

Conroy Diamonds and Gold P.l.c.

Annual Report and Financial  
Statements 2001



CONROY  
DIAMONDS AND GOLD P.l.c.

Conroy Diamonds and Gold P.l.c.

# Annual Report and Financial Statements 2001

## Contents

- 2 Chairman's Statement
- 6 Review of Operations
- 10 Company Information
- 12 Directors' Report
- 14 Auditors' Report
- 15 Profit and Loss Account
- 16 Balance Sheet
- 17 Cash Flow Statement
- 18 Statement of Accounting Policies
- 19 Notes to the Financial Statements



CONROY  
DIAMONDS AND GOLD P.l.c.

## Chairman's Statement

### Dear Shareholder

I have great pleasure in presenting your Company's Annual Report and Financial Statements for the twelve months ended May 31 2001, a period of further major progress for your Company.

The year began as your Company's shares first traded on the Alternative Investment Market (AIM) of the London Stock Exchange, progressed with the discovery of a second gold deposit, the exciting Armagh find, and concluded as your Company extended its exploration activities into Finland, with diamonds the main target. Indeed, it was a year in which the Company's name fully reflected its activities for the first time.

### Discovery of Gold in County Armagh

The new and exciting gold discovery in Co. Armagh, 6.5km along strike from your Company's Tullybuck-Lisglassan deposit in Co. Monaghan is both gratifying and of great significance. It provides solid evidence to support your Company's postulation that Tullybuck-Lisglassan is not an isolated gold deposit but is part of a much larger mineral field - the Armagh-Monaghan Gold Belt - now known to

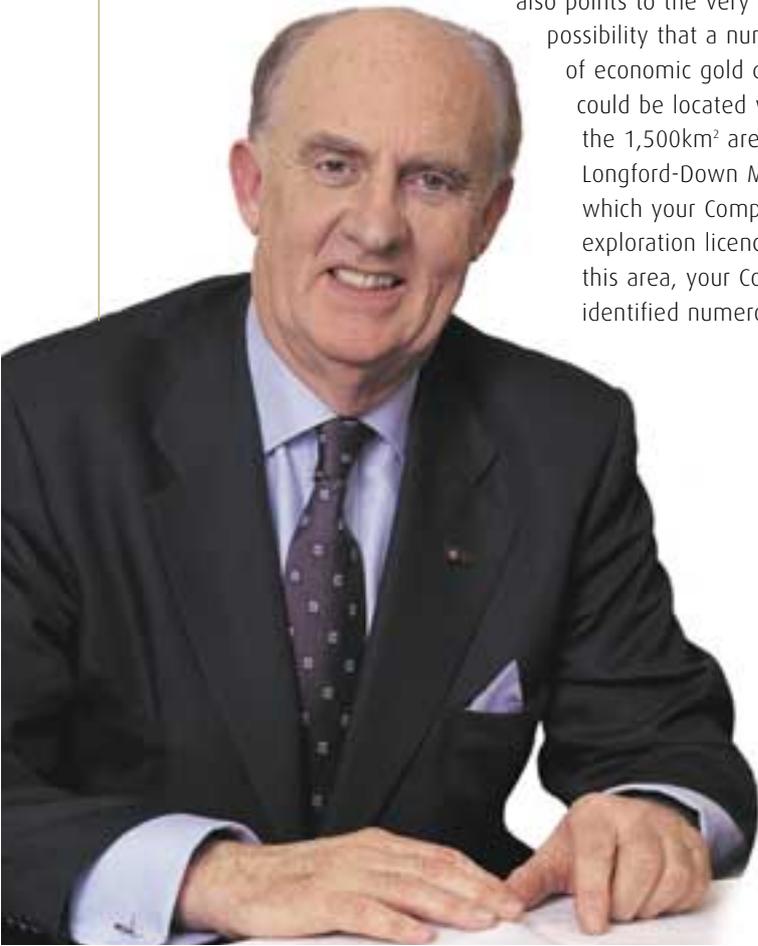
extend for at least 20km. This discovery also points to the very real possibility that a number of economic gold deposits could be located within the 1,500km<sup>2</sup> area in the Longford-Down Massif over which your Company holds exploration licences. Within this area, your Company has identified numerous other

geochemical anomalies, which may indicate mineralised zones of similar potential.

The two original discovery holes in Co. Armagh have now been followed up by a further eleven holes for a total of 800m of drilling. Gold mineralisation has been intersected in all but one hole (which was targeted on a base metal anomaly). Two, or possibly three, mineralised structures have been identified to date over a strike length of approximately 150 meters. The zone of mineralisation remains open along strike and at depth and to date only a small section of what is a very extensive geochemical anomaly (3.5km x 1.5km) has been drill tested.

The drilling results suggest that the recently reported findings of an independent European Research Team led by the British Geological Survey on your Company's Tullybuck-Lisglassan gold deposit may also apply to the Armagh discovery. The Research Team found "a new structural orientation not previously observed" at the Tullybuck-Lisglassan deposit and believes "that mineralisation is more extensive" than previously indicated. This independent confirmation of the conclusions previously reached by your Company's technical experts, that the orientation of the gold veins is different to that of the base metals mineralised structures, paves the way for additional discoveries at Tullybuck-Lisglassan as well as new discoveries elsewhere within the Armagh-Monaghan Gold Belt.

The new find in Co. Armagh also provides strong support for your Company's geological model for the Armagh-Monaghan Gold Belt - the interpretation of geological factors and events, which have controlled the emplacement of mineralisation within the belt. Both Tullybuck-Lisglassan and the new Co. Armagh discovery are spatially related to the very important Orlock Bridge Fault, which your Company believes is the geological structure, which most influenced the creation of the gold belt.



