COMPLIANCE VERIFICATION REPORT

Diamond Mining Corporation (DMC)

December 2011 - January 2012

KP MONITORING TEAM ON MARANGE

- **Abbey Chikane**
- **Mark Van Bockstael**

Contents

Acknowledgements

The KP Monitoring Team wishes to convey its gratitude to the Minister of Mines and Mining Development, Hon. Obert Mpofu, to Deputy Minister Hon. Gift Chimanikire and Permanent Secretary Mr. Prince Mupazviriho for their much appreciated hospitality and their willingness to allow the KP Monitoring Team unhindered access and full collaboration with the Administration of the Ministry of Mines and Mining Development. We are in particular grateful for the relentless assistance particularly from Mr. John Makandwa and the whole team of Mr. Charles Tawha.

The KP Monitoring Team is also grateful for the great hospitality and welcome it experienced at the mine site by the management and staff of DMC, and the willingness to accommodate for every question or suggestion. The KP Monitoring Team further commends the preparatory work done by the team of Mr. AJ Eiseb at Global Diamond Valuators Namibia (PTY) Ltd. that made the time spent more efficient and effective. The observed standardization of mine and sortinghouse procedures throughout the Marange diamond fields is in no small part their contribution.

(Cover photo has been taken by Mark Van Bockstael on 10 December 2011 at the DMC mine not far from the Chimberero Dam in Marange. This picture, showing two levels of tunneling by illegal diamond diggers, is exemplary of the extent of the damage on this concession by illegal digging)

Executive Summary

The KP Monitoring Team on Marange appointed by the KP Plenary in Kinshasa on 1 November 2011, and consisting of Mr. Abbey Chikane and Mr. Mark Van Bockstael, has executed a KPCS- compliance verification examination of the Diamond Mining Corporation (DMC) diamond mine in Chiadzwa and its sorthouse in Harare from 9 to 10 December 2011, and from 5 to 8 January 2012.

The visited company is fully compliant with all aspects of the national legislation concerning the mining of precious stones.

The visit to the MDC "Block E" diamond mine located at Chiadzwa in the Marange diamond fields, has revealed a very high level of transparency and accountability in all its operations and procedures. Copies of the latter were made available to the KP Monitoring Team in hard and soft copy. The KP Monitoring Team noted with appreciation the great care for the environment and for the remaining rural population on site. The KP Monitoring Team witnessed the extent of the environmental and economic damage inflicted by the illegal diggings in and around Chiadzwa and in particular in the area around the Chimberero Dam. The KP Monitoring Team noted with concern the ongoing struggle to keep the mining area securely fenced, especially during and after heavy rains, but is reassured by the resolve shown by the mine operator. Security at the concession is further relying on adequate numbers of security guards and state-of-the-art CCTV-monitoring, The highly efficient processing and sorting plants are located within a secure Red Zone governed by rigourous procedures and processes. As no rich diamondiferous conglomerates occur on the concession but only less concentrated alluvial deposits, the maximum monthly production will hover around 100,000 carats. However, DMC is planning to invest in a second processing and sorting plant to double the extraction capacity. A comprehensive production footprint has been established, showing slight differences with the production footprints of the Umkondo conglomerates. The lower yield, but better quality (the lowest boart quality is almost completely absent) is consistent with the dynamic alluvial environment in which the diamonds were deposited.

The visits to the MDC sorthouse in the Harare suburbs, convinced the KP Monitoring Team of its high level of transparency and security, consistent with the procedures and operations at the mine site.

At the time of the visit to the relocation area at the ARDA Transau Estate near Odzi, 21 of a total of 114 families have been relocated to newly constructed homesteads consisting (with slight variations) of a solar powered 3 bedroom house, separate rondavel (kitchen) and outdoor toilet and clean borehole water. The relocated families have received a $1,000 disturbance allowance allocation, 3 monthly food hampers and 0.5 hectare of irrigated farmland. DMC hopes to relocate all remaining families before year's end and will finalise its DMC "village" with roads, school, clinic, church and community centre.

Based on the documents obtained and the visits conducted, the KP Monitoring Team on Marange concludes that the operations of the Diamond Mining Corporation (DMC) at the diamond mine in Marange, at the sorthouse in Harare and at the relocation area at the ARDA Transau Estate are fully KPCS compliant as of 16 January 2012.

Introduction

In view of the adoption by the KP Plenary on 1 November 2011 in Kinshasa, of the "KP Chair proposal for draft decision on Marange (Zimbabwe), including the appointment of the KP Monitoring Team on Marange, and the standing invitation from the Ministry of Mines and Mining Development of Zimbabwe of 7 December 2011 (to the KP Monitoring Team, to verify compliance of the Diamond Mining Corporation (DMC) diamond mine in the Marange area and sorthouse in Harare, a compliance verification examination has been conducted between 9 and 10 December 2011, and between 5 and 8 January 2012.

This report covers the compliance verification by the KP Monitoring Team of the "DMC Diamond Mine" in the Marange diamond area, the resettlement area at ARDA Transau and at the DMC sorthouse in Harare. All aspects concerning operational processes and chain-of-custody have been thoroughly investigated and tested as required.

Programme of Visit

Friday, 9 December 2011:
12:00PM – 02:00PM: Arrival at MDC mine – luncheon + security & safety induction
02:00PM – 03:00PM: Survey of perimeter fence and fence pink zone
03:00PM – 05:00PM: Visit of Red Zone, incl. processing plant- sorting plant- sort rooms (G/CMF)- vault (inventory taken)
05:00PM – 07:30PM: Presentation of documents and reports by consultants/management MDC.
9:30PM: Check-in hotel Mutare

Saturday, 10 December 2011:
05:00AM: Check-out hotel Mutare
06:30AM – 10:00AM: Visit to mine site and geology discussion
10:00AM – 11:00AM: Visit to CCTV-control room
11:30AM – 05:00PM: Luncheon and transit to Harare
05:00PM – 06:30PM: Clearance visit to DMC sorthouse Harare

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Thursday, 5 January 2012: 06:15PM – 07:30PM: Visit to ARDA Transau relocation site

Friday, 6 January 2012:
05:15AM: Check-out hotel Mutare
06:30AM – 07:30AM: Start of visit to DMC mine at Marange – security & safety induction
07:30AM – 10:00AM: Visit fence pink zone after heavy rains
10:00AM – 11:00AM: Visit vault

Saturday, 7 January 2012: 09:30AM – 12:00PM: Visit to DMC Sorthouse in Harare. Check procedures and processes and check production footprint

Diamond Mining Corporation (DMC) Diamond Mine

Company Structure

Diamond Mining Corporation (DMC) is a joint venture company in Zimbabwe established between ZMDC and PURE DIAM of Dubai (UAE) on 29 October 2010 in Harare. Each shareholder owns 50% of the shares. The Zimbabwean partner contributed the Special Grant for mining as investment, and in return, Pure Diam provides funding, financial, technical, managerial and operational expertise to the joint venture, for the duration of the agreement. ZMDC appoints the Chairman while Pure Diam appoints the jv's CEO. It has invested approximately $35,000,000 in developing the mine (excluding relocation costs).
The joint venture company is fully compliant with all national legislation concerning the mining and sales of precious stones.

