	-	-	-	-	-	(66)
Sustaining capex (\$m)	-	-	-	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(6.4)
Operational cash flow (\$m)	-	(44.0)	(6.4)	59.9	69.0	69.4	69.4	69.4	69.4	69.4	1,049
Gross revenue royalty 8% (\$m)	-	-	(2.0)	(7.3)	(8.1)	(8.1)	(8.1)	(8.1)	(8.1)	(8.1)	(131)
Tax loss/Depreciation (\$m)	-	-	-	44.7	22.6	11.5	3.0	2.3	1.8	0.5	94
Taxable cash flow (\$m)	-	-	-	7.8	38.4	49.8	58.3	58.9	59.4	60.8	877
Tax payable (\$m)	-	-	-	(2.0)	(9.6)	(12.4)	(14.6)	(14.7)	(14.9)	(15.2)	(219)
Minorities (\$m)	-	-	-	-	(0.7)	(10.0)	(11.7)	(11.9)	(12.0)	(12.2)	(168)
AISC (\$/ct)	-	-	(624.6)	(633.0)	(734.5)	(776.9)	(808.4)	(810.8)	(812.6)	(817.7)	(786)
Net cash flow (\$m)	-	(44.0)	(8.4)	50.6	59.1	58.8	58.4	58.4	58.4	58.3	874
Discount factor timing	1.0	1.9	2.9	3.9	4.9	5.9	6.9	7.9	8.9	18.9	-
Discount factor	0.91	0.83	0.76	0.69	0.63	0.57	0.52	0.47	0.43	0.16	-
NPV10 (%)	-	(36.7)	(6.3)	34.8	37.0	33.5	30.2	27.5	24.9	9.6	298
RISK (%)	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	-
Valuation (\$m)	-	(9.2)	(1.6)	8.7	9.3	8.4	7.6	6.9	6.2	2.4	74.5

SOURCE: Northland Capital Partners Limited estimates, Note years 2024 to 2032 not shown here

DCF FOR THE SALES AND MARKETING COMPANY

The sales and marketing company	2015	2016	2017	2018	2019	2020	2021	2022	2023	2033	Total
	0	1	2	3	4	5	6	7	8	18	
Diamonds brought (cts)	4,903	9,990	24,829	65,081	67,500	67,500	67,500	67,500	67,500	67,500	1,117,303
Inventory (cts)	817	1,665	4,138	10,847	11,250	11,250	11,250	11,250	11,250	11,250	-
Diamonds sold (cts)	4,085	9,142	22,356	58,373	67,097	67,500	67,500	67,500	67,500	67,500	1,106,053
Cost of diamonds purchased per carat (\$/ct)	(930)	(930)	(1,347)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,432)
Total cost of diamonds purchased (\$m)	(4.6)	(9.3)	(33.4)	(97.6)	(101.3)	(101.3)	(101.3)	(101.3)	(101.3)	(101.3)	(1,664)
Polished price (uplift on rough price 30% stage 1)	1,209	1,209	1,751	2,100	2,100	2,100	2,100	2,100	2,100	2,100	1,988
Revenue (\$m)	4.9	11.1	39.1	122.6	140.9	141.8	141.8	141.8	141.8	141.8	2,303
Operating cost (\$m)	(0.4)	(0.7)	(2.7)	(9.8)	(10.1)	(10.1)	(10.1)	(10.1)	(10.1)	(10.1)	(165)
Operating profit (\$m)	0.0	1.0	3.0	15.2	29.5	30.4	30.4	30.4	30.4	30.4	474
Tax payable (\$m)	-	-	-	-	-	-	-	-	-	-	-
Profit after tax (\$m)	0.0	1.0	3.0	15.2	29.5	30.4	30.4	30.4	30.4	30.4	474
Paragon receives 25% stage 1 (minus 10% o of	(0.0)	0.1	1.1	5.7	11.8	12.2	12.2	12.2	12.2	12.2	189
SPV receives 75% stage 1 (plus 10% of polished	0.0	0.9	1.9	9.5	17.7	18.2	18.2	18.2	18.2	18.2	285
Paragons share of profit	2015	2016	2017	2018	2019	2020	2021	2022	2023	2033	Total
Paragon share of profit (\$m)		0.1	1.1	5.7	11.8	12.2	12.2	12.2	12.2	12.2	189
Discount factor timing	0.9	1.9	2.9	3.9	4.9	5.9	6.9	7.9	8.9	18.9	-
Discount factor	0.92	0.83	0.76	0.69	0.63	0.57	0.52	0.47	0.43	0.16	-
NPV10 (%)	-	0.0	0.3	1.8	4.4	5.2	5.9	6.4	7.0	10.1	121
RISK (%)	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	-
Valuation (\$m)	-	0.0	0.1	0.4	1.1	1.3	1.5	1.6	1.7	2.5	30.1

SOURCE: Northland Capital Partners Limited estimates, Note years 2024 to 2032 not shown here