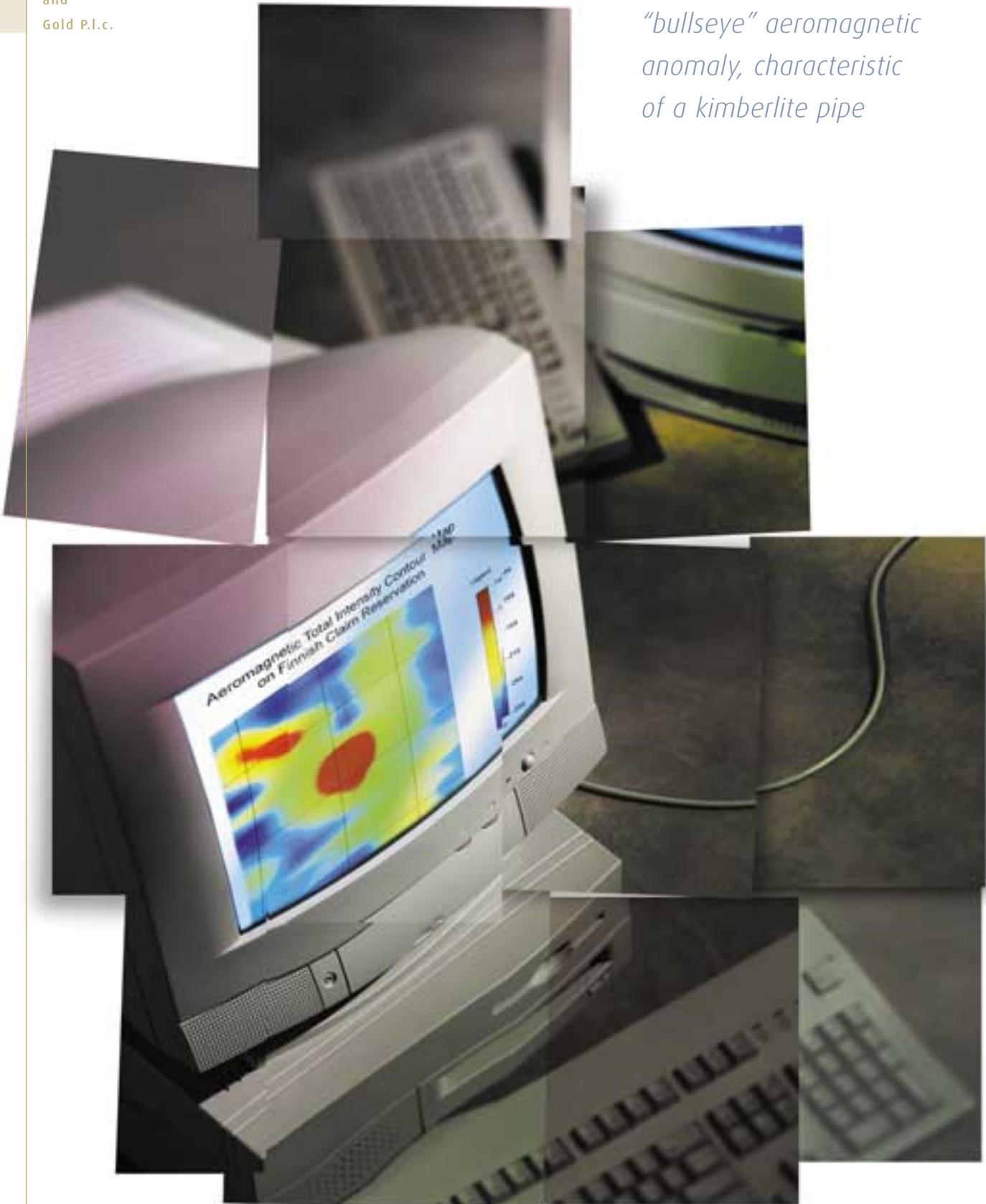
*A year in which the Company's name fully reflected its activities for the first time*

*Drilling results suggest that the findings of an independent European Research Team paves the way for additional discoveries at Tullybuck-Lisglassan as well as new discoveries elsewhere*

2001  
Conroy  
Diamonds  
and  
Gold P.L.C.



*G9 Chrome Pyrope Garnet, a "diamond indicator mineral", recovered in the vicinity of a classic "bullseye" aeromagnetic anomaly, characteristic of a kimberlite pipe*



## Finland – Diamond Exploration Initiated with Encouraging Results

Your Company's exploration programme was extended to Finland at the end of the year. Diamonds will be the main focus of exploration, but areas prospective for gold, chrome, nickel and platinum group metals (PGMs) will also be targeted.

The move into Finland is a logical step for your Company, the management of which has previous experience in running exploration programmes in that country. Furthermore, Conroy P.l.c, a company which has common directors with your Company, and which has acquired extensive information, knowledge and expertise in relation to Finland, has agreed to share this data with your Company. A value of IR£350,000 has been agreed for this data and information (see Note 5 to the accounts). As this constitutes a related party transaction an appropriate resolution will be tabled at the Annual General Meeting. Your Company has also contracted the services of the Geological Survey of Finland ("GSF"), with its invaluable experience and expertise in the geology of Finland, to work in association with your Company's staff and consultants.

I am pleased to report that the initial till sampling programme in Finland carried out on behalf of your Company by the GSF has been most encouraging. Kimberlitic indicator minerals including an all-important G9 Chrome Pyrope Garnet, a "diamond indicator mineral", have been recovered in the vicinity of a classic "bullseye" aeromagnetic anomaly, characteristic of a kimberlite pipe. This is a very promising beginning to the Company's exploration programme for diamonds in Finland, The recovery of a G9 garnet at such an early stage is particularly good news and suggests our selection of target areas for diamonds is well founded.

