



**DIAMONDCORP PLC**



Annual Report 2009

# Officers and professional advisers

## Directors

E A Worthington (Chairman)

R N Allen

S Benkhadra

P R Loudon

G K Morton

J Willis-Richards

## Company Secretary

City Group plc

30 City Road

London, EC1Y 2AG

United Kingdom

## Officers

P R Loudon (CEO)

S H West (COO)

J C Forrest (CFO)

R K McCulloch (GM Lacey mine)

## Solicitors

Cobbetts LLP

58 Mosley Street

Manchester, M2 3HZ

United Kingdom

Werksmans Inc

155 5th Street

Sandton, 2196

South Africa

## Auditors

Deloitte LLP

Chartered Accountants and Registered Auditors

Cambridge

United Kingdom

Deloitte & Touche

Chartered Accountants and Registered Auditors

South Africa

## Registered office

30 City Road

London, EC1Y 2AG

United Kingdom

Website: [www.diamondcorp.plc.uk](http://www.diamondcorp.plc.uk)

## AIM brokers

Cenkos Securities plc (Nominated Advisor)

6.7.8 Token House Yard

London, EC2R 7AS

United Kingdom

Fairfax I.S. plc

46 Berkeley Square

London, W1J 5A

United Kingdom

JSE advisor and sponsor

PSG Capital (Pty) Limited

35 Kerk Street

Stellenbosch, Western Cape

South Africa

## Bankers

Barclays Bank plc

Town Gate House

Church Street East

Woking, Surrey

GU21 6XW

United Kingdom

## Technical advisers

Snowden Mining Industry Consultants

Johannesburg

South Africa

VP3 Geoservices (Pty) Limited

Bergvliet

South Africa

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DiamondCorp was formed to acquire and develop diamond assets in southern Africa. DiamondCorp's main project is its 74%-owned Lace diamond mine in South Africa's Free State province, and the Company is earning an interest in a portfolio of exploration assets in Botswana, including three prospective kimberlites in close proximity to the Jwaneng diamond mine.

Lace is located 200km southwest of Johannesburg. It comprises the Lace kimberlite mine, a vertical shaft to the 380m level and a fully commissioned 1.6 million tonne per year diamond recovery plant. This has the potential to support an underground mining operation with a life in excess of 25 years.

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# Letter from the Chairman and Chief Executive

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*The gradual recovery in the global economy is likely to continue to underpin demand for diamonds, particularly in the US and Europe, but more significant is the fast growing interest in diamonds from Chinese consumers.*

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Although the 2009 financial year is one which we would all rather forget, dominated as it was by the cessation of surface mining activities at our Lace mine in South Africa, we have emerged from the global financial collapse in better shape than we would have expected only a year ago when we started underground mine development.

After we stopped producing diamonds from the old mine tailings, due to the collapse in diamond prices, we focused on putting into place a number of steps to ease the transition into a fully functioning underground mining operation. These include the following developments:

- the granting by the Department of Mineral Resources (DMR) of a mining right over the Lace mine, providing all the required permits for a long-life underground mining operation;
  - the fortuitous discovery in the Pretoria archives of records of workings at the Lace mine between 1900 and 1931 which indicate the extensive mining that took place above the 240m level, leaving only remnant pillars. However, more importantly, they show that more than 10,000m of development drives
- are already in place between the 240m level and the 340m level, thereby confirming our strategy to access the kimberlite at this level by a new 4.5m x 4.5m decline;
- using our available cash resources to meet previous loan obligations - by the end of 2011 year we will have paid down US\$1.5 million of the principal debt of US\$5 million raised with Africa Opportunity Fund LP;
  - completion of feasibility study on the Lace kimberlite in September 2009 which concluded a life of mine in excess of 25 years at Lace, with the potential of producing more than 400,000 carats of diamonds per annum at peak production in 2016;
  - completion of an upgraded resource statement by VP3 Geoservices (Pty) Limited outlining 33 million tonnes of kimberlite at an average grade of 40 carats per hundred tonnes (cpht), containing more than 13 million carats in resources, worth some US\$1.5 billion at current prices;



- signing of a joint venture with a local company in Botswana over three diamond exploration licences covering an area of 109.2 km<sup>2</sup> located near the Jwaneng mine in Botswana - with nine identified kimberlite targets, represents significant blue sky opportunity. DiamondCorp will earn a 77.5% interest in this joint venture, by completing a definitive feasibility study on at least one of the kimberlites over a period of five years;
- initial drilling of the J-01 kimberlite in the joint venture area intersected a 10ha diamondiferous kimberlite to a depth of 330m. At least two more kimberlites will be drilled in 2010; and
- in November 2009 we raised £600,000 to complete exploration obligations in Botswana and to meet short-term working capital requirements. Subsequent to the year end we raised a further £7.1 million to complete the decline development at Lace to the 240m level and continue with further exploration in Botswana to fund 2010 debt obligations and working capital requirements.

## Diamond market doldrums

As a junior, diamond-focused resource company, we were hard hit by the collapse in prices during 2008. But the need to raise capital put us in good company - from De Beers downwards, there was not one diamond producer who did not find themselves in a similar precarious situation over the past 12 to 18 months. From our perspective, the collapse was felt most profoundly from the last quarter of the 2008 calendar year through to February/March of 2009. However, a

turnaround was signalled with the loosening of credit lines, swiftly followed by a recovery in prices from May/June 2009, helped by a number of production cutbacks.

The gradual recovery in the global economy is likely to continue to underpin demand for diamonds, particularly in the US and Europe, but more significant is the fast growing interest in diamonds from Chinese consumers. We are also optimistic on the supply side and note that no major new diamondiferous kimberlite discoveries have been made in recent years and, with less than 20 years of known resources together with rising demand, this should lead to significantly higher dollar prices.

## The Lace mine

The interruption of the tailings retreatment operations at Lace was something we would have liked to avoid. The tailings operation provided useful information about the quality of the Lace diamonds and about the functionality of the Lace plant. Nonetheless, we remain upbeat about the future sustainability of Lace, and are confident that it will continue to yield real value, especially as we have now seen a recovery in diamond prices and believe in strong market fundamentals going forward. Key to our future success at Lace is the development of a decline in order to take a 30,000 tonne bulk sample from the 240m level. Snowden Mining Industry Consultants (Snowden), our independent mining engineering consultant, has designed and is overseeing the development of the decline and the subsequent sub-level caving mine plan. Once the grade has been confirmed, mining activities, planned to go down to 850m below surface will start. Approximately 33 million



## Letter from the Chairman and Chief Executive (continued)

tonnes of kimberlite have been outlined in the main Lace pipe between the 240m and 850m levels, at a grade of 40cpt. We plan to use sub-level caving at Lace and, on the assumption that the drives prove to be in stable condition, incorporate 10,000m of development drives already in place between the 240m and 330m levels. While the existing vertical shaft is being refurbished, material will initially be hauled to surface up the decline at a rate of about 12,000 tonnes per month.

Located only 20km from Kroonstad, a major commercial centre in the Free State province, there are no significant infrastructural shortcomings - electrical power and water supplies are in place and the mine is easily accessible via well-established provincial roads. The mine is also well-equipped for future mining operations with the decline going deeper and the unused vertical shaft scheduled to be refurbished during 2011.

The 1.2 million tonne per annum recovery plant also has sufficient capacity for the expected life of mine. The plant uses a DMS and hands free grease belt recovery system and its capacity and efficiency have been proven, having treated some 1 million tonnes of tailings, and 100,000 tonnes of kimberlite rock.

In addition, the mine's vehicle fleet for both surface and underground activities is relatively new and is suitable for completing the decline development and establishing underground mining operations.

Activities at Lace during 2010 will concentrate on completing the decline. Then in 2011, the

30,000 tonnes bulk sample will be extracted for determination of grade at the initial mining level. We will then need to raise additional capital to establish full-scale production from underground at a rate of 1.2 million tonnes per annum during 2011 and to finance further debt repayments and other working capital requirements.

### New opportunities

In last year's annual report, we noted how we were seeking attractive opportunities to grow DiamondCorp from a single asset company. The search for attractive targets continued last year and we were very pleased to be able to sign, in June, a joint venture over known kimberlite pipes in Botswana, a country which is the world's leading diamond producer, is politically stable and has an attractive fiscal regime.

We now have a very attractive mine asset at Lace and outstanding, advanced exploration targets near Jwaneng, but we will continue to use our skill base to evaluate opportunities in the diamond sector. However, we can assure you that our sights remain high and any acquisition must be able to bring financial gains to our shareholders.

### Botswana Exploration Joint Venture

Our main exploration project in Botswana is PL/71, a prospect immediately southeast of the De Beers Jwaneng mine, the richest diamond mine in the world. The prospect comprises five geophysical targets, three of



them being priority targets for geophysical survey and drill testing. In November 2009, we completed two diamond boreholes at one of the targets J-01. Both of these holes intersected kimberlite at some 20m down hole depth to the end of the boreholes, indicating the presence of a 10ha kimberlite body. Encouragingly for any future mine development, the sand cover in the Jwaneng area is only 20m. Our analysis of 350kg of samples has indicated that the J-01 kimberlite is diamondiferous. Large diameter drilling will now need to be completed in order to recover a large enough sample of kimberlite for grade estimation.

Ground gravity and magnetic surveys have been completed over the two other priority targets, J-05 and J12, indicating one of these kimberlites to be up to 4ha in size. The other, although still not entirely conclusive, could be between 5ha and 15ha in size. We are currently re-processing the geophysical data to better define the target ahead of a programme of initial diamond drill holes, the results of which will allow us to plan future large diameter drilling and mini bulk testing priorities.

Drilling will recommence when the PL/71 exploration licence is renewed. The original three-year term for this licence expired in April 2010 and a two-year renewal with 50 per cent reduction in area is currently being processed in accordance with the provisions of the Botswana Mines and Minerals Act.

## Funding for the future

In November 2009, the Company raised £600,000 by way of a placement of shares. The funds were applied mainly to complete exploration obligations in Botswana and cover costs on Lace. In 2009, rough diamond prices started recovering and since then investor and market sentiment has changed completely. We were then able to raise a further £7.1 million subsequent to the year end, through a placement and subscription, to fund the continued development of the Company and which we will allocate as follows:

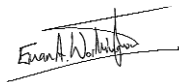
- £4.0 million to implement the decline development and complete the sub-level caving plan to resume underground mining at Lace - between 240m and 330m levels. We plan to access the Lace kimberlite at the 240m level via the decline in the first half of 2011. At that time it is expected that a kimberlite mining sample of approximately 30,000 tonnes will be extracted and processed through the Lace plant in order to determine a definitive diamond grade at the mining level;
- £0.5 million - to fund further drilling in Botswana. Our right to earn in a 77.5% joint venture interest will rely on funding exploration activities and completing a definitive feasibility study by May 2014; and
- £2.6 million on loan obligations, paying down debt - the Company currently has a US\$4.5 million loan facility with the Africa Opportunity Fund LP, secured against the South African assets. Some £0.9 million will be used to meet principal and interest payments on this loan during the remainder of 2010.