Location

The DMC diamond mine is located in Block E and comprises approximately 1,200 hectares in an area that is locally known as the "Chimberero Dam" area. On the concession, 114 homesteads under headman Chief Chiadzwa have been identified. The concession also houses the Chiadzwa Primary School and the Gandauta Secondary School.

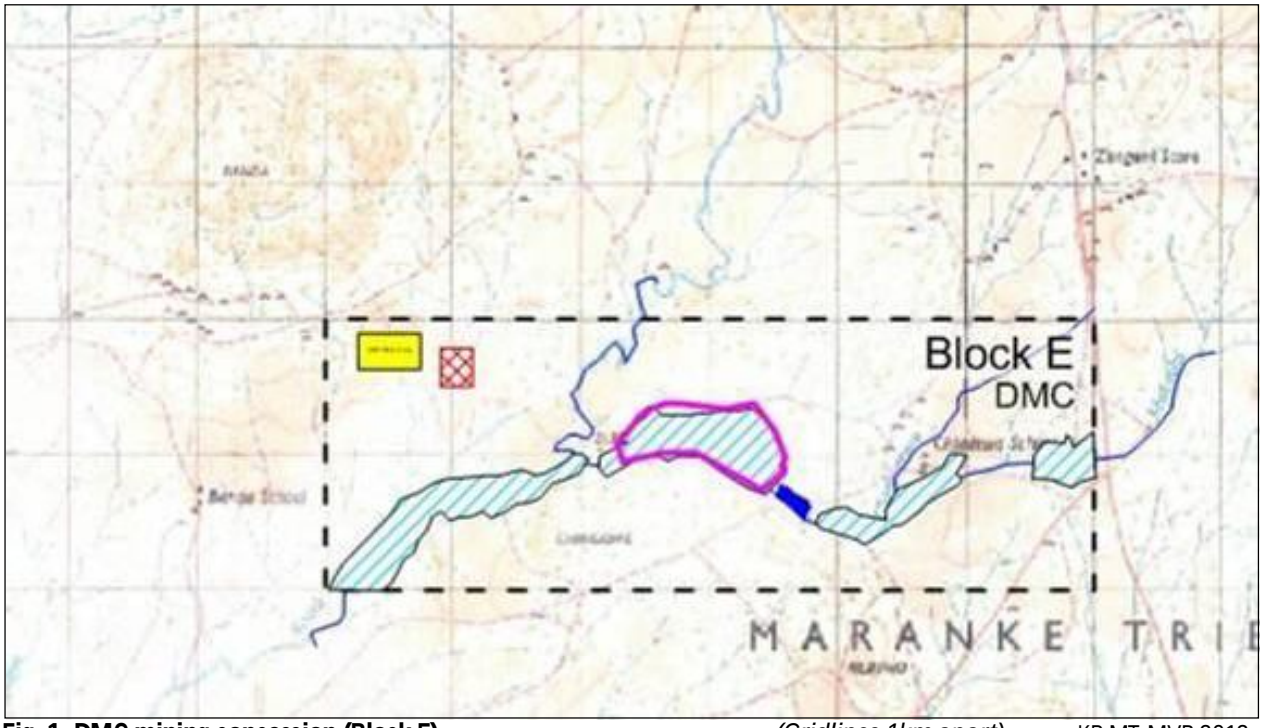


Fig. 1: DMC mining concession (Block E) *(Gridlines 1km apart)* KP MT-MVB 2012
Hashed black line: Concession fence. **Solid pink line**: fenced mining area (pink security zone). **Red cross-hatched rectangle**: sort plant and vault (red security zone). **Yellow rectangle**: DMC mining camp. **Cyan slashed area**: alluvial deposits. **Blue lines**: rivers (seasonal). **Blue solid**: Chimberero Dam. Projected on Topographic map (Hot Springs 1932 C2; 1:50 000).

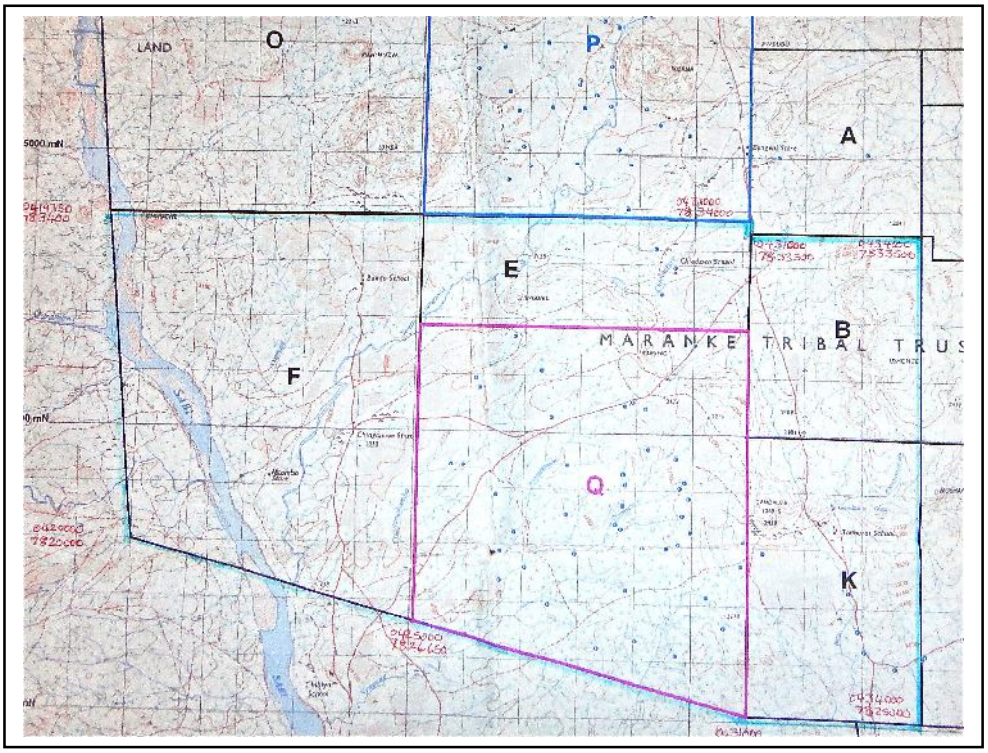


Fig. 2: Map of the concession blocks in the western part of the Marange diamond fields.
Block A: Mbada Diamonds
Block B: Marange Resources
Block E: MDC mine
Block F: MDC (reserved)

(Source: DMC, 2011. Concessions shown on same Topgraphic map as Fig. 1))

DMC has also obtained the titles to Block F, adjacent to its Block E diamond mine. At present no activities other than surveying and prospecting have been reported. The area has also not been fenced, and at present seems almost completely unaffected. The DMC management has indicated that while mining is proceeding in Block E, it will gradually prepare Block F for mining. To this effect, the DMC management has proposed a further investment of $15,000,000 to double the production capacity of the mine.

Geology

In stark contrast to the other active diamond mines in the Marange diamond fields, neither Block E nor Block F seem to contain the rich Umkondo diamond bearing conglomerates that outcrop to the East. Consequently, Block E and F only contain "classic" alluvial deposits resulting from the erosion of the diamond bearing formations, collected over the long continental history of the Marange area. As not only Umkondo conglomerates, but also diamond bearing kimberlites are known to occur in the catchment areas of the (now) seasonal river systems draining to the West, it is to be expected that the diamond footprint of Block E (and F) should be significantly different from those concessions mining mainly Umkondo conglomerates. The depositional processes involved (flash flooding, sheet wash, gully formation and deposition) tend to favour high energy transportation, resulting in significant destruction of heavily flawed or cracked diamonds. This natural, river-induced, sorting process significantly affects the quantity negatively, while increasing the overall quality of the deposited diamonds ('survival of the fittest').

