



Namibian Minerals Corporation

ANNUAL REVIEW 2000

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FORWARD LOOKING - STATEMENTS

Certain statements in this Review constitute “forward looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Namco or of the diamond mining industry to be materially different from the future results, performance or achievements expressed or implied by those forward looking statements. Namco is subject to the effect of changes in the worldwide diamond price and the risks involved in mining operations. These factors are discussed in greater detail in Namco’s Annual Information Form.

All financial information in this Annual Review is presented in United States dollars unless otherwise stated.

SPECIAL MESSAGE TO SHAREHOLDERS

Dear Shareholder

The Company is slowly emerging from the most challenging period of its history. The accident to our NamSSol mining system and subsequent events at the start of this year have had major ramifications for our shareholders, employees and the Namibian Government. Before beginning my review of 2000, I would like to thank these stakeholders for their overwhelming support throughout this difficult period. Their belief, dedication and resilience have given the Company a second chance. Management is fully committed to reviving the business and repositioning the Company for future growth.

Financial Review

Based on revenues of \$41.8 million, the Company reported earnings in 2000 of \$1.0 million, or \$0.02 per share. By comparison, in 1999 the Company's revenues were \$42.8 million and earnings were \$17.1 million, \$0.43 per share. Lower production levels and the higher costs of running an expanded fleet following the ODM acquisition were the two main reasons for the decline in earnings. Revenues were boosted by strong diamond prices achieved during the year. The average sales price per carat achieved in 2000 rose 17% to \$176 from \$151 in 1999. Cash flow from operations for 2000 was \$15.9 million, \$0.34 per share, compared with \$22.7 million, \$0.56 per share in 1999. Cash at the end of 2000 was \$4.4 million and the Company had US\$54.2 million in bank debt, compared with \$20.0 million in cash and \$31.1 million in debt at the end of 1999. Borrowings were the principal source of funding the two new major capital projects.

Production Results

Diamond production in 2000 was 221 000 carats compared with 273 700 carats in 1999. The three airlift vessels contributed 102 700 carats, almost 50% of the year's production and a substantial improvement on historical performance. The principal source of production was MV *Kovambo* equipped with the NamSSol seabed crawler mining system. Although the vessel operated in lower grade areas and encountered unexpectedly difficult geological conditions in Mining Licence 51, her efficiency improved markedly during the year with 72% more area mined than 1999. MV *Oceandia* and the shallow water operations, both acquired from ODM, were closed down during the year following assessment that these operations were not economically viable. Production in the period from the new MV *Ya Toivo* and Nam 2 seabed crawler, deployed in December, was minimal, but met the Company's expectations at the early stage of their commissioning processes. Nearly 150 000 carats were produced from the recently acquired ODM properties, justifying our confidence in the long term potential.

Capital Investment to Improve Fleet Efficiency

The Company believes that technological development to improve operating efficiency is driving the Industry's growth. In 2000 the Company invested \$50 million in three major areas:

- **Expanding the Fleet** Approximately \$30 million was spent on the construction of the new Nam 2 seabed crawler and conversion of MV *Ya Toivo* into a diamond mining vessel. The Nam 2 is expected to be the most efficient miner in the fleet. We believe this type of technology is the future of the Industry.
- **Optimizing existing equipment** To meet vessel classification requirements and to maximize the utilization of airlift technology onboard MV *Namibian Gem*, a \$5 million upgrade took place in the second quarter. Production capability improved substantially following the upgrade.
- **Resource development** The investment of \$13 million for the new drilling system developed for sampling in collaboration with engineering group Wirth and the conversion of MV *Zacharias* as a dedicated exploration and bunkering vessel.

With hindsight, the Company underestimated the magnitude of these projects, in particular that of the new mining vessel and system. The proprietary Nam 2 was constructed on time and within budget, however, vessel conversion and construction of the largest processing plant put to sea were delayed and experienced cost overruns. Notwithstanding these difficulties, commissioning began in the fourth quarter and the Company expects a substantial contribution from this vessel in 2001. Similarly, the prototype drilling tool, deployed from MV *Zacharias*, has taken longer than expected to complete and to commission but should be operational by third quarter 2001.

Exploration to Support Growth

Exploration is critical for maximizing the value of the concessions acquired from ODM, for testing our substantial existing areas and for future mine planning. The Company's short-term focus is towards developing additional resources adjacent to current mining resource areas. Following 2 200 line kilometres of geophysics early in the year, MV *Zacharias* was mobilized for airlift sampling in the fourth quarter. Approximately 210 geological features have been identified for testing in the first phase of exploration, and early results have been encouraging. The new drill will be deployed in 2001. With its ability to operate in a variety of geological conditions and in sediments of eight metres, this drilling system has the potential to provide the most accurate measure of mineralisation and mining conditions.

Recent Events and Financing

In January 2001, an accident to the NamSSol had a critical impact on the Company's cash flow. Production from the new Nam 2 and the smaller airlift vessels was not sufficient to sustain the Company after a year of high capital expenditure and resulting debt build up. Proposals to raise new equity could not be completed. Following difficulty in agreeing moratorium terms with the Company's senior lenders and with mounting creditor pressures, the Company placed nine of its subsidiary companies into provisional liquidation. Operations were suspended and the stock price deteriorated.

It was not easy to raise additional capital in this environment. However, by May 2001 the Company had raised \$27 million of new equity and introduced a major new shareholder, the Leviev Group, the world's leading diamond manufacturer. Proceeds from the fund raising will be used for the mining operations, to discharge companies from provisional liquidation and to provide working capital.

The Namibian companies have been discharged from provisional liquidation, MV *Ya Toivo* resumed operation in late April 2001 and MV *Zacharias* resumed partial exploration in May 2001. Preparations are advanced for recovery from these events and the impact of a major cessation of operations.

Competitive Advantages

The Company has been able to raise funds during this very difficult period due to our competitive advantages which I believe are:

- The proven ability to create an enviable technological position in the marine industry.
- The diamond bearing potential of our Namibian inner shelf concessions.
- The opportunity to realize the benefits of \$100 million of investment in the business over the last two years.
- The attraction of an exceedingly high quality supply of rough diamonds with value appreciation of 20% over the last three years.
- The benefit of a major shareholder with financial and industry strength.

This final point leads me to our new marketing agreement with the Leviev Group. The Leviev Group's diamond turnover is over US\$1.5 billion per annum and the Group will easily absorb the Company's production at open market world prices.

Looking Ahead

In the short term, management's prime objective is to stabilize the Company. Our immediate goals are to discharge the remaining companies from provisional liquidation, to resume operations across the entire fleet and to rebuild shareholder value.

In closing, I again thank all stakeholders for their tenacious support. We will strive to ensure the progress of the Company with the year's experiences and build on our production, resource and technical potential for future success.

J.A.Holberton
Chairman & CEO
18 May 2001

MANAGEMENT DISCUSSION AND ANALYSIS AND FINANCIAL REVIEW

For the year ended 31 December 2000

OVERVIEW

2000 was a year of considerable challenge for the Company with the integration of ODM, unexpected geological conditions in certain of its mining areas and completion of substantial construction projects for both new mining and exploration systems. In February 2000, the Company increased its interest in ODM from 92.5% to 97.7%. By year end, the Company had five vessels operating off the Namibian coast. The Company's investment in new, improved technology was overshadowed by operating challenges, disappointing production performance, cost overruns and the accident to NamSSol in early 2001.

The decline in net earnings to \$1.0 million, \$0.02 per share, reflected increased operating costs from the expanded fleet and lower diamond production levels (1999: \$17.1 million, \$0.43 per share). The operations in 2000 benefited from higher diamond prices as compared with the previous year and from two of the ODM vessels operating for a full year, compared with 1999 when these vessels contributed only two months of production.

Cash flow from operations was \$15.9 million, compared with \$22.7 million in 1999. Investment in the business was \$54.4 million (1999: \$47.4 million). At year end, cash was \$4.4 million, compared with cash of \$20.0 million at the end of 1999. Long-term debt including the current portion was \$54.2 million (1999: \$31.1 million). Net debt to shareholders funds increased significantly to 59% (1999: 12%).

Following a year of substantial capital expenditure and reduced earnings, the Company pursued a number of financing proposals. A critical operational setback occurred in January 2001 when an accident to its NamSSol mining system suspended mining operations. While the new Nam 2 mining system was in its commissioning phase, the impact of the accident was accentuated by the loss of the principal source of cash flow. The insurance claims resulting from the accident are the subject of prolonged and ongoing discussions with the underwriters.

The Company breached the terms of its loans from its senior lenders. A significant new financing through Canaccord Capital was withdrawn when moratorium terms could not be agreed with the Company's senior lenders.

Several southern African subsidiaries of the Company were placed in provisional liquidation in late February 2001. The Company continued to pursue financing initiatives and reached accord with its senior lenders. \$27.0 million was successfully raised by early May 2001. This included a \$15 million subscription from the Leviev Group, which has become the Company's new major shareholder. The Company requires ongoing support from its senior lenders, rescheduling of its debts, the reversal of the provisional liquidations and a return to profitable operations to continue as a going concern.

Financial Data	2000	1999
(\$ in thousands, other than per share data and number of shares outstanding)		
Earnings and Cash Flow		
Revenue from diamond sales	41 769	42 808
Earnings before goodwill and tax	2 508	17 394
Net earnings	1 007	17 138
Cash flow from operations	15 946	22 707
Earnings per share	\$0.02	\$0.43
Capital Expenditure and Investments		
Capital Expenditures	49 989	14 304
Acquisition of ODM	2 623	31 630
Balance Sheet		
Cash	4 394	20 033
Total Assets	170 923	147 634
Long-term debt, including current portion	54 245	31 061
Shareholders' equity	84 045	91 749
Net debt to shareholders' funds	59%	12%
Weighted average number of shares outstanding, in thousands	46 842	40 233

RESULTS OF OPERATIONS

Production

In 2000, the Company operated three production vessels for the entire year and two vessels for part of the year. The vessels operated in each of the Company's three mining licences off the Namibian coast, Mining Licence 36, Mining Licence 51 and Mining Licence 103A. Total diamond production in 2000 was 221 000 carats, compared with 273 700 carats in 1999. Production in 2000 was slightly below the target range of 225 000 – 250 000 carats.

MV *Kovambo* was the most important vessel and was equipped with NamSSol seabed crawler technology. During the year, the Company completed construction and started commissioning of its second seabed crawler, Nam 2. The Company's focus was on the development of enhanced technology to improve long term operating efficiency and profitability. Three airlift vessels and contractor-operated shallow water operations were acquired in the ODM transaction, and two of these less efficient operations were sold or closed down during the year.

MV Kovambo

Production from vessel *MV Kovambo* was 115 740 carats. A decline in production was expected in 2000, as the vessel operated in lower grade areas. However, unexpectedly challenging geological conditions were encountered in Mining Licence 51 due to the presence of clay and soft footwall which required the removal of the vessel to locations with easier, substantially lower grade mining conditions. Despite these challenges, the area mined by the NamSSol seabed crawler was three to four times greater than that of the airlift mining technology, allowing it to operate more effectively in lower grade areas.

On 7 January 2001, while mining in Mining Licence 51, the NamSSol became stuck on the seabed. On attempted recovery of the machine, applying standard recovery procedures, the tracked undercarriage of the NamSSol separated from the upper chassis and remained on the seabed. An investigation into the cause of the accident determined that the mining face had collapsed onto the tool with substantial amounts of sediment material weighing down the machine. Further recovery attempts were unsuccessful with strong underwater currents depositing further sediment in the mining trench, completely covering the undercarriage. In consultation with the insurance assessor, the Company abandoned recovery operations.