## Letter from the Chairman and Chief Executive (continued)

### In conclusion

After such a difficult year we wish to thank all of our staff and consultants who have persevered during extremely difficult times. We are also delighted to welcome Keith McCulloch who has recently joined our team as General Manager at Lace. Keith's vast experience in both underground and surface mining throughout Southern Africa stands us in good stead as we resume development at Lace and start to turn to account the very attractive potential 13 million carats in resource. With this planning schedule in place we should be well placed to deliver into a forecast rising diamond price environment in 2011. At the

same time, we hope for exciting results from our exploration programme in Botswana.



**Euan Worthington**

Chairman



**Paul Loudon**

Chief Executive Officer

25 June 2010



# Resource statement

## Lace project

as at September 2009

Depth	Tonnage (Mt)			Grade (cpht)		Carats (Mct)		
	Main pipe	Satellite pipe	Total pipe	Main pipe	Satellite pipe	Main pipe	Satellite pipe	Total pipe
73-345 VK Indicated	5.879	1.375	<b>7.254</b>	24.4	7.1	1.435	0.098	<b>1.533</b>
345-855 VK Inferred	11.163	–	<b>11.163</b>	24.4	–	2.723	–	<b>2.723</b>
345-855 CK Inferred	16.079	–	<b>16.079</b>	56.8	–	9.133	–	<b>9.133</b>
345-600 VK Inferred	–	0.025	<b>0.025</b>	–	Unknown	–	Unknown	–
345-600 CK Inferred	–	1.066	<b>1.066</b>	–	Unknown	–	Unknown	–
<b>Total</b>	<b>33.121</b>	<b>2.466</b>	<b>35.587</b>	<b>40.12</b>				<b>13.389</b>

Resource statement prepared September 2009 by VP3 Geoservices (Pty) Limited in accordance with the SAMREC Reporting Code.

# Directors and officers

## **Euan Worthington**

*Non-executive Chairman*

Euan Worthington was born in 1955 and has been associated with and involved in exploration, mining development, analysis and corporate finance in London for over 25 years. He has worked as an independent mining finance consultant since 2001 and is Chairman of African Eagle Resources plc and a non-executive director of European Nickel plc, both listed on AIM. Euan holds a BSc Geology (Hons) from Kings College, London, a DIC (Mineral Resources Engineering) and MSc in Mineral Production Management from the Royal School of Mines, Imperial College, London.

## **Paul Loudon**

*Chief Executive Officer*

Paul Loudon was born in 1962 and has more than 20 years' experience in stockbroking, corporate finance and the management of junior mining and exploration companies. He has been President of Battlefields Minerals Corporation of Toronto and Non-executive Chairman of BDI Mining Corp. He was head of Equities at Loeb Aron & Company Ltd, a London corporate finance house specialising in the mining sector; where he was responsible for raising considerable sums of equity capital for resource companies listed in the United Kingdom, Canada and Australia.

## **John Forrest**

*Chief Financial Officer*

John Forrest was born in 1947 and is a CPA with more than 30 years' experience in public company administration and financial management. He began his career with Price Waterhouse & Co and currently acts as Finance Director of several public companies.

## **George Kennedy**

*Non-executive Director*

George Kennedy Morton was born in 1946 and has more than 40 years' experience in the banking and finance sector, including senior positions with Toronto-Dominion Bank, The Bank of Nova Scotia, Gulf International Bank, National Bank of Bahrain and Arab Banking Corporation. He is currently a non-executive director of European Islamic Investment Bank plc.

## **Subhi Benkhadra**

*Non-executive Director*

Subhi Benkhadra was born in 1964 and has more than 20 years' experience in investment and fund management, having held senior positions with United Bank of Kuwait, Primecorp Investment Management, Investment Trust and Esterad Investment Company. He is currently the Chief Executive Officer of European Islamic Investment Bank plc.

## **Dr Jonathan Willis-Richards**

*Non-executive Director*

Jonathan Willis-Richards was born in 1955 and holds a bachelor's degree in geology from Oxford University, a master's degree in mining geology, and a PhD from the Cambourne School of Mines. He is internationally known for his PhD work on numerical modelling in the areas of fractured geothermal and mineralised systems, and is a founder and Managing Director of London mining corporate finance house, Loeb Aron & Company Ltd.

## **Nicholas Allen**

*Non-executive Director*

Nicholas Allen was born in 1937 and has worked in the mining industry for over 40 years, primarily in diamond mining and marketing, including extensive periods with Consolidated African



Selection Trust Limited, D.Drukker & Zn NV, George Evans of Antwerp and Benguela Concessions Limited. He is a non-executive director of Mercator Gold plc.

## Lace Diamond Mines Pty Ltd

### **Pulane Kingston**

*Non-executive Director*

Pulane Kingston was born in 1971 and graduated from the University of Wales with an LLB (Hons) and from the University of Nottingham with an LLM in International Law. She is an executive director and one of the founder shareholders of Sphere Holdings. She was previously an associate at White & Case (Johannesburg) and prior to that an associate partner at Edward Nathan & Friedland Inc, specialising in corporate and commercial law. She has been involved in privatisations, mergers, acquisitions, listings, restructuring and various empowerment transactions.

### **Paul Loudon**

*Managing Director (see page 8)*

### **Steve West**

*Chief Operating Officer*

Steve West was born in 1954 and is a mechanical engineer with more than 30 years' experience in the mining industry, predominantly in diamonds. He started his career with De Beers Consolidated Mines in Kimberley and has held a number of senior positions with the Trans Hex Group Limited, including Group Marine Manager and Group Project Manager. Prior to joining DiamondCorp, Steve was Mine Manager at Gem Diamonds Limited's Cempaka diamond mine in Indonesia.

### **John Forrest**

*Finance Director (see page 8)*

### **Ronald Makomva**

*Non-executive Director*

Ronald Makomva was born in 1977. Prior to being an associate director at Sphere Holdings, Ronald held positions in Deutsche Bank and

Standard Bank's investment banking divisions. His investment banking experience spans several years, during which he advised local and international companies on mergers and acquisitions, leveraged buy-outs and capital raising initiatives. Ronald also has taxation experience acquired during his tenure at the South African Revenue Services. After completing his BCom degree at Rhodes University and postgraduate qualification in accounting at the University of Natal, Ronald qualified as a chartered accountant, having served his articles with PKF Inc.

### **Karishma Sewpersad**

*Non-executive Director*

Karishma Sewpersad was born in 1981 and qualified with a Bachelor of Science degree in Chemical Engineering from the University of Natal in 2002, before beginning her career as a process engineer in Xstrata Alloy's ferrochrome production facilities in Lydenburg. She entered the corporate environment when she took up a position as Marketing Superintendent at Xstrata's head offices in Rustenburg. After a total of four and a half years in the ferrochrome industry, she joined BHP Billiton as a commercial analyst in its coal division. Today, Karishma is a principal for Shanduka Resources.

### **Hulme Scholes**

*Non-executive Director*

Hulme Scholes was born in 1966 and holds a BA Law and LLB degree from the University of the Witwatersrand and is an admitted attorney of the High Court of the Republic of South Africa. Hulme specialised in mining and mineral law and has practised exclusively in the field for 17 years. Prior to joining Aquarius Platinum as Commercial Director in 2008, Hulme was a partner at Werksmans Attorneys from 1999.

# Financial report

## Results

The results for the year were as follows:

	2009 £	2008 £
Revenue	68,863	916,767
Cost of sales	(68,863)	(1,494,253)
Gross loss	–	(577,486)
Impairment of intangible asset	(1,648,467)	–
Administrative expenses	(2,456,448)	(3,027,623)
Operating loss	(4,104,915)	(3,605,109)
Investment revenues	35,736	32,043
Finance costs	(80,177)	(682,286)
Loss before tax	(4,149,356)	(4,255,352)
Tax	(57,723)	(30,132)
Loss for the financial year	(4,207,079)	(4,285,484)

There were no diamond recoveries in 2009 (2008 - 50,521 carats). The Lace mine was under development until 31 July 2009 when it was placed on care and maintenance.

The diamond inventory at 31 December 2008 was tendered in January 2009, resulting in revenues of £68,863. Due to changes in the mine development plan which are discussed in the letter from the Chairman and Chief Executive there was a writedown of the cost of the underground development by £1,648,467 to £881,884.

## Share capital and long-term loan

In November 2009, the Company placed 6,000,000 shares at 10 pence each and 145,000 shares at 13.8 pence each. In April 2010, the Company placed 101,062,538 shares at 7 pence each for gross proceeds of £7.1 million.

As of this date, the Company has 148,579,533 shares issued.

During 2009, the Company incurred interest charges of £393,683 (2008 - £67,342) on the long-term loan which is denominated in US dollars. Because of foreign exchange gains of £313,506 (2008 - losses of £614,944), the net cost of the long-term loan was £80,177 (2008 - £682,286). The payment of principal and interest of approximately US\$800,000 which was due on 14 April 2010 was paid.



## Balance sheet, cashflow and working capital

As discussed above, during the year, the Group raised £596,710 (2008 - £6,379,658) from the placement of shares.

Cash of £3,764,172 (2008 - £4,528,653) was invested as follows:

- (i) £1,281,117 (2008 - £1,334,611) was invested in property, plant and equipment at the Lace mine;
- (ii) £851,094 (2008 - £2,310,677) was used in the operations of the Group; and
- (iii) £1,631,961 (2008 - £883,365) was spent on intangible assets, primarily the development of the underground mine at Lace.

Including interest income, during 2009, Group cash decreased by £2,964,088 to £288,188 (2008 - increase of £1,921,569), Net current assets decreased from £3,514,943 at 31 December 2008 to £4,946 at 31 December 2009. The working capital position of the Company has been substantially improved by the £7.1 million placement of shares in 2010.



**J C Forrest**

Chief Financial Officer

25 June 2010

# Remuneration report

## The Remuneration Committee

The Remuneration Committee reviews the performance of the executive directors and sets the scale and structure of their remuneration including bonus arrangements. The Remuneration Committee also sets the allocation of share options to directors and other employees. As a small company, it is not possible for the Committee to comply fully with the Combined Code. Accordingly, membership of the Committee comprises Nick Allen as Chairman, together with Euan Worthington, Jonathan Willis-Richards and Subhi Benkhadra.

## Statement of remuneration policy

The Group's policy provides for a competitive package that reflects the Group's performance and is designed to attract and retain high-calibre executives. The package currently consists of a base salary and longer-term rewards in the form of share options. There is no bonus plan currently in place.