FORECASTS

Income statement						
Year to 31th Dec (£m)	2012A	2013A	2014E	2015E	2016E	2017E
Revenue from mining operations	-	-	-	2.6	5.5	19.9
Cost of sales	-	-	-	(2.9)	(4.7)	(8.6)
Royalties	-	-	-	(0.1)	(0.2)	(1.4)
Gross margin	-	-	-	(0.4)	0.6	9.9
Income from stake in in the sales and marketing company	-	-	-	-	0.0	0.7
Corporate overheads	(1.1)	(0.7)	(0.8)	(0.7)	(0.8)	(0.9)
Depreciation	-	-	-	(0.0)	(0.7)	(3.3)
Fair value loss from re-measuring derivative instruments	-	(0.6)	-	-	-	-
EBIT/(LBIT)	(1.1)	(1.3)	(0.8)	(1.2)	(0.8)	6.3
Finance income (loss), net	(0.0)	(0.1)	(0.0)	(0.2)	(2.3)	(2.3)
Loss from discontinued operations	(4.0)	-	-	-	-	-
Loss on investments	-	-	-	-	-	-
PBT/(LBT)	(5.1)	(1.3)	(0.8)	(1.4)	(3.2)	4.0
Income tax credit/(expense)	-	-	-	-	-	-
Profit/(loss) for the year attributable to shareholders	(4.9)	(1.3)	(0.8)	(1.4)	(3.2)	4.0
Non-controlling interest	(0.2)	-	-	-	-	-
Adj. profit/(loss) for the year	(0.9)	(1.3)	(0.8)	(1.4)	(3.2)	4.0
Basic adj. EPS/(LPS) (c)	(0.5)	(0.6)	(0.3)	(0.4)	(0.5)	0.5
Diluted adj. EPS/(LPS) (c)	(0.5)	(0.6)	(0.3)	(0.4)	(0.5)	0.5
Taxation Rate %	-	-	-	-	-	-
Group Pre-tax Margin (%)	n.a	n.a	n.a	n.a	n.a	(40.5)
Operating Profit (EBIT) Margin (%)	n.a.	n.a.	n.a.	n.a.	n.a.	(63.8)
Dividends per share (p)	-	-	-	-	-	-
Dividend Cover (x)	-	-	-	-	-	-
Number of shares (m) (Ave weighted)	194.4	221.1	314.9	382.0	628.4	825.9
Number of shares (m) (Ave weighted fully dil.)	194.4	221.1	314.9	382.0	628.4	825.9
EBITDA (£m)	(1.1)	(1.3)	(0.8)	(1.1)	(0.2)	9.7
Enterprise Value (£m)	12.9	14.4	20.8	26.6	29.2	47.6
EBITDA Interest Cover (x)	26.2	22.2	25.3	4.6	0.1	(4.2)
Depreciation & Amortisation	-	-	0.0	0.0	0.7	3.3
Cash Earnings Per Share (p)	(0.6)	(0.6)	(0.2)	(0.3)	(0.0)	1.2
Price (p)	5.3	5.3	5.3	5.3	5.3	5.3
Price Earnings Ratio	(11.1)	(8.9)	(20.1)	(14.2)	(10.6)	10.9
Net yield %	-	-	-	-	-	-
NAV per share (p)	7.9	6.5	6.1	9.4	7.5	1.5
EV/EBITDA	(12.0)	(11.4)	(27.5)	(23.3)	(146.6)	4.9

SOURCE: Northland Capital Partners Limited estimates



Cash flow						
Year to 31st Dec (£m)	2012A	2013A	2014E	2015E	2016E	2017E
PBT/(LBT)	(5.1)	(1.3)	(0.8)	(1.4)	(3.2)	4.0
Loss on discontinued operations	4.0	-	-	-	-	-
Depreciation	-	-	0.0	0.0	0.7	3.3
Investment losses	-	-	-	-	-	-
Net interest	0.0	0.1	0.0	0.2	2.3	2.3
Forex loss	0.0	0.0	-	-	-	-
Share based payments	0.2	0.2	0.1	0.2	0.2	0.2
Tax paid	-	-	-	-	-	-
(Increase)/decrease in receivables	(0.0)	0.0	0.0	-	-	-
Increase/(decrease) in trade, and payables	0.2	(0.1)	0.4	0.4	-	-
Decrease (increase) in inventory	-	(0.0)	0.0	(0.3)	(0.2)	(1.4)
Fair value loss from re-measuring derivative instruments	-	0.6	-	-	-	-
Net cash used in operating activities	(0.7)	(0.6)	(0.2)	(0.9)	(0.2)	8.5
Expense on discontinued operations	(0.3)	-	-	-	-	-
Exploration and evaluation costs	(1.8)	(1.0)	(0.2)	-	-	-
Property, plant and equipment costs	(0.3)	(0.1)	-	(6.2)	(27.6)	(13.7)
Net cash used in investing activities	(2.4)	(1.1)	(0.2)	(6.2)	(27.6)	(13.7)
Proceeds from issue of shares (net)	1.7	1.1	0.1	5.0	20.5	-
Proceeds from the exercise of options	-	-	-	-	-	-
Proceeds from derivative instrument (net)	-	0.2	0.3	-	-	-
Proceeds from issue of debt (gross)	0.6	0.1	1.0	2.5	20.5	-
Repayment of derivative instrument (net)	-	-	(1.0)	-	-	-
Repayment of debt by Paragon	-	-	-	-	-	-
Issue of convertible to cover outstanding loan	-	-	-	-	-	-
Debt costs and interest	-	-	-	(0.2)	(1.2)	(2.3)
Net cash from financing activities	2.3	1.4	0.4	7.3	39.9	(2.3)
Forex	-	-	-	-	-	-
Net increase/(decrease) in cash held	(0.7)	(0.3)	(0.0)	0.2	12.1	(7.5)
Cash and cash equivalents	0.5	0.2	0.2	0.3	12.4	4.9