## Successful Strategy

Your Company's strategy is to identify and develop significant geological and prospecting opportunities which have major economic potential. This strategy has already achieved success through the identification of the mineral potential for gold of the Longford-Down Massif in Ireland. The expansion of your Company's

exploration programmes into Finland, with that country's potential for both diamonds and gold, is an exciting development which could result in further major exploration success.

## Finance

The Company raised €933,000, net of expenses, through the issue of 3,376,000 new ordinary shares, the details of which are set out in Note 9 to the accounts. These funds have enabled your Company to optimise its ongoing operations.

In accordance with the adoption of the Euro as from 1 January 2002 your Company's accounts are expressed in Euros. Consequently changes to the Memorandum and Articles of Association are required and resolutions to give effect to this will be proposed at the Annual General Meeting.

I am happy to inform you that during the year your Company appointed Dolmen Butler Briscoe as stockbrokers in Dublin.

## Directors, Consultants and Staff

I would like to express my appreciation of the support and dedication of the directors, consultants, in particular our Senior Geological and Mining Consultants, Dr. Michael Smith and Mr. Terry Beal, and staff which has made possible the progress and success that your Company has achieved. I welcome the appointment of Mr. David Furlong as geologist to your Company. His extensive experience in exploration and mining and in particular in gold has already proved most helpful.

## Future Outlook

Your Company looks to the future with confidence. We have a strong land position in both Ireland and Finland, a highly successful exploration programme and a team with the expertise and track record to build on this success and bring your Company forward in a positive direction.



Professor Richard Conroy  
Chairman

## Review of Operations

### Introduction

Highlights of the Company's operations during the year include the discovery of a gold deposit on the Company's acreage in Co. Armagh in the Longford-Down Massif, and the commencement of exploration activities for diamonds, gold and other minerals in Finland.

The discovery of gold in Co. Armagh followed trenching and drilling on a section of the extensive (3.5km x 1.5km) gold geochemical anomaly outlined previously by the Company. The discovery reinforces the Company's view that an extensive gold belt exists in Armagh-Monaghan, and provides further evidence that a number of economic gold deposits could be located within the Armagh-Monaghan Gold Belt.

In view of these excellent results, the Company has increased its ground holding in the Longford-Down Massif with the acquisition of eleven further licences. The Company now holds a contiguous block of 1,500km<sup>2</sup> which straddles both the border between the Republic of Ireland and Northern Ireland and the line of the Orlock Bridge Fault.

The Company has also been granted 23 Claim Reservations in Finland. The selection of areas has been based on examination of extensive geological and geophysical databases made available to the Company. Twelve of these Claim Reservations are prospective for diamonds, and initial exploration results have been highly encouraging, with the recovery of kimberlitic indicator minerals, including a G9 garnet, in the vicinity of a 'bullseye' aeromagnetic anomaly.

### The Longford-Down Massif

#### Armagh-Monaghan Gold Belt

The Company's regional exploration model suggests that mineralisation within the Armagh-Monaghan Gold Belt in the Longford-Down

Massif, is influenced by the presence of the Orlock Bridge Fault, a major regional geological structure, with cross faulting breaking up the belt into a number of discrete fault blocks. The Tullybuck-Lisglassan Deposit in Co. Monaghan lies within one such fault block, whilst the newly discovered Cargallisgoran Deposit in Co. Armagh is located within another. The two are separated by at least one, and possibly two, further untested fault blocks. The belt itself is seen to cover an area approximately 20km long by 3km wide.

Elsewhere in the Armagh-Monaghan Gold Belt, excellent results have been received from reconnaissance soil geochemistry programmes. A number of further targets have been identified on which follow up trenching and drilling is being planned.

#### The Tullybuck-Lisglassan Deposit

Further exploration work has continued at the Company's Tullybuck-Lisglassan Gold Deposit in Co. Monaghan. Exploration results in this area continue to be highly encouraging.

Further geochemical soil sampling about 1.5 kilometres to the north of Tullybuck-Lisglassan has identified a strong gold anomaly. This discovery conforms with the Company's exploration model regarding the deposition and distribution of gold mineralisation within the Armagh-Monaghan Gold Belt.

The British Geological Survey/CRAFT Project, in which the Company was a participant, has been completed. Laser ablation inductively coupled plasma-mass spectrometry (ICP-MS) was applied to the analysis of vein quartz and sulphides, and indicator kriging used for the 3D visualisation of vein type deposits. Both approaches have proved successful and clearly indicate their potential as tools for gold exploration in the Longford-Down Massif. The occurrence and relative age of the mineralised quartz veins are preferentially focused along bedding-parallel



*New gold discovery in Co. Armagh is of great significance and provides solid evidence that Tullybuck-Lisglassan deposit is part of a much larger mineral field*

fractures within Ordovician Black Shale units. At Tullybuck-Lisglassan, these units are orthogonal to the strike of the stibnite bearing structure, which implies that previous diamond drillholes were unfavourably orientated for testing the gold bearing structures.

As part of the BGS/CRAFT project, a 3D model of the Tullybuck-Lisglassan Deposit has been constructed from drillhole data. Analysis of this model by BGS personnel has concluded that mineralisation is more extensive than previously indicated.