## Audited

Remuneration for the year | January 2009 to 31 December 2009

	Date appointed	Salary or fee £	Bonus £	Fees paid to third party £	Total £	Options granted number
E A Worthington <sup>(2)</sup>	18 May 2006	30,000	–	10,000	40,000	Nil
J Willis-Richards <sup>(1)</sup>	18 May 2006	–	–	12,000	12,000	Nil
R N Allen	29 Mar 2005	12,000	–	–	12,000	Nil
P R Loudon <sup>(1,3)</sup>	29 Mar 2005	77,500	–	60,000	137,500	Nil
R L Henshall <sup>(4)</sup>	14 Nov 2008	–	–	12,000	12,000	Nil
		119,500	–	94,000	213,500	Nil

Remuneration for the year | January 2008 to 31 December 2008

	Date appointed	Salary or fee £	Bonus £	Fees paid to third party £	Total £	Options granted number
E A Worthington <sup>(2)</sup>	18 May 2006	30,000	–	10,000	40,000	Nil
J Willis-Richards <sup>(1)</sup>	18 May 2006	–	–	12,000	12,000	Nil
R N Allen	29 Mar 2005	12,000	–	–	12,000	Nil
P R Loudon <sup>(1,3)</sup>	29 Mar 2005	77,500	10,000	60,000	147,500	Nil
R L Henshall <sup>(4)</sup>	14 Nov 2008	–	–	1,533	1,533	Nil
		119,500	10,000	83,533	213,033	Nil

<sup>(1)</sup> Includes amounts paid to Loeb Aron & Company Limited where Dr Willis-Richards and Mr Loudon are both directors.

<sup>(2)</sup> Includes amounts paid to Mining Finance Solutions where Mr Worthington is a director.

<sup>(3)</sup> Includes amounts paid to Glendree Capital Management Limited where Mr Loudon is a director.

<sup>(4)</sup> Includes amounts paid to European Islamic Investment Bank plc where Mr Henshall was an officer. Mr Henshall resigned from the Board on 1 April 2010 and Messrs George Kennedy Morton and Subhi Benkhadra joined, representing EIB, on 21 April 2010.

The directors received no pension contributions or benefits in kind.



# Directors' report

The directors present their report on the affairs of the Group, together with the financial statements and auditors' report, for the year ended 31 December 2009.

## Principal activities

The Company was incorporated on 22 March 2005. On 15 May 2006, the Company acquired 100 per cent of the ordinary share capital of Crown Diamond Mining Limited, a company registered in the British Virgin Islands. In 2007, Crown Diamond Mining Limited changed its name to DiamondCorp Holdings Limited (DHL). DHL owns 74% of the ordinary share capital of Lace Diamond Mines (Pty) Limited, a company involved in mining at the Lace diamond mine in South Africa. In November 2006, Soapstone Investments (Pty) Limited was incorporated in South Africa. It is wholly owned by DHL and has been established primarily as an investment company to evaluate other investment opportunities in South Africa. DiamondCorp plc is a dual listed company, with primary listings on the AIM in London and the AltX in Johannesburg.

## Business review

DiamondCorp's 74%-owned Lace diamond mine is located 200km southwest of Johannesburg in the Free State province of South Africa. The project comprises the Lace kimberlites which have the potential to support a +20-year underground mining operation and tailings from previous mining operations. Approximately 33 million tonnes of kimberlite have been outlined in the main Lace pipe between the 240m and the 855m level, containing an estimated 13.3 million carats of diamonds at an average estimated grade of 40 carats per hundred tonnes (cpht). Late in 2008, the Department of Mineral Resources (DMR) granted a mining right for the Lace underground development, which was executed in Welkom on 5 February 2009.

Development of the underground commenced in 2009 but was halted in July 2009 when the mine was put on care and maintenance. The reasons for this and the future plan for the Lace mine are outlined in the letter from the Chairman and Chief Executive. To fund the development plan for the Lace mine through to March 2011, the Company placed shares of at 10 pence and 7 pence each to raise £600,000 and £7.1 million respectively.

## Key performance indicators

During 2008, the Group was processing Lace tailings while 2009 was spent in a development phase. Thus, the two years are not comparable and the directors do not believe that there are any key performance indicators which would be useful.

## Principal risks and uncertainties

The key risk to which the business is exposed relates to the underground section of the mine where the volume of diamonds and the clarity may not be as expected. This could have either a positive or negative impact on revenues and profits depending on the outcome.

## Directors' report (continued)

### Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including currency risk and liquidity risks.

#### Currency risks

The Group transacts business in three currencies, UK sterling (GBP), South African rand (ZAR) and United States dollar (USD). All revenues are transacted in USD. Bank accounts in all three currencies are used to reduce any risk to exchange rate movements. A long-term loan facility, denominated in USD, was obtained during 2008 (see note 14). In 2010, the bulk of the Group's surplus cash will be held in USD and ZAR to manage the Group's exposure to foreign exchange movements in these currencies.

#### Liquidity

See the discussion on going concern which follows.

#### Credit risk

The Group's principal financial assets are bank balances and cash. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

### Going concern

In determining the appropriate basis of presentation of the financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future, this being a period of not less than 12 months from the date of the approval of the financial statements. The Group's business activities and goals are set out in the letter from the Chairman and Chief Executive. During the next 12 months, the Group will be in a mine development phase and forecasts indicate that the Group may have insufficient financial resources to accomplish all its development goals and meet all its financial obligations over the next 12 months. The raising of additional finance is deemed to be a material uncertainty, which casts significant doubt over the ability of the Group to continue as a going concern.

If its financial resources were insufficient, then the Group would be required (i) to supplement its current cash resources by accessing the equity markets in 2010-2011 or by sale of assets or, alternatively, (ii) to modify its development plan to preserve cash.

After making enquiries, given the recent successful £7.1 million and £600,000 fundraisings which were well-supported by the existing shareholder base, assuming that the Group adheres to its development plan, the directors have a reasonable expectation that additional funds will be available within the next 12 months. Accordingly, the directors continue to adopt the going concern basis of presentation of the financial statements.

### Share capital

Details of movements in share capital are set out in note 17 and note 22 to the financial statements.

### Payment to suppliers

It is the Company's and Group's policy to pay creditors when they fall due for payment, which results in payment within 30 days. During 2009, as cash balances declined prior to the 2010 placement of shares, it became necessary to extend creditor payment terms. However, we have now restored the 30 day policy.



## Dividends

No dividends were declared during the year covered by this report. The directors intend to reinvest cash flow from Lace tailings re-treatment in a pre-feasibility study and the development of the underground Lace mine workings.

## Subsequent events

In April 2010, the Company placed 101,062,538 ordinary shares at 7 pence each for gross proceeds of £7.1 million.

## Directors

The directors, who served throughout the year, were as follows:

P R Loudon (Australian)

R N Allen (British)

E A Worthington (British)

J Willis-Richards (British)

R L Henshall (British) (resigned 1 April 2010)

G K Morton and S Benkhadra were each appointed on 21 April 2010

The directors who held office at 31 December 2009 have the following interests in the shares of the Company and options to purchase ordinary shares of the Company:

	Vendor warrants		Options to purchase ordinary shares of 3 pence each		Interest in ordinary shares of 3 pence each	
	2009	2008	2009	2008	2009	2008
P R Loudon	833,333	833,333	690,000	690,000	2,088,052	1,798,052
R N Allen	–	–	280,000	280,000	83,366	83,366
E A Worthington	–	–	370,000	370,000	190,000	90,000
J Willis-Richards *	833,333	833,333	280,000	280,000	1,291,666	1,316,666
R L Henshall **	–	–	–	–	10,720,555	10,720,555

\* The vendor warrants held by J Willis-Richards and family were granted to Loeb Aron & Company Limited of which Dr Willis-Richards is a director. Excluded are 250,000 warrants granted to Loeb Aron as consideration for corporate advisory services which expired in February 2009.

\*\* R L Henshall was until 1 April 2010 an officer of European Islamic Investment Bank plc, which was the beneficial owner of 10,720,555 shares.

## Substantial interests

At the date of the directors' report the following parties held in excess of 3% of the share capital of the Company:

European Islamic Investment Bank plc ***	39,320,555	26.5%
Legal & General Investment Management	15,800,000	10.6%
JPMF Natural Resources Fund	14,884,121	10.0%
The Bank of New York Nominees Limited	15,100,000	10.2%
Lynville Holdings Limited	10,071,429	6.8%

\*\*\* R L Henshall was an officer of this company until 1 April 2010.

## Directors' report (continued)

### Political and charitable contributions

The Group made no political or charitable contributions during the year ended 31 December 2009 (2008 - nil).

### Auditors

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

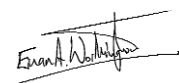
This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP and Deloitte & Touche (together Deloitte) have indicated their willingness to continue as auditors. The Board have decided that resolutions to re-appoint them will be proposed at the annual general meeting.

### Declaration by Secretary

The Secretary certifies that the Company has lodged with the Registrar of Companies all such returns as are required of a public company, in terms of Section 268G(d) of the South African Companies Act No 61 of 1973, as amended, and that all such returns are true, correct and up to date.

Approved by the Board of Directors and signed on behalf of the Board.



**Euan Worthington**

Director  
25 June 2010



# Corporate governance

The Group is committed to a high standard of corporate governance and operates to clear principles and procedures of control appropriate to a business of its size. Whilst there is no requirement for AIM companies to comply with the Combined Code, the Company intends to comply with the main provisions in so far as they are appropriate to smaller companies. This statement describes how the Group applies the principles of governance.

The Board is responsible for approving Company policy and strategy. It meets regularly throughout the year and there are a number of matters that are reserved for its decision. Management supply the directors with appropriate and timely information and the directors are free to ask for any further information they consider necessary. Copies of all press announcements made by the Company are also circulated to the Board. Directors may take independent professional advice at the Company's expense and each director has access to the Company Secretary. The Company Secretary is charged with ensuring that the Company complies with all relevant regulations.

The Board consists of a non-executive chairman, one executive (managing) director and four non-executive directors.

## Supply of information

To enable the Board to function effectively and allow the directors to discharge their responsibilities, full and timely access is given to all relevant information. The Board receives reports from the managing director on a quarterly basis. In addition:

- an annual budget for each operating subsidiary is approved by the Board; and
- actual results are monitored quarterly.

## Re-appointment

Any director appointed during the year is required, in accordance with the Company's Articles of Association, to retire and seek appointment by shareholders at the next annual general meeting. The Articles also require that one third of the directors retire by rotation each year and seek re-appointment at the annual general meeting. The directors required to retire will be those who have been longest in office since their last appointment or re-appointment.

## The Remuneration Committee

The Remuneration Committee reviews the performance of the executive directors and sets the scale and structure of their remuneration including bonus arrangements. The Remuneration Committee also sets the allocation of share options to directors and other employees. As a small company, it is not possible for the Committee to comply fully with the Combined Code. Accordingly membership of the Committee comprises Nick Allen as Chairman together with Euan Worthington, Jonathan Willis-Richards and Subhi Benkhadra.

## Corporate governance (continued)

### Statement of remuneration policy

The Group's policy provides for a competitive package that reflects the Group's performance and is designed to attract and retain high-calibre executives. The package currently consists of a base salary and longer-term rewards in the form of share options. There is no bonus plan currently in place.

### Communication with shareholders

The Company has made use of the London Stock Exchange PRN service to communicate with shareholders since admission to AIM. The annual general meeting gives shareholders the opportunity to question the Board.

### Accountability

The Board of Directors has overall responsibility for the system of internal financial control which is designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedure is:

- the Audit Committee, comprising Jonathan Willis-Richards (Chairman), Euan Worthington, Nick Allen and George Morton, meets with the external auditors twice per year.