In Block E, especially the Makodzi and Chimberero floodplains and lower terraces are promising. This is further demonstrated by the numerous signs of (mostly) superficial illegal diggings throughout this area, but most prominently visible around the Chiadzwa Primary School.

In the East of Block E, the thickness of the sediments deposited on the saprolitic bedrock (mostly granites, gneisses, dolerites and other Archean basement rocks), varies between 3 to 5m, increasing to the West. In Block F, initial work has indicated overburden thicknesses of >10m. This may also explain why relatively little disturbance from illegal diggers has been observed in that area, but this may also negatively affect the commercial value of this concession. The eventual discovery of potholes is likely in "E" and could significantly increase the value of this concession.

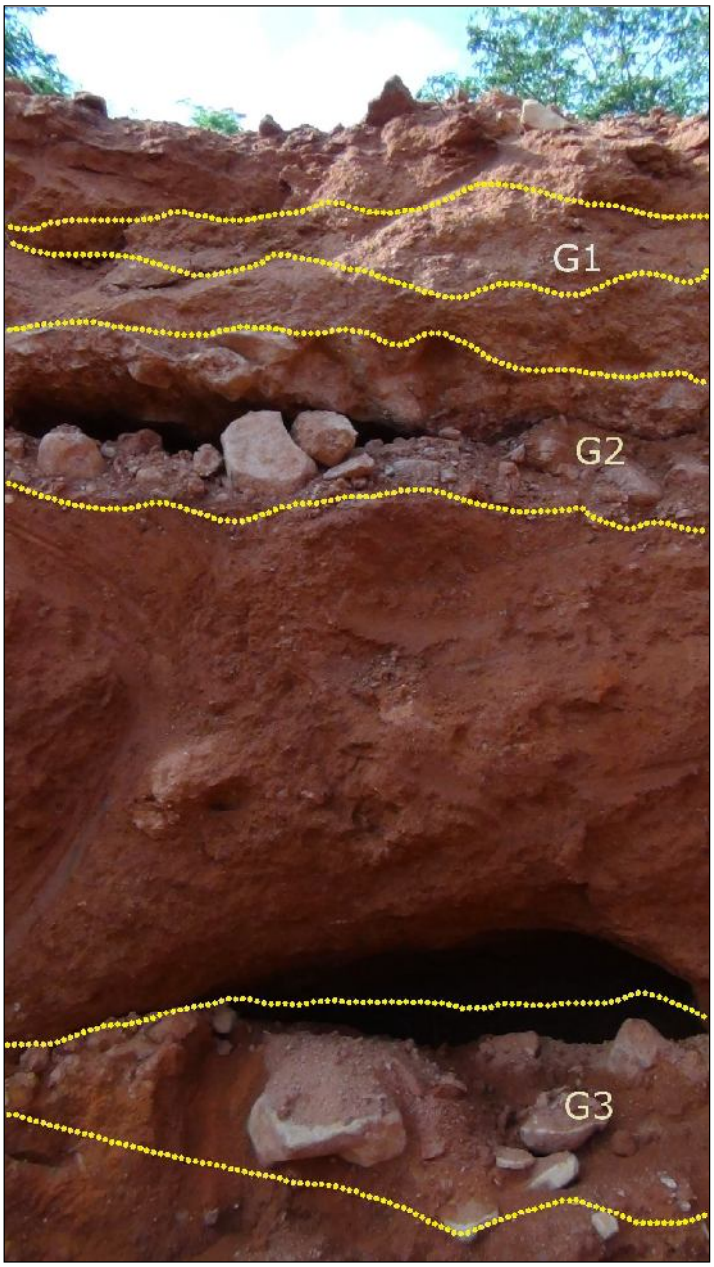


Fig. 3: Alluvial deposits near Chimerero Dam visible in mining trench.
The alluvial deposits that are being mined, mostly contain 3 separate gravel layers (G1-G2-G3), consisting of mostly angular and unsorted quartz, dolerite and Umkondo sediments-pebbles and clasts. However, remarkably few fragments of the diamondiferous base conglomerate are encountered. The gravels vary wildly in thickness from a few centimeters to >1m. The orangy-brown intercalations between the gravels consist of sandy loam with minor clasts.

The picture clearly shows the extent of the illegal diggings in the area that was once one of the most popular sites, where thousands of "panners" competed for the best spots. The comparison with an ants hill is not far fetched. In certain areas, <10% of the original ore remains, the bulk being removed by panners.
The extensive multi-level tunneling still poses serious safety issues as cave-ins are frequent when moving mining equipment around.

The richest gravel layer yields approx. 2.0ct/Ton; the intermediary layer yields approx. 1.5ct/Ton; the poorest layer yields approx. 0.5ct/Ton. Before the rains the yield averaged 1.36ct/Ton, that sank by dilution to 0.95ct/Ton in December 2011, due to the heavy rainfall. These yields are much lower than those of the conglomerate ore, but are still higher than in other comparable alluvial deposits, elsewhere.

The section pictured measures 3.5m from the surface down.

(KP MT- MVB, 2011)

Production Footprint

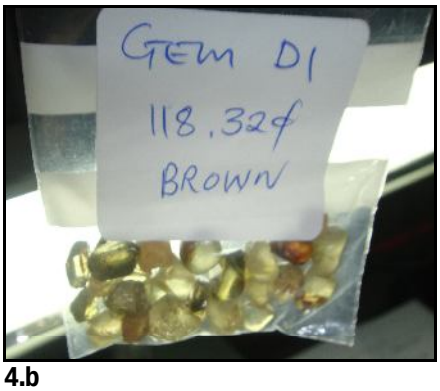
The production footprint of the DMC alluvial diamond mine was obtained after sorting the whole diamond production from August 2011 to end of November 2011, or 427,847.76 carats, at the DMC Sorthouse in Harare. Of this amount 34020.2 carats(7.96%) are Gem Quality Diamonds. A total of

392808.74 carats(91.81%) fall in the Near Gem Diamonds category, and this contains as well "near gems ss" as "dead boart" (Industrials). Because of the very limited amount of Boart, the DMC management has opted for the commercial decision not to break up Near Gem and Industrials, and presenting these as a single item. After Defalsing, 958.82 carats (0.22%) have been identified as False (i.e. non diamond minerals).
For the detailed Size Frequency Distribution (SFD), a total of 3605.5 carats (760 stones) was examined consisting of 1588.19 carats of Gems, and 2017.31 carats from the Near Gems (containing near gem and boart).

The Marange diamond footprint as developed and updated by the WGDE remains valid as the diamonds produced at the DMC diamond mine are generally well within these parameters. As could be expected in alluvial deposits, better qualities recovered correlate well with a significant decrease in yield (ct/Ton). This equates with a proportional decrease of diamonds of group#1, in comparison with the Marange diamond footprint (WGDE, 2008).

4.a

Fig. 4: Typical features of DMC diamond production.
4.a. Yellowish green, green, and some green-black sorted parcels.
4.b. Small parcel of typical brown gem diamonds.
4.c. Typical oxidation features (Fe-(hydr)oxides in cracks).
4.d. Bottle green diamonds.
4.e. Typical elongated green Octa with smooth and shiny surface.
4.f. Green and brown radiation spots on green elongated Octa.