SOURCE: Northland Capital Partners Limited estimates



Balance sheet						
Year to 31st Dec (£m)	2012A	2013A	2014E	2015E	2016E	2017E
Issued capital	2.0	2.9	6.3	11.5	32.2	32.4
Share premium	44.9	47.2	48.1	48.1	48.1	48.1
Retained earnings	(19.9)	(21.2)	(22.0)	(23.5)	(26.6)	(22.6)
Reserves	0.3	(1.2)	(3.6)	(4.1)	(4.5)	(5.1)
Non-controlling interests	3.2	3.2	-	-	-	0.2
Deferred tax liability	9.1	8.9	8.9	8.9	8.9	8.9
Provisions	0.1	0.1	0.5	-	1.6	2.0
Obtala/Titanium Capital loan	2.6	2.6	3.2	3.2	3.2	3.2
Stage 1 debt	-	-	-	2.5	2.5	2.5
Stage 2 debt	-	-	-	-	20.5	20.5
Trade and other receivables	0.3	0.2	0.6	1.0	1.0	1.0
Capital employed	42.6	42.8	42.0	47.7	87.0	91.2
Exploration and evaluation expense	41.2	40.6	40.5	40.5	40.5	40.5
Property, plant and equipment	0.8	0.4	0.4	6.5	33.4	43.7
Derivative instrument	-	1.4	0.7	-	-	-
Trade and other receivables	0.2	0.1	0.1	0.1	0.1	0.1
Inventory	-	0.0	0.0	0.4	0.6	2.0
Tax	-	-	-	-	-	-
Cash and cash equivalents	0.5	0.2	0.2	0.3	12.4	4.9
Capital employed	42.6	42.8	41.9	47.7	87.0	91.2
Net assets per share net of goodwill & intangibles (p)	7.9	6.5	6.1	9.4	7.5	1.5
Net assets per share Inc. goodwill & intangibles (p)	14.0	12.5	8.7	7.4	6.0	6.4
Net cash (debt) (£m)	(2.6)	(2.7)	(4.1)	(6.4)	4.1	(3.8)
Free cash flow per share (p)	0.3	0.1	0.1	0.1	1.5	0.6
Gearing (%)	(4.6)	(5.0)	(6.8)	(7.9)	4.0	(7.2)
Shares in issue at year end (m)	194.4	221.1	331.1	432.8	824.0	827.7
Post tax RoCE (%)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	0.0
RoE (%)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	0.1
Shareholders' funds (£m)	56.4	55.0	60.8	81.2	102.0	52.8
Shareholders' funds net of intangibles (£m)	15.3	14.3	20.3	40.8	61.6	12.4

SOURCE: Northland Capital Partners Limited estimates



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<u>Company</u>	<u>Ticker</u>	<u>Applicable disclosures</u>
Paragon Diamonds	PRG.L	1, 5, 7, 8

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CONTACTS

Research

Technology, Media & Telecoms	David Johnson	+44 (0)20 7382 1130	djohnson@northlandcp.co.uk
Support Services	David Johnson	+44 (0)20 7382 1130	djohnson@northlandcp.co.uk
Healthcare	Vadim Alexandre	+44 (0)20 7382 1134	valexandre@northlandcp.co.uk
Oil & Gas	Andrew McGeary	+44 (0)20 7382 1132	amcgeary@northlandcp.co.uk
Coal Mining	Andrew McGeary	+44 (0)20 7382 1132	amcgeary@northlandcp.co.uk
Metals & Mining	Ryan Long	+44 (0)20 7382 1131	rlong@northlandcp.co.uk
Consumer	Michael Campbell	+44 (0)20 7382 1133	mcampbell@northlandcp.co.uk

Sales & Broking

John Howes	+44 (0)20 7382 1111	jhowes@northlandcp.co.uk
Alice Lane	+44 (0)20 7382 1113	alane@northlandcp.co.uk

Corporate Finance

Patrick Claridge	+44 (0)20 7382 1120	pclaridge@northlandcp.co.uk
Gerry Beaney	+44 (0)20 7382 1126	gbeaney@northlandcp.co.uk
David Hignell	+44 (0)20 7382 1125	dhignell@northlandcp.co.uk
Edward Hutton	+44 (0)20 7382 1122	ehutton@northlandcp.co.uk
Matthew Johnson	+44 (0)20 7382 1124	mjohnson@northlandcp.co.uk
William Vandyk	+44 (0)20 7382 1121	wvandyk@northlandcp.co.uk

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