#### The Cargallisgoran Deposit

This new find at Cargallisgoran, Co. Armagh is located some 6.5 kilometres along strike from the Tullybuck-Lisglassan Deposit. Geochemical prospecting outlined an extensive gold anomaly, with a known surface expression to date of approximately 3.5km x 1.5km. Over one part of this anomaly, where bedrock comes close to surface, over 400 metres of trenching was completed. Bedrock sampling of these trenches showed elevated gold values, and following mapping and geological interpretation, drill sites were selected.

The first borehole was drilled to intersect the sub-surface extension of a broad gold anomaly identified in one of the trenches. Between 16.50 metres and 23.44 metres down hole it intersected an interval of 6.94 metres grading 4.14 g/t gold. This included a section of 1.87 metres between 17.97 metres and 19.84 metres which averaged 8.84 g/t. The second hole was drilled to intersect the subsurface extension of a diffuse low grade surface anomaly on a separate structure which had been identified in the trenches. This returned an intersection of 9.27



metres grading 1.88 g/t gold between 14.73 metres and 24 metres down hole.

The two original discovery holes have now been supplemented by a further eleven holes drilled to an average downhole depth of 62 metres. Follow up drilling has extended the zone of mineralisation to over 150 metres along strike. All but one intersected significant gold mineralisation, the exception being a hole that was targeted on a base metal anomaly. These holes have proven continuity, both along strike and down dip, of mineralisation intersected in the two discovery holes.

In total in the past year, 810 metres of drilling has been completed at Cargallisgoran.

*Visit by BBC Northern Ireland to Armagh 30 August 2001*



2001

Conroy  
Diamonds  
and  
Gold P.L.C.

Mineralisation at Cargallisgoran is associated with sulphides (primarily arsenopyrite), hydraulic fracturing, and quartz/carbonate and quartz/feldspar veining.

Two, or possibly three, separate and distinct mineralised structures have been identified to date through trenching and drilling. These structures have been intersected by drilling over a strike length of approximately 150 metres, and are still open both along strike and at depth.

*The recovery of a G9 Chrome Pyrope Garnet at such an early stage is particularly good news and suggests our selection of target areas for diamonds is well founded*

Furthermore, this drilling programme has tested only one small section of what is a very extensive anomaly (3.5km x 1.5km) and work is ongoing to evaluate the potential of other parts of this feature.

#### Further Exploration

Exploration for both gold and base metals elsewhere in the Longford-Down Massif is progressing.

Reconnaissance soil geochemistry surveys have shown a series of gold anomalies associated with the Slieve Glah Shear Zone in Co. Cavan, approximately 45 kilometres south west of Tullybuck-Lisglassan. Infill sampling in this area has now revealed an extensive continuous gold anomaly over approximately 1.7 kilometres. Work is continuing to evaluate the potential of this area.

To the south of the Armagh-Monaghan Gold Belt, a 50km<sup>2</sup> area has been identified as being highly prospective for base metals. Geologically, this area is very similar to the Leadhills/Wanlockhead mining field in Scotland. Numerous base metal veins have been worked here in the past and evaluation of the area's potential is in progress.

#### Finland

Finland's long history of mining reflects a favourable geology which is highly prospective for diamonds and other minerals. The Company's Directors and consultants have extensive experience in Finland and have long recognised the prospectivity of the Finnish Baltic Shield. To complement this in-house experience the services of the Geological Survey of Finland ("GSF") has been contracted by the Company to work in association with its staff and consultants. The GSF has invaluable expertise and experience in the geology of Finland, as well as state of the art laboratories and facilities.



**G9 Chrome Pyrope Garnet**

Photomicrograph courtesy  
of Dr. Karl A. Kinnunen,  
Geological Survey of Finland



The Pre-Cambrian Archaean rocks of the Baltic Shield underlying much of the central and northern parts of Finland form part of two major geological structures known as the Karelian and Kola Cratons. These Cratons extend over the border into Russia. The Russian portion of the Karelian Craton hosts the Lomonosova diamond deposit, one of the largest in the world. The whole combined structure, known as the Baltic Shield, forms the ancient geological heart of northwest Europe. Significantly, it is equivalent in age and geological make up to the Southern African and Western Australian Cratons and the Canadian Shield, all of which have yielded major diamond deposits.

The geology of Finland also includes extensive Archaean greenstone belts. The rocks of these greenstone belts exhibit characteristics similar to those hosting significant gold deposits throughout the world.

During the past year, 23 Claim Reservations covering approximately 200km<sup>2</sup> have been granted to the Company. These Claim Reservations have been carefully selected on the basis of extensive geological and geophysical databases made available to the company, and target highly prospective areas. Each Claim Reservation covers an area of up to 9km<sup>2</sup> and gives the holder exclusivity in applying for Exploration Claims within that area. No financial commitment is attached to a Claim Reservation.

### Diamonds

Most diamonds are formed in kimberlite pipes, which are generally associated with Archaean shield geology. Certain minerals are unique to kimberlite pipes and are thus known as "kimberlitic indicator minerals". Some of these

*A highly successful exploration programme and a team with the expertise and track record to build on this success*

minerals come from the same source rock as diamonds. G9 and G10 garnets are of particular importance in this regard and are known as "diamond indicator minerals".

Geophysical techniques are also very relevant in diamond exploration. Kimberlite pipes may show magnetic highs or lows characterised by a bullseye pattern in northern latitudes. The databases made available to the Company included detailed aeromagnetic information and to date this has highlighted twelve geophysical anomalies displaying kimberlitic pipe characteristics. These areas, which are located in both the Karelian and Kola Cratons in Finland, are now held under Claim Reservation by the Company.