# Directors' responsibilities statement

The directors are responsible for preparing the annual report, directors' remuneration report and the financial statements in accordance with applicable law and regulations.

UK and South African company law requires the directors to prepare financial statements for each financial year:

- Under the UK Companies Act 2006, the directors are required to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the DiamondCorp plc Group and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Furthermore, under UK company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.
- Under the Companies Act of South Africa, the directors are required to prepare the Group and Company financial statements for each financial year giving a true and fair view of the Group and Company's state of affairs at the end of the year and profit or loss for the year. The directors have prepared the Group and Company's financial statements in accordance with IFRS.

In preparing the Group and Company's financial statements, International Accounting Standard 1 'Presentation and Financial Statements', required that the directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosure when compliance with the specific IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group and Company's ability to continue as a going concern.

In preparing the DiamondCorp plc Group and Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the UK Companies Act 2006. They are responsible for safeguarding the assets of

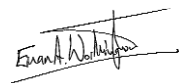
## Directors' responsibilities statement (continued)

the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Report on the financial statements

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of DiamondCorp plc and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report includes a fair view of the development and performance of the business and the position of the Group and the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.



**Euan Worthington**

Director

25 June 2010



# Independent auditors' report

## to the members of DiamondCorp plc

We have audited the financial statements of DiamondCorp plc for the year ended 31 December 2009 which comprise the consolidated and Parent Company income statements, the consolidated statement of comprehensive income and expense, the consolidated and Parent Company balance sheets, the consolidated and Parent Company statements of changes in equity, the consolidated and Parent Company cash flow statements and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2009 and of the Group's and the Parent Company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Independent auditors' report (continued)

### Emphasis of matter - going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The Company incurred a net loss of £4,207,079 during the year ended 31 December 2009. The directors have prepared cash flow forecasts which indicate the business will require additional funding in the next 12 months. These facts, along with other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

*Ian Smith*

**Ian Smith**

Senior Statutory Auditor

For and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditors  
Cambridge, United Kingdom  
25 June 2010



## Report of the independent auditors to the members of DiamondCorp plc

### Independent auditor's report to the members of DiamondCorp plc

We have audited the annual financial statements and Group financial statements of DiamondCorp PLC, which comprise the balance sheets as at 31 December 2009, income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 13 to 64.

### Directors' responsibility for the financial statements

The Group's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, maintaining and implementing internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Report of the independent auditors (continued)

## Opinion

In our opinion, the annual financial statements and the Group financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2009, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

## Emphasis of matter - going concern

Without qualifying our opinion, we draw attention to the directors' report regarding the Group and Company's ability to continue as a going concern. During the year the Group incurred a loss of £4,207,079 (2008: £4,285,484) and the Company incurred a loss of £876,466 (2008: £1,784,164). These conditions, along with other matters as set forth in the directors' report, indicate the existence of a material uncertainty which may cast significant doubt about the Group and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

*Deloitte LLP*

**Deloitte & Touche**

Per H Loonat

Partner

25 June 2010

**Audit. Tax. Consulting. Financial Advisory. Corporate Finance.**

Member of  
**Deloitte Touche Tohmatsu**

National Executive: GG Gelink Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit  
DL Kennedy Tax & Legal and Financial Advisory L Geeringh Consulting L Bam Corporate Finance  
CR Beukman Finance TJ Brown Clients & Markets NT Mtoba Chairman of the Board

A full list of partners and directors is available on request

B-BBEE rating: Level 3 contributor/AA (certified by Empowerdex)



# Consolidated income statement

Year ended 31 December 2009

	Note	2009 £	2008 £
Revenue		68,863	916,767
Cost of sales		(68,863)	(1,494,253)
<b>Gross loss</b>		–	(577,486)
Administrative expenses		(2,456,448)	(3,027,623)
Other costs			
Impairment of intangible asset		(1,648,467)	–
<b>Operating loss</b>	3	(4,104,915)	(3,605,109)
Investment revenues		35,736	32,043
Finance costs		(80,177)	(682,286)
<b>Loss before tax</b>		(4,149,356)	(4,255,352)
Tax	6	(57,723)	(30,132)
Loss for the financial year	18	(4,207,079)	(4,285,484)
Attributable to the equity holders of the parent		(4,207,079)	(4,285,484)
<b>Basic and diluted loss per share</b>	7	(10.01p)	(11.65p)
<b>Headline loss per share</b>	7	(6.15p)	(11.55p)

All of the activities of the Group are classed as continuing.

# Consolidated statement of comprehensive income and expense

Year ended 31 December 2009

	2009 £	2008 £
<b>Net loss</b>	<b>(4,207,079)</b>	(4,285,484)
Translation of overseas operations	1,285,978	126,802
<b>Total comprehensive expense</b>	<b>(2,921,101)</b>	(4,158,682)

Under IAS 1 (revised) the Group has included a consolidated statement of comprehensive income and expense for the year ended 31 December 2009 and 2008. This revision has no impact on the balance sheet for 2009, 2008 or 2007. The 2007 balance sheet is available in the 2008 annual report, which is available on the Company's website, [www.diamondcorp.plc.uk](http://www.diamondcorp.plc.uk), under the section headed investors and media.



# Company income statement

Year ended 31 December 2009

	Note	2009 £	2008 £
Administrative expenses		(809,796)	(1,117,539)
<b>Operating loss</b>	3	(809,796)	(1,117,539)
Investment revenues		12,862	7,748
Finance costs		(79,532)	(674,373)
Loss for the financial year	18	(876,466)	(1,784,164)
Attributable to the equity holders of the parent		(876,466)	(1,784,164)

All of the activities of the Company are classed as continuing.

There were no other gains or losses during the year.

# Consolidated balance sheet

31 December 2009

	Note	2009 £	2008 £
<b>Non-current assets</b>			
Goodwill	8	4,606,026	4,606,026
Other intangible assets	8	2,523,303	2,311,232
Property, plant and equipment	9	6,412,997	5,644,476
Deferred tax asset	15	–	57,723
		<b>13,542,326</b>	12,619,457
<b>Current assets</b>			
Inventories	11	303,020	463,822
Other receivables	12	190,703	566,730
Cash and cash equivalents		288,188	3,252,276
		<b>781,911</b>	4,282,828
<b>Total assets</b>		<b>14,324,237</b>	16,902,285
<b>Current liabilities</b>			
Obligations under finance leases		(73,345)	(91,269)
Other payables	13	(691,829)	(667,375)
Current portion of long-term loan	14	(941,738)	–
Provisions		(11,791)	(9,241)
		<b>(1,718,703)</b>	(767,885)
<b>Non-current liabilities</b>			
Long-term loan	14	(2,163,009)	(3,399,709)
<b>Net assets</b>		<b>10,442,525</b>	12,734,691
<b>Equity</b>			
Share capital	17	1,416,960	1,232,610
Share premium account	18	17,872,580	17,460,220
Warrant reserve	18	555,036	710,514
Share option reserve	18	371,675	320,261
Translation reserve	18	1,495,317	209,339
Retained losses	18	(11,269,043)	(7,198,253)
<b>Total equity</b>		<b>10,442,525</b>	12,734,691

The financial statements of DiamondCorp plc, registered number 5400982, were approved by the Board of Directors and authorised for issue on 25 June 2010.

Signed on behalf of the Board of Directors



**P R Loudon**  
Director



# Company balance sheet

31 December 2009

	Note	2009 £	2008 £
<b>Non-current assets</b>			
Investments in subsidiaries	10	4,217,500	4,217,500
Other intangible assets	8	356,709	376,526
		<b>4,574,209</b>	4,594,026
<b>Current assets</b>			
Other receivables	12	14,777,171	13,087,702
Cash and cash equivalents		161,598	2,295,131
		<b>14,938,769</b>	15,382,833
<b>Total assets</b>		<b>19,512,978</b>	19,976,859
<b>Current liabilities</b>			
Other payables	13	(236,633)	(158,021)
Current portion of long-term loan		(941,738)	–
		<b>(1,178,371)</b>	(158,021)
<b>Non-current liabilities</b>			
Long-term loan		(2,163,009)	(3,399,709)
<b>Net assets</b>		<b>16,171,598</b>	16,419,129
<b>Equity</b>			
Share capital	17	1,416,960	1,232,610
Share premium account	18	17,872,580	17,460,220
Warrant reserve	18	555,036	710,514
Share option reserve	18	371,675	320,261
Retained losses	18	(4,044,653)	(3,304,476)
<b>Total equity</b>		<b>16,171,598</b>	16,419,129

The financial statements of DiamondCorp plc, registered number 5400982, were approved by the Board of Directors and authorised for issue on 25 June 2010.

Signed on behalf of the Board of Directors



**P R Loudon**  
Director

# Statement of changes in equity

Year ended 31 December 2009

	2009 £	2008 £
<b>Group</b>		
Opening balance	12,734,691	13,264,924
Loss for financial year	(4,207,079)	(4,285,484)
New equity share capital subscribed	184,350	189,498
Premium on new equity share capital subscribed	412,360	3,343,914
Value attributed to warrants granted	(19,189)	57,566
Value attributed to share options granted	51,414	37,471
Translation reserve	1,285,978	126,802
<b>Closing balance</b>	<b>10,442,525</b>	12,734,691
<b>Group</b>		
Opening balance	16,419,129	14,574,844
Loss for financial year	(876,466)	(1,784,164)
New equity share capital subscribed	184,350	189,498
Premium on new equity share capital subscribed	412,360	3,343,914
Value attributed to warrants granted	(19,189)	57,566
Value attributed to share options granted	51,414	37,471
<b>Closing balance</b>	<b>16,171,598</b>	16,419,129



# Consolidated cash flow statement

Year ended 31 December 2009

	2009 £	2008 £
Operating loss	(4,104,915)	(3,605,109)
Depreciation and amortisation	1,027,643	645,860
Share-based payment charge	51,414	37,471
Other gains and losses	–	3,998
(Gain)/Loss on disposal of property, plant and equipment	(26,436)	39,642
Impairment of intangible asset	1,648,467	–
Finance costs	–	(7,913)
Decrease/(Increase) in receivables	376,027	(430,235)
Decrease in inventories	160,802	522,227
Increase in payables	27,004	569,276
Effect of foreign exchange translation	64,547	(85,894)
Other non-cash movements	44,121	–
<b>Net cash used in operating activities</b>	<b>(731,326)</b>	<b>(2,310,677)</b>
<b>Investing activities</b>		
Purchase of intangible assets	(1,631,961)	(883,365)
Purchase of property, plant and equipment	(1,281,117)	(1,334,611)
Investment revenues	35,736	32,043
<b>Net cash used in investing activities</b>	<b>(2,877,342)</b>	<b>(2,185,933)</b>
<b>Financing activities</b>		
New long-term loan raised	–	2,846,246
Repayment of borrowings	(393,683)	–
Proceeds on issue of ordinary shares	596,710	3,533,412
<b>Net cash from financing activities</b>	<b>203,027</b>	<b>6,379,658</b>
Net (decrease)/increase in cash and cash equivalents	(3,405,641)	1,883,048
<b>Cash and cash equivalents at beginning of year</b>	<b>3,252,276</b>	<b>1,330,707</b>
Effect of foreign exchange rate changes	441,553	38,521
<b>Cash and cash equivalents at end of year</b>	<b>288,188</b>	<b>3,252,276</b>