4.b

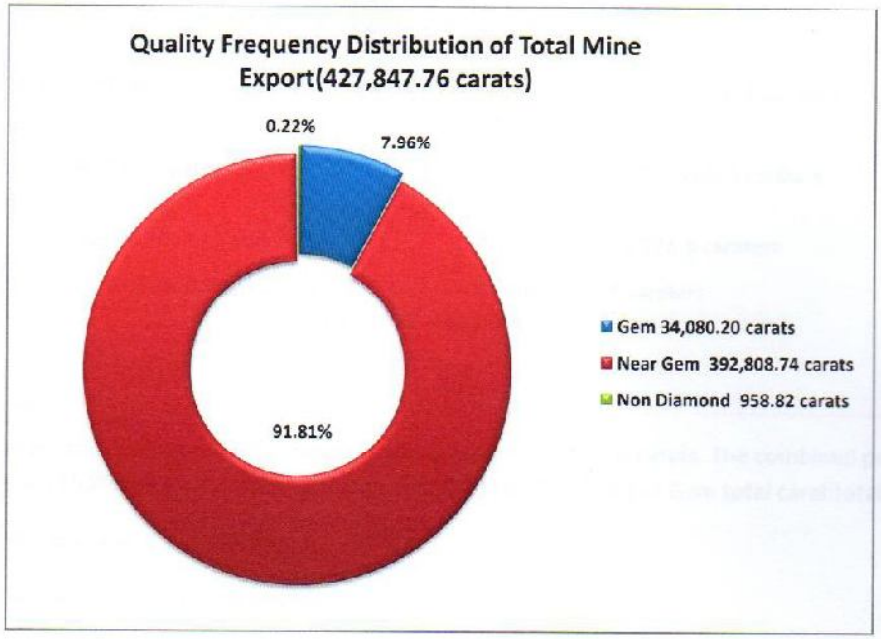
4.c

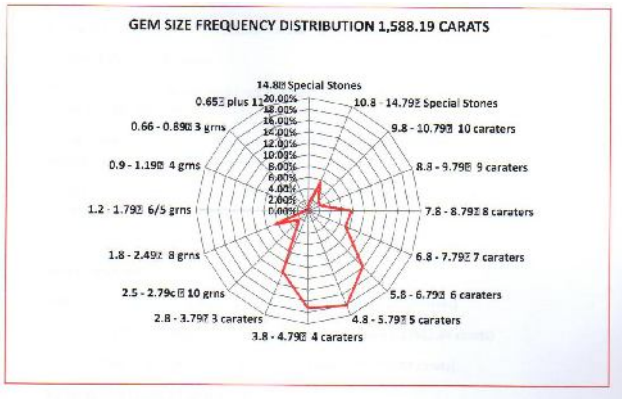
4.d

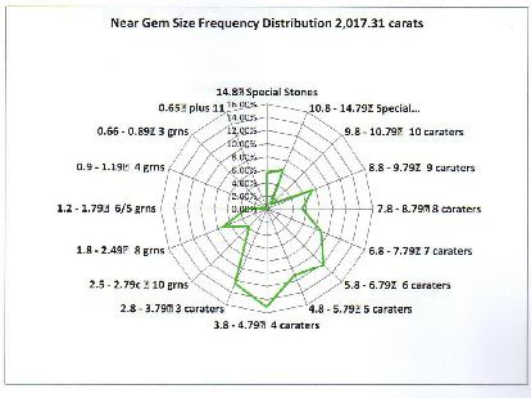
4.e

4.f

Table I: Production Footprint of the DMC diamond mine.







Gem: Sawables- 33.61%; Makeable - 66.37% **Near Gem**

Average size: 4.75ct (largest >40ct) **Average size: 4.73ct**

Crystal Morphology : mostly Octa and Dodec. Many Octa elongated. Some maccles (<1%) and some rounded. No cuboids.

Surface Features: Lightly frosted to moderately coated. Green and brown spots abundant. Many Octa show trigons. Others show pitted surface. Some heavy roundeds. Roundeds showing abrasion halfmoon cracks, and are always frosted.

Colour: mostly yellowish green (54%); green (27%); bottle green (5%); green black (4%); brown (7%); oxide (3%).

Fluorescence: Gem: (Blue) Str: 5.8% - Med : 4.8% - Faint : 5.5% - Nil : 81.9%
(Grn) Str: 0.2% - Med: 0.2% - Faint : 1.6%
Near Gem: Nil: 100%

(Source: DMC Valuation, December 2011)

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Mining

Mining is a 24/7 operation at the DMC diamond mine. This is accomplished with a workforce of approximately 455 workers (end of December 2011) of which 300 security agents, consisting of 95% Zimbabwean nationals and the remainder South African, Lebanese and Indian expats. Approximately 29 mining vehicles (mostly CAT, Man, Toyota) are in operation.

Fig. 5: Panoramic view (180°) of the mining front at the Chimberero Dam alluvial deposits.
On the right, a watchtower and the pink zone fence are just visible. This picture was taken on 6 January 2012 after heavy rains. The trench follows the Chimberero River that is dry most of the year. The dark patch in the middle represents a deep gully or pothole (>8m deep) being excavated.

The alluvial deposits are mostly loose sandy loam and gravel deposits that may be covered by silcrete/calcrete at places. Only the top soil with vegetation is pushed aside. Due to the disturbance (mixing of layers) caused by the panners, everything else needs to be considered as ore, causing considerable dilution. The ore is excavated and loaded on ADT's[1] that present the ore for dry screening (Fig. 6). The classified ore is than trucked (Fig. 7) to the diamond processing plant.

Fig. 6: Trommelscreen to concentrate the ore.
Oversized boulders and rocks , as well as the smallest fractions, are removed using a trommelscreen or a vibrating sizing screen (Sandvik-not shown).

Fig. 7: CAT front loader scooping the concentrated ore on MAN dump truck.

Dump trucks that are carrying ore to the processing DMS[2]-plant, are logged when leaving the pink zone and are carefully monitored by security agents along the mining road (within the concession's perimeter fence) to the DMS-plant (red zone). In case of mechanical breakdown, a security guard will be immediately despatched. If extended or overnight repair is necessary, the gravel hauled will be transferred to another truck and offloaded at the DMS-plant.

[1] ADT: Articulated Dump Truck (CAT)
[2] DMS: Dense Medium Separation. By mixing ferro-silicon, aka"fesi", as dense medium with water in a cyclone, heavy minerals such as diamonds can be separated by gravity.

In accordance with the security measures applicable at the mine, workers may not pick up fallen objects or pick up identified diamonds at the mine site. Security agents need to intervene and report on these incidents.

Reclamation of the mined out area downstream of the Chimberero Dam is still in the planning phase and will be executed in accordance with the recommendations of the Environmental Impact Assessment Plan (ARUP Zimbabwe (Pvt) Ltd.: 4348- October 2010).

Diamond Processing Plant

DMC currently operates a single diamond processing plant located in the heavily guarded and fenced Red Zone, with a front end capacity of 200T/hr, but is planning to double its processing capacity in 2012. The diamond processing technology and complete equipment are from South Africa's Bateman and Bond Companies, boasting a state-of-the-art DMS-plant with a 100T/hr capacity[3]. As the DMS-plant operates inside the high security zone, all operations are under close CCTV-monitoring and operate completely hands-off. All sensitive areas within the DMS-plant are shielded with screens that are locked for security. After processing, the highly diamondiferous concentrate is tubed into the bin feed of the sort plant.