The accident resulted in the suspension of operations and the loss of diamond production onboard *MV Kovambo*. The Company has insurance covering i) direct physical loss or damage to the NamSSol and ii) operating costs and anticipated profits, both of which are subject to deductibles. The cover under the direct physical loss or damage policy is subject to a deductible for each incident of US\$100 000 and an annual aggregate deductible of \$150 000 and the cover under the operating costs and anticipated profits is in total a maximum of \$67 500 per day for a maximum period of 180 days, subject to an excess period of 14 days. Recovery under the second policy is dependent on the loss or damage being covered under the first policy. The Company is currently progressing both claims with its insurers.

Meanwhile, the Company plans to rebuild the undercarriage of NamSSol and effect minor repairs to the upper chassis, at an estimated cost of approximately \$1.5 million. The Company plans to return the NamSSol to operation in the fourth quarter of 2001.

MV Ya Toivo

MV Ya Toivo started commissioning in December 2000 and diamond recoveries for that month were 2 460 carats. The vessel is equipped with the new Nam 2 seabed crawler which was developed to process higher volumes of seabed material and to operate in low grade mining conditions. The Company has included a number of design features to allow operation in softer footwall conditions including cutter heads fitted to the suction nozzle, wider tracks and a new mining method.

MV Namibian Gem

Performance in 2000 of the *MV Namibian Gem*, which is equipped with airlift technology, was 45 760 carats. The vessel did not produce for approximately three months of 2000 while modernization and repairs were carried out. Following this modernization, the vessel's diamond production improved substantially from the first half of the year.

MV Ivan Prinsep

MV *Ivan Prinsep* produced 49 117 carats in 2000. This strong performance was mainly due to its operation in higher grade areas in the second quarter while MV *Namibian Gem* was not producing. The cut-off grade for this vessel was the highest in Namco's fleet. Ongoing capital requirements for the vessel to ensure seaworthiness and high operating costs in the resource currently available, together with requirements of the Company's senior lenders, led to the decision to sell the vessel in March 2001 for \$4.4 million, the proceeds of which will be used to repay the Company's senior lenders.

MV Oceandia

As the smallest and least efficient vessel in the fleet, on the expiry of seaworthiness classification after production of 5 744 carats for the first five months of 2000, the vessel was withdrawn from operation and sold.

MV Zacharias

The Company commissioned its first full-time exploration vessel in the first quarter of 2000 for geophysical survey work. Following two quarters of geophysics and then conversion in the third quarter, limited sampling commenced in the fourth quarter of 2000. As well as the new drilling system developed for sampling with the German engineering group Wirth, MV *Zacharias* is equipped with an airlift sampling tool, a grab sampler and a vibrocorer. Sampling with the airlift tool began in the fourth quarter, pending repairs to the Wirth tool's hydraulic leveling device.

Shallow Waters

The shallow water operations were decommissioned in July following the production of 2 081 carats. The Company believes exploration should be carried out on its shallow water concessions before operations resume in order to best direct its mining subcontractors.

Production Data								
Vessel	2000				1999*			
	Total	Area		Average	Total	Area		Average
	Production	Mined	Volume	Grade	Production	Mined	Volume	Grade
	(carats)	(sq.m)	(cu.m.)	(cts/sq.m)		(sq.m.)	(cu.m.)	(cts/sq.m.)
Kovambo	115 743	276 590	852 728	0.42	256 462	159 948	279 909	1.60
Namibian Gem	45 764	74 505	88 881	0.61	6 531	23 994	N/A	0.27
Ivan Prinsep	49 118	69 299	78 265	0.71	7 537	13 223	N/A	0.57
Oceandia	5 744	24 043	20 865	0.24	2 618	15 265	N/A	0.17
Shallow Water	2 081	N/A	N/A	N/A	593	N/A	N/A	-
Zacharias	120	1 391	N/A	N/A	-	-	-	-
Ya Toivo	2 461	16 341	8 658	0.15	-	-	-	-
TOTAL	221 031	462 169	1 049 397	0.48	273 741	212 430	279 909	1.29
* 1999 results from Namibian Gem, Ivan Prinsep and Oceandia are reported from the date of the ODM acquisition on 28 October 1999.								

Earnings

The Company's earnings of \$1.0 million in 2000 (1999: \$17.1 million) reflected lower than anticipated production levels, increased costs of operating an expanded fleet, the amortization of the cost of mineral properties acquired and a full year's charge for goodwill as a result of the ODM acquisition.

Revenues

In 2000, the Company primarily generated revenues from three vessels. One of the ODM vessels was removed from operation in June, and recoveries from the new MV *Ya Toivo* were limited. Revenues from the sale of 237 000 carats in 2000 were \$41.8 million compared with \$42.8 million from the sale of 283 000 carats in 1999. The decline in production levels in 2000 was offset by higher diamond prices and larger stone sizes obtained from concessions acquired in the ODM acquisition. The average realized diamond price was \$176 per carat, compared with \$151 per carat in 1999. Diamond quality remained high.

Expenses

Direct production costs increased by \$8.4 million to \$22.1 million from the previous year. The increase in costs is attributable to operating two additional vessels for a full year, significant holding costs for the Namibian Gem while being refurbished and operating an additional two vessels for part of the year.

Royalty and marketing costs in the period were \$4.3 million, or 10.3% of revenue. Royalty payments to the Namibian Government were \$3.3 million (1999: \$3.7 million).

The majority of operating costs for each vessel are fixed and include charter fees (when applicable), personnel and insurance. Semi-variable costs include fuel prices, which increased during the period, and repairs and maintenance costs. Both costs are highly dependent on hours of operation, which increased substantially during the year.

General office costs increased to \$4.8 million compared to \$3.7 million in 1999 as a result of the increased support required for the operations and the capital projects. Following the completion of the capital projects and the provisional liquidation the support cost base has been reduced significantly. The former ODM office in Cape Town has been closed.

Amortization rose to \$6.7 million due to the inclusion of a full year's costs for the ODM fleet and acquired concessions. A full year's goodwill amortization of \$2.4 million was incurred (1999: \$0.3 million).

FOURTH QUARTER RESULTS

The fourth quarter loss was \$1.6 million, \$0.04 per share, compared with earnings of \$1.1 million, \$0.02 per share, in 1999. Diamond sales of 60 200 carats (1999: 53 700 carats) generated revenues of \$10.6 million (1999:\$8.4 million). The average sales price achieved was \$176 per carat compared with US\$156 per carat a year earlier. Operating cash flow was \$8.5 million. Diamond production was 57 500 carats (1999: 65 900 carats).

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operation of \$15.9 million in 2000 (1999: \$22.7 million) was affected by reduced earnings, which were partially offset by increased amortization, including goodwill, and changes in working capital, principally the advance receipts on inventory sales and increases in accounts payable and accrued liabilities.

In 2000 Namco invested \$54.4 million in the business, compared to \$47.4 million in 1999. In 2000, \$50.0 million was spent on capital projects. In 1999, the most significant investment in the business was the net cash consideration of \$31.6 million paid in connection with the ODM purchase. The capital projects were funded through a mixture of internally generated funds from operations and from additional bank facilities. The acquisition of ODM in 1999 was funded from internal resources, bank facilities and share placements.

During 2000 the Company undertook the development of more efficient and cost effective technology for mining and exploration, building two new mining and exploration systems and enhancing the capacity of technology acquired from ODM. The \$50 million of project-related capital expenditure, including capitalization of interest on loans and of appropriate holding costs of each vessel can be summarized as follows:

	\$ million
Ya Toivo/Nam 2 mining project	29.1
Zacharias/Wirth tool exploration project	13.0
Namibian Gem modernization	5.0
Other capital expenditure	2.9

All of the above capital projects were substantially completed, albeit with time and significant cost overruns, reflecting the complexity of the ground breaking nature of the principal projects, the late delivery of MV Ya Toivo, underestimation of the structural strengthening requirements of MV Ya Toivo, unanticipated increase in the weight of the Wirth tool, consequent upgrade of the launch and recovery system onboard MV *Zacharias* and the condition of MV *Namibian Gem*. Capital project commitments outstanding at year end were \$1.6 million. New capital expenditures in 2001 will be significantly reduced to approximately \$3.0 million, including an allowance of \$1.5 million to rebuild the NamSSol undercarriage.

At year end, Namco had total debt, including amounts due within one year, of \$54.2 million, compared to \$31.1 million a year earlier. Debt was used to fund the capital projects for the Nam 2 production unit, modernization of the Namibian Gem and the construction of the Wirth exploration tool and the fitting out of MV *Zacharias*. In the period the Company repaid \$16.4 million of the loan raised to fund part of the ODM acquisition.

Current liabilities, excluding the current portion of long-term debt increased during the period from \$8.6 million to \$17.5 million. Included in the current year end is an overdraft of \$1.2 million and advance receipts on inventory sales of \$4.3 million. Accounts payable and accrued liabilities increased from \$8.6 million to \$12.1 million, which was a reflection of the level of capital projects during the year.

Cash at year end was \$4.4 million compared with \$20.0 million in 1999.

In response to its declining cash and weakened financial position, the Company investigated a number of fund raising options. The financial position was accentuated by the loss of the NamSSol seabed crawler in early January. As a result, part of a scheduled loan repayment due at the end of January 2001 was not made, which constituted an event of default, which was not called. In early February 2001 the Company announced that Canaccord Capital Corporation had contracted with investors agreeing to purchase \$10.25 million of common shares and convertible debentures, being part of a planned \$20 million capital raising. However, the financing was abandoned when a moratorium could not be agreed upon with the Company's senior lenders with resultant uncertainty as to their intentions.

The events described above resulted in the severe deterioration of the Company's financial position. In late February 2001 the Company placed nine of its subsidiary companies into provisional liquidation. All mining and exploration operations ceased. The provisional liquidation orders can be discharged by application to court, or by way of a scheme of arrangement ("Scheme") in terms of the South African Companies Act.

Agreement was then reached with the Company's lenders to a six month capital repayment moratorium. The lenders further undertook in good faith to agree to a rescheduling of the Company's debt prior to September 2001. The Company agreed to the sale of the MV *Ivan Prinsep* for \$4.4 million to repay certain lenders. The ongoing support of the Company's lenders is required as is a satisfactory rescheduling agreement.

To restore financial stability and to resume business operations, the Company has completed financings totaling \$27 million. The Company raised \$12 million through the private placements of special warrants and special notes, which are convertible into a combination of common shares, convertible debentures and warrants. In addition, the Leviev Group, a leading diamond manufacturer subscribed to \$15 million of common shares, with half warrants attached, and is expected to provide a \$2.6 million credit facility, which can be converted into common shares. Net proceeds from the financings, excluding the credit facility, are approximately \$24.4 million. Proceeds were initially used to pay charter fees to secure vessels MV *Ya Toivo*, MV *Kovambo* and MV *Zacharias*, provide guarantees in respect of the MV *Ya Toivo* and MV *Zacharias*, resume mining operations, provide working capital and provide funds for the discharge of the companies in liquidation.

On 7 May 2001, the Company obtained the discharge from provisional liquidation of its Namibian subsidiaries, as the Company has paid, compromised or is in the process of paying or compromising all creditors in these subsidiaries. The Company intends applying for the discharge of its South African subsidiary, Pinette Investments (Pty) Ltd. and it intends proceeding with Schemes for the South African subsidiaries which have not been discharged. It is anticipated that if the Schemes are accepted, the South African companies could be discharged from provisional liquidation by 31 July 2001.

Given recent events, the risks and uncertainties with regard to the Company's liquidity and capital resources, its future, and the quantifiable effects and delays from the provisional liquidation of its operating companies are significant. To meet its ongoing obligations and maintain its operations, the Company needs to regain

profitable operations, the continuing support of its senior lenders, rescheduling of its debt repayments and successfully reverse the provisional liquidation of its subsidiaries that remain in provisional liquidation. Additional capital may well be required.