# Company cash flow statement

Year ended 31 December 2009

	2009 £	2008 £
<b>Operating loss</b>	<b>(809,796)</b>	<b>(1,117,539)</b>
Depreciation	19,817	19,817
Share option expense	51,414	37,471
Other gains and losses	–	3,998
Increase in receivables	(1,689,469)	(4,327,876)
Increase in payables	78,612	93,828
Effect of foreign exchange translation	65,891	(85,753)
<b>Net cash used in operating activities</b>	<b>(2,283,531)</b>	<b>(5,376,054)</b>
<b>Investing activities</b>		
Investment revenues	12,862	7,748
<b>Net cash from investing activities</b>	<b>12,862</b>	<b>7,748</b>
<b>Financing activities</b>		
New long-term loan raised	–	2,846,246
Repayment of borrowings	(393,683)	–
Proceeds on issue of ordinary shares	596,710	3,533,412
<b>Net cash from financing activities</b>	<b>203,027</b>	<b>6,379,658</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(2,067,642)</b>	<b>1,011,352</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>2,295,131</b>	<b>1,265,368</b>
Effect of foreign exchange rate changes	(65,891)	18,411
<b>Cash and cash equivalents at end of year</b>	<b>161,598</b>	<b>2,295,131</b>



# Notes to the financial statements

Year ended 31 December 2009

## I Basis of preparation and accounting policies

### General information

DiamondCorp plc is a company incorporated in England and Wales under the Companies Act 2006 and as an external company in South Africa under the Companies Act No 61 of 1973. The address of the registered office is given on the inside front cover. The nature of the Group's operations and its principal activities are set out in the directors' report on pages 13 to 16.

These financial statements are presented in pounds sterling because that is the currency of the Parent Company of the Group. Foreign operations are included in accordance with the policies set out in this note.

### a) Adoption of new and revised International Financial Reporting Standards

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

#### Standards affecting presentation and disclosure

IAS 1 (revised 2007) Presentation of Financial Statements IAS 1 (2007) has introduced a number of changes in the format and content of the financial statements. In addition, the reviewed Standard has required the presentation of a consolidated statement of comprehensive income.

IFRS 8 Operating Segments IFRS 8 is a disclosure Standard that has not resulted in any changes to the amounts reported (see note 2).

Three Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are IFRIC 11 IFRS2: Group and Treasury Share Transactions; IFRIC 12: Service Concession Arrangements; and IFRIC 14 IAS 19: The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

Amendments to IFRS 2	Vesting conditions and cancellations
IFRS 3 (revised)	Business Combinations
IFRS 9	Financial Instruments
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

# Notes to the financial statements (continued)

## I Basis of preparation and accounting policies (continued)

### a) Adoption of new and revised International Financial Reporting Standards (continued)

IAS 23 (revised)	Borrowing Costs
Amendments to IAS 27	Consolidated and Separate Financial Statements
IAS 32 (amended)/IAS 1 (amended)	Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to IAS 39	Financial Instruments: Recognition and Measurement: Eligible Hedged Items
Amendments to IAS 39	Re-classification of Financial Assets: Effective Date and Transition

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

### b) Basis of preparation

DiamondCorp plc was incorporated on 22 March 2005. On 15 May 2006, the Company acquired the entire issued share capital of Crown Diamond Mining Limited which changed its name to DiamondCorp Holdings Limited in 2007 (DHL). DHL owns 74% of the issued share capital of Lace Diamond Mines (Pty) Limited.

The financial statements have been prepared in accordance with International Financial Reporting Standards. The financial statements have been prepared on the historical cost basis. The financial statements have also been prepared in accordance with IFRS issued by the International Accounting Board (IASB). There are no differences for the Group in applying IFRS as adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation. The financial statements have been prepared on a going concern basis. The principal accounting policies adopted are set out below.

### c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.



Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

#### d) Going concern

In determining the appropriate basis of presentation of the financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future, this being a period of not less than 12 months from the date of the approval of the financial statements. The Group's business activities and goals are set out in the letter from the Chairman and Chief Executive. During the next 12 months, the Group will be in a mine-development phase and forecasts indicate that the Group may have insufficient financial resources to accomplish all its development goals and meet all its financial obligations over the next 12 months. The raising of additional finance is deemed to be a material uncertainty, which casts significant doubt over the ability of the Group to continue as a going concern.

If its financial resources were insufficient, then the Group would be required (i) to supplement its current cash resources by accessing the equity markets in 2010-2011 or by sale of assets or; alternatively, (ii) to modify its development plan to preserve cash.

After making enquiries, given the recent successful £7.1 million fundraising which was well-supported by the existing shareholder base, assuming that the Group adheres to its development plan, the directors have a reasonable expectation that additional funds will be available within the next 12 months. Accordingly, the directors continue to adopt the going concern basis of presentation of the financial statements.

The financial statements therefore do not include the adjustments that would result if the Group were not able to continue as a going concern.

#### e) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combination are recognised at their fair value at the acquisition date, except for non-current assets (or disposal Groups) that are classified as held for resale in accordance with IFRS 5 Non-Current Assets held for Sale and Discontinued Operations which are not recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after re-assessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

# Notes to the financial statements (continued)

## I Basis of preparation and accounting policies (continued)

### e) Business combinations (continued)

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### f) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating unit expected to benefit from the synergies of the combination. The cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### g) Intangible assets

Exploration and evaluation expenditure comprises costs which are directly attributable to the acquisition of exploration licenses and subsequent exploration expenditures.

Exploration and evaluation expenditure is carried forward as an asset provided that one of the following conditions is met:

- (i) such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- (ii) exploration and evaluation activities in the area of interest have reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves with active and significant operations in relation to the area continuing, or planned for the future.

Identifiable exploration and evaluation assets acquired are recognised as assets at their cost of acquisition. An impairment review is performed when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amounts. Exploration assets are re-assessed on a regular basis and these costs are carried forward provided that at least one of the conditions outlined is met. Exploration rights are amortised over the useful economic life of the mine to which it relates, commencing when the asset is available for use.



#### g) Intangible assets (continued)

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Capitalised pre-production expenditure includes costs incurred and capitalised during the plant construction phase which are intangible in nature. In prior years, these capitalised expenditures were amortised over the life of the work in progress. However, the mining right has been granted and for 2008 and subsequent years these expenditures will be amortised at a rate of 5% based on the life of the mining right.

Rights to use the power line are capitalised at their cost of acquisition and are being amortised over the useful economic life at a rate of 5% per annum.

Underground exploration and evaluation expenditure will be amortised from the point at which it is available for use over its useful economic life, expected to be 5% per annum.

#### h) Property, plant and equipment

Property, plant and equipment is stated at cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is charged so as to write off the cost, less estimated residual value on assets other than land, over their estimated useful lives, using the reducing balance method, on the following bases:

Plant	5%
Mining fleet	25%
Buildings	4%
Other tangible assets	20 - 33.33%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

#### i) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

# Notes to the financial statements (continued)

## I Basis of preparation and accounting policies (continued)

### i) Impairment of tangible and intangible assets excluding goodwill (continued)

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### j) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable losses for the period. Taxable loss differs from net loss as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.



Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### k) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

#### **Trade receivables**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

#### **Cash and cash equivalents**

Cash and cash equivalents comprises cash in hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### **Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

#### **Trade payables**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

#### **Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

# Notes to the financial statements (continued)

## I Basis of preparation and accounting policies (continued)

### k) Financial instruments (continued)

#### **Inter-company receivables**

Inter-company receivables are initially recognised by the Company at fair value and are subsequently measured at amortised cost using the effective interest rate method.

### l) Foreign currencies

The individual financial statements of each Group Company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group Company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in the income statement for the period. In the case of inter-company loans, any foreign exchange differences arising on elimination of these loans upon consolidation of the Group Companies, are classified as equity and transferred to the Group's translation reserve, as these loans are for investment purposes even though short term in nature. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Group's translation reserve. Such translation differences are recognised in the income statement in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.



#### m) Restoration, rehabilitation and environmental costs

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a mining property. Such costs arising from the installation of plant and other site preparation work, discounted to their net present value, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are charged against profits over the life of the operation, through the depreciation of the asset and the unwinding of the discount on the provision. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work that result from changes in the estimated timing or amount of the cash flow, or a change in the discount rate, are added to, or deducted from, the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the income statement. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy above.

#### n) Inventories

Inventory and work in progress are valued at the lower of cost and net realisable value.

Work in progress was valued at the time of acquisition at £2.84 per carat based on an in situ valuation equivalent to 8% of the market value of US\$63 per carat achieved at a sale of Lace project diamonds in May 2005. The number of carats in inventory (370,285 carats) was based on an expert determination provided to the Company by a qualified external valuer. Work in progress is being amortised on the units of production method.

#### o) Revenue

Revenue from the sale of diamonds is recorded when the diamonds are sold at tender. The Lace plant was commissioned on 1 October 2007. The proceeds from the sale of diamonds recovered prior to that date were recorded as a reduction in the carrying value of the pre-production expenses held within intangible assets.

Revenue earned from pre-commissioning sales was recognised against property, plant and equipment in the period incurred. Revenue is measured at the fair value of the consideration received or receivable.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

# Notes to the financial statements (continued)

## I Basis of preparation and accounting policies (continued)

### p) Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

### r) Critical accounting judgements

In the process of applying the Group's accounting policies, which are described above, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial information.

- Valuation of inventory - see accounting policy n above.
- Valuation of warrants issued and ordinary shares issued as consideration - see notes 18 and 19.
- Impairment of goodwill and other intangible assets - see policy f and g above.
- Going concern - see page 35.

## 2 Business and geographical segments

For management purposes, the Group has one business and geographical segment - diamond mining and exploration in the Republic of South Africa. The Group is also exploring for diamonds in Botswana, but at 31 December 2009 the investment was not material to this footnote.



### 3 Operating loss

	Group		Company	
	2009	2008	2009	2008
	£	£	£	£
<b>Operating loss is after charging (crediting):</b>				
Auditors' remuneration	67,000	85,800	34,000	44,000
Foreign exchange (gains)/losses	(249,604)	85,894	(248,260)	85,753
(Profit)/Loss on disposal of fixed assets	(26,436)	39,642	-	-
Depreciation of tangible assets	960,692	547,042	-	-
Amortisation of intangible assets	79,885	98,818	19,817	19,817
Amortisation of work in progress	-	67,331	-	-
Impairment of intangible assets	1,648,467	-	-	-
Impairment of inventories	98,059	377,534	-	-
<b>The analysis of auditors' remuneration is as follows:</b>				
Fees payable to the Company's auditors for the audit of Company's accounts	34,000	34,000	34,000	34,000
Fees payable to the Company's auditors and their associates for other services to the Group	-	-	-	-
The audit of the Company's subsidiaries	33,000	31,800	-	-
<b>Total audit fees</b>	<b>67,000</b>	<b>65,800</b>	<b>34,000</b>	<b>34,000</b>
Corporate finance services	-	20,000	-	10,000
<b>Total non-audit fees</b>	<b>-</b>	<b>20,000</b>	<b>-</b>	<b>10,000</b>
<b>Total</b>	<b>67,000</b>	<b>85,800</b>	<b>34,000</b>	<b>44,000</b>

The corporate finance services in 2008 were in relation to the Group's listing on the JSE Limited (JSE).