The day to day running of the plant is guided by the company's operational procedures and the security and health and safety policies. Process water is piped in from a pumping station on the Sabi River. Spent water from the processing plant is reused after sedimentation in a storage tank.

Sort Plant

The sort plant is located in the Red Zone and consists of a secure building with tight security and procedures that are reminiscent of the procedures applicable at the Anjin diamond mine.
The tubed in concentrate from the DMS-plant is fed into a feedbin connecting to tower-mounted X-ray separators (Flowsort) that separate the feed into "Gems" and "Other". The latter is screened for size into 3 different size-groups: "Coarse", "Middle" and "Fine". The x-ray positive or "Gem" fraction is fed onto a slowly moving conveyer belt in a secure glove box with CCTV monitoring and supervision by DMC security guards and ZMDC and CID representatives, where sorters pick the diamonds from the belt with tweezers and collect them in a tube to be transferred to a locked dock box that is fixed to the glove box (Fig. 8).

Fig. 8: Picking diamonds in the "Fines" glove box.

At the end of the shift, or when full or other necessity, removing the dock box requires different keys and only when the dock box is sealed thight can it be removed from the glove box. This is done in the presence of a representative of the Sort Plant management, a dedicated DMC security agent, an agent of MMCZ and an agent of the (Police) CID - Mineral Unit . The sealed dock box containing the diamonds is then weighted and the approximate weight of the diamonds is recorded in a ledger. The sealed dock box is then transferred to the vault for safe keeping until the next shift, or when full,

[3] DMS running -on average- at 65-70T/hr.

until being transported ("exported" according to the mine's procedures) to the DMC Sort House in Harare.

The Coarse-, Middle-, and Fine-fractions are fed into a different sort room, on 3 individual conveyor belts in secure glove boxes. The followed procedure is identical to that of the Gems-room. In all cases, the non diamonds, mostly rock fragments, are collected as 'tailings' and will be fed into the DMS-plant all over again.

Comments:
- Remarkably, the different glove boxes in the different sort rooms were marked "D" (Gems room), "C" - "M" and "F" ("Other" room) probably in anticipation on a request that the KP Monitoring Team would have certainly made. If any recommendations that the KP Monitoring Team would make at any diamond mine, would be replicated at the other mines as easily, than much of the work would already be done.
- Although the weight of the empty dock boxes is well known, the weights of the diamonds contained in the dock boxes obtained by subtraction of the empty weight from the full, can only be approximate. Accurate production figures can only be obtained after defalsing and cleaning at the Sort House in Harare. However, discrepancies are to be expected not to be more than a few percents of the total weight.

Vault

The vault or strongroom containing the sealed dock boxes is located within the red zone (highest security level) close to the sort rooms. During the visit on 9/12/2011, 4 dock boxes were found stored in the vault (B1-B2-B3-D2), and 4 dock boxes (A1-A2-C1-D1) were in use in the sort rooms. The gross weights were checked with the reports in the daily ledger.

Table II: Diamond Production of DMC since the start of the mining operations (August 2011).

2011	Tons Proc.	Ct recovered	Ct/Ton
August	52935	76760	**1.45**
September	65608	105630	**1.61**
October	82402	123610	**1.50**
November	72596	76623	**1.06**
December	77407	73349	**0.95**
Totals	**350948**	**455972**	**1.30**

- **First shipment of approx. 428000ct exported to SHE on 19/12/2011.**
- **Stock left at DMC mine on 19/12/2011 was 0 (zero)ct.**
- **Production 19-31/12 was 27972ct.**
- **Production 1-16/01/2012 was 64623ct.**

Fig. 9: Heavily fenced and guarded Red Zone containing the sort plant with the sort rooms and the vault where the production is kept until exported to the DMC Sorthouse (SHE) in Harare.

Security

The 24/7 security system that has been put in place to secure the mining area and the produced diamonds, consists of a multilayer "redundancy" approach. Four security zones are identified based on risk assessment: Green is for areas outside the perimeter fence (outside the concession); Blue is for areas within the perimeter fence without particular importance or risk involved. Until the relocation programme is completed, a small group of villagers remains in this area and move around with their cattle; Pink is for high risk areas such as actual mining sites that have their own fences; and finally Red is for the highest risk zones including processing plant, sort plant and vault area (Fig. 9).

"Passive" security features include the large perimeter 2.5m high diamond mesh fence with razor wire at top and bottom, that encloses the whole property. Furthermore the Pink and Red Zones have their own "fences within fences" adapted to the security risk involved. All fences and all vital components of the mining and processing operation are CCTV- monitored from the CCTV- monitoring centre in the Red Zone. Solar-powered cameras with nightvision monitor the areas that illegal panners may target, and other zones with particular security risks. All images are permanently stored on banks of "time machines". Hence, digital video footage can be retrieved in case of incidents.

Fig. 10. Solar-powered camera array guarding the mining road that connects the Pink and Red Zones.
All cameras have 360° autonomies and nightvision capability. Behind the camera pod, a watchtower with floodlight is just discernable.

Blue Zone – Concession perimeter fence

In contrast with the fences of the Pink and Red Zones, the perimeter fence around the concession (Fig. 1) is not fully closed as to allow villagers with their cattle to freely roam. Also important to note is the fact that two schools are still in operation within the concession, the Chiadzwa Primary School catering for children of the local community, but also the adjacent Gandauta Secondary School that receives pupils from the whole area. As the grounds around the schools are scheduled to be mined, the School Boards have recently decided to move the schools outside the area. That DMC is fully aware of the risks involved, can be judged from the following excerpt from their "Corporate Social Responsibility Plan":

> " … Diamond Mining Corporation (DMC) treats in the most humane way the issue of relocation and rights of the people living inside its concession area. It is true that DMC created a fence to protect the boundaries of its concession area even though local families still reside in the area. DMC never intended for the fence to create hardships and difficulties for the people as voiced by them during meetings with their leaders. We respect the right of the people to grow their crops. The right to earn a living, the right to educate their children and above all the right to move without restrictions as it is our belief that freedom is a basic humanitarion right that should not be denied to any person. Based on that and on the pleas of the people, the decision was taken that as long as there are families living inside the concession area, openings in the fence will remain to cater to the basic freedom of the people. …
> …We will do our best to combat the security threats that come along with our decision and our success on the ground is a great testament to how right our decision making was. DMC will accelarate the completion of relocation homes and move the affected families as soon as their

homes are ready and all their basic needs can be provided for. Once families are moved out, their homes inside the concession area will be destroyed and openings in the fence will be closed. …"

In December 2011, 18 openings in the perimeter fence still existed. This amount is now being reduced to 10, following discussions with Headman Chiadzwa and Chief Marange, and will continue to be reduced in step with the advancement of the relocation programme. Baton-armed DMC security guards with walkie-talkies are permanently guarding these openings to allow residents, students and other accepted visitors access, while stopping illegal panners from intruding, especially during nighttime.