RISKS AND UNCERTAINTIES

Insolvency Risk

Placing of subsidiaries into provisional liquidation has created significant uncertainty and risk for the Company. The Company's ability to restore its financial situation, to attract lost skills to develop its mining licences and to cover its corporate and operational expenses depends on its ability to restore profitable operations and on the continuing support of its creditors, including its senior lenders. Additional capital raisings may be required at a later date. The Company plans to resume mining operations on a staged basis. The *MV Ya Toivo*, which is expected to be the principal source of production in 2001, started operations in April 2001. However, there can be no assurance that the Company will generate revenues and operating income sufficient to satisfy its working capital, debt servicing and capital expenditure needs in the future.

Specifically, the Company has financial commitments that must be met within the next 12 months and beyond. These commitments include payments of interest and principal on senior debt and payments to trade creditors. The Company is seeking to reschedule, compromise and renegotiate these debts, but there can be no assurances that creditors or its senior lenders will be willing to accommodate the Company.

The inability of the Company to generate revenues and operating income, to reschedule debts or, if required, to secure financing on acceptable terms would have a material adverse effect on the Company's business, financial condition and results of operations and could require: the reduction or suspension of operations, postponement of development plans, forfeiture of its interest in some or all of its properties, the sale of the Company or the issuance of securities, or other actions, which might have a negative impact on the Company and/or its shareholders.

Mining Operations

The business of marine mining is challenging and is subject to a variety of risks such as accidents, extreme marine and weather conditions, natural disasters, environmental hazards, theft, unusual, unknown or unexpected geological formations, unpredictable mining conditions or diamond occurrence, the discharge of toxic chemicals and other hazards. Such occurrences may result in the suspension of operations, losses and/or damage to property, human injury or deaths, environmental damage and possible legal liability for any and all damages.

The technology required for ocean diamond mining in deeper waters has only begun to be used commercially in the last ten years. While the Company believes that its production and processing technology is state-of-the-art, these systems may not perform to design requirements leading to possible delay and additional expense.

The Company has only sustained commercial production over a short period of time. There is no assurance that commercial quantities of diamonds will continue to be discovered or that commercial production will continue for the diamond properties.

Currency and Foreign Exchange

Although the Company's operations are outside of North America, its diamonds are priced in US dollars and its financial records are maintained in US dollars. The Company's operations in Namibia and South Africa make it subject to foreign exchange restrictions that may materially affect the Company's ability to transfer funds and therefore its financial position. Fluctuations in currency exchange rates, particularly for operating costs denominated in currencies other than United States dollars, may also significantly impact the Company's financial position and results.

Diamond Prices

The market for diamonds affects the profitability of the Company's mining operations. Diamond prices tend to fluctuate and are affected by numerous factors beyond the control of the Company. The market for precious stones is influenced by world supply and demand, the rate of inflation, inventories of precious stones, political environments and changes in international business conditions. The Diamond Trading Company (the "DTC"), part of the De Beers Group, has a significant influence over the world trade in rough diamonds. As a result, the Company's diamond prices may be affected by the policy and actions of the DTC.

Further detail on Risk Factors is contained in the Company's Annual Information Forms filed annually.

OUTLOOK

Following the developments in the first quarter, the Company expects 2001 to be another challenging and very difficult year. Progress will depend primarily on close monitoring of the financial situation, tight cost controls and on meeting revenue, production and exploration targets.

Management faces a number of important challenges which will affect the financial performance of Namco in 2001 and beyond:

- Discharging the South African subsidiaries from provisional liquidation;
- Achieving the design capacity levels from MV *Ya Toivo*;
- Resuming and maintaining profitable mining operations from MV *Namibian Gem*;
- Resuming of successful exploration activities with MV *Zacharias*;
- Rebuilding NamSSol and resuming mining operations with MV *Kovambo*; and
- Achieving satisfactory debt rescheduling and creditor compromise.

The Company's earnings in 2001 will be significantly negatively affected by the loss of production from the NamSSol unit, the provisional liquidation of certain subsidiaries and the resultant suspension of all operations, and all consequences thereof, and the availability of effective production units for a small portion of the year while incurring costs over the whole period.

Despite the great setback and the ongoing impact, Management remains focused on realizing the production, resource and technical potential of the Company.

J.A.Holberton
Chairman & CEO

J.C.F.Purdy
Chief Financial Officer

18 May 2001

SHAREHOLDER INFORMATION

Annual General Meeting

The Annual General Meeting will be held at 11.30am on Friday 29 June 2001 at 243/247 Pavilion Road, London, SW1X 0BP.

Stock Exchange Listings and Ticker Symbols

Namibian Stock Exchange (NMC)
Nasdaq National Market (NMCOF)
The Toronto Stock Exchange (NMR)

At the time of publication of this Review, Nasdaq has halted trading in Namco's securities as a result of the provisional liquidation. Ongoing requests for information are being provided and once the Company has fully satisfied Nasdaq's requests for additional information, Nasdaq will make a decision on Namco's eligibility to resume trading.

The TSE has initiated a review of Namco's eligibility to continue trading and has deferred its decision until June 27, 2001.

Share Registrars

Computershare Trust Company of Canada
4th Floor
510 Burrard Street
Vancouver
British Columbia
V6C 3B9
Canada

Transfer Secretaries (Pty) Ltd.
Kaiserkrone Centre, Shop 12
Post Street Mall
PO Box 2401
Windhoek
Namibia

Tel: 1 604 661 9400

Tel: 264 61 227 647

Investor Information

Investors requiring information may contact Megan Williams, Corporate Communications Director, at the corporate office.

Share Capital

	2000	1999
Shares authorized	100 000 000	100 000 000
Shares in issue	47 602 099	45 727 318
Shares fully diluted	198 362 837 ¹	50 747 473

Information as at 31 December apart from ¹ which includes shares issued or issuable in the fund raisings completed by May 2001.

Quarterly Share Information, Nasdaq National Market

Quarter	2000				1999			
	High	Low	Close	Volume	High	Low	Close	Volume
First	\$8.31	\$4.06	\$4.88	12 768 375	\$3.50	\$1.31	\$2.62	3 440 305
Second	\$5.00	\$3.47	\$3.63	3 311 246	\$3.75	\$2.38	\$3.50	4 879 210
Third	\$3.88	\$2.06	\$2.63	4 647 428	\$6.43	\$3.25	\$5.09	6 571 853
Fourth	\$2.56	\$1.34	\$2.06	6 464 684	\$6.18	\$4.37	\$6.12	5 515 889
Total				27 201 733				20 407 257

Board of Directors

Alastair Holberton

Howard Beck

Andrew Buxton

Carlo Civelli

Loine Geingos

Charles Purdy

Yusuf Surtee

Management

Alastair Holberton

Chairman & CEO

Kombadayedu Kapwanga

Regional Director

Peter Looijen

Operations Director

Charles Purdy

Chief Financial Officer and Company Secretary

Megan Williams

Corporate Communications Director

Michael Woodborne

Exploration Director

Corporate Office

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Namibian Minerals Corporation
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Namibian Minerals Corporation is incorporated in the Yukon Territory, Canada

NAMIBIAN MINERALS CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS

31 December 2000

(Audited)

Report of Management

The accompanying consolidated financial statements and all of the data included in this report have been prepared by and are the responsibility of the management of Namibian Minerals Corporation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimate and judgements based on currently available information. The Company has developed and maintains systems of internal accounting controls in order to assure, on a reasonable and cost-effective basis, the reliability of its financial information and that the assets are safeguarded from loss.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board, which has to satisfy itself that management's responsibilities are properly discharged and to review the financial statements before they are presented to the Board of Directors for approval. The Company's external auditors have full and unrestricted access to the Audit Committee.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

18 May 2001

(Signed) J A Holberton

J A Holberton

Chairman, Chief Executive Officer and Director

(Signed) J C F Purdy

J C F Purdy

Chief Financial Officer and Director

Auditors' Report

To the Shareholders of Namibian Minerals Corporation

We have audited the consolidated balance sheets of Namibian Minerals Corporation as at December 31, 2000 and 1999 and the related consolidated statements of operations and retained earnings (deficit) and cash flows for each of the years in the two year period ended December 31, 2000 and 1999, for the seven months ended December 31, 1998 and the year ended May 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

With respect to the consolidated financial statements for the year ended December 31, 2000, we conducted our audit in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. With respects to the consolidated financial statements for the year ended December 31, 1999, the seven month ended December 31, 1998 and the year ended May 31, 1998, we conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2000, and 1999, for the seven months ended December 31, 1998 and the year ended May 31, 1998 in accordance with Canadian generally accepted accounting principles.

(Signed) Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Vancouver, Canada
18 May 2001

Comments by Auditor on Canada – United States Reporting Differences

United States reporting for auditors require the addition of an explanatory paragraph for the following:

- (i) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Notes 1 and 21 to the financial statements.
- (ii) when the financial statements reflect a change in accounting policy, such as described in Note 3 (p) for future income taxes. The adoption of this policy had the effect of increasing the future income **tax** liability on the acquisition of Ocean Diamond Mining Holdings Limited by \$12,700,000 with a corresponding increase in goodwill.
- (iii) When the financial statements reflect a significant subsequent event, such as described in Note 21 to the financial statements.

Although we conducted our audits in accordance with both Canadian generally accepted auditing standards and United States generally accepted auditing standards, our report dated 18 May 2001 is expressed in accordance with Canadian reporting standards which do not permit a reference to such conditions and events in the auditors' report when these are adequately disclosed in the financial statements.

(Signed) Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Vancouver, Canada
18 May 2001

Namibian Minerals Corporation
Consolidated Balance Sheets
United States Dollars

Statement 1

		As at 31 December 2000 \$000	As at 31 December 1999 \$000
ASSETS			
Current	Cash – <i>Statement 3</i>	4,394	20,033
	Accounts receivable	1,207	1,196
	Prepayments	231	530
	Inventories (<i>Note 4</i>)	6,075	5,279
	Marketable securities (<i>Note 5</i>)	51	97
		11,958	27,135
	Exploration and development costs (<i>Note 6</i>)	15,450	14,098
	Capital assets, net of amortization (<i>Note 7</i>)	109,440	71,926
	Deferred costs (<i>Note 8</i>)	703	718
	Goodwill (<i>Note 9</i>)	33,098	33,449
	Other assets	274	308
		170,923	147,634
LIABILITIES			
Current	Accounts payable and accrued liabilities	12,097	8,624
	Bank overdraft	1,171	-
	Advance receipt on inventory sales	4,250	-
	Current portion of long term debt (<i>Note 10</i>)	16,535	16,833
		34,053	25,457
	Future income taxes (<i>Note 12</i>)	14,715	14,900
	Long term debt (<i>Note 10</i>)	37,710	14,228
		86,478	54,585
	Non controlling interest (<i>Note 14</i>)	400	1,300
SHAREHOLDERS' EQUITY			
	Share capital (<i>Note 11a</i>)	90,169	83,802
	Warrants (<i>Note 8</i>)	406	500
	Exchangeable debentures (<i>Note 11b</i>)	1,550	4,615
	Contributed surplus	459	459
	Cumulative foreign exchange adjustment	(13,637)	(3,124)
	Retained earnings - <i>Statement 2</i>	5,098	5,497
		84,045	91,749
		170,923	147,634

Continuing Operations (*Note 1*)
Contingency (*Note 20*)

ON BEHALF OF THE BOARD:

(Signed) J A Holberton

J.A. HOLBERTON
Chairman, Chief Executive
Officer and Director

(Signed) J C F Purdy

J.C.F. PURDY
Chief Financial Officer
and Director

18 May 2001

Namibian Minerals Corporation
Consolidated Statements of Operations and Retained Earnings (Deficit)
United States Dollars
Statement 2

		For the 12 months ended 31 December 2000 \$000	For the 12 months ended 31 December 1999 \$000	For the 7 months ended 31 December 1998 \$000	For the 12 months ended 31 May 1998 \$000
Income	Revenue from diamond sales	41,769	42,808	12,984	-
	Interest earned	789	632	111	688
	Gain on marketable securities	30	354	128	372
		<u>42,588</u>	<u>43,794</u>	<u>13,223</u>	<u>1,060</u>
Expenses	Direct production costs	22,149	13,717	4,351	-
	Royalty payment	3,308	3,732	1,264	-
	Marketing costs	976	866	324	-
	General office costs, including salaries	4,755	3,762	1,980	3,892
	General exploration and development costs	-	-	-	3,254
	Write-down of marketable securities	45	-	350	-
	Amortization - capital assets	5,778	3,665	1,807	959
	- exploration and development costs	428	-	-	-
	- deferred costs	477	60	-	-
	Interest paid - long term debt	1,924	460	32	22
	- other	240	138	-	-
		<u>(40,080)</u>	<u>(26,400)</u>	<u>(10,108)</u>	<u>(8,127)</u>
Earnings (loss) for the period before taxes and goodwill		2,508	17,394	3,115	(7,067)
	Recovery of income taxes	900	-	-	-
Earnings (loss) for the period before goodwill		3,408	17,394	3,115	(7,067)
	Goodwill amortization	<u>(2,401)</u>	<u>(256)</u>	<u>(7)</u>	<u>(12)</u>
Earnings (loss) for the period		1,007	17,138	3,108	(7,079)
	Retained earnings (deficit) – beginning of period	5,497	(10,607)	(13,576)	(6,377)
	Accretion on equity component of exchangeable debenture (net of tax)	-	(276)	(139)	(120)
	Dividend	(1,406)	(758)	-	-
Retained earnings (deficit) – end of period		<u>5,098</u>	<u>5,497</u>	<u>(10,607)</u>	<u>(13,576)</u>
		\$	\$	\$	\$
Basic earnings (loss) per share for the period before goodwill		0.07	0.43	0.08	(0.19)
Basic earnings (loss) per share for the period after goodwill		0.02	0.43	0.08	(0.19)
Fully diluted earnings (loss) per share for the period		0.02	0.40	0.08	(0.19)
Dividend per share		0.03	0.02	-	-
Weighted average number of shares outstanding					
In thousands		46,842	40,233	37,850	37,690

Namibian Minerals Corporation
Consolidated Statements of Cash Flows

United States Dollars

Statement 3

		For the 12 months ended 31 December 2000 \$000	For the 12 months ended 31 December 1999 \$000	For the 7 months ended 31 December 1998 \$000	For the 12 months ended 31 May 1998 \$000
Cash resources provided by (used in)					
Operating activities	Earnings (loss) for the period	1,007	17,138	3,108	(7,079)
	Items not affecting cash				
	Amortization - capital assets	5,778	3,665	1,807	959
	- goodwill	2,401	256	7	12
	- exploration and development costs	428	-	-	-
	- deferred costs	477	60	-	-
	Issue of share capital not for cash	-	-	-	180
	Writedown of marketable securities	45	-	350	-
	Gain on sale of marketable securities	(30)	(354)	(128)	(372)
	Income tax recovery	(900)	-	-	-
	Changes in non-cash working capital (Note 15)	6,740	1,942	(4,862)	4,007
	Net cash provided by (used in) operating activities	15,946	22,707	282	(2,293)
Investing activities	Exploration and development costs	(1,780)	(1,885)	750	(9,851)
	Capital assets	(49,989)	(14,304)	(933)	(11,846)
	Marketable securities	30	413	128	1,382
	Acquisition of ODM (Note 13)	(2,623)	(31,630)	-	-
	Net cash used in investing activities	(54,362)	(47,406)	(55)	(20,315)
Financing activities	Share capital	1,946	10,812	23	13,187
	Bank overdraft	1,171	-	-	-
	Exchangeable debentures	-	-	-	5,000
	Long term debt	21,921	31,061	-	-
	Exchangeable debentures repayment	-	(280)	(255)	-
	Dividend payment	(1,406)	(758)	-	-
	Financing costs paid	(112)	-	-	-
	Net cash provided by (used in) financing activities	23,520	40,835	(232)	18,187
Net increase (decrease) in cash		(14,896)	16,136	(5)	(4,421)
	Effect of foreign exchange movement on cash balances	(743)	-	-	-
	Cash position – beginning of period	20,033	3,897	3,902	8,323
Cash position – end of period		4,394	20,033	3,897	3,902

Supplemental cash flow information (Note 15)

During the period the Company issued 1,089,524 (1999: 85,550) common shares on the redemption of \$3,065,000 (1999: \$385,000) 6% exchangeable debentures (note 11 (b)), 90,578 (1999: nil) common shares by way of satisfaction of the interest payable on the 6% exchangeable debentures (note 11(b), and 400,000 (1999: nil) common shares for a deemed value of \$2,044,000 and cash received of \$1,600,000 upon exercise of warrants issued in conjunction with the IBM loan (note 11(e)).

During the period to 31 December 1999 the Company acquired 92.5% of Ocean Diamond Mining Holdings Limited (“ODM”) by issuing 1,650,000 common shares at a deemed value of \$5,363,000, 3,354,340 shares at a deemed value of \$13,407,000 and payment of cash (net of cash acquired of \$9,050,000) of \$31,630,000. In the period to 31 December 2000, the Company increased the interest in ODM to 97.7% by issuing 228,104 common shares at a deemed value of \$4 per share, and payment of cash of \$2,623,000 (Note 13).

31 December 2000
United States Dollars

1. Continuing operations

The Company, through its subsidiaries, is engaged principally in marine diamond exploration and mining off the coast of Namibia and marine diamond exploration off the coast of South Africa.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assume that the Company will realize its assets and discharge its liabilities in the normal course of business. Realization values may be substantially different from carrying values as shown in these financial statements should the Company be unable to continue as a going concern. In the fourth quarter of 2000, the Company had negative working capital. Subsequent to 31 December, 2000, the Company's NamSSol mining tool was damaged and together with delays in commissioning the second generation mining tool Nam 2, the Company's financial position and liquidity deteriorated, as disclosed in Note 21.

As a result, the Company placed six of its South African subsidiaries and three of its Namibian subsidiaries into provisional liquidation in February 2001. The Namibian subsidiaries were released from provisional liquidation on 7 May, 2000. The Company has raised, net of expenses, approximately \$24,400,000 in the subsequent period. However, it should be noted that as at 31 December 2000 the Company has a working capital deficiency of \$22,095,000 and long term debt outstanding at \$37,710,000.

The Company's ability to meet its obligations and maintain its operations is contingent upon a combination of the following factors: i) regaining profitable operations, ii) the continuing support of its banks and the successful rescheduling of its debt repayments, iii) continuance of vessel charters and iv) the successful reversal from provisional liquidation of those subsidiaries that remain in provisional liquidation. The Company may also need to raise further additional funds. These factors create significant doubt as to the Company continuing as a going concern.

See Note 21 for the discussion of these events and management plans.

2. Directors

The directors of the Company at the end of the period and as of the date of signing the consolidated balance sheet are as follows:

J. A. Holberton
J. C. F. Purdy
A. E. Buxton
H.L. Beck
C. Civelli
L. Geingos
Y. Surtee

31 December 2000
United States Dollars

3. Significant accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"), which, in the case of the Company, conform in all material respects with accounting principles generally accepted in the United States of America ("U.S. GAAP"), except as explained in Note 19.

These consolidated financial statements have been prepared in United States Dollars, the Company's functional currency.

In 1998, the Company changed the reporting period from 31 May to 31 December.

The significant accounting policies used in these Consolidated Financial Statements are as follows:

a) Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries ("the Group"). The principal subsidiaries (wholly owned unless indicated otherwise) are as follows:

- Namco B.V., Netherlands
- Namco Mark II Limited, United Kingdom
- Namco Services Limited, United Kingdom
- Namco (UK) Limited, United Kingdom
- Namibian Minerals Corporation Limited, Gibraltar
- Namco (Gibraltar) Limited, Gibraltar
- Island Diamonds Limited, Namibia (97.7%)
- Namco Namibia (Pty.) Limited, Namibia
- Ocean Diamond Mining of Namibia (Pty.) Ltd, Namibia (97.7%)
- NMS Management Services (Pty.) Limited, Namibia
- Inshore Diamond Mining (Pty.) Limited, South Africa (97.7%)
- Namco Project Management (Pty.) Ltd, South Africa
- Namco (Pty) Ltd, South Africa
- Namco Exploration South Africa (Pty.) Ltd
- Namco South Africa (Pty.) Limited, South Africa
- N.D. Charterers (Pty.) Ltd, South Africa
- Ocean Diamond Mining Southern Africa Limited, South Africa (97.7%)
- Pinette Investments (Pty.) Limited, South Africa

b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

31 December 2000
United States Dollars

3. Significant accounting policies *(continued)*

c) Cash

Cash includes short term money market instruments with terms to maturity at the date of issue not exceeding ninety days.

d) Inventories

Inventories are valued at the lower of cost and net realisable value. Diamond inventory is costed at the average cost of production and supplies inventory is costed at actual cost on a first in first out basis.

e) Marketable securities

Marketable securities are carried at the lower of cost or market value.

f) Exploration and development costs

The Group is mining two of its mineral properties and is in the process of exploring its other mineral properties (as detailed in note 6).

Exploration and development costs are capitalized on an individual prospect basis until such time as an economic reserve is defined and mining is commenced or the mineral property abandoned.

The recoverability of the amounts capitalized for the undeveloped mineral properties is dependent upon the determination of economically viable resource and the ability of the Company to obtain the necessary financing to complete their developments.

Capitalized costs are amortized subsequent to commercial production on a unit-of-production basis over the estimated resources. The unit-of-production is carats mined.

Mining Licences acquired are capitalized at cost and are amortized over the lesser of the remaining life of the mining license or fifteen years.

Management regularly reviews the carrying value of producing mineral properties for impairment in value, utilizing discounted estimates of future cash flows. Any resulting writedowns are charged to earnings.

g) Goodwill

Goodwill arising on acquisitions is amortized on the straight-line basis over fifteen years. Management regularly reviews the carrying value of goodwill for impairment in value utilizing discounted estimates of future cash flows. Any resulting write downs are charged to earnings.

31 December 2000
United States Dollars

**3. Significant accounting
Policies** *(continued)*

h) Exchangeable debentures

The fair value of the exchangeable debentures is estimated using discounted cash flow analysis based on borrowing rates currently available for similar terms and maturities. The exchangeable debentures have been segregated into their debt and equity components. The financial liability component, representing the present value of the future interest payments is included in long term debt. The remaining component, representing the value ascribed to both the holders' option to convert the principal balance into common shares and the Company's right to pay the principal amount of the instrument into common shares, is classified in shareholders' equity as equity component of exchangeable debentures. These components are measured at their respective fair values at the dates the exchangeable debentures were originally issued.

The current fair value of the debt component approximates its fair value due to the short-term maturity and the market interest rate.

i) Fair value of financial instruments

The Company believes based upon current information that the carrying value of the Company's cash, accounts receivable and accounts payable and accrued liabilities approximates fair value. The estimated fair values of debt and derivative instruments, except as described in note 10, which approximate carrying value, are estimated by discounting cash flows using current market rates available for debt or derivative instruments with similar terms and maturity.