### 4 Staff costs

Staff costs of the Group and Company were:

	2009	2008
	£	£
<b>Group</b>		
Wages and salaries	566,772	661,452
Social security costs	27,165	39,147
	<b>593,937</b>	<b>700,599</b>
Average number of administrative staff	7	9
Average number of operational staff	52	90
Average number of employees	<b>59</b>	<b>99</b>

# Notes to the financial statements (continued)

## 4 Staff costs (continued)

	2009 £	2008 £
<b>Company</b>		
Wages and salaries	141,000	138,583
Social security costs	18,273	15,672
	<b>159,273</b>	<b>154,255</b>
Average number of employees	<b>3</b>	3

## 5 Directors' emoluments

Directors' emoluments for the year ended 31 December 2009 and 2008 and for the highest paid director were as follows:

<b>Directors' remuneration</b>		
Fees paid by the Company and its subsidiaries	231,500	213,033
Emoluments of highest paid director	137,500	147,500

## 6 Tax

Current tax	–	87,855
Deferred tax (see note 15)	57,723	(57,723)
Tax expense for the year	<b>57,723</b>	30,132
The charge for the year can be reconciled to the loss per the income statement as follows:		
Loss for the year	<b>(4,149,356)</b>	(4,255,352)
Tax at the UK corporation tax rate of 28% (2008 - 28%)	<b>(1,161,820)</b>	(1,191,498)
Expenses not deductible	184,165	603,933
Short term timing differences	–	364
Tax losses carried forward	977,655	632,673
Prior year adjustment - deferred tax	57,723	(15,340)
Tax expense for the year	<b>57,723</b>	30,132

The tax charge for the year relates to interest earned by Soapstone Investments (Pty) Limited on an inter-company loan to Lace Diamond Mines (Pty) Limited.



## 7 Loss per share

	2009 £	2008 £
a) Basic loss per share		
Basic loss per share is calculated by dividing the loss for the year by the weighted average number of shares in issue during the year. The weighted average number of shares used is 42,023,831 (2008 - 36,772,136).		
b) Diluted loss per share		
International Accounting Standard 33 requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease the net profit or increase the net loss per share. For a loss making company with outstanding options, net loss per share would only be increased by the exercise of out-of-money options. Since it seems inappropriate to assume that option holders would exercise out-of-money options, no adjustment has been made to diluted loss per share for out-of-money share options.		
c) Headline loss per share		
The Group presents an alternative measure of loss per share after excluding all capital gains and losses from the loss attributable to ordinary shareholders. The impact of this is as follows:		
<b>Basic</b>		
Loss per share	(10.01p)	(11.65p)
Effect of (gain)/loss on disposal of property, plant and equipment	(0.06p)	0.10p
Effect of impairment of intangible assets	3.92p	-
Adjusted loss per share	(6.15)	(11.55p)

# Notes to the financial statements (continued)

## 8 Intangible fixed assets

for the year ended 31 December 2009

Group	Goodwill £	Jwaneng £	Power line Phase 1 £	Power line Phase 2 £	Pre- production capitalised expenses £	Under- ground capitalised expenses £	Mineral rights £	Total £
At 1 January 2009	4,606,026	–	362,151	137,788	419,810	899,786	609,778	7,035,339
Exchange differences	–	–	57,934	22,043	61,655	138,861	34,144	314,637
Additions	–	99,120	–	–	–	1,532,841	–	1,631,961
At 31 December 2009	4,606,026	99,120	420,085	159,831	481,465	2,571,488	643,922	8,981,937
<b>Accumulated amortisation</b>								
At 1 January 2009	–	–	(22,878)	(4,431)	(42,311)	(17,972)	(30,489)	(118,081)
Charge for the year	–	–	(18,885)	(2,433)	(27,619)	–	(30,948)	(79,885)
Exchange differences	–	–	(5,779)	(982)	3,336	205	(2,955)	(6,175)
Impairment charge	–	–	–	–	–	(1,648,467)	–	(1,648,467)
At 31 December 2009	–	–	(47,542)	(7,846)	(66,594)	(1,666,234)	(64,392)	(1,852,608)
<b>Carrying amount</b>								
At 31 December 2009	4,606,026	99,120	372,543	151,985	414,871	905,254	579,530	7,129,329
At 31 December 2008	4,606,026	–	339,273	133,357	377,499	881,814	579,289	6,917,258

The impairment charge relates to those costs associated with the section of the underground tunnelling which no longer has any purpose following the decision to cease mining operations in the above 240m mining level.



For the year ended 31 December 2008

Group	Goodwill £	Power line Phase 1 £	Power line Phase 2 £	Pre- production capitalised expenses £	Under- ground capitalised expenses £	Mineral rights £	Total £
<b>Cost</b>							
At 1 January 2008	4,606,026	341,221	–	424,792	80,388	607,299	6,059,726
Exchange differences	–	1,732	13,401	(4,982)	79,618	2,479	92,248
Additions	–	19,198	124,387	–	739,780	–	883,365
At 31 December 2008	4,606,026	362,151	137,788	419,810	899,786	609,778	7,035,339
<b>Accumulated amortisation</b>							
At 1 January 2008	–	(4,265)	–	(3,868)	–	–	(8,133)
Charge for the year	–	(16,806)	(4,000)	(34,734)	(13,827)	(29,451)	(98,818)
Exchange differences	–	(1,807)	(431)	(3,709)	(4,145)	(1,038)	(11,130)
At 31 December 2008	–	(22,878)	(4,431)	(42,311)	(17,972)	(30,489)	(118,081)
<b>Carrying amount</b>							
At 31 December 2008	4,606,026	339,273	133,357	377,499	881,814	579,289	6,917,258
At 31 December 2007	4,606,026	336,956	–	420,924	80,388	607,299	6,051,593

# Notes to the financial statements (continued)

## 8 Intangible fixed assets (continued)

for the year ended 31 December 2009

Company	Mineral rights £
<b>Cost and carrying amount</b>	
At 1 January 2009	376,526
Charge for the year	(19,817)
At 31 December 2009	356,709
<b>For the year ended 31 December 2008</b>	
<b>Cost and carrying amount</b>	
At 1 January 2008	396,343
Charge for the year	(19,817)
At 31 December 2008	376,526

The Group has received its mining right for the Lace project. Accordingly, the amortisation policy for pre-production capitalised expenses was changed effective 1 January 2008 to 5% to conform with the life of the plant for amortisation purposes.

The Group has been granted new order prospecting rights in respect of two properties in the Free State of the Republic of South Africa:

- (i) Ruby 691 Farm, which covers an area of 1,180.6 hectares and in which is situated the historical workings of the Lace diamond mine; and
- (ii) Silverbank Farm, which covers an area of 4,407.6 hectares.

In addition, the Group purchased the surface rights to Subdivision I of Ruby 691 Farm which is 108.2ha in area.

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired. The Group has one reportable business segment and all goodwill is associated with that segment. The recoverable amounts of the cash-generating unit (CGU) is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. A discount rate of 10% has been used, which is consistent with the rate used for determining the value of purchased intangibles.

The Group's test for impairment is based on a model adopted by management from the model prepared for the Lace mine by one of its technical advisors. This model uses grade assumptions based on the resource statement of the Group's technical advisor and it uses diamond prices achieved at its last diamond tender in 2009. The model assumes that the Lace mine will reach full production of 1,200,000 tonnes of kimberlite in 2012 and run through 2034. The valuations of the Lace mine generated by the model under variable sets of assumptions as to grades, revenues and costs indicate that there has been no impairment of goodwill during the year.



## 9 Property, plant and equipment

for the year ended 31 December 2009

Group	Plant	Mining fleet £	Land and buildings £	Other tangible assets £	Total £
<b>Cost</b>					
At 1 January 2009	4,402,552	1,737,553	205,561	200,324	6,545,990
Additions	352,924	833,051	8,965	86,177	1,281,117
Exchange differences	743,893	309,593	33,890	41,715	1,129,091
Disposals	–	(551,143)	–	–	(551,143)
At 31 December 2009	5,499,369	2,329,054	248,416	328,216	8,405,055
<b>Accumulated depreciation</b>					
At 1 January 2009	(287,926)	(517,890)	(25,368)	(70,330)	(901,514)
Charge for the year	(373,707)	(539,448)	(14,191)	(33,346)	(960,692)
Disposals	–	136,949	–	–	136,949
Exchange differences	(103,069)	(143,089)	(5,651)	(14,992)	(266,801)
At 31 December 2009	(764,702)	(1,063,478)	(45,210)	(118,668)	(1,992,058)
<b>Carrying amount</b>					
At 31 December 2009	4,734,667	1,265,576	203,206	209,548	6,412,997
At 31 December 2008	4,114,626	1,219,663	180,193	129,994	5,644,476
<b>For the year ended 31 December 2008</b>					
<b>Cost</b>					
At 1 January 2008	3,970,156	1,010,603	133,933	162,836	5,277,528
Additions	660,677	675,729	54,667	34,807	1,425,880
Exchange differences	48,384	51,221	16,961	2,681	119,247
Disposals	(276,665)	–	–	–	(276,665)
At 31 December 2008	4,402,552	1,737,553	205,561	200,324	6,545,990
<b>Accumulated depreciation</b>					
At 1 January 2008	(48,899)	(233,444)	(10,598)	(25,898)	(318,839)
Charge for the year	(236,574)	(259,870)	(10,464)	(40,134)	(547,042)
Disposals	20,750	–	–	–	20,750
Exchange differences	(23,203)	(24,576)	(4,306)	(4,298)	(56,383)
At 31 December 2008	(287,926)	(517,890)	(25,368)	(70,330)	(901,514)
<b>Carrying amount</b>					
At 31 December 2008	4,114,626	1,219,663	180,193	129,994	5,644,476
At 31 December 2007	3,921,257	777,159	123,335	136,938	4,958,689

# Notes to the financial statements (continued)

## 10 Investment in subsidiaries

Company	£
<b>For the year ended 31 December 2009</b>	
<b>Cost and carrying amount</b>	
At 1 January 2009 and 31 December 2009	<b>4,217,500</b>
<b>For the year ended 31 December 2008</b>	
<b>Cost and carrying amount</b>	
At 1 January 2008 and 31 December 2008	4,217,500

The investment represents 100% of the share capital of Crown Diamond Mining Limited (CDM) which was acquired on 15 May 2006. CDM changed its name to DiamondCorp Holdings Limited in 2007 (DHL) and is a company registered in the British Virgin Islands.