Initial results over selected Claim Reservations are very encouraging. Till sampling has recovered kimberlitic indicator minerals including an all important G9 Chrome Pyrope Garnet in the vicinity of a 'bullseye' aeromagnetic anomaly. Follow-up exploration is now underway.

### Gold, Platinum Group Metals (PGM) and Base Metals

Eleven Claim Reservations are currently held by the Company for gold, PGM and base metals.

Exploration activities are focused around Central Lapland. Following evaluation based on analysis of data held by the GSF, and reconnaissance field trips, detailed till sampling programmes will be put in place.

## Company Information

### Directors, Secretary and Advisers

Professor Richard Conroy  
*Executive Chairman\**

Maureen T. A. Jones  
*Managing Director\**

James P. Jones F.C.A.<sup>†</sup>  
*Finance Director\**

Louis J. Maguire<sup>†</sup>  
*Non-Executive Director\**

Henry B. Knott<sup>†§</sup>  
*Non-Executive Director*

Dr. Pamela Conroy<sup>§</sup>  
*Non-Executive Director*

Henry H. Rennison<sup>†§</sup>  
*Non Executive Director\**

\* *Members of Executive Committee*

† *Members of Remuneration Committee*

§ *Members of Audit Committee*

### Company Secretary and Registered Office

James P. Jones  
10 Upper Pembroke Street  
Dublin 2  
Ireland  
[www.conroydiamondsandgold.com](http://www.conroydiamondsandgold.com)

### Auditors

Arthur Andersen  
Chartered Accountants  
Andersen House  
International Financial  
Services Centre  
Dublin 1

### Nominated Adviser

Seymour Pierce Limited  
29/30 Cornhill  
London EC3V 3NF

### Nominated Broker

Seymour Pierce Ellis Limited  
Talisman House  
Jubilee Walk  
Three Bridges  
Crawley  
West Sussex RH10 1LQ

### Dublin Stockbrokers

Dolmen Butler Briscoe  
Dolmen House  
4 Earlsfort Terrace  
Dublin 2

### Legal Advisers

William Fry Solicitors  
Fitzwilton House  
Wilton Place  
Dublin 2

Olswang  
90 Long Acre  
London WC2 9TT

Roschier-Holmberg & Waselius  
Keskuskatu 7A  
00100 Helsinki  
Finland

Blake, Cassels & Graydon  
Box 25  
Commerce Court West  
Toronto M5L 1A9  
Canada

### Registrars

Capita Corporate Registrars PLC  
Marine House  
Clanwilliam Court  
Dublin 2



Professor Richard Conroy



Maureen T. A. Jones



James P. Jones F.C.A.



Dr. Pamela Conroy



Henry H. Rennison



Louis J. Maguire



Henry B. Knott



## Directors' Report

for the Year Ended 31 May 2001

The Directors present their annual report, together with the audited financial statements of Conroy Diamonds and Gold P.l.c. for the year ended 31 May 2001.

### Principal Activities and Business Review

The current focus of the Company's activities is on a major geological structure in Ireland known as the Longford-Down Massif. The Company has acquired prospecting licences over an area of almost 1,500km<sup>2</sup>. On one small portion of this licence area, at Clontibret in County Monaghan, the Company has intersected high grades and mineable widths of gold mineralisation in the Tullybuck/Lisglassan deposit, which, the Directors believe, has the potential to become the first major gold mine in Britain or Ireland in recent times. Recent drilling of the Tullybuck/Lisglassan deposit has yielded further excellent results.

Exploration within the Company's licence area has demonstrated, in addition to the Tullybuck/Lisglassan gold deposit, an extensive gold belt which extends over a distance of up to 20km from County Armagh into County Monaghan. Geochemical surveys within this gold belt point to the existence of lookalike units to Tullybuck/Lisglassan, with the potential to host further similar mineral deposits. During the year a new gold deposit was discovered at Cargallisgoran in County Armagh on one of the anomalies identified in the Geochemical survey.

The Company has also acquired claim reservations in Finland which have diamond and gold prospects.

### Future Development of the Business

It is the intention of the Directors to continue to develop the activities of the Company. Further strategic opportunities in mineral resources, both in Ireland and abroad, will be sought by the Company.

### Results for the Year and State of Affairs at 31 May 2001

The profit and loss account for the year ended 31 May 2001 and the balance sheet at that date are set out on pages 15 and 16 respectively. The Company recorded a loss for the financial year of €305,369 (2000 - €131,790). The shareholders' funds increased to €3,231,810 at 31 May 2001 from €2,603,915 at 31 May 2000.

No dividends or transfers to reserves are recommended by the Directors.

### Important Events since the Year End

There have been no significant events affecting the Company since the end of the financial year.

### Health and Safety at Work

The well-being of the Company's employees is safeguarded through adherence to health and safety standards in accordance with the requirements of the Safety, Health and Welfare at Work Act, 1989.

### Directors

The Directors who served during the year are as follows:

R.T.W.L. Conroy	P. Conroy
J.P. Jones	L.J. Maguire
M.T.A. Jones	H.B. Knott
H.H. Rennison	

In accordance with the Company's articles of association, Miss M.T.A. Jones and Mr H.H. Rennison will retire by rotation and, being eligible, will offer themselves for re-election at the Annual General Meeting.