Cash Flow Risk

The Company is subject to interest rate cash flow risk on its long-term debt since a significant portion of these liabilities bear interest at floating rates.

Financial Risk

Financial risk is the risk arising from changes in interest rates and foreign currency exchange rates. The Company does not use any derivative instruments to reduce its exposure to fluctuations in interest rates and foreign currency exchange rates.

j) Foreign currency translation

Financial statements of the Company's foreign operations are translated using the current rate method. Adjustments arising from this translation are deferred and recorded under a separate caption of Shareholders' Equity and are included in income only when a reduction in the investment in these foreign operations is realized.

31 December 2000
United States Dollars

3. Significant accounting policies *(continued)*

k) Revenue recognition

Revenue is recognized on confirmation of payment being made, at which time the diamonds are released.

l) General exploration costs

General exploration costs incurred when investigating for properties outside the Group's area of interest are written off until a resource property interest is acquired.

m) Amortization

The Group provides for amortization on the following basis:

Buildings	- straight-line over 40 years
Furniture & office equipment	- straight-line over 3 to 6 years
Leasehold improvements	- straight-line over 5 to 10 years
Mineral properties	- unit-of production basis over the estimated reserves
Motor vehicles	- straight-line over 3 to 5 years
Plant & machinery	- straight-line over 1 to 10 years
Vessels	- straight-line over 10 years

Capital assets are recorded at cost.

n) Earnings (loss) per share

Earnings (loss) per common share is computed on the basis of the weighted average number of shares outstanding.

o) Stock based compensation plans

The Company has one stock-based compensation plan, which is described in Note 11(c). No compensation expense is recognised for these plans when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital. If stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock option cancelled is charged to retained earnings.

p) Income taxes

The Company has adopted the recommendations of the Canadian Institute of Chartered Accountants concerning accounting for income taxes. The retroactive application of this new accounting policy has increased the deferred tax liability on the acquisition of Ocean Diamond Mining Holdings Limited by \$12,700,000 with a corresponding increase in goodwill.

31 December 2000
United States Dollars

3. Significant accounting policies *(continued)*

p) Income taxes (continued)

The adoption of the new standards changes the Company's focus when accounting for income taxes from a statement of earnings to a balance sheet approach. Previously, the Company recorded deferred income taxes based on timing differences in the recognition of income and expense for tax and financial reporting purposes. The new standards require the recognition of future income taxes for the expected future tax consequences between the carrying amount of balance sheet items and their corresponding tax values.

The new standards also require the Company to compute future income taxes using the enacted corporate income tax rates for the years in which the differences will reverse. Previously, deferred increase tax balances reflected the rates in effect when the differences arose.

4. Inventories

	As at 31 December 2000	As at 31 December 1999
	\$000	\$000
Diamonds	2,400	2,400
Supplies	3,675	2,879
	<u>6,075</u>	<u>5,279</u>

5. Marketable securities

The mid-market quoted value of the marketable securities as at 31 December 2000 was \$51,000 (31 December 1999: \$97,000)

Namibian Minerals Corporation
Notes to the Consolidated Financial Statements

31 December 2000
United States Dollars

6. Exploration and development costs

(a) Namibia and South Africa

The Group holds the rights as specified on the following off-shore mineral properties:

Concession/Grant	Description	Type of License	Group interest in Concession/Grant
Mining Licences – Namibia			
14/2/3/2/36A-J (inclusive)	Mining Licence 36	Diamond mining rights	100%
14/2/3/2/51	Mining Licence 51	Diamond mining rights	100%
14/2/3/2/103A	Mining Licence 103A	Diamond mining rights	100%
Prospecting Licences – Namibia			
14/2/1/4/2/2027A-I (inclusive)	2027 Grant	Diamond prospecting rights	100%
14/2/1/4/2/1946	Luderitz Bay Grant	Diamond prospecting rights	100%
14/2/1/4/2/1950	Hottentot Bay Grant	Diamond and phosphorite prospecting rights	100%
14/2/1/4/2/2002	2002 Grant	Diamond and phosphorite prospecting rights	100%
14/2/1/4/2/2490	Block A	Diamond prospecting rights	65%
14/2/1/4/2/2501	Block L	Diamond prospecting rights	50%
14/2/1/4/2/2469-73 (inclusive)	Skeleton Grants	Diamond prospecting rights	100%
14/2/1/4/2/2474	Conception Grant	Diamond prospecting rights	100%
Prospecting Licences – South Africa			
6c	6c Concession	Precious stones prospecting rights	51%
7b	7b Concession	Precious stones prospecting rights	100%
12b	12b Concession	Precious stones prospecting rights	100%
14c	14c Concession	Precious stones prospecting rights	51%

In the period, mining took place in Mining Licenses 36, 51 and 103A. Exploration of all areas is on-going. In 2000, the Group introduced a full time exploration vessel.

Exploration and development costs in the period can be analysed as follows:

	For the 12 months ended 31 December 2000 \$000	For the 12 months ended 31 December 1999 \$000	For the 7 months ended 31 December 1998 \$000	For the 12 months ended 31 May 1998 \$000
Survey	300	200	-	-
Bulk sampling	560	1,300	-	-
Pre-production costs	-	-	(1,000)	9,976
General operating costs	920	385	250	710
Write off of 12d Concession	(428)	-	-	-
Sale of pre-production stock	-	-	-	(835)
Transfer to capital assets	-	-	(15,619)	-
	<u>1,352</u>	<u>1,885</u>	<u>(16,369)</u>	<u>9,851</u>
Balance – beginning of period	14,098	12,213	28,582	18,731
Balance – end of period	15,450	14,098	12,213	28,582

Namibian Minerals Corporation
Notes to the Consolidated Financial Statements

31 December 2000
United States Dollars

6. Exploration and development costs
(continued)

As at 31 December 1998, there was a transfer from the Luderitz Bay Grant to capital assets of \$15,619,000 which related to mining license 51.

Exploration and development costs to date are allocated between grants and concessions as follows:

	As at 31 December 2000 \$000	As at 31 December 1999 \$000
Luderitz Bay	2,665	2,105
Mining License 103A	8,605	8,305
2002	728	458
Block L	105	105
12b	3,347	2,697
12d Concession	-	428
	15,450	14,098

7. Capital assets

The major categories of capital assets and related accumulated amortization are as follows:

	Cost	Accumulated Amortization	As at 31 December 2000 Net Book Value \$000	As at 31 December 1999 Net Book Value \$000
Furniture & office equipment	2,701	1,065	1,636	1,004
Land & buildings	1,591	103	1,488	1,801
Leasehold improvements	528	168	360	447
Mineral properties (Note 6)	41,309	4,487	36,822	36,488
Motor vehicles	283	195	88	83
Plant & machinery	65,807	5,038	60,769	22,103
Vessels	11,904	3,627	8,277	10,000
	124,123	14,683	109,440	71,926

Included in plant and machinery are assets under construction of \$ nil (1999: \$6,872,000). The Company at 31 December 2000 had commitments totaling \$1,590,000 (1999:\$8,120,000) for additional plant and machinery.

Namibian Minerals Corporation
Notes to the Consolidated Financial Statements

31 December 2000
United States Dollars

8. Deferred Costs

Deferred costs are as follows:

	As at 31 December 2000 \$000	As at 31 December 1999 \$000
Deferred financing fees	633	460
Exchangeable debentures	70	258
	<u>703</u>	<u>718</u>

Deferred financing fees arise from the issuance of warrants on the draw down of a loan (see Note 11e). A value of \$350,000 (1999: \$500,000) has been attributed to the warrants issued in the period. On exercise of part of the warrants, issued in 1999, an amount of \$444,000 was transferred to share capital. The financing fee for the IBM and KBC Bank NV loan is being amortized over three years.

The exchangeable debentures charge arose from the extension of the exercise period of the debenture to 4 December 2001 and is being amortized over one year.

9. Goodwill

	As at 31 December 2000 \$000	As at 31 December 1999 \$000
Goodwill	35,814	33,764
Less: accumulated amortization	(2,716)	(315)
	<u>33,098</u>	<u>33,449</u>

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10. Long term debt

	As at 31 December 2000 \$000	As at 31 December 1999 \$000
Financing agreement with Investec Bank (Mauritius) Limited	8,571	25,000
less: current portion	(8,571)	(16,429)
	<u>-</u>	<u>8,571</u>
Financing agreement with HSBC Equator Bank plc and others	23,589	5,376
less: current portion	(4,464)	(404)
	<u>19,125</u>	<u>4,972</u>
Financing agreement with IBM and KBC Bank NV	21,500	-
Less current portion	(3,500)	-
	<u>18,000</u>	<u>-</u>
Other long term debt	<u>585</u>	<u>685</u>
Total long term debt	54,245	31,061
less: current portion	(16,535)	(16,833)
Long term debt	<u>37,710</u>	<u>14,228</u>

Investec Bank (Mauritius) Limited ("IBM") has supplied a loan to finance the purchase of shares in ODM (See Note 13). The IBM loan is subject to an interest rate margin of 3.85% on the six month British Bankers Association settlement rate. The interest rate at 31 December 2000 was 10.55%(1999: 9.99%). The IBM loan is secured by the ODM shares and guaranteed by the Company. The loan is repayable by October 2001.

HSBC Equator Bank plc and others ("HSBC") have supplied loan financing for up to \$25,000,000 for the building of the second mining system. The amount was drawn down over the construction and commissioning phase of the project. Interest rate on 85% of the loan is fixed at 6.75% per annum. Interest on the remaining 15% is at the one month London inter bank offered rate plus 1.75%. The interest rate at 31 December 2000 was 8.31% (1999: 7.9%). Repayment of 15% of the loan is by October 2001. Repayment of the other 85% is over five years in ten equal semi-annual installments commencing six months after the completion of commissioning. The HSBC loan is secured on the assets of the second mining system and is guaranteed by the Company.

IBM and KBC Bank NV ("KBC") have supplied loan financing for \$21,500,000 for the capital expenditure program of ODM. The KBC loan is subject to an interest rate margin of 2.95% on the applicable London inter-bank offered rate. The rate at 31 December 2000 was 9.61%. The KBC loan is secured by the ODM shares, and by mortgages on the vessels owned by the ODM Group and guaranteed by the Company. The loan is repayable by March 2003, with \$3,500,000 being repayable in 2001, \$12,000,000 being repayable in 2002 and the remaining balance at the end of the loan.

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10. Long term debt (continued)

The Company estimates the fair value of the fixed rate portion of the HSBC loan using discounted cash flows assuming a borrowing rate equal to the variable rate portion of the loan equal to the one month LIBOR rate plus 1.75%.

	As at 31 December 2000 \$000	As at 31 December 1999 \$000
Carrying value	21,250	4,570
Fair Value	20,436	4,440

The fair value of the remaining long-term debt is estimated to approximate its fair value at 31 December, 2000 and 1999.

11. Share capital

a) Details are as follows:

	Issued and Fully Paid	Amount \$000
Balance at 31 May 1997	33,618,476	40,444
Public offer and private placement (i)	3,930,000	12,942
Exercise of options	247,034	245
Agents commission (b)	48,000	180
Balance at 31 May 1998	37,843,510	53,811
Exercise of options	25,000	23
Balance at 31 December 1998	37,868,510	53,834
Employee share bonus and purchase plan	9,900	3
Exercise of options	37,166	73
Exercise of exchangeable debenture	85,550	385
Issuance of shares for subsidiary (Note 13)	5,004,340	18,770
Private placement (ii)	2,721,852	10,737
Balance at 31 December 1999	45,727,318	83,802
Employee share bonus and purchase plan	3,200	1
Exercise of options	63,375	189
Exercise of exchangeable debentures	447,776	2,015
Redemption of exchangeable debenture	732,326	1,206
Issuance of shares for a subsidiary (Note 13)	228,104	912
Warrants	400,000	2,044
Balance at 31 December 2000	47,602,099	90,169

The authorized share capital of the Company is an unlimited number of common shares of no par value.

