

AGREEMENT

between

**THE GOVERNMENT OF THE
REPUBLIC OF MALAWI**

and

NYALA MINES LIMITED

THIS AGREEMENT is entered into this 18th day of JUNE 2008, between the GOVERNMENT OF THE REPUBLIC OF MALAWI, acting through the MINISTRY OF ENERGY AND MINES (hereinafter referred to as the "Government") and Nyala Mines Limited, a company incorporated in Malawi under the Companies Act, Cap.46:03 Registration Number 7976 whose registered office is c/o Mwenelupembe, Mhangochi & Co., Development House, Henderson Street, Blantyre, Malawi (hereinafter referred to as "Nyala").

WHEREAS:

- (A) The Government granted Nyala a Mining Licence no. ML0150/2007 on the Date;
- (B) Nyala and the Ministry of Energy and Mines concluded a Memorandum of Understanding (MOU), concerning thirty percent (30%) Participation in Nyala, on the Date;
- (C) Pursuant to clause 2(c) of the Mining Licence and the MOU, the validity of the Mining Licence is conditional upon Nyala entering into this Agreement;
- (D) Pursuant to clause 2(b) of the Mining Licence, Nyala is required to pay the Royalty to the Government;
- (E) In addition to payment of the Royalty, and in consideration of the Government agreeing to grant Nyala the Mining Licence, Nyala has also agreed to pay the Government a further Sales Royalty, once the Corundum has been cut, polished and sold by Columbia;
- (F) The parties have agreed to record the terms of Nyala's agreement to pay the Sales Royalty to the Government, and its agreement to grant thirty percent (30%) Participation in Nyala, on the terms and conditions contained in this Agreement; and
- (G) Nyala has agreed to issue to the Government ten per cent (10%) of the equity of Nyala and such share holding shall not be diluted before the Initial Public Offering except by further agreement in writing between the Parties.

The Parties hereby AGREE as follows-

ARTICLE 1

Definitions

In this Agreement, unless the context otherwise requires or permits:

“thirty percent” (30%) Participation in Nyala means (as defined in the MOU) the right granted by Nyala to indigenous Malawians, to acquire up to thirty percent (30%) of the issued share capital in Nyala, effective from the Date;

“Agreement” means this Agreement, as may be amended, supplemented or replaced from time to time;

“Clinic” means the clinic located within the hospital at Katsekera, Malawi;

“Columbia” means Columbia Gem House, Inc. of Vancouver, Washington State, USA;

“Corundum” means all corundum including gem corundum, ruby and sapphire;

“Date” means 2 October 2007;

“IPO” means Initial Public Offering being an offer to the public to purchase ordinary shares in Nyala prior to those shares being listed for trading on a Stock Exchange;

“Mining Licence” means the ten (10) year mining licence no. ML0150/2007 granted by the Government to Nyala on the Date, in response to Nyala’s Mining Licence Application. A duly certified copy of the original Mining Licence is annexed as Appendix 1 of this Agreement;

“the Ministry” means the Ministry of Energy and Mines of Malawi;

“MOU” means the Memorandum of Understanding between the Ministry and Nyala on the Date, a duly certified copy of the original MOU is annexed hereto as Appendix 2 of this Agreement;

“MRA” means Malawi Revenue Authority;

“Recognised Stock Exchange” means any or all of London, New York, Frankfurt, Sydney, Toronto, Johannesburg or Malawi;

“Royalty” means the ten percent (10%) royalty payable by Nyala to the Government upon the export of rough Corundum;

“Sales Royalty” means two point five percent (2.5%) of the wholesale sale price of Nyala’s share of the cut and polished Corundum sold by Columbia; and

“Valuation” means US\$20 million, which shall include funds to be invested for the refurbishment of the mine and the proposed increase in production.

ARTICLE 2

Nyala Obligations

1. In consideration of the Government granting the Mining Licence to Nyala, Nyala shall-
 - (a) pay to the Government ten percent (10%) Royalty on the gross value of Corundum exported, in accordance with the Mines and Minerals (Royalty) Regulations, 1981;
 - (b) pay to the Government an amount equivalent to the Sales Royalty, once the Corundum has been cut, polished and sold by Columbia;

- (c) pay the Sales Royalty on a quarterly basis and calculated from receipts of sale by Columbia for the preceding quarter. These figures shall be audited annually and a copy of the audit shall be submitted to the Government annually;
- (d) issue to the Government ten percent (10%) of the equity of Nyala and such shareholding shall not be diluted before the IPO except by further agreement in writing between the Parties. For the purposes of determining the value of the ten percent (10%) issued to the Government pursuant to this paragraph, Nyala shall be valued at the Valuation;
- (e) set up a lapidary in Malawi;
- (f) train Malawians in lapidary skills;
- (g) train Malawians (Nyala employees), in the operation, maintenance and supervision of all machinery used in the mining and recovery of the Corundum;
- (h) train Malawians (Nyala employees) in the use of computers for all purposes and satellite navigation equipment for accurately surveying the mining areas;
- (i) provide funds and materials to refurbish the local hospital at Katsekera and among others, shall procure new beds and linen;
- (j) install a solar panel at the local hospital at Katsekera to provide lighting;
- (k) support the operations of the Clinic through the provision of drugs, medicines, dressings and other general medical supplies for use within the local community, including anti-retroviral drugs for the treatment of AIDS. Nyala's financial assistance provided to the Clinic shall be but not limited to US\$20,000.00 per calendar year; and
- (l) provide funds and materials to build at least four (4) houses for teachers at the school at Kandoma.