That these measures are necessary is proven by the amount of security incidents. In December 2011 alone, 32 incidents, including the theft of 100m of security fence (!) on the SE of the perimeter - near the Chiadzwa Primary School-, have been reported. The report mentions further that this area had been invaded 3 times before. During the same month, 8 illegal panners have been apprehended by DMC security guards and handed over to the Diamond Base Police station for further action, whereby about 170kgs of gravel was recovered.

Pink Zone - Active mining area

The Pink Zone has its own security fence mainly to keep intruders out. Its perimeter is guarded using watchtowers with floodlights and mobile CCTV-camera pods (solar-powered), and security patrols. A particularly difficult issue is keeping this security fence intact during the (short) rainy season when torrential rains fill the -mostly dry- Chimberero riverbed in very little time, and the resulting flood destroys anything in its path (Fig. 11). It is obvious that maintaining the Pink Zone's enclosing security fence will remain a constant struggle against the elements. However, there is no better alternative available to protect the alluvial deposits against predation from intruders. This remains especially crucial, as long as the concession perimeter fence has not been completely closed. As such, it is an important element in the fight against illegal digging and smuggling.

Fig. 11. DMC's "fence team" putting up the Pink Zone's security fence in the riverbed of the Chimberero River after torrential rains. As the image (taken on 6 January 2012) shows, only a few days after the heavy rains, the riverbed has almost dried out completely, providing a perfect pathway for intruders. Watchtowers with floodlights on either side, provide additional security.

Red Zone - Processing plant, sort plant and vault

Included in the "active" security are approximately 300 (private) uniformed DMC security guards, and another 60 commercial security agents (Hightide Security/Fawcett Security). They are on 'static' duty such as manning watchtowers with floodlights, watching over all Pink and Red areas, registering entries and exits and performing body searches on all persons (staff and others) entering and leaving Pink and Red areas.

The extensive CCTV-monitoring has already proven to be invaluable, as a number of security breaches and incidents have been discovered due to the alertness of the CCTV-monitoring crew and automated processes. The most flagrant incident involved 3 workers in the Red Zone that on 14/11/2011 were shoveling spill-over of the concentrated ore-feedbin. The body-language was interpreted as suspect, and when confronted by security agents, one of them was found to carry concealed diamonds. Later, the 3 men were handed over the Police. A DVD with the incident as recorded from different camera angles has been made available to the KP Monitoring Team.

Duties

Security guards run patrols along all the fences, on foot and in cars. There are no dog patrols. Barracks constructed in the Blue Zone within the concession perimeter fence, house up to 360 security guards.

To improve on the general security of the whole Marange diamond fields, weekly meetings between the security heads of all the mining companies in the area and the Police are organised at the Diamond Base Police Station in order to exchange security related information.

Duties performed by DMC's and commercial security guards as described in the General Procedures:

- Armed (shotgun) guards are deployed on all key points within the red zone.
- Other baton-armed guards are deployed at all sites, watchtowers to protect company assets and equipment.
- Security guards deployed at the pink and red zones control people and vehicle movement, register and search all persons and vehicles.
- Security guards with metal detectors ensure that prohibited material or substances entering the processing area are not allowed.
- Security guards deployed in the access control of and within the sort plant strictly control and register all activities. Search procedures are implemented when the sorter intends to leave the sort plant area. Armed guards will strictly enforce the procedures governing the sealing and removal of dock boxes in assistance to ZMDC, MMCZ and CID agents present.
- Security guards monitor dump trucks carrying diamond ore and enforce the procedures applicable to all ore deliveries to the processing plant.
- Security guards and a member of the CID and MMCZ will weigh and duly register dock boxes that are transferred from the sort rooms into the vault.
- Security guards participate in the preparation and escort of the "export" of the product to the Harare Sort house (SHE).

Export

DMC has provided detailed information concerning the "export" or transferral of the diamonds produced to the DMC Sorthouse in Harare. Accompanied by armed escorts from a special intervention unit of the Police, the trunks containing the sealed dock boxes will be trucked in an armoured vehicle from a specialised security company to the airfield in Mutare. There the trunks will be transferred to a fixed-wing aircraft and will be accompanied by armed police and security guards and CID- and MMCZ-agents to Harare, where another armoured vehicle with armed escorts will deliver the trunks to DMC's Harare Sorthouse.

Comments:
- The visits revealed that comments made by the KP Monitoring Team during the Anjin compliance verification, had already found there way to the DMC diamond mine and had already been implemented.
- The KP Monitoring Team noted with appreciation the extreme politeness and at the same time the rigidity in the application of the security procedures by the security guards on duty. This attitude seems rewarding and has been explained as a consequence of the discussions held with the communal chiefs that resulted in a "soft power" approach with neither aggresive dogs nor heavily armed patrols. Warding off agressive intruders, however, may than heavily depend on the speedy and succesful communication between security guards on patrol and their chain of command, resulting in an adequate and immediate response eventually involving police intervention.

Conclusion

The processes and procedures witnessed at Diamond Mining Corporation (DMC) diamond mine in the Marange diamond fields, allow for full traceability and transparency of the rough diamond flows. The security measures observed are well above minimum expectations but the particular security risks in this concession, require continuous vigilance and continuous reassessment of the effectiveness of the implemented security measures. Consequently, the KP Monitoring Team considers the DMC diamond mine and the processes and procedures to be fully KPCS compliant.

DMC Sorthouse

A preliminary visit to the DMC Sorthouse took place on Saturday 10 December 2011 to establish whether the premises were ready to receive the diamonds from the DMC diamond mine. The KP Monitoring Team consented with the export of the diamonds produced from the mine to the sorthouse, so that the production footprint would be ready upon the return of the KP Monitoring Team, and the processes and procedures could be verified. The sorthouse KPCS compliance verification visit occurred on Saturday 7 January 2012.

DMC's sorthouse is located in a residential suburb of Harare in a transformed residential house. The building hosts the cleaning, sorting, client viewing rooms, a separate administration office and CCTV control room, and the "import zone" where trunks with dock boxes transferred from the mine will be "imported".

The building's yard is completely walled and the latter is topped with high security fencing. Apart from DMC's own security agents, also agents of commercial security companies are on the premises. Further security is provided by a 24/7 detail of heavily armed police officers from the special intervention unit that is also involved in the transferral from the mine to the sorthouse, that are patrolling the yard.

Workflow

The work at the sorthouse consists mainly of importing the shipments from the mine, take out the non-diamond minerals, and clean the diamonds. Sieving is optional as most of the DMC production arrives pre-sorted on size (Coarse, Medium or Fines). The diamonds will then be sorted and valued. Finally, depending on the marketing conditions, parcels will be made ready for viewing by clients. At the end of the buying (tender) process, the parcels will be made ready for export and certification and sealing by MMCZ.
A maximum of 4 expert sorters and trainee sorters can be accomodated at the sortroom. Operations will be on a one 8hr shift only.

IMPORTING > DEFALSING > CLEANING > (SIEVING)> SORTING > VALUING > EXPORTING

Importing

As no import was planned at the momemnt of the verification visit, the procedure was explained and discussed using the documents of the first import on 19/12/2011. Registration, verification of the double seal numbers (1 DMC seal+ 1 MMCZ seal) and weighing precede the cutting of the one-time seals.

Defalsing

After weighing and preparing a dedicated worksheet, non diamond minerals are identified and removed from the batch. These are separately weighed and recorded and are retained for future reference. The "false" amounted to <0.5%.