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11. Share capital *(continued)*

- (i) An international public offering and a private placement in Namibia of 3,930,000 common shares at a price of \$3.82 per share was completed in September 1997. Gross proceeds were \$15,013,000 (costs of placement were \$2,071,000).
- (ii) A private placement of 2,721,852 common shares at a price of \$4.05 per share was completed in October 1999. Gross proceeds were \$11,024,000 (costs of placement were \$287,000).

b) 6% Exchangeable Debentures

The Company completed on 4 December 1997 through a wholly owned subsidiary, Namco (Gibraltar) Limited, the private placement of \$5,000,000 of 6% Exchangeable Subordinated Debentures, maturity date 4 December 1999. In the prior period, the redemption date of the 6% Exchangeable Subordinated Debentures was extended to 4 December 2000. All other terms remained the same. In the current period, the redemption date, the conversion price and the interest rate on the Exchangeable Debentures were changed to 4 December 2001, \$2.00 (from \$4.50) and 8% respectively. All other terms remain the same.

The debentures are exchangeable at the option of the debenture holder into common shares of the Company at the conversion price of \$2 to 4 December 2001. The Company can redeem the debentures in the period after 4 December 1998 at par plus accrued and unpaid interest only if the weighted average price at which the common shares have traded on NASDAQ during 30 consecutive trading days, ending not more than five days prior to the giving of notice of redemption, is at least \$6.50. The Company may satisfy the obligation to pay the principal amount of the debentures on redemption or at the maturity date by issuing common shares at a conversion price of 95% of the weighted average price of the common shares on NASDAQ for 30 consecutive trading days ending not more than five days prior to redemption or maturity. The Company may, at its own discretion, satisfy the obligation to pay the interest amount on the debentures in cash or by issuing common shares at a conversion price of the weighted average price of the common shares on NASDAQ for 30 consecutive trading days ending not more than five days prior to the payment date. The agent's fee payable was 6% of the principal amount of the debentures, settled by the issuance of 48,000 common shares at a conversion price of \$3.75 per common share and \$120,000 in cash.

In the period, 447,776 shares were issued on the exercise of \$2,015,000 of the debentures and 641,748 shares were issued on the redemption of \$1,050,000 of the debentures. The interest paid in December 2000 was satisfied by the issue of 90,578 shares.

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11. Share capital (continued)

To the date of the balance sheet \$3,450,000 of the debentures have been converted with the issuance of 1,175,074 shares.

The remaining equity component \$1,550,000 (31 December 1999: \$4,615,000) represents the value ascribed to both the holders option to convert the principal into common shares and the Company's right to pay the principal amount of the debentures in cash or common shares.

Interest expense is determined by applying a discount rate of 8% against the outstanding liability component. The equity component of the debentures, represented by the Company's right to pay in common shares, is being accreted to the maturity value through periodic charges to retained earnings, net of tax. The accretion on this equity component net of taxes in the period was nil (31 December 1999 : \$276,000; 31 December 1998: \$139,000; 31 May 1998: \$120,000). Taxes for the period were nil (31 December 1999 : \$54,000; 31 December 1998 : \$62,000; 31 May 1998 \$52,000).

c) Options granted and outstanding:

The Company has one fixed stock option plan. Under the Employee Stock Option Plan, the Company may grant options to its eligible employees for up to 4,200,000 shares of common stock. Under the plan, the exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is 10 years. Options are granted at the Directors' discretion in accordance with the specific terms of the stock option agreement entered into between the Company and the eligible employee.

A summary of the status of the Company's fixed stock option plan as of 31 December 2000 is presented below:

No. of options outstanding 2000	Exercise price \$	Expiry date	Exercisable at 31 December 2000
100,000	2.48	26.01.2001	100,000
125,000	3.73	02.04.2001	125,000
72,000	2.50	20.05.2001	72,000
78,500	2.92	04.06.2001	78,500
100,000	2.50	19.11.2001	100,000
35,000	2.00	26.01.2002	35,000
2,419,625	2.75	04.03.2004	1,506,950
20,000	3.20	11.05.2004	12,500
200,000	3.25	27.05.2004	125,000
20,000	3.60	07.07.2004	12,500
100,000	3.90	03.08.2004	62,500
50,000	4.60	05.09.2004	31,250
10,000	4.00	08.03.2005	5,000
5,000	3.88	18.05.2005	2,500
107,500	2.35	08.08.2005	53,750
20,000	2.75	19.11.2005	10,000
<u>3,462,625</u>			<u>2,332,450</u>

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11. Share capital (continued)

Changes in fixed stock option plan in the four financial periods ending 31 December 2000.

	For the 12 Months Ended 31 December 2000	Weighted average exercise price	For the 12 months ended 31 December 1999	Weighted average exercise price	For the 7 months ended 31 December 1998	Weighted average exercise price	For the 12 Months Ended 31 May 1998
Outstanding at the beginning of period	3,354,500	\$2.88	2,190,000	\$3.63	2,320,000	\$3.41	2,197,034
Granted	364,500	\$2.73	2,950,000	\$2.86	125,000	\$2.92	470,000
Exercised	(63,375)	\$3.01	(37,166)	\$1.97	(25,000)	\$0.92	(247,034)
Expired	<u>(193,000)</u>	\$3.06	<u>(1,748,334)</u>	\$3.80	<u>(230,000)</u>	\$1.35	<u>(100,000)</u>
Outstanding at the end of period	<u>3,462,625</u>	\$2.85	<u>3,354,500</u>	\$2.88	<u>2,190,000</u>	\$3.63	<u>2,320,000</u>
Weighted average exercise price at the End of period	\$2.85		\$2.88		\$3.63		\$3.41

d) Employee share bonus and purchase plan

Under the employee share bonus and purchase plan up to 200,000 shares are reserved for issuance to employees. Issuances of 13,100 common shares under the plan have taken place to date.

e) Warrants

Under the IBM loan, 450,000 warrants were issued with an exercise price of \$4.00 per common share. The warrants are exercisable for a two year period to 28 October 2001. 400,000 warrants have been exercised in the period.

Under the KBC loan, 500,000 warrants were issued with an exercise price of \$7.00 per common share. The warrants are exercisable for a two year period to 5 April 2002. The KBC loan was varied in the period and as part of the variation 230,000 warrants were issued with an exercise price of \$4.00 per common share and are exercisable, for a three year period to 27 September 2003.

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12. Income taxes

The Competent Authorities of Revenue Canada and the United Kingdom Inland Revenue have determined that as of 19 October 1993, the Company's tax residency moved from Canada to the United Kingdom.

The company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of balance sheet items and their corresponding tax values, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. The Company computes future income taxes using the enacted corporate income tax rates for the years in which the differences are likely to reverse.

A reconciliation of the income tax benefit (provision) with amounts determined by applying the statutory income tax rates to the consolidated income (loss) before income taxes for completed financial periods is as follows:

	For the 12 Months ended 31 December 2000 \$000	For the 12 months ended 31 December 1999 \$000	For the 7 months ended 31 December 1998 \$000	For the 12 months ended 31 May 1998 \$000
Earnings (loss) for the period before tax	107	17,138	3,108	(7,079)
Income tax recovery (provision) at statutory rates	(29)	(5,141)	(932)	2,123
Adjustments				
Foreign tax rates	1,321	(4,027)	(330)	180
Permanent differences	116	141	184	(340)
Tax benefit of losses not recognized in current period	(1,408)	-	-	(1,963)
Release of future tax liability	900	-	-	-
Application of loss carry forwards	-	9,027	1,078	-
Income tax recovery	900	-	-	-

The Company's future tax items are as follows:

	As at 31 December 2000 \$000	As at 31 December 1999 \$000
Future tax assets		
Net operating loss carry forwards		
South Africa and Namibia	13,750	7,990
UK	748	929
Total future tax assets	14,498	8,919
Valuation allowance	(8,305)	(3,764)
	6,193	5,155
Future tax liabilities	(20,908)	(20,055)
	(14,715)	(14,900)

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12. Income taxes *(continued)*

In South Africa and Namibia, the Group has income tax losses of not less than \$29,000,000 (1999: \$15,000,000) available to reduce future taxable income which can be carried forward indefinitely. Losses available for carry forward in the United Kingdom are approximately \$2,500,000 (1999: \$3,000,000) which can be carried forward indefinitely.

13. Business Combination

In September 1999, the Company made a general offer to acquire all the shares of Ocean Diamond Mining Holdings Limited ("ODM") that the Company did not own. The offer entitled each ODM share to be tendered to the Company for Rand 8.25 payable either in cash or 50% in cash and 50% in the Company's common shares at a value of \$4 per share. Prior to the opening of the general offer the Company owned approximately 33.5% of ODM's shares. Acceptances under the general offer increased the Company's interest to 92.3% of ODM's issued shares as at 28 October 1999. Subsequent to the closure of the general offer the Company was required under South African company law to extend an offer on the same terms as the original offer to acquire all the shares not owned by the Company. This offer closed on 26 February 2000. At 31 December 1999, the Company had increased its interest in ODM shares to 92.5%. The Company has increased its interest in ODM share to 97.7% at 31 December 2000.

Consideration for the ODM acquisition in 1999 was satisfied by the issuance of 5,004,340 common shares of the Company with a deemed value of \$18,770,000 and cash of \$40,680,000. Additional consideration in the current period was \$3,535,000 satisfied by the issuance of 228,104 common shares in the Company at a deemed value of \$4 per share and cash of \$2,623,000. This additional consideration has been allocated as follows: reduction in minority interest by \$900,000, increase in goodwill and mineral property costs arising on acquisition of \$1,335,000 and \$1,300,000 respectively.

The acquisition has been accounted for by the purchase method with the results of operations being consolidated with those of the Company effective 28 October 1999.

The fair value of the net assets acquired is as follows:

	\$000
Current assets	11,400
Capital assets	11,450
Acquired concessions	23,100
Goodwill	33,650
	<u>79,600</u>
Current liabilities	5,250
Future income taxes	14,900
	<u>20,150</u>
	<u>59,450</u>

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14. Non-controlling interest

Non-controlling interest represents the interests in the net assets of ODM not owned by the Company. At the start of the period, 7.5% was not owned by the Company which was reduced to 2.3% in February 2000 (see Note 13)

	As at 31 December 2000 \$000	As at 31 December 1999 \$000
Balance at start of period	1,300	1,300
Reduction in the period	(900)	-
Share of net profits (loss) of ODM for the period ended	-	-
Balance at end of period	<u>400</u>	<u>1,300</u>

15. Changes in non-cash working capital

	For the 12 months ended 31 December 2000 \$000	For the 12 months ended 31 December 1999 \$000	For the 7 months ended 31 December 1998 \$000	For the 12 months ended 31 May 1998 \$000
Accounts receivable	(11)	1,536	(248)	1,009
Prepayments	299	(398)	(63)	175
Inventories	(796)	(2,651)	(1,085)	(1,543)
Accounts payable and accrued liabilities	3,473	3,231	(1,112)	2,435
Advance receipt on inventory sales	4,250	-	(2,000)	2,000
Effect of foreign exchange movement	(475)	224	(354)	(69)
	<u>6,740</u>	<u>1,942</u>	<u>(4,862)</u>	<u>4,007</u>
Supplemental disclosure of cash flow information:				
Cash receipts for interest	789	632	111	688
Cash payments for interest	2,385	154	54	-
Cash payments for taxes	-	-	-	-

16. Segmented information

The Company operates in one industry segment, diamond mining. A significant proportion, 85% and above, of the long lived assets which include capital assets and exploration and development costs are utilized in the Namibian operations. The remaining 15% of long-lived assets are located in the UK and South Africa.