### Directors' and Secretary's Shareholdings and Other Interests

The interests of the Directors and Secretary, all of which were beneficially held, in the ordinary share capital of the Company at 31 May 2000 and 31 May 2001 were as follows:

	Ordinary Shares of 2.5p each	Options
R.T.W.L. Conroy	3,750,010	1,000,000
J.P. Jones	360,010	275,000
M.T.A. Jones	750,010	325,000
H.H. Rennison	330,010	50,000
P. Conroy	500,010	125,000
L.J. Maguire	310,010	50,000
H.B. Knott	150,010	25,000

Details of the options are as follows:

Directors Year	At 31 May 2000	Granted During	Exercised During	At 31 During	Price May 2001	IR£	Expiry Date	Year
R.T.W.L. Conroy	500,000		500,000	-	1,000,000	.20	4 Dec 2010	
J.P. Jones	150,000		125,000	-	275,000	.20	4 Dec 2010	
M.T.A. Jones	200,000		125,000	-	325,000	.20	4 Dec 2010	
H.H Rennison	50,000		-	-	50,000	.20	4 Dec 2010	
P. Conroy	125,000		-	-	125,000	.20	4 Dec 2010	
L.J. Maguire	50,000		-	-	50,000	.20	4 Dec 2010	
H.B. Knott	25,000		-	-	25,000	.20	4 Dec 2010	

Except as disclosed above, neither the Directors nor their families had any beneficial interest in the share capital of the Company. There have been no contracts or arrangements entered into during the financial year in which a Director of the Company had a material interest and which were significant in relation to the Company's business except as disclosed in Note 14 to the financial statements.

### Substantial Shareholdings

So far as the Board is aware, no person or company, other than the Directors' interests disclosed above, held 3% or more of the issued ordinary share capital of the Company at September 2001.

### Euro

The Euro conversion project is currently underway and progress is being assessed in advance of all critical dates. The costs of ensuring Euro compliance are not material.

### Political Donations

There were no political donations during the year.

### Directors' Responsibility Statement

Company law requires the Directors to prepare financial statements for each period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors have:

- selected suitable accounting policies and then applied them consistently;

- made judgements and estimates that are reasonable and prudent.

As explained in Note 1 to the financial statements, the Directors have reviewed cashflow projections and other relevant information and are satisfied that the Company will be able to continue in operation for the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Acts 1963 to 1999. They are also responsible for safeguarding the assets of the Company and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Auditors

The auditors, Arthur Andersen, Chartered Accountants have expressed their willingness to continue in office in accordance with Section 160 (2) of the Companies Act, 1963.

On behalf of the Board

**R.T.W.L. Conroy**  
Chairman

**J.P. Jones**  
Director

Approved by the Directors 17 October 2001

## Auditors' Report

### To the Members of Conroy Diamonds and Gold P.I.c.:

We have audited the financial statements on pages 15 to 23 which have been prepared under the historical cost convention and in accordance with the accounting policies set out on page 18.

### Respective Responsibilities of Directors and Auditors

As described on page 13, the Directors are responsible for the preparation of financial statements in accordance with Accounting Standards generally accepted in Ireland. Our responsibilities, as independent auditors, are established in Ireland by statute, the Auditing Practices Board, and our profession's ethical guidelines.

### Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company at 31 May 2001 and of its loss and cashflows for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 1999.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company. The Company's financial statements are in agreement with the books of account.

In our opinion, the information given in the Directors' report on pages 12 to 13 is consistent with the financial statements.

The net assets of the Company, as stated in the balance sheet on page 16, are more than half of the amount of its called up share capital and, in our opinion on that basis there did not exist at 31 May 2001, a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.

### Arthur Andersen

Chartered Accountants and Registered Auditor

17 October 2001  
Dublin

## Profit and Loss Account

for the Year Ended 31 May 2001

	Notes	2001 €	2000 €
Operating Expenses	2	(320,190)	(132,071)
Other Income		14,821	281
<b>Loss on Ordinary Activities before Taxation</b>	3	<b>(305,369)</b>	<b>(131,790)</b>
Tax on loss on ordinary activities	4	-	-
<b>Loss for the Year</b>		<b>(305,369)</b>	<b>(131,790)</b>
<b>Profit and Loss Account, at 31 May 2000</b>		<b>(438,425)</b>	<b>(306,635)</b>
<b>Profit and Loss Account, at 31 May 2001</b>		<b>(743,794)</b>	<b>(438,425)</b>

2001  
Conroy  
Diamonds  
and  
Gold P.L.C.

There are no recognised gains or losses other than the loss for the year.

The accompanying notes form an integral part of this profit and loss account.

On behalf of the Board

**R.T.W.L. Conroy**  
Chairman

**J.P. Jones**  
Director

Approved by the Directors 17 October 2001

# Balance Sheet

31 May 2001

	Notes	2001 €	2000 €
<b>Fixed Assets</b>			
Mineral interests	5	3,261,035	1,910,459
Tangible assets	10	65,863	11,960
		<b>3,326,898</b>	<b>1,922,419</b>
<b>Current Assets</b>			
Debtors	6	45,957	18,134
Cash at bank and in hand		1,049,695	1,443,763
		<b>1,095,652</b>	<b>1,461,897</b>
<b>Creditors:</b> Amounts falling due within one year	7	<b>(968,536)</b>	<b>(780,401)</b>
<b>Net Current Assets</b>		<b>127,116</b>	<b>681,496</b>
<b>Total Assets less current Liabilities</b>		<b>3,454,014</b>	<b>2,603,915</b>
<b>Creditors:</b> Amounts falling due after more than one year	8	<b>(222,204)</b>	-
<b>Net Assets</b>		<b>3,231,810</b>	<b>2,603,915</b>
<b>Capital and Reserves</b>			
Called up share capital	9	557,449	450,283
Share premium account	9	3,418,155	2,592,057
Profit and loss account		<b>(743,794)</b>	<b>(438,425)</b>
<b>Shareholders' Funds - all equity</b>	11	<b>3,231,810</b>	<b>2,603,915</b>

The accompanying notes form an integral part of this balance sheet.