Cleaning

Cleaning is done with a mild ultrasonic wash ("limesolv" or equivalent) in a sealed metal mesh funnel. After drying the weight is recorded and the weight loss is calculated.

Sieving
After cleaning, the diamonds can be optionally (if coming from the "Gems" sort room) sieved using normal commercial diamond sieves with round holes, as is the standard in the industry.

Sorting
The main job of the sorters is to distinguish between gem - near gem - boart. The standard tools are used.

Valuing
After sorting, parcels are made ready for sales, and "fair market values" are asigned to each individual parcel.

Exporting
After sales, goods will be made ready for export from the sorthouse. However, first the shipment will be duly sealed and a KP Certificate will be issued by MMCZ.

Security

Fig. 12. CCTV-control room at the DMC Sorthouse.

The same security protocols and procedures apply as within the Red Zone at the mine site. All duties have been properly described in the Sorthouse Operational Procedures. Sorthouse security is on a 24/7 regime comparable to that at the mines site. All areas are under constant CCTV- monitoring, and all camera-feed is captured on "Time Machines", that can be retrieved upon request and viewed at the CCTV- control room. No blind spots have been encountered. All visitors and staff are duly registered at the guardhouse at the entrance, and must be body- searched upon leaving.

Conclusion

The processes and procedures witnessed at the DMC Sorthouse allow for full traceability and transparency of the rough diamond flows. The security measures observed are far above minimum expectations. Consequently, the KP Monitoring Team considers the DMC Sorthouse and the processes and procedures to be fully KPCS compliant.

DMC relocation programme

Community profile and the relocation

All villagers affected by diamond mining in the Marange diamond fields are in the process of being relocated to the ARDA Transau Estate near Odzi, W of Mutare. Following a survey conducted by the Provincial and District Administration's Office, 6 villages will be affected (Chiadzwa, Kuudzehwe, Maora, Rambai, Tarindwa and Tinoengana) and 114 families/homesteads were confirmed living within DMC's "E" concession and need to be relocated as well as 2 schools. Most of these families are from low income backgrounds and minimall skill levels, and rely on subsistence farming of millet and maize and cattle raising. The direct needs of the communities affected include electricity, potable drinking water, farming inputs and supplies, medical assistance and better equipped schools. DMC relied on the suggestions and requests and recommendations of the Headman of Chiadzwa and Chief Marange as spokespersons for their communities.

Corporate Social Responsibility Plan

The resulting "DMC Corporate Social Responsibility Plan" (cfr. Box 1) takes these recommendations into account as well as the approved plans for relocation established by the Mutare Rural District Council (MRDC), that are applicable to all relocation plans of all the operating diamond mines in the Marange area.

Box 1: MDC Corporate Social Responsibility Plan

- Creation of employment opportunities for local population
- Sharing and providing of basic services to the area
- Training and skills transfer to local population
- Creation of scholarship program to benefit gifted students
- Introduction of computers and internet access to schools
- Refurbish local clinics and schools
- Distribution of farming inputs and supplies (food hampers)
- Sponsorship of local sports and cultural events
- Develop and modernize diamond industry in Zimbabwe.

- DMC has already started with implementing its CSR plan by recruiting and training most of its (non-security related) workforce from the local area.
- In addition, water taps along its 7km-pipeline from the Sabi River to the processing plant, have been installed to provide much needed water supply to the families still residing in the area.

ARDA Transau Estate

Up to now, 21 families of which the homesteads were located within the Pink or Red Zones, have been relocated to the ARDA Transau Farm on land that has been made available by the Government. In effect, the communities have not been dispersed, but as each miner has been developing a different sector of the Estate, the communities have been kept together. To this effect, houses have been built according to the specifications as defined by the MRDC for all relocated families affected by one diamond mine or

another. All homesteads exhibit more or less the same floorplan (4 bedroom/3 bedroom), and have a separate rondavel (kitchen) and outdoor toilet and sit on a 1 hectare piece of land . DMC has put in solar power and has provided with sufficiently deep boreholes (to avoid running dry) per number of families.

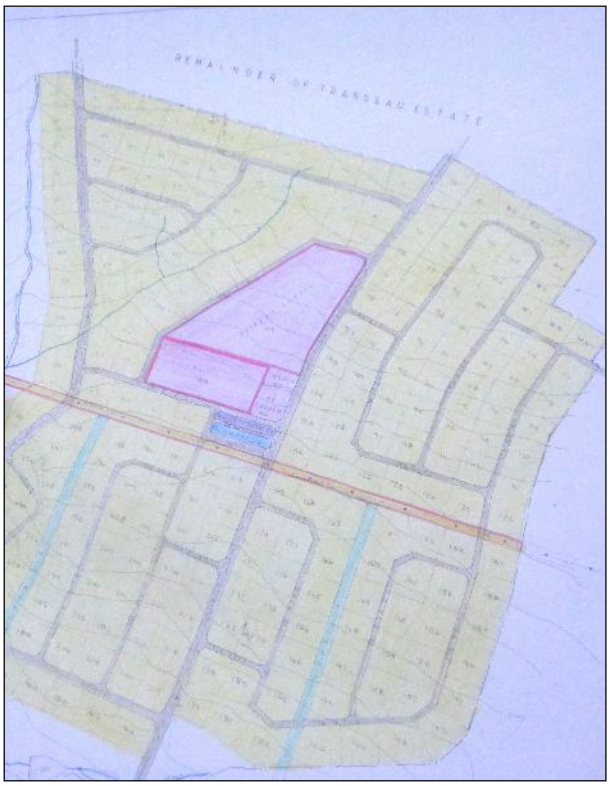
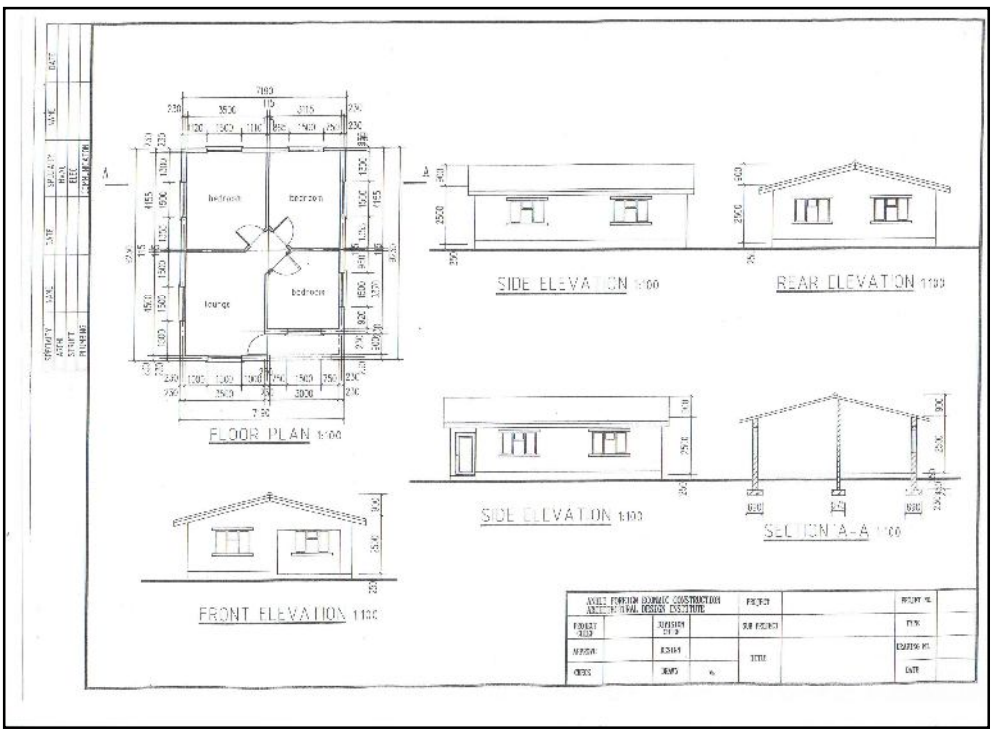


Fig. 13. Map of the DMC relocation "village" at the ARDA Transau Estate.
Yellow: 114 homesteads; Dark: tarred roads; Pink: school, clinic, church; Blue: commercial centre**.**

Fig. 14. 3 bedroom house under construction at the DMC "village" at ARDA Transau Estate.