Cash and marketable securities are principally held within the corporate group in Europe.

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16. Segmented information *(continued)*

Diamond production from the Namibian operations is sold by the Company in Europe. There are no other significant sources of revenue for the Company.

Exploration and development costs incurred in Namibia and South Africa with respect to mining exploration are deferred. The loss and deficit in prior periods is due to corporate expenditure and the write off of general exploration and development costs.

17. Commitments

Commitments are reflected elsewhere in these financial statements except that the Company, through wholly owned subsidiaries, is committed to the chartering of three vessels:

- a) the M.V. Kovambo for five years as from 30 September 1997 at an annual cost of approximately \$4,325,000;
 - b) the M.V. Ya Toivo from mid 2000 for five years at an annual cost of approximately \$5,900,000. Following the events detailed in Note 21(b), the Company has put in place a bank guarantee for \$5,000,000 to secure the obligations to the vessel owner.
 - c) the M.V. Zacharias from late February 2000 for three years at an annual cost of approximately \$1,300,000. Subsequent to the period end, the Company has entered into an agreement that requires it to purchase the vessel before the end of March 2003 at an agreed price. The purchase price decreases on a quarterly basis and has a range of \$6,600,000 currently to \$5,000,000 in 2003.
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18. Comparative figures

Certain comparative figures have been re-classified to conform with the financial statement presentation used in the current year.

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19. Reconciliation between Canadian and U.S. generally accepted accounting principles ("GAAP")

These Consolidated Financial Statements have been prepared in accordance with Canadian GAAP, which, in the case of the Company, conform in all material respects with U.S. GAAP, except as set forth below:

a) Adjustments to net earnings (loss)	For the 12 months ended 31 December 2000 \$000	For the 12 months ended 31 December 1999 \$000	For the 7 months ended 31 December 1998 \$000	For the 12 months ended 31 May 1998 \$000
Earnings (loss) for the period Canadian GAAP	1,007	17,138	3,108	(7,079)
Gain (loss) on marketable securities (i)	-	-	-	(1,098)
Interest on exchangeable debentures (ii)	-	(259)	(152)	(124)
Consulting expense (b)	(100)	(146)	-	(56)
Mineral property exploration expenses (c)	(1,052)	(245)	(250)	-
United States GAAP	(145)	16,488	2,706	(8,357)
Earnings (loss) per share, United States GAAP				
Basic	\$0.00	\$0.41	\$0.07	(\$0.22)
Diluted	\$0.00	\$0.38	\$0.07	(\$0.22)
Weighted average number of shares outstanding (in thousands) (iii)	46,842	40,233	37,850	37,690
Adjustments to cash flows				
Operating activities				
Canadian GAAP	15,946	22,707	282	(2,293)
Mineral property exploration expenses (c)	(1,052)	(245)	(250)	-
United States GAAP	14,894	22,462	32	(2,293)
Investing activities				
Canadian GAAP	(54,362)	(47,406)	(55)	(20,315)
Mineral property exploration expenses (c)	1,052	245	250	-
Foreign exchange translation	-	-	-	250
United States GAAP	(53,310)	(47,161)	195	(20,065)
Financing activities				
Canadian GAAP	23,520	40,835	(232)	18,187
Foreign exchange translation	-	-	-	(250)
United States GAAP	23,520	40,835	(232)	17,937

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19. Reconciliation between Canadian and U.S. generally
accepted accounting principles ("GAAP") (continued)

Adjustments to assets, liabilities and shareholders' equity	As at 31 December 2000 \$000	As at 31 December 1999 \$000
Exploration and development costs		
Canadian GAAP	15,450	14,098
Mineral property exploration expenses (c)	(6,845)	(5,793)
United States GAAP	8,605	8,305
Exchangeable debentures		
Canadian GAAP	-	-
Exchangeable debentures (ii)	1,550	4,615
United States GAAP	1,550	4,615
Shareholders' equity		
Share Capital		
Canadian GAAP	90,169	83,802
Foreign exchange translation	283	283
United States GAAP	90,452	84,085
Exchangeable debentures		
Canadian GAAP	1,550	4,615
Accretion	-	(535)
Debt	(1,550)	(4,080)
United States GAAP	-	-
Contributed surplus		
Canadian GAAP	459	459
Consulting expense (b)	1,197	1,097
United States GAAP	1,656	1,556
Cumulative foreign exchange adjustment		
Canadian GAAP	(13,637)	(3,124)
Foreign exchange translation	(283)	(283)
United States GAAP	(13,920)	(3,407)
Accumulated retained earnings (deficit)		
Canadian GAAP	5,098	5,497
Exchangeable debenture (ii)	-	-
Consulting expense (b)	(1,197)	(1,097)
Mineral property exploration expenses (c)	(6,845)	(5,793)
United States GAAP	(2,944)	(1,393)

(i) Marketable securities

U.S. GAAP require trading securities to be carried at fair value. Changes in fair value are charged against or credited to income, while under Canadian GAAP such items are carried at cost or, where market value is lower, at market value.

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19. Reconciliation between Canadian and U.S. generally accepted accounting principles ("GAAP") (continued)

(ii) Exchangeable debenture

U.S. GAAP require the exchangeable debenture to be recognized as a liability with interest being charged to operations, while under Canadian GAAP such items are segregated into their debt and equity components with interest payments being predominantly treated as settlement of the liability portion. The equity component of the debentures, representing the Company's right to settle the obligation in common shares, is accreted to the face value through periodic charges to deficit, net of tax.

(iii) Earnings (loss) per share

In February 1997 the Financial Accounting Standards Board issued Statement No. 128, Earnings Per Share (SFAS 128), which established new standards for computing and presenting earnings per share effective for fiscal years ending after 15 December 1997. With SFAS 128, Primary Earnings Per Share was replaced by Basic Earnings Per Share, which is computed by dividing income available to common shareholders by the weighted average number of shares outstanding for the period. In addition, SFAS 128 requires the presentation of Diluted Earnings Per Share, which includes the potential dilution that could occur if dilutive securities were exercised or converted into common stock. The computation of Diluted Earnings Per Share does not assume the conversion or exercise of securities if their effect is anti-dilutive. Under this method the weighted average number of shares outstanding for each of the periods presented is not significantly different from that calculated under Canadian GAAP.

The calculation of basic and diluted loss per share, "Earnings Per Share", is based on the weighted average number of common shares outstanding during the years ended December 31, 2000 and 1999, for the seven months ended 31 December, 1998 and the year ended 31 May, 1998. The effect of common stock equivalents, which include employee stock options, warrants and convertible debt securities, is not included in the computation of per share amounts as inclusion would be anti-dilutive.

b) Stock based compensation

For U.S. GAAP purposes the Company accounts for stock based compensation to employees and directors, under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), whereby compensation cost is recorded for the excess, if any, of the quoted market price over the exercise price for stock options at the date granted. As at 31 December 2000 no compensation cost has been recorded for any period under this method.

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19. Reconciliation between Canadian and U.S. generally accepted accounting principles ("GAAP") (continued)

Statement of Financial Accounting Standard No. 123, Accounting for Stock-Based Compensation (SFAS 123), issued in October 1995, requires the use of the fair value based method of accounting for stock options. Under this method, compensation cost is measured at the grant date based on the fair value of the options granted and is recognized over the exercise period. During the periods ended 31 December 2000, 1999 and 1998 and 31 May 1998, the Company issued options to individuals other than employees and directors which under SFAS 123 must be recognized as a consulting expense in the period they are issued.

SFAS 123, however allows the Company to continue to measure the compensation cost of employees and directors in accordance with APB 25. The Company has therefore adopted the disclosure-only provision of SFAS 123.

The following proforma financial information presents the net earnings (loss) for the year and the earnings (loss) per common share had the Company adopted SFAS 123 for all stock options issued to employees and directors.

	For the 12 Months ended 31 December	For the 12 months ended 31 December	For the 7 months ended 31 December	For the 12 months ended 31 May
	2000 \$000	1999 \$000	1998 \$000	1998 \$000
Earnings (loss) for the period - U.S. GAAP	(145)	16,488	2,706	(8,357)
Additional stock based compensation costs	(362)	(4,652)	(194)	(957)
Proforma net (loss) earnings	<u>(507)</u>	<u>11,836</u>	<u>2,512</u>	<u>(9,314)</u>
Proforma basic (loss) earnings per share	<u>(\$0.01)</u>	<u>\$0.29</u>	<u>\$0.07</u>	<u>(\$0.25)</u>

Using the fair value method for stock based compensation, additional costs of approximately \$362,000, \$4,652,000, \$194,000 and \$957,000 would have been recorded for the periods ended 31 December 2000, 31 December 1999, 31 December 1998 and 31 May 1998 respectively. These amounts have been determined using an option pricing model assuming no dividends are to be paid, vesting occurring on the date of the grant, a weighted average volatility of the Company's share price of 67.55% and a weighted average annual risk free interest rate of 5.97% (31 December 1999 5.43%; 31 December 1998: 5.25%; 31 May 1998: 5.05%);

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19. Reconciliation between Canadian and U.S. generally accepted accounting principles ("GAAP") (continued)

c) Exploration expenses

Canadian GAAP allows exploration costs to be capitalized during the search for a commercially mineable body of ore. Under U.S. GAAP expenditures on mineral property costs can only be deferred subsequent to the establishment of mining reserves. For U.S. GAAP purposes the Company has expensed exploration expenditures in the period incurred. Acquisition costs for U.S. GAAP purposes are written down or off when circumstances arise that indicate that an impairment has occurred. For U.S. GAAP purposes mineral property costs capitalized represent acquisition costs relating to mineral properties for which there is no indication of impairment.

d) Comprehensive income

For U.S. GAAP purposes the Company adopted Statement of Financial Accounting Standard No. 130 Reporting Comprehensive Income (SFAS 130), with the retroactive reclassification of prior years. Comprehensive income includes all changes in equity during a period, including those resulting from transactions and other events and circumstances from non-owner sources. SFAS 130 requires that all items that meet the definition and components of comprehensive income be reported in a financial statement for the period in which they are recognised.

	For the 12 Months ended 31 December 2000 \$000	For the 12 months ended 31 December 1999 \$000	For the 7 months ended 31 December 1998 \$000	For the 12 months ended 31 May 1998 \$000
Earnings (loss) for the period				
U.S. GAAP	(145)	16,488	2,706	(8,357)
Other comprehensive income:				
Foreign exchange translation adjustment	(10,513)	(868)	(592)	(910)
Comprehensive income (loss)	<u>(10,658)</u>	<u>15,620</u>	<u>2,114</u>	<u>(9,267)</u>
			As at 31 December 2000 \$000	As at 31 December 1999 \$000
Accumulated retained (deficit)				
U.S. GAAP			(2,944)	(1,393)
Foreign exchange translation adjustment			<u>(13,920)</u>	<u>(3,407)</u>
Comprehensive income			<u>(16,864)</u>	<u>(4,800)</u>

e) Recent pronouncements

In September 1998, the Financial Accounting Standards Board issued Statement No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities, which standardises the accounting for derivative instruments.

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19. Reconciliation between Canadian and U.S. generally accepted accounting principles ("GAAP") (continued)

SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company's adoption of this statement, for U.S. GAAP purposes, which requires the accounting recognition of derivatives at fair value, did not have a significant effect on the Company's financial position or results of operations.