The Africa Opportunity Fund LP loan (note 14) is secured by the assets of the subsidiaries. For a list of subsidiaries, please refer to note 21.

## 11 Inventories

Group	2009 £	2008 £
Work in progress		
Cost and carrying amount at beginning of year	<b>261,230</b>	754,765
Impairment of inventories	–	(377,534)
Amortisation	–	(67,331)
Foreign exchange gain/(loss)	<b>41,790</b>	(48,670)
Carrying amount at end of year	<b>303,020</b>	261,230
Diamond inventories	–	126,335
Consumable and other inventories	–	76,257
	<b>303,020</b>	463,822

At 31 December 2009 diamond inventories amounted to nil (2008 - 17,713) carats.

Work in progress was valued on acquisition at £2.84 per carat based on an in situ valuation equivalent to 8% of the market value of US\$63 per carat achieved at a sale of Lace project diamonds in May 2005. The number of carats in work in progress (370,285 carats) was based on an expert determination provided to the Company by a qualified external valuer. Commissioning of the tailings plant occurred on 1 October 2007. In 2008, the carrying value of work in progress was written down by £377,534 to reflect depreciation in diamond prices and reduction in grades.

No amortisation was recorded in 2009 (2008 - £67,331).



## 12 Other receivables

	Group		Company	
	2009 £	2008 £	2009 £	2008 £
Receivables due from Group undertakings	–	–	14,777,171	13,081,817
Pre-payments and other receivables	190,703	566,730	–	5,885
	<b>190,703</b>	566,730	<b>14,777,171</b>	13,087,702

The directors consider that the carrying amount of these assets approximates their fair value. All receivables balances are non-interest bearing.

Included in prepayments and other receivables, is a rehabilitation bond held by the Department of Mineral Resources in the amount of £62,170 (2008 - £62,170) providing for the cost of rehabilitation on termination of the Lace project.

### Credit risk management

The Group's and Company's principal financial assets are bank balances and cash. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The Group currently holds no trade receivables. Included within loans and receivables is an amount of £nil (2008 - £100,000) which is a contracted other receivable. This is the amount after an impairment loss recognised in the year of £nil (2008 - £170,000). Management reviews the credit worthiness of all customers before entering into a transaction.

The Company also holds amounts receivable from related parties as disclosed in note 16. Management reviews the credit worthiness of all balances due from related parties with reference to future profitability.

## 13 Other payables

	Group		Company	
	2009 £	2008 £	2009 £	2008 £
Income tax	–	87,855	–	–
Interest on long-term loan	79,781	67,342	79,781	67,342
Accruals and deferred income	612,048	512,178	156,852	90,679
	<b>691,829</b>	667,375	<b>236,633</b>	158,021

The directors consider that the carrying amount of these liabilities approximates their fair value. All payables balances are non-interest bearing.

# Notes to the financial statements (continued)

## 14 Long-term loan

On 17 October 2008, the Company completed a long-term loan with Africa Opportunity Fund LP (AOF) in the amount of US\$5,000,000. The loan is secured by the Company's equity interest in Lace Diamond Mines (Pty) Ltd and by the assets of the Company's subsidiaries.

The loan is repayable over 36 months as detailed in the schedule below.

### AOF Repayment Schedule

Repayment date	Capital repayment schedule (US\$)	Interest payment schedule (US\$)	Total (US\$)
16 April 2009	-	299,178	299,178
16 October 2009	-	300,822	300,822
16 April 2010	500,000	299,178	799,178
16 October 2010	1,000,000	270,740	1,270,740
16 April 2011	1,500,000	209,425	1,709,425
16 October 2011	2,000,000	120,329	2,120,329
	5,000,000	1,499,672	6,499,672
<b>Reconciliation of payments made on long-term loan:</b>			
Amounts paid as at 31 December 2009	-	600,000	600,000
Amounts due within 1 year	1,500,000	569,918	2,069,918
Amounts due after 1 year	3,500,000	329,754	3,829,754
	5,000,000	1,499,672	6,499,672

Interest accrues daily and is payable half-yearly at a rate of 12% with the portion of the interest relating to the year ended 31 December 2009, US\$124,932, being accrued for in these accounts (£78,435).

The cost of the warrants granted to AOF, £57,566, (refer note 18) has been offset against the loan in accordance with IAS 39. The cost of these warrants is to be expensed over the life of the loan and does not constitute payment towards the loan. The warrant cost expensed during the period was £19,189 (2008 - £3,998).

All payments of interest and principal due through 16 April 2010 have been made and the AOF loan is in good standing. The principal balance due at the date of approval of these financial statements is US\$4,500,000.



## 15 Deferred tax

	2009 £	2008 £
At 1 January	(57,723)	-
Debit/(Credit) to the income statement	57,723	(57,723)
At 31 December	-	(57,723)
Current year credit	-	(42,383)
Prior year adjustment	57,723	(15,340)
	<b>57,723</b>	<b>(57,723)</b>

The deferred tax asset relates to capital allowances in excess of depreciation.

Until it is probable that sufficient taxable profits will be available to allow all or partial recovery of deferred tax assets of £3,325,273 (2008 - £2,163,453), the accounting benefit of tax losses will not be reflected in the accounts.

## 16 Related party transactions

The directors consider that there is no ultimate controlling party of the Company. Transactions between the Company and its subsidiaries, which are related parties of the Company have been disclosed in the Company section of this note.

The directors are considered to be the key personnel of the Group and therefore all transactions with such individuals have been disclosed below and in the audited section of the remuneration report.

Details of transactions between the Group and other related parties are disclosed below.

During the year ended 31 December 2009:

- (i) £94,000 (2008 - £82,000) was paid to the following companies as directors' remuneration:
  - £60,000 to Glendree Capital Management Limited (2008 - £60,000), a company owned by P R Loudon;
  - £10,000 to Mining Finance Solutions (2008 - £10,000), a company owned by E A Worthington;
  - £12,000 to Loeb Aron & Company Limited (2008 - £12,000), a company where J Willis-Richards is a director; and
  - £12,000 to European Islamic Investment Bank plc (2008 - £1,533), represented on the Company's Board of Directors by R L Henshall.

In addition, during the year ended 31 December 2009:

- (i) DiamondCorp plc incurred rent of £25,000 from Loeb Aron & Company Limited (2008 - £25,000); and
- (ii) Lace incurred consulting fees of £1,142 (2008 - £4,110) from the Mineral Corporation, a company in which G Robbertze, previously a director of Lace, is a principal.

# Notes to the financial statements (continued)

## 16 Related party transactions (continued)

### Company

The Company held a loan to DiamondCorp Holdings Limited of £14,659,140 (2008 - £13,064,690), to Lace Diamond Mining (Pty) Limited of £17,127 (2008 - £17,274) and to Botswana DiamondCorp Limited of £100,904 (2008 - £nil).

## 17 Share capital

	2009 £	2008 £
<b>Authorised share capital</b>		
166,666,666 ordinary shares of 3 pence each	<b>5,000,000</b>	5,000,000

	2009 £		2008 £	
	No.	£	No.	£
<b>Called up, allotted and fully paid</b>				
Ordinary shares of 3 pence each	<b>47,231,995</b>	<b>1,416,960</b>	41,086,995	1,232,610

On 1 February 2007, the Company was admitted to the AIM market and simultaneously issued 2,750,000 ordinary shares at 90 pence each. In accordance with the terms of the Convertible Loan Notes, on the date of admission the notes converted to 6,500,000 ordinary shares.

During the year ended 31 December 2007, 783,330 warrants were exercised for proceeds of £235,000 and the same number of ordinary shares were issued.

On 26 May 2008, the Company listed on the JSE and simultaneously issued 2,249,923 ordinary shares at the ZAR equivalent of 77.7 pence each.

On 7 November 2008, the Company issued 4,000,000 ordinary shares of 3 pence each in respect of a private placement completed at 45 pence per ordinary share.

During the year ended 31 December 2008, 66,664 warrants were exercised for proceeds of £19,999 and the same number of ordinary shares were issued.

On 6 November 2009, the Company issued 6,000,000 ordinary shares at 10 pence each and on 20 November 2009 a further 145,000 ordinary shares were issued at 13.8 pence each.

On 11 January 2010, the trading of DiamondCorp's shares on the JSE was transferred to AltX.



## 18 Reserves

for the year ended 31 December 2009

Group	Warrant reserve £	Share option reserve £	Share premium account £	Retained losses £	Translation reserve £
At 1 January 2009	710,514	320,261	17,460,220	(7,198,253)	209,339
Loss for the year	–	–	–	(4,207,079)	–
Warrants expired	(136,289)	–	–	136,289	–
Premium arising on issue of equity shares	–	–	435,660	–	–
Share option expense in year	–	51,414	–	–	–
Movement during the year	(19,189)	–	–	–	1,285,978
Issue costs	–	–	(23,300)	–	–
At 31 December 2009	555,036	371,675	17,872,580	(11,269,043)	1,495,317

Company	Warrant reserve £	Share option reserve £	Share premium account £	Translation reserve £
At 1 January 2009	710,514	320,261	17,460,220	(3,304,476)
Loss for the year	–	–	–	(876,466)
Warrants expired	(136,289)	–	–	136,289
Premium arising on issue of equity shares	–	–	435,660	–
Share option expense in year	–	51,414	–	–
Movement during the year	(19,189)	–	–	–
Issue costs	–	–	(23,300)	–
At 31 December 2009	555,036	371,675	17,872,580	(4,044,653)

# Notes to the financial statements (continued)

## 18 Reserves (continued)

for the year ended 31 December 2008

Group	Warrant	Share	Share	Retained	Translation
	reserve	option	premium	losses	reserve
	£	£	£	£	£
At 1 January 2008	740,949	282,790	14,116,306	(3,000,770)	82,537
Loss for the year	–	–	–	(4,285,484)	–
(Exercise of warrants)/Share premium on exercise	(7,333)	–	–	7,333	–
Warrants expired	(80,668)	–	–	80,668	–
Premium arising on issue of equity shares	–	–	3,378,692	–	–
Value of warrants over ordinary shares	57,566	–	–	–	–
Share option expense in year	–	37,471	–	–	–
Movement during the year	–	–	–	–	126,802
Issue costs	–	–	(34,778)	–	–
At 31 December 2008	710,514	320,261	17,460,220	(7,198,253)	209,339

Company	Warrant	Share	Share	Translation
	reserve	option	premium	reserve
	£	£	£	£
At 1 January 2008	740,949	282,790	14,116,306	(1,608,313)
Loss for the year	–	–	–	(1,784,164)
(Exercise of warrants)/Share premium on exercise	(7,333)	–	–	7,333
Warrants expired	(80,668)	–	–	80,668
Premium arising on issue of equity shares	–	–	3,378,692	–
Issue of warrants over ordinary shares	57,566	–	–	–
Share option expense in year	–	37,471	–	–
Issue costs	–	–	(34,778)	–
At 31 December 2008	710,514	320,261	17,460,220	(3,304,476)



Warrants	Warrants in issue	Warrant reserve £
<b>Group and Company</b> At 31 December 2009	<b>6,066,666</b>	<b>555,036</b>
<b>Group and Company</b> At 31 December 2008	7,316,666	710,514

(i) Vendor warrants

The vendors of Crown Diamond Mining Limited (which changed its name to DiamondCorp Holdings Limited in 2007) were entitled to be issued on completion of the sale of its ordinary share capital to the Company with a total of 4,166,666 warrants to subscribe for ordinary shares of 3 pence each at a price of the lower of 180 pence or price at which the Company raises equity finance on admission to the Alternative Investment Market (90 pence). These warrants expire on 1 February 2012, being five years from the date of admission to the Alternative Investment Market. Certificates in relation to these warrants were issued on 30 June 2006 following and taking into account, the consolidation of the Company's share capital on that date.