DMC has budgetted the total cost of the relocation programme for 114 families to the Arda Transau Estate at $7.5 million, of which $35,000 to $50,000 for the construction cost per homestead.

Fig. 15: Floorplan of standard 3 bedroom house as approved by the MRDC for the ARDA Transau relocation programme.

As part of the due diligence preparatory work for the relocation programme, valuators of the Ministry of Public Works have conducted valuations of the homesteads that had to be relocated.

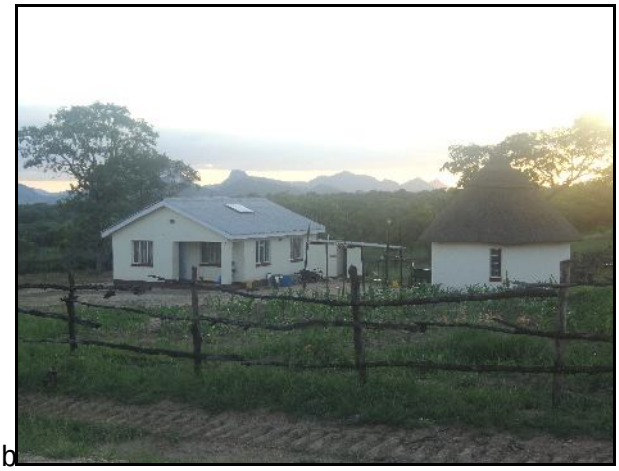
a  b 

Fig. 16. Traditional homestead in Chiadzwa vs. standardized homestead at ARDA Transau relocation settlement. a. Homestead with rondavel in Chiadzwa that will be destroyed after the relocation of its inhabitants; b. to a standardized 3 bedroom homestead with traditional rondavel and outdoor toilet at the DMC "village" at ARDA Transau Estate.

DMC "village"

- By end of 2012, all 114 families living inside the consession will be relocated to a fully functional DMC "village" with roads, school, clinic and community centre.
- All families with their cattle will be relocated upon finishing of the homesteads with solar powered home, rondavel, borehole water and outdoor toilet on 1 hectare of land.
- Families receive a one off $1,000.- Disturbance Allowance Allocation and three month food hampers until the first crop.
- Each family will be allocated 0.5 hectare of farming land with irrigation system and distribution of seasonal farming inputs.
- Construction of a school with playground and computer room to cater to the educational, social and physical needs of the children at the relocation area.

Final Conclusion

Based on the documents provided and on the findings during the compliance verification visit to the Diamond Mining Corporation (DMC) Mine at Marange and the Diamond Mining Corporation (DMC) Sorthouse in Harare from 9-10 December 2011 and from 5-7 January 2012, the KP Monitoring Team on Marange concludes that all operations and procedures are deemed fully KPCS compliant on 16 January 2011.

The KP Monitoring Team on Marange,

(signed) (signed)

Abbey Chikane **Mark Van Bockstael**

ANNEX I: INVITATION LETTER TO KP MONITORING TEAM IN RELATION TO ORGANISING A KPCS COMPLIANCE VERIFICATION VISIT OF THE DIAMOND MINING CORPORATION'S FACILITIES

All correspondence should be addressed to
"THE SECRETARY"

Telephone: 777022/9
Facsimile: 752786/777044
Private Bag CY 7709, Causeway, Harare

ZIMBABWE

Reference:
MINISTRY OF MINES AND MINING DEVELOPMENT
ZIMRE CENTRE
Cnr. Nkwame Nkurumah and L.Takawira
Harare

7 December 2011

The KP Monitoring Team
Messrs: Mark van Bockstael
Abbey Chikane

RE: VERIFICATION OF DIAMOND MINING CORPORATION'S COMPLIANCE TO KIMBERLEY PROCESS MINIMUM REQUIREMENTS

Diamond Mining Corporation (DMC) is ready to commence export of its diamonds produced from the Marange area of Zimbabwe.

In that respect Zimbabwe is inviting the KP Monitoring Team to visit Zimbabwe to verify compliance of DMC's operations with KP minimum requirements from 10 to 11 December 2011.

Accordingly, my Ministry has assessed DMC's diamond mining operations, from point of mining to point of export, and is satisfied that these operations meet the minimum requirements of the KP.

PERMANENT SECRETARY
MINISTRY OF MINES & MINING DEVELOPMENT
07 DEC 2011
P.BAG 7709, CAUSEWAY

P. Mupazviriho
SECRETARY FOR MINES AND MINING DEVELOPMENT

Cc: Working Group on Monitoring Chair – Mr. Stephane Chardon
KP Chair – Hon. Mathiue Yamba
Minister of Mines and Mining Development – Hon. Dr Obert M. Mpofu (MP)

ANNEX II: LIST OF DOCUMENTS RECEIVED FROM DMC

1. Memorandum of Agreement between ZMDC and Pure Diam concerning the creation of a joint venture company (29 October 2010).
   -b. Form No. C.R.14 Companies Act: Diamond Mining Corporation (Pvt.) Ltd (2 November 2010).
   -c. Certificate of Incorporation (3 November 2010).

2. PureDiam DMCC- Chiadzwa Diamond Mining - Environmental Impact Assessment Report, by ARUP Zimbabwe (Pvt.) Ltd: 4348 (October 2010).

3. DMC- Mine: General Procedures (1 December 2011).

4. DMC- Mine: Operational Procedures (1 December 2011).

5. DMC- Mine: Metallurgical Procedures (1 December 2011).

6. DMC- Mine SHE: Health & Safety Procedures (1 December 2011).

7. DMC- Marange- Standard Operating Procedures for Security (no date).

8. DMC: Diamond Footprint Report (no date).

9. Executive Summary Report (December 2011).

10. DMC- Marange Diamond Project Folder (4 January 2012).
   - Introduction
   - General Geology of Marange
   - Boundaries of the Concession
   - Human Resources Report
   - Corporate Social Responsibility Plan
   - Relocation Data
   - Relationship with Government Institutions

11. DMC- (Supplier) Company Profiles Folder (no date).

12. Collection of Worksheets and related documents concerning the export of Dock Boxes from the DMC mine to the DMC Sorthouse in Harare (SHE) on 19/12/2011.

13. Tonnages and Downtime for 2011 Report (January 2012).

14. DMC Procedures for Apprehending (no date).

15. DVD showing recorded security incident (14/11/2011) within Red Zone.

16. Set of Floorplans of Homesteads at the Relocation area at Arda Transau (no date).