On behalf of the Board

**R.T.W.L. Conroy**  
Chairman

**J.P. Jones**  
Director

Approved by the Directors 17 October 2001

# Cash Flow Statement

for the Year Ended 31 May 2001

	<i>Notes</i>	2001 €	2000 €
<b>Net Cash (Outflow)/Inflow from Operating Activities</b>	12A	<b>(16,875)</b>	142,033
Returns on Investments and Servicing of Finance		-	-
Taxation		-	-
Capital Expenditure and Financial Investments	12B	<b>(1,419,985)</b>	(535,803)
<b>Net Cash Outflow before Financing</b>		<b>(1,436,860)</b>	(393,770)
Financing	12B	<b>1,155,468</b>	1,729,666
<b>(Decrease)/Increase in Cash</b>	12C	<b>(281,392)</b>	1,335,896

The accompanying notes form an integral part of this cash flow statement.

On behalf of the Board

**R.T.W.L. Conroy**  
Chairman

**J.P. Jones**  
Director

Approved by the Directors 17 October 2001

## Statement of Accounting Policies

The financial statements have been prepared under the historical cost convention. The Company's principal accounting policies are set out below. All of these policies have been applied consistently throughout the year.

### A Mineral Interests

#### i Exploration, Appraisal and Development Expenditure

The Company accounts for mineral expenditure under the 'full cost' method of accounting.

Exploration, appraisal and development expenditure is incurred on acquiring, exploring or testing exploration prospects. All lease, licence and property acquisition costs, geological and geophysical costs and other direct costs of exploration, appraisal and development are capitalised. The amount capitalised includes other operating expenses directly related to these activities.

#### ii Cost Pools

Costs are capitalised within geographic cost pools which initially comprise Ireland and the rest of the world.

Costs relating to the exploration and appraisal of mineral interests which the Directors consider to be unevaluated are initially held outside the cost pool. Costs held outside the cost pool are reassessed at each year end. When a decision to develop these interests has been taken, or there is evidence of impairment, the related costs are transferred to the cost pool.

Proceeds from the disposal of part or all of an interest which is outside the cost pool is credited to that interest with any excess being credited to the cost pool.

#### iii Ceiling Test

A ceiling test is carried out at each balance sheet date to assess whether the net book value of capitalised costs in the pool, together with the future costs of development of undeveloped reserves, is covered by the discounted future net revenues from the reserves within the pool, calculated at prices prevailing at the year end. Any deficiency arising is provided for to the extent that, in the opinion of the Directors, it is considered to represent a permanent diminution in the value of the related asset, and where arising, is dealt with in the profit and loss account as additional depreciation.

#### iv Depreciation

Expenditure within the cost pool is depreciated using the unit of production method based on commercial reserves. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the anticipated future costs of development of the undeveloped reserves at current year end unescalated prices. Changes in cost and reserve estimates are dealt with prospectively.

### B Issue Expenses and Share Premium Account

Issue expenses arising on the issue of equity securities are written off, in the first instance, against the share premium account, with any issue expenses in excess of the balance on the share premium account being written off to the profit and loss account.

### C Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis to write off the cost less estimated residual value of the assets over their estimated useful lives as follows:

Motor vehicles	5 years
Office equipment	8 years

# Notes to the Financial Statements

31 May 2001

2001  
Conroy  
Diamonds  
and  
Gold P.l.c.

## 1 Operations and Going Concern

The Company is an investment holding company and is currently involved in the development of mineral exploration opportunities, principally in the Longford-Down Massif.

During the year €933,264, net of expenses, was raised by the issue of new share capital. The finance raised will be used to continue to develop the Company's activities.

On the basis of their review of projected cash flow information, and taking into account the above funding together with the very encouraging results obtained from the exploration programme, the Directors consider it appropriate to prepare the financial statements on the going concern basis.

## 2 Operating Expenses

	2001 €	2000 €
Management services and operating expenses (a)	862,509	528,281
Transfer to Mineral Interests (Note 5)	(542,319)	(396,210)
	<u>320,190</u>	<u>132,071</u>

- a The Company had seven employees during the period (2000 - one). The remuneration paid during the period comprised salary of €385,848, social welfare costs of €25,161 and pension costs of €86,972 (2000 - €20,882 and €1,837 respectively).

## 3 Loss on Ordinary Activities before Taxation

The loss on ordinary activities before taxation is arrived at after charging the following items, which are stated at amounts prior to the re-allocation to mineral interests:

	2001 €	2000 €
Auditors' remuneration	15,872	15,872
Directors' emoluments		
• fees	79,359	79,359
• other including pension contributions	393,638	-

Included in director's emoluments is an amount of €86,972 which relates to pension costs accrued at the year end. This amount will be transferred to a defined contribution pension scheme which is to be established in the coming financial year.

All losses arose from continuing operations.

## 4 Tax on loss on Ordinary Activities

No taxation charge arises in the financial year due to losses incurred. There was no unprovided deferred taxation at 31 May 2001 (2000 - €Nil).

## Notes to the Financial Statements

continued

### 5 Mineral Interests

Costs held outside cost pool:

	Ireland €	Overseas €	Total €
<b>Cost</b>			
At 31 May 2000	1,910,383	76	1,910,459
Expenditure during the period			
- licences and appraisal	355,430	452,827	808,257
- other operating costs (Note 2)	510,142	32,177	542,319
<b>At 31 May 2001</b>	<b>2,775,955</b>	<b>485,080</b>	<b>3,261,035</b>

During the year the Company acquired a number of claim reservations in Finland which have diamond and gold prospects. The selection of claim reservations was based on information, knowledge and expertise acquired by the Company from Conroy P.l.c. for a consideration of €444,408 which was included in creditors at year end. The Company and Conroy P.l.c. have common shareholders and Directors. The Company's senior geological consultant, Dr. Michael Smith, was engaged by the Board to review the value attributed to the knowledge transfer.