These warrants were valued by the directors using the Black-Scholes valuation model, based on the assumptions as detailed below.

(ii) AOF warrants

In 2008, a warrant was issued to Africa Opportunity Fund LP to subscribe for 1,650,000 ordinary shares of 3 pence each, exercisable at 65.3 pence for a period of 36 months from the date of grant, 17 October 2008.

These warrants were valued by the directors using the Black-Scholes valuation model, based on the assumptions as detailed below.

(iii) BBK warrants

In 2007, a warrant was issued to BBK Consultancy plc to subscribe for 250,000 ordinary shares of 3 pence each for a period of three years at an exercise price of 121.5 pence. The warrants vest when the Company's share price is above 135 pence per share for 28 consecutive trading days and are exercisable at any time up to and including 30 April 2011.

These warrants were valued by the directors using the Black-Scholes valuation model, based on the assumptions as detailed below.

(iv) Loeb Aron warrants

In reference to work performed on fundraisings by Loeb Aron & Company Limited, Loeb Aron were issued warrants over 250,000 ordinary shares of 3 pence each for a period of two years from the date of admission to the Alternative Investment Market, exercisable at 105 pence per share. These warrants expired on 1 February 2009.

These warrants were valued by the directors using the Black-Scholes valuation model, based on the assumptions as detailed below.

# Notes to the financial statements (continued)

## 18 Reserves (continued)

### (v) Cenkos warrants

In January 2007, Cenkos Securities plc, the Company's nominated advisor and broker, received warrants to subscribe for up to 1,000,000 ordinary shares of 3 pence each exercisable at 121.5 pence for a period of 24 months from date of admission to the AIM market. These warrants expired on 1 February 2009.

These warrants were valued by the directors using the Black-Scholes valuation model, based on the assumptions as detailed below.

### (vi) Loan note warrants

The holders of convertible loan notes which were converted into 4,750,000 ordinary shares of 1 penny each on 21 December 2005, were entitled to be issued, on conversion, with a total of 1,583,333 warrants to subscribe for ordinary shares of 3 pence each at the lower of 180 pence per share or price at which the Company issued ordinary shares of 3 pence each on admission to the Alternative Investment Market. The exercise price was reduced to 30 pence per ordinary share when admission did not take place prior to 30 April 2006. These warrants expired on 30 April 2008 with 66,664 warrants being exercised before the expiry date. Certificates in relation to these warrants were issued on 30 June 2006 following and taking into account, the consolidation of the Company's share capital on that date.

These warrants were valued by the directors using the Black-Scholes valuation model, based on the assumptions as detailed below.

Black-Scholes assumptions	Loan note warrants*	Vendor warrants*	Loeb Aron warrants*	Cenkos warrants*	BBK warrants*	AOF warrants*
Term range	2 years	5.6 years	2 years	2 years	3 years	0.5 years
Expected dividend yield	Nil	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate	5 %	5 %	5 %	5 %	5 %	2 %
Share price volatility	55 %	55 %	55 %	55 %	40 %	40 %
Share price at time of grant	45 pence	45 pence	90 pence	90 pence	90 pence	56.5 pence

\*These warrants were subject to the share consolidation on 30 June 2006.

Share options (refer note 19)

	Stock options in issue £	Stock options reserve £
<b>Group and Company</b> At 31 December 2009	<b>2,685,000</b>	<b>371,675</b>
<b>Group and Company</b> At 31 December 2008	2,945,000	320,261



(i) 2007 UK options

During 2007, options over 2,940,000 ordinary shares of 3 pence each were granted to employees and management of the Company, exercisable at 135 pence for a period of 10 years from the date of issue. 270,000 of these options vested on grant and the balance vest over three years at one-third at each anniversary of the issue date. 690,000 of these options were forfeited during 2008 by reason of retirement.

Share options granted during the year ended 31 December 2007 were valued by the directors using the Black-Scholes valuation model, based upon the assumptions as detailed below:

(ii) The DiamondCorp share option plan

During 2008, a share option plan was approved and registered in the Republic of South Africa to provide eligible employees of the Group with the opportunity to acquire as incentive an interest in the equity of the Company. Eligible employees were granted options over 695,000 ordinary shares of 3 pence each, exercisable at 50 pence for a period of 10 years from the date of issue, 16 December 2008. These options vest over three years at one-third at each anniversary of the issue date.

These options were valued by the directors using the Black-Scholes valuation model, based upon the assumptions as detailed below.

Black-Scholes assumptions

	2007 UK option plan	The DiamondCorp share option plan
Term range	3 years	3 years
Expected dividend yield	Nil	Nil
Risk-free interest rate	5 %	2 %
Share price volatility	40 %	40 %
Share price at time of grant	90 pence	34.5 pence

# Notes to the financial statements (continued)

## 19 Share-based payments

### Equity-settled share option scheme

The Company has a share option scheme for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is three years. If the options remain unexercised after a period of 10 years from the date of grant the options expire. Options are generally forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	2009		2008	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of year	2,945,000	115p	2,940,000	135p
Granted during the year	200,000	50p	695,000	50p
Forfeited during the year	–	(460,000)	–	(690,000)
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding at the end of the year	2,685,000	124p	2,945,000	115p
Exercisable at the end of the year	1,588,333	129p	930,000	135p

The options outstanding at 31 December 2009 had a weighted average exercise price of 124p, and a weighted average remaining contractual life of 8.3 years. The aggregate of the estimated fair values of the options granted on those dates is £414,942. At 31 December 2008, 2,945,000 options were outstanding at a weighted average exercise price of 115p.

The inputs into the Black-Scholes model are as follows:

	2009 £	2008 £
Weighted average share price	30.5p	34.5p
Weighted average exercise price	50p	50p
Expected volatility	40%	40%
Expected life	3 years	3 years
Risk-free rate	2%	2%
Expected dividend yields	0%	0%



Expected volatility was determined based on management's best estimate. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

During 2009, the Group recognised total expenses of £51,414 (2008 - £37,471) relating to equity-settled share-based payment transactions.

## 20 Financial instruments

### Group and Company

#### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 15, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 18.

#### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

#### Categories of financial instruments

	Group Carrying value		Company Carrying value	
	2009 £	2008 £	2009 £	2008 £
<b>Financial assets</b>				
Loans and receivables (including cash and cash equivalents)	288,188	3,352,276	14,938,769	15,376,948
<b>Financial liabilities</b>				
Amortised cost	3,635,129	3,822,819	3,206,945	55,679

#### Financial risk management objectives

The Group's financial function provides services to the business, monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for any purpose.

# Notes to the financial statements (continued)

## 20 Financial instruments (continued)

### Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. There has been an increase in the Group's exposure to market risks due to the long-term loan obtained during the year. The manner in which the Group measures and manages the risk has not changed.

### Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of the Group's and Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets (Liabilities)	
	2009	2008
	£	£
Cash denominated in South African rand	128,830	1,188,930
Cash denominated in United States dollar	3,540	414,393
Long-term loan denominated in United States dollar	(3,139,126)	(3,453,277)

### Foreign currency sensitivity analysis

The Group is exposed to the currency of South Africa (rand) and the United States dollar:

The following table details the Group's sensitivity to a 20% increase and decrease in the sterling against South African rand and United States dollar: 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates. A negative number below indicates a decrease in profit where the sterling strengthens 20% against the relevant currency. For a 20% weakening of the sterling against the relevant currency, there would be an equal and opposite impact on the profit and the balances below would be positive.

### Rand currency impact

	2009	2008
	£	£
Loss due to a 20% change against ZAR	21,472	198,155
Loss due to a 20% change against USD	(522,598)	(506,481)

The Group's sensitivity to foreign currency has increased during the current period, because the Company held higher balances of foreign currency.

In management's opinion, the impact of the sensitivity analysis is representative.



## Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

## Liquidity and interest risk tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes the principal cash flows.

		Weighted average effective interest rate %	Less than 1 year £	2 + years £	Total £
<b>Group</b>					
<b>2009</b>					
Non-interest bearing		530,382	–	–	530,382
Finance lease liability	14.20 %	46,323	27,022	–	73,345
Fixed interest rate instruments	12.00 %	1,299,547	2,404,416	–	3,703,963
		<b>1,876,252</b>	<b>2,431,438</b>	<b>–</b>	<b>4,307,690</b>
<b>2008</b>					
Non-interest bearing		278,273	–	–	278,273
Finance lease liability	14.20 %	35,330	35,330	20,609	91,269
Fixed interest rate instruments	12.00 %	414,600	1,281,279	2,370,618	4,066,497
		728,203	1,316,609	2,391,227	4,436,039
<b>Company</b>					
<b>2009</b>					
Non-interest bearing		102,198	–	–	102,198
Fixed interest rate instruments	12.00 %	1,299,547	2,404,416	–	3,703,963
		<b>1,401,745</b>	<b>2,404,416</b>	<b>–</b>	<b>3,806,161</b>
<b>2008</b>					
Non-interest bearing		55,679	–	–	55,679
Fixed interest rate instruments	12.00 %	414,600	1,281,279	2,370,618	4,066,497
		470,279	1,281,279	2,370,618	4,122,176

The following table details the Group's and Company's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets.

## Notes to the financial statements (continued)

### 20 Financial instruments (continued)

Group	Group		Company	
	Weighted average effective interest rate %	Less than 1 year £	2 + years £	Total £
<b>2009</b>				
Non-interest bearing		288,188		161,598
Fixed interest rate instruments 10.09 %		–		–
		<b>288,188</b>		<b>161,598</b>
<b>2008</b>				
Non-interest bearing		2,600,971		2,295,131
Fixed interest rate instruments 10.09 %		777,305		–
		<b>3,378,276</b>		<b>2,295,131</b>

### 21 Subsidiaries

Details of the Company's subsidiaries at 31 December 2009 were as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
DiamondCorp Holdings Limited <sup>(1)</sup>	British Virgin Islands	100	100	Holding company of a trading group
Botswana DiamondCorp Limited	British Virgin Islands	100	100	Holding company
Lace Diamond Mines (Pty) Limited	Republic of South Africa	74	74	Diamond exploration and exploitation
Soapstone Investments (Pty) Limited	Republic of South Africa	100	100	Investment company

<sup>(1)</sup> Formerly named Crown Diamond Mining Limited

### 22 Subsequent events

In April 2010, the Company placed 101,062,538 ordinary shares at 7 pence each for gross proceeds of £7.1 million.







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