2. In accordance with the terms of the MOU, Nyala agrees to grant Malawians the right to participate in Nyala by the purchase of up to thirty percent (30%) of the issued share capital of Nyala:

Provided that the application and payment shall be made within twelve (12) months from the date this Agreement enters into force.

3. Within two (2) years of the Date, Nyala shall-
 - (a) incorporate a subsidiary corporate entity in Malawi for the purpose of cutting and marketing the lesser value Corundum and selling this Corundum within Malawi; and
 - (b) take Nyala to listing on a Recognised Stock Exchange via an IPO, subject to the ability of the market to raise funds at the time.
4. The thirty percent (30%) Participation in Nyala applies to paragraph 3(b) above such that in the prospectus prepared by Nyala for the IPO, Nyala agrees, subject to paragraph 2 above, to reserve for subscription by Malawians an amount equivalent to thirty percent (30%) or any part thereof remaining, of the issued share capital which would be available in Nyala post-listing if by that date the total thirty percent (30%) Participation would not have been satisfied.

ARTILCE 3

Government Obligations

1. In consideration of Nyala's agreement to issue ten percent (10%) of Nyala's equity to the Government pursuant to Article 2 (1) (d) and to pay the Sales Royalty, the Government agrees-
 - (a) that Nyala may import materials, consumables and equipment to be used in the mining and processing of minerals in accordance with the Mining Licence free of duty and tax:

Provided that in the case of equipment, Nyala shall not sell any of the equipment within Malawi for a period of five (5) years from the date of

import. For the avoidance of doubt, these exemptions shall not extend to any imports by employees of Nyala either for their own use or for resale;

- (b) that Nyala be exempt from Resource Rent Tax;
- (c) that Nyala be exempt from Value Added Tax on capital purchases for the use in the mining and processing of minerals;
- (d) that Nyala be exempt from Fuel Duty at the ruling rate for fuel used in direct mining operations only. The said fuel shall be purchased from an approved supplier in an approved manner. Approval shall be granted by the Malawi Revenue Authority upon a satisfactory submission by the supplier;
- (e) to issue certificates of exemption to Nyala from these duties and taxes; and
- (f) to the timely issue of various licences and permits.

ARTICLE 4

SETTLEMENT OF DISPUTES

Any dispute which may arise relating to the interpretation or application of this Agreement and which cannot be settled amicably by the Parties, shall, at the request of either Party, be submitted for arbitration in accordance with the Arbitration Act, Cap.6:03.

ARTICLE 5

AMENDMENT OF THIS AGREEMENT

1. Any amendment of this Agreement, shall be made by mutual agreement of the Parties and in writing.

ARTICLE 6

TERMINATION OF AGREEMENT

1. Either Party may at any time give notice in writing to the other Party of any fundamental breach (Notice of Fundamental Breach) of either this Agreement or the Mining Licence

requiring the Party in breach to rectify the breach within three (3) months from the date of receipt of the Notice of Fundamental Notice. If the said breach is not rectified within the three (3) months, then the Party that issued the Notice of Breach may terminate this Agreement by notice in writing to the Party that is in breach.

2. In such cases this Agreement shall terminate twelve (12) months after the date of receipt of the notice by the other Party, unless the notice to terminate is withdrawn by mutual agreement of the Parties before the expiry of this period.

ARTICLE 7

ENTRY INTO FORCE AND DURATION

1. This Agreement shall enter into force on the date of signature and shall remain in force for the duration of the mining licence.
2. The duration of this Agreement may be extended by mutual agreement of the Parties.

ARTICLE 8

NOTICES

In the event notices require to be served by one party to this Agreement to the other they shall be served as follows:

(a) to the Government:

(i) - by post: Ministry of Energy and Mines,
Private Bag 350, Lilongwe 3, Malawi;

- by e-mail: mmnre@sdap.org.mw;

(ii) - by post: Ministry of Finance, Private Bag 30049, Lilongwe, Malawi;

(b) to Nyala by post:

- Nyala Mines Limited, P.O. Box 112, Ntcheu, Malawi; and
- by e-mail: davidh@nyalamines.com and nyalamines@malawi.net.

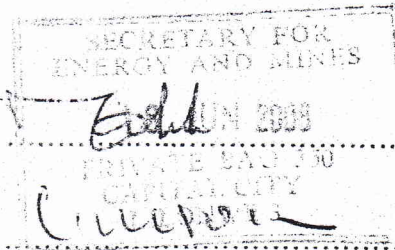
ARTICLE 9
GOVERNING LAW

This Agreement shall be governed by the Laws of the Republic of Malawi.

IN WITNESS WHEREOF, the Parties hereto have through their authorized representatives, signed this Agreement on the date first above written.

SIGNED and SEALED by the
Government of the Republic
of Malawi

In the presence of:



SIGNED and SEALED by
NYALA MINES LIMITED

Director.....

Director/Secretary.....