The Directors have considered the proposed work programmes for these mineral interests, presently held outside the cost pools. They are satisfied that there are no indications of impairment, but recognise that future realisation of the mineral interests, held outside the cost pools, is dependent on further successful exploration and appraisal activities and the subsequent economic production of the mineral reserves.

### 6 Debtors

	2001 €	2000 €
<b>Amounts falling due within one year</b>		
VAT receivable	41,512	13,246
Other	4,445	4,888
	<b>45,957</b>	<b>18,134</b>

### 7 Creditors: Amounts falling due within one year

	2001 €	2000 €
Accruals	701,307	622,700
Due to related undertaking (Note 14)	222,204	-
Bank overdraft	45,025	157,701
	<b>968,536</b>	<b>780,401</b>

8 **Creditors:** Amounts falling due after more than one year

	2001 €	2000 €
Due to related undertaking (Note 14)	222,204	-

2001  
Conroy  
Diamonds  
and  
Gold P.L.C.9 **Called up Share Capital and Share Premium**

Authorised:

	2001 IR£	2000 IR£
400,000,000 ordinary shares of 2.5p each	10,000,000	10,000,000

Issued and Fully Paid:

	Number	Share Capital		Share Premium	
		IR£	€	IR£	€
Start of year	14,185,070	354,627	450,283	2,041,411	2,592,057
Share issue (a)	3,376,000	84,400	107,166	725,840	921,626
Issue expenses	-	-	-	(75,235)	(95,528)
End of year	17,561,070	439,027	557,449	2,692,016	3,418,155

- a In May 2001 3,376,000 ordinary shares of IR£0.025 were issued for a consideration of £0.19 sterling per share to fund further mineral exploration. This realised IR£0.24 per share resulting in a premium of IR£0.215 per share.

10 **Tangible Fixed Assets**

	Office Equipment €	Motor Vehicles €	Total €
<b>Cost</b>			
31 May 2000	15,209	3,359	18,568
Additions	12,656	56,753	69,409
<b>31 May 2001</b>	<b>27,865</b>	<b>60,112</b>	<b>87,977</b>
<b>Accumulated Depreciation</b>			
31 May 2000	4,593	2,015	6,608
Depreciation charge	3,484	12,022	15,506
<b>31 May 2001</b>	<b>8,077</b>	<b>14,037</b>	<b>22,114</b>
<b>Net Book Value</b>			
31 May, 2000	10,616	1,344	11,960
<b>31 May 2001</b>	<b>19,788</b>	<b>46,075</b>	<b>65,863</b>

# Notes to the Financial Statements

continued

## 11 Reconciliation of Movement in Shareholders' Funds

	2001 €	2000 €
At 31 May, 2000	2,603,915	998,420
Loss for the financial year	(305,369)	(131,790)
Shares issued, net	933,264	1,737,285
At 31 May 2001	<u>3,231,810</u>	<u>2,603,915</u>

## 12 Notes to the Cash Flow Statement

### A Reconciliation of Loss to Net Cash Outflow from Operating Activities:

	2001 €	2000 €
Operating Loss	(305,369)	(131,790)
Depreciation	15,506	2,572
Increase in Creditors	300,811	224,627
(Increase)/Decrease in Debtors	(27,823)	46,624
Net Cash (Outflow)/Inflow from Operating Activities	<u>(16,875)</u>	<u>142,033</u>

### B Analysis of Cash Flows:

#### Capital Expenditure and Financial Investment

	2001 €	2000 €
Investment in mineral interests	(1,350,576)	(535,083)
Purchase of tangible fixed assets	(69,409)	(720)
	<u>(1,419,985)</u>	<u>(535,803)</u>

#### Financing

Issue of share capital, net	933,264	1,737,285
Due to related party (Note 14)	222,204	-
Shareholders' loan (repayments) net	-	(7,619)
	<u>1,155,468</u>	<u>1,729,666</u>

**12 Notes to the Cash Flow Statement (Cont'd)****C Analysis and Reconciliation of Net Funds:**

	31 May 2000	Cash Flow	31 May 2001
Cash at bank and in hand	1,443,763	(394,068)	1,049,695
Bank overdrafts	(157,701)	112,676	(45,025)
	<u>1,286,062</u>	<u>(281,392)</u>	<u>1,004,670</u>

**13 Commitments and Contingencies****Obligations under Mineral Interests**

The Company has received prospecting licences under the Republic of Ireland Mineral Development Acts 1940 to 1995 for areas in Monaghan and Cavan. It has also received licences in Northern Ireland for areas in Armagh and Down in accordance with the Mineral Development Act (Northern Ireland) 1969.

The Company has certain obligations in respect of these licences at year end. The commitments in relation to these licences are as follows:

	2001 €	2000 €
Expiration period:		
• Within one year	176,494	114,276
• Between two and five years	250,138	149,829
	<u>426,632</u>	<u>264,105</u>

**14 Related Party Transactions**

As described in Note 5, the Company acquired information, knowledge and expertise from Conroy P.l.c., a company which has common shareholders and Directors and of which one of the Directors and shareholders of the Company has a controlling interest. The consideration was €444,408, of which €222,204 is payable within one year and the balance of €222,204 after one year.

The Company also shares accommodation with Conroy P.l.c. The Company bears its appropriate share of the related costs directly.