In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation (an interpretation of APB Opinion No. 25) (the "Interpretation"). Among other issues, this Interpretation clarifies (a) the definition of employee for purposes of applying APB 25, (b) the criteria for determining whether a plan qualifies as a non-compensatory plan, (c) the accounting consequence of various modifications to the terms of a previously granted stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. This Interpretation became effective July 1, 2000, but certain conclusions in the Interpretation cover specific events that occur after either December 15, 1998 or January 12, 2000. To the extent that this Interpretation covers events occurring during the period after December 15, 1998 or January 12, 2000, but before the effective date of July 1, 2000, the effects of applying this Interpretation are recognized on a prospective basis from July 1, 2000. This Interpretation does not have a material effect on the consolidated financial statements.

However, 82,000 stock options held by two individuals were modified during the year by amending the option exercise prices. As such, these options will be valued on a variable basis in accordance with FIN 44. There has been no effect on these financial statements, because the market price has been below the exercise price of the Company's shares since the repricing date.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") 101, Revenue Recognition in Financial Statements which provides guidance related to revenue recognition based on interpretations and practices followed by the SEC. SAB 101 requires companies to report any changes in revenue recognition as a cumulative change in accounting principle at the time of implementation in accordance with Accounting Principles Board Opinion 20, Accounting Changes. SAB 101 as amended is not required to be implemented until the Company's fourth fiscal quarter of the year ended December 31, 2001. The impact that SAB 101 will have on its financial position or results of operations is not expected to be material.

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20. Matters outstanding with regard to the general offer for ODM

At the end of 1999 the Company was appealing two related matters before the Securities Review Panel ("SRP") in South Africa which could have led to an additional maximum amount payable on the acquisition of ODM of approximately \$6,500,000.

The Company was successful in these appeals. The decision of the SRP was final. Subsequently, Trans Hex Group Limited has launched an application to have this decision reviewed. This application is to be opposed by the Company. Any final decision is unlikely in 2001.

21. Subsequent events

The following took place subsequent to the period end:

a) NamSSol Mining Tool

In early January, 2001, the Company's first mining tool, NamSSol was damaged. The cost of repair is estimated to be of the order of \$1,500,000. These costs are the subject of an insurance claim with an excess on the policy of \$250,000. Operating costs and loss of earning are covered by a second insurance policy for a period of up to 180 days, subject to an excess on the policy of 14 days, and up to a maximum operating costs and loss of earnings of \$67,500 per day. Both claims are subject to on going discussions with the Underwriters to the respective insurance policies and no certainty can be given as to the successful outcome of these claims.

b) Provisional liquidation of certain Southern African subsidiaries

The accident to the NamSSol mining unit has resulted in the loss of the production from this unit. The return to production is likely to be in the final quarter of 2001. Furthermore, by the final quarter of 2000, the Company had originally expected to complete the building and commissioning phase of the Company's new and largest production unit, the Nam 2 and to have commenced production. Delays in the build and commissioning process have resulted in delays to the commencement of full scale production by the Nam 2 mining unit. As a result of the above and increased project costs, the working capital of the Company has been adversely affected.

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21. Subsequent events *(continued)*

Liquidation

In late February, following the deterioration in the Company's financial situation, the Company placed some of its Southern African subsidiary companies into provisional liquidation under the laws of South Africa and Namibia.

The following Southern African subsidiaries were placed into provisional liquidation:

(a) South Africa

Namco South Africa (Pty.) Ltd
Namco Project Management (Pty.) Ltd
Namco (Pty.) Ltd
Namco Exploration South Africa (Pty.) Ltd
Ocean Diamond Mining Southern Africa Ltd
Pinette Investments (Pty.) Ltd

(b) Namibia

Namco Namibia (Pty.) Ltd
NMS Management Services (Pty.) Ltd
Ocean Diamond Mining of Namibia (Pty.) Ltd

Under South African and Namibian law, provisional liquidation means that the assets and liabilities of the subsidiaries are controlled by a provisional liquidator. As a consequence, all diamond mining operations ceased at the time of placing the companies into provisional liquidation.

During a period of approximately six weeks or such extended period as the courts may allow before the provisional liquidation becomes final, the Company has the opportunity to reverse provisional liquidation by way of a discharge if creditors have been compromised, paid or are in the process of being compromised and paid or after an offer of compromise in terms of S311 of the Companies Act in South Africa has been accepted by creditors and sanctioned by the Court.

The initial period of the provisional liquidations has been extended and management will use its best efforts to ensure it will continue to be extended as required. The three Namibian companies were discharged from provisional liquidation on 7 May, 2001. It is anticipated that the South African companies could be discharged from provisional liquidation by 31 July, 2001.

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21. Subsequent events *(continued)*

Long-term Debt

As a result of the deterioration in the Company's financial position, the Company failed to effect in full a capital repayment due on the IBM loan at the end of January 2001. This failure to pay the capital repayment in full, together with the placing of some of the Company's Southern African subsidiaries into provisional liquidation breaches the terms of the loan agreements with the Company's lenders (Note 10). These breaches constitute events of default, which would allow the lenders to demand repayment of the full amount of their loans outstanding. The lenders have not called on event of default. The Company is dependent on the continued support of the lenders.

To further improve the Company's financial position and in recognition of the disruption to production and cash flow from the loss of its NamSSol mining unit, the lenders have agreed to a capital repayment moratorium until the end of September 2001 and the Company is committed to working with the lenders to reschedule its debt repayments at the end of September.

The MV Ivan Prinsep, the Company's smallest vessel equipped with airlift technology, has been sold for gross proceeds of approximately \$4,400,000 to reduce the Company's debt position.

New Financing

In order to restore the Company to financial stability, the Company requires significant additional financing and accordingly, the Company explored various financing options. The Company raised approximately \$24,400,000 (net of costs of fund raising).

These financing proceeds will allow the Company to:

- restart mining operations and exploration activities;
- take its operating companies out of provisional liquidation;
- rebuild the NamSSol mining tool, damaged in January this year, while continuing to pursue its insurance claim;
- reduce the Company's outstanding creditor position; and
- provide working capital.

The MV Ya Toivo, equipped with the new Nam 2 mining unit, was the first vessel back in operation in April 2001. This vessel is the largest in the Company's fleet and is expected to be the principal source of diamond production in 2001.

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21. Subsequent events (continued)

Canaccord Private Placements

On 23 March, 2001 and 30 April 2001, the Company raised \$12,000,000 which enabled it to commence the discharge of several subsidiary companies from provisional liquidation and to resume diamond mining operations off the Namibian coast.

Canaccord Capital Corporation ("Canaccord") sold 9,475,758 special warrants (the "Special Warrants") at a price of \$0.33 per Special Warrant and \$8,873,000 in principal amount of 10% special notes with a term of two years (the "Special Notes") by way of a private placement to investors for aggregate gross proceeds of \$12,000,000. Each Special Warrant is exchangeable for one common share and one-half of one warrant for no additional consideration. Special Notes are exchangeable for no additional consideration for an equivalent principal amount of convertible debentures (the "Convertible Debentures") and half a warrant for every \$0.33 of principal amount of Special Note. The Convertible Debentures are in turn convertible into common shares of the Company at conversion price of \$0.33 per share. The holders of Special Notes and Convertible Debentures together have the right to nominate two representatives to the board of directors of the Company.

The warrants issuable pursuant to the Special Warrants and the Special Notes are each exercisable over a period of three years to acquire one common share at a price of CAD\$0.60 (approximately \$0.40) per share. A total of 18,181,818 common shares are issuable in connection with these warrants.

Under the terms of an agency agreement between Canaccord and the Company the ("Agency Agreement"), an affiliate of Canaccord was paid a corporate finance fee in the form of 850,000 shares of the Corporation and Canaccord was issued common share purchase warrants (the "Broker Warrants") exercisable to acquire up to 10% of the common shares issuable pursuant to the Special Warrants and the Convertible Debentures. A total of 4,486,364 common shares are issuable in connection with Canaccord's compensation.

If a receipt has not been obtained in respect of a prospectus filed in Ontario and British Columbia, Canada by the Company by 20 June 2001 to qualify the issuance of common shares and the Convertible Debentures on exchange of the Special Warrants, the Special Notes, the Canaccord corporate finance fee and the Broker Warrants, the Company is required to issue an additional 10% of the securities otherwise issuable on exchange or conversion of the Special Warrants and the Special Notes. A total of 5,903,182 common shares are issuable in connection with this penalty.

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21. Subsequent events *(continued)*

Investment by the Leviev Group

In addition, the Company entered into an agreement with the Leviev Group of Israel, who invested \$15,000,000 on 1 May 2001 in the Company through a subscription for common shares and warrants.

The Leviev Group subscribed for common shares, accompanied by warrants, as follows:

- (a) 22,727,272 common shares at a price of \$0.33 per share, for proceeds of \$7,500,000 , along with 11,363,636 warrants, exercisable over a period of three years to acquire common shares at a price of \$0.40 per share; and
- (b) 15,000,000 common shares at a price of \$0.50 per share for proceeds of \$7,500,000, along with 7,500,000 warrants, exercisable over a period of three years to acquire common shares at a price of \$0.50 per share.

In addition, the Leviev Group is to make available up to \$2,600,000 to the Company in the form of a credit facility, under certain conditions. The principal amount drawn under the credit facility would be convertible at the election of the Leviev Group into common shares of the Company, at a price of \$0.33 per share. The credit facility will only be available if the Leviev Group receives 15,151,515 warrants, exercisable at \$0.33 per share over a period of two years, as consideration for making the credit facility available to the Company.

Under the terms of a marketing agreement between the Company and the Leviev Group, the Leviev Group has exclusive marketing rights to the Company's production for a period of 15 years. The Leviev Group has agreed to buy all production at open market world prices. The Company retains the right to ensure independent pricing control through the use of a price checking mechanism.

If the investment were completed in its totality, an aggregate of 79,621,212 common shares would be issued or made issuable to the Leviev Group. As a result, the Leviev Group would become the largest shareholder of the Company, holding approximately 39% of the outstanding common shares of the Company, prior to the exercise of any Convertible Debenture or warrants and approximately 43% on a fully diluted basis (excluding any common shares issuable if a receipt for a prospectus is not obtained). Should the Leviev Group exercise all of its convertible securities and no other shareholder exercises any Convertible Debentures or warrants, the Leviev Group would hold approximately 58% of the outstanding common shares of the Company. Leviev also has the right to nominate two-sevenths of the board of directors of the Company (rounding up to the next highest whole number).

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21. Subsequent events *(continued)*

Shipowner Warrants

In order to ensure that the owners of the vessels operated by the Company support the refinancing efforts of the Company, the Company has agreed to issue 1,000,000 warrants, each exercisable over a period of 12 months to acquire one common share at a price of \$0.50 per share, to certain vessel owners.

Proposed Issuances of Common Shares

If all of the above share issuances as detailed above are completed the fully diluted share capital of the Company would be as follows:

	Subtotal (in shares)	Total (in shares)
Outstanding share capital at 31 December 2000		47,602,099
Canaccord Placements		64,935,001
Special warrants	9,475,758	
Special notes	26,887,879	
Underlying warrants	18,181,818	
Broker warrants	3,636,364	
Corporate finance fee (in shares)	850,000	
Penalty shares, if no prospectus	5,903,182	
Leviiev investment		79,621,212
First tranche of common shares	22,727,273	
Second tranche of common shares	15,000,000	
Warrants	18,863,636	
Conversion of entire credit facility	7,878,788	
Credit facility warrants	15,151,515	
Shipowner warrants		1,000,000
Other common shares issuable (See Note 11)		5,204,525
Fully diluted share capital		198